

新海連 NEW HEADLINE

# 新海連控股有限公司

NEW HEADLINE HOLDINGS LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

Stock Code: 8276

## GLOBAL OFFERING

Sole Sponsor



**Guotai Junan Capital Limited**

Sole Global Coordinator



**Guotai Junan Securities (Hong Kong) Limited**

Joint Bookrunners and Joint Lead Managers



**Guotai Junan Securities (Hong Kong) Limited**



## IMPORTANT

*If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.*



### New Headline Holdings Limited 新海連控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

#### LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF GLOBAL OFFERING

- Number of Offer Shares** : 200,000,000 Shares (subject to the Over-allotment Option)
- Number of Hong Kong Offer Shares** : 20,000,000 Shares (subject to re-allocation)
- Number of International Placing Shares** : 180,000,000 Shares (subject to re-allocation and the Over-allotment Option)
- Offer Price** : Not more than HK\$1.70 per Offer Share and expected to be not less than HK\$1.40 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
- Nominal Value** : US\$0.01 per Share
- Stock Code** : 8276

#### Sole Sponsor



#### Guotai Junan Capital Limited

#### Sole Global Coordinator



#### Guotai Junan Securities (Hong Kong) Limited

#### Joint Bookrunners and Joint Lead Managers



#### Guotai Junan Securities (Hong Kong) Limited



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents Delivered to the Registrar of Companies" in Appendix V to this prospectus, has been registered with the Registrar of Companies as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Registrar of Companies in Hong Kong and the Securities and Futures Commission of Hong Kong take no responsibility as to the contents of this prospectus or any of the other documents referred to above.

The Offer Price is expected to be determined by agreement between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on the Price Determination Date. The Offer Price is currently expected to be not more than HK\$1.70 per Offer Share and not less than HK\$1.40 per Offer Share. The Sole Global Coordinator (for itself and on behalf of the Underwriters, and with our consent) may reduce the indicative Offer Price range stated in this prospectus at any time prior to the Price Determination Date. In such a case, a notice of the reduction of the indicative Offer Price range will be published on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company's website at [www.newheadline.com.hk](http://www.newheadline.com.hk). If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) by 5:00 p.m. on the Price Determination Date, the Global Offering will not become unconditional and will lapse.

**Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus and the related Application Forms, including but not limited to the risk factors set out in the section headed "Risk Factors" in this prospectus.**

Prospective investors of the Offer Shares should note that the Sole Global Coordinator (for itself and on behalf of the Underwriters) is entitled to terminate the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement by means of a notice in writing given to the Company by the Sole Global Coordinator (for itself and on behalf of the Underwriters) upon the occurrence of any of the events set out in the section headed "Underwriting — Underwriting Arrangements and Expenses — Grounds for termination of the Hong Kong Underwriting Agreement" in this prospectus, at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Should the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) terminate the Hong Kong Underwriting Agreement, the Global Offering will not proceed and will lapse.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws in the United States, and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of any U.S. persons.

30 June 2017

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## CHARACTERISTICS OF GEM

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*GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.*

*Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.*

*The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspaper. Accordingly, prospective investors should note that they need to have access to the GEM website at [www.hkexnews.hk](http://www.hkexnews.hk) in order to obtain up-to-date information on GEM-listed issuers.*

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## EXPECTED TIMETABLE

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Event	Date <i>(Note 1)</i>
Latest time for completing electronic applications under <b>White Form eIPO</b> service through the designated website <a href="http://www.eipo.com.hk">www.eipo.com.hk</a> <i>(Note 2)</i> . . . . .	11:30 a.m. on Thursday, 6 July 2017
Application lists open <i>(Note 3)</i> . . . . .	11:45 a.m. on Thursday, 6 July 2017
Latest time for lodging <b>WHITE</b> and <b>YELLOW</b> Application Forms . . . . .	12:00 noon on Thursday, 6 July 2017
Latest time for completing payment of <b>WHITE Form eIPO</b> applications by effecting internet banking transfer(s) or PPS payment transfer(s) . . . . .	12:00 noon on Thursday, 6 July 2017
Latest time for giving <b>electronic application instructions</b> to HKSCC <i>(Note 4)</i> . . . . .	12:00 noon on Thursday, 6 July 2017
Application lists close <i>(Note 3)</i> . . . . .	12:00 noon on Thursday, 6 July 2017
Price Determination Date <i>(Note 5)</i> . . . . .	Thursday, 6 July 2017
(1) Announcement of the Offer Price, the level of indication of interest in the International Placing, the level of applications under the Hong Kong Public Offer and the basis of allocation of the Hong Kong Offer Shares under the Hong Kong Public Offer to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before . . . . .	Tuesday, 18 July 2017
(2) Results of allocations in the Hong Kong Public Offer (with successful applicants' available through a variety of channels as described in the section headed "How to Apply for Hong Kong Offer Shares — Publication of Results" in this prospectus . . . . .	Tuesday, 18 July 2017
(3) A full announcement of the Hong Kong Public Offer containing (1) and (2) above to be published on the website of the Stock Exchange at <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> and our Company's website at <a href="http://www.newheadline.com.hk">www.newheadline.com.hk</a> <i>(Note 6)</i> . . . . .	Tuesday, 18 July 2017

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## EXPECTED TIMETABLE

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Results of allocations in the Hong Kong Public Offer will be available at [www.iporesults.com.hk](http://www.iporesults.com.hk) with a “search by ID” function from . . . . . Tuesday, 18 July 2017

Despatch of Share certificates or deposit of the Share certificates into CCASS in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offer on or before (Note 7) (Note 8) (Note 10) . . . . . Tuesday, 18 July 2017

Despatch of refund cheques and White Form e-Refund payment instructions in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offer on or before (Note 9) (Note 10) . . . . . Tuesday, 18 July 2017

Dealings in the Shares on GEM to commence at 9:00 a.m. on . . . . . Wednesday, 19 July 2017

*Notes:*

1. All times refer to Hong Kong local time and date. If there is any change to the above expected timetable, our Company will make a separate announcement to inform investors accordingly. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure and Conditions of the Global Offering” in this prospectus.
2. You will not be permitted to submit your application through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
3. If there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 6 July 2017, the application lists will not open or close on that day. Please refer to the section headed “How to Apply for Hong Kong Offer Shares — Effect of Bad Weather on the Opening of the Application Lists” in this prospectus.
4. Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the section headed “How to Apply for Hong Kong Offer Shares — Applying by Giving Electronic Application Instructions to HKSCC via CCASS” in this prospectus.
5. The Price Determination Date is expected to be on Thursday, 6 July 2017 and, in any event, not later than 5:00 p.m. on Thursday, 6 July 2017. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and us by 5:00 p.m. on Thursday, 6 July 2017, the Global Offering will not proceed and will lapse.
6. None of the website or any of the information contained on the website forms part of this prospectus.
7. Share certificates for the Global Offering are expected to be issued on or before Tuesday, 18 July 2017 but will only become valid certificates of title at 8:00 a.m. on Wednesday, 19 July 2017 provided that (i) the Global Offering has become unconditional in all respects; and (b) the Underwriting Agreements have not been terminated in accordance with the terms thereof.

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## EXPECTED TIMETABLE

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8. Share certificates will only become valid at 8:00 a.m. on Wednesday, 19 July 2017 provided that the Global Offering has become unconditional and the right of termination described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offer — Grounds for Termination of the Hong Kong Underwriting Agreement” in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.
  
9. e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offer and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before encashment of the refund cheque. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may invalidate or delay encashment of the refund cheque.
  
10. Applicants who have applied on **WHITE** Application Forms or **White Form eIPO** for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by the Application Form may collect any refund cheques and/or Share certificates in person from our Company’s Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, 18 July 2017 or such other date as notified by our Company in the newspapers as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques. Applicants being individuals who is eligible for personal collection may not authorise any other person to collect on their behalf. Applicants being corporations which is eligible for personal collection must attend through their authorized representatives bearing letters of authorisation from their corporation stamped with the corporation’s chop. Both individuals and authorised representatives of corporations must produce evidence of identity acceptable to our Hong Kong Share Registrar at the time of collection.

**For details of the structure of the Global Offering, including the conditions thereof, please refer to the sections headed “Underwriting” and “How to Apply for the Hong Kong Offer Shares” in this prospectus.**

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### IMPORTANT NOTICE TO INVESTORS

*This prospectus is issued by the Company solely in connection with the Hong Kong Public Offer and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offer. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offer of the Hong Kong Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.*

*You should rely on the information contained in this prospectus and the Application Forms to make your investment decision. We, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, advisers, officers, employees, agents or representatives or any other person or party involved in the Hong Kong Public Offer have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, advisers, officers, employees, agents or representatives or any other person or party involved in the Global Offering.*

*The contents of our Company website at [www.newheadline.com.hk](http://www.newheadline.com.hk) do not form part of this prospectus.*

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## SUMMARY

*This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text in this prospectus. You should read this prospectus in its entirety before you decide to invest in the Offer Shares.*

*There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.*

### OVERVIEW

We are a fast-growing urban project management operator principally engaged in the provision of environmental and construction management services, namely (1) environmental maintenance services; (2) construction management services; and (3) supply of gneiss (片麻岩), a construction material, in Lianyungang (連雲港), Jiangsu Province (江蘇省), the PRC. During the Track Record Period, we principally operated in Lianyungang, Jiangsu Province, the PRC. The following table sets forth the revenue, gross profit and gross profit margin attributable to each segment of our business during the Track Record Period:

	Year ended 31 December											
	2014			2015					2016			
	Revenue	Gross profit	Gross profit margin	Revenue	Gross profit	Gross profit margin	Revenue	Gross profit	Gross profit margin	Revenue	Gross profit	Gross profit margin
<i>RMB'000</i>	<i>% RMB'000</i>	<i>% RMB'000</i>	<i>RMB'000</i>	<i>% RMB'000</i>	<i>% RMB'000</i>	<i>RMB'000</i>	<i>% RMB'000</i>	<i>% RMB'000</i>	<i>RMB'000</i>	<i>% RMB'000</i>	<i>% RMB'000</i>	
Environmental Maintenance	81,054	63.7	11,850	14.6	85,511	41.3	24,579	28.7	91,303	24.4	27,021	29.6
Construction Management	—	—	—	—	42,648	20.5	29,985	70.3	169,209	45.1	134,945	79.8
<i>Construction Project Management</i>	—	—	—	—	29,086	14.0	28,108	96.6	128,730	34.3	128,289	99.7
<i>Municipal Construction</i>	—	—	—	—	13,562	6.5	1,877	13.8	40,479	10.8	6,656	16.4
Supply of Construction Material (gneiss)	46,174	36.3	6,863	14.9	79,074	38.2	25,812	32.6	114,351	30.5	39,300	34.4
<b>Total</b>	<b>127,228</b>	<b>100.0</b>	<b>18,713</b>	<b>14.7</b>	<b>207,233</b>	<b>100.0</b>	<b>80,376</b>	<b>38.8</b>	<b>374,863</b>	<b>100.0</b>	<b>201,266</b>	<b>53.7</b>

*(1) Provision of environmental maintenance services:* We provide two types of environmental maintenance services, namely, greening and environmental sanitation. Our greening services cover (a) landscape greening services; (b) horticultural maintenance services; (c) supply of plant products; and (d) pest management services, to a wide range of premises and venues in the urban areas. Our provision of environmental sanitation services include sanitation and maintenance work in various commercial and public areas.

*(2) Provision of construction management services:* We provide two types of construction management services, namely construction project management and municipal construction. Our construction project management services involve our undertakings of BT and PPP projects starting in May 2015. BT and PPP are construction project management and financing models under which we are responsible to provide project management services and pay subcontracting fees for our customers, and we adopt the same revenue recognition in respect of these models. During the Track Record Period and up to the Latest Practicable Date, the BT and PPP projects undertaken by us are construction of infrastructure and public facilities in which our customers are either local government or state-invested enterprises. Our municipal construction services involve our undertakings of municipal public work projects which include landscape construction work, road construction work, earthwork engineering and repair, public facilities construction and maintenance work, which we started to provide after the Acquisition of New Headline Municipal Landscaping.

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## SUMMARY

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In January 2015, we acquired New Headline Municipal Landscaping, which was one of our subcontractors for the provision of both greening services and environmental sanitation services in 2014. Through the Acquisition, we successfully integrated part of our lower stream work processes to our business by delivering part of our environmental maintenance services directly without engaging subcontractor. In respect of greening services, through the Acquisition, we obtained Grade Three enterprise qualification in urban landscape construction (城市園林綠化企業三級資質) allowing us to undertake maintenance and management projects in greenery of all types and scales. We also commenced the business of provision of municipal construction management services since the Acquisition as New Headline Municipal Landscaping is qualified to undertake various municipal public construction projects with its Grade Three general contracting qualification in municipal and public construction (市政公用工程施工總承包三級資質).

(3) *Supply of construction material (gneiss)*: We also sell gneiss, a construction material, to our customers while our major customers were private sector customers, such as property developers and construction contractors. According to the Ipsos Report, gneiss has been commonly used as a substitute for limestone soil in urban road construction and has been mainly used as the cornerstone of paving and reclamation.

The following table sets out our major environmental maintenance and construction management projects completed and in progress as at the Latest Practicable Date. The aggregate revenue attributed to each of the following projects represents approximately 90% of our total revenue generated, from our project portfolio during the Track Record Period.

### Completed Projects

Item	Project name	Customer type	Nature of project	Approximate initial project value (RMB'000)	Approximate revenue recognised during the Track Record Period (RMB'000)
1	LET Development Zone greening maintenance and implementation for the years 2014-2015	Government	Provision of greening services	98,800	100,841
2	LET Development Zone environmental sanitation management for the years 2014-2015	Government	Provision of environmental sanitation services	68,805	68,178
3	Jinqiao Road and Dapu Road Reconstruction BT Project	State-invested enterprise	BT project-Construction and paving	82,910	25,622
4	Eastern Avenue Reconstruction BT Project	State-invested enterprise	BT project-Construction and paving	43,543	13,779
5	G25 Songzhang Exit to 242 Highway Connection Line Reconstruction BT Project	State-invested enterprise	BT project-Construction and paving	42,055	8,380

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## SUMMARY

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### Projects in progress

Item	Project name	Customer type	Nature of project	Approximate initial project value (RMB'000)	Expected completion of construction	Approximate revenue recognised during the Track Record Period (RMB'000)
6	Houzui Three Road New Construction BT Project	State-invested enterprise	BT project-Construction and paving	205,387	December 2017	23,925
7	LET Development Zone Theme Park Greening and Construction BT Project	State-invested enterprise	BT project-Construction landscaping and greening	118,438	August 2017	23,527
8	LET Development Zone greening maintenance and management for the years 2016-2018	Government	Provision of greening services	157,798	January 2019	47,686
9	LET Development Zone environmental sanitation management for the years 2016-2018	Government	Provision of environmental sanitation services	121,290	January 2019	37,163
10	Dapu Road PPP Project	State-invested enterprise	PPP project-Construction landscaping and greening	297,000	June 2018	57,060
11	Ganyu Zone Basic Infrastructure PPP Project	State-invested enterprise	PPP project-Construction and paving	776,800	December 2019	5,521
12	LET Development Zone Infrastructure (Partial) PPP Project	State-invested enterprise	PPP project-Construction landscaping and greening	220,000	February 2018	nil

For further details of our completed projects and projects in progress as at the Latest Practicable Date, please refer to the section headed “Business - Environmental Maintenance and Construction Management Projects” on page 138 in this prospectus.

Generally, we will be paid by instalments over an agreed period of time after completion of construction of our BT and PPP projects. The payment pattern for both BT and PPP projects are generally the same and we will not receive any progress payment before the completion of construction of the relevant projects. As a result, we do not anticipate to generate net operating cash inflow during the early stage of our BT and PPP projects prior to completion. This may put pressure on our liquidity and cause us to resort to bank borrowings to fund our projects and day-to-day business operations which could have a material adverse effect on our business, financial position and results of operations.

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## SUMMARY

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As at the Latest Practicable Date, based on our internal records and current development plan and financial and operational conditions, the total estimated financing commitment of our projects of construction project management is approximately RMB1,158.9 million. Our Group intended to finance our projects of construction project management by using (i) the net proceeds from the Global Offering, (ii) external financing, (iii) existing cash and cash equivalents, and (iv) cash flows to be generated from our Group's operations. Based on (i) our Group's unaudited cash and cash equivalents balance as at the Latest Practicable Date of approximately RMB 211.5 million; (ii) the unutilised amount of the existing banking facilities as at Latest Practicable Date of approximately RMB761.0 million; and (iii) the estimated net proceeds for financing our existing BT and PPP projects of approximately RMB189.8 million or HK\$211.3 million (being 90% of net proceeds, assuming the Offer Price is fixed at the low end of the indicative price range of HK\$1.4 per Share) (together, the "Available Funds"), our Directors confirmed that there will be a surplus of approximately RMB3.4 million of the Available Funds over our Group's financing commitments for our existing construction management contracts and the Available Funds as at Latest Practicable Date.

Based on (i) the net proceeds from the Global Offering planned for financing our existing BT and PPP projects of approximately RMB189.8 million or HK\$211.3 million (being approximately 90% of the net proceeds of the Global Offering, assuming Offer Price is fixed at the low end of the indicative price range of HK\$1.40 per Share); (ii) available banking facilities of approximately RMB761.0 million as at Latest Practicable Date; (iii) existing cash and cash equivalents of approximately RMB211.5 million as at Latest Practicable Date, and (iv) the cash flows to be generated from our Group's operations, our Directors are of the view that our Group would have sufficient financial resources to cover the financing commitments of our projects of construction project management when they fall due.

### OUR SUPPLIERS AND SUBCONTRACTORS

During the Track Record Period, our major suppliers are supplier of gneiss, supplier of labour services and subcontractors engaged for our environmental maintenance projects and municipal construction projects. During the Track Record Period, in terms of our cost of sales, our purchases from our largest supplier accounted for approximately 35.5%, 41.6% and 43.3% of our total cost of sales for the three years ended 31 December 2014, 2015 and 2016, respectively, and our purchases from the largest five suppliers, in aggregate, accounted for approximately 95.1%, 83.6% and 78.5% of our total cost of sales for the same periods, respectively. During the Track Record Period, save for (i) NH Development, being our substantial shareholder; and (ii) New Headline Municipal Landscaping, which became one of our subsidiaries after completion of the Acquisition, none of our Directors or their respective associates or any Shareholder, to the best knowledge of our Directors, owns more than 5% of the issued Shares immediately after the completion of the Global Offering, or had any interest in any of our largest five suppliers. For further details of our suppliers, please refer to the section headed "Business — Major Suppliers" on page 156 in this prospectus.

Since we paid the subcontracting fees for our BT and PPP projects on behalf of our customers, the subcontracting fees for BT and PPP projects did not contribute to the cost of sales during the Track Record Period. The total subcontracting fees paid on behalf of our customers to the largest five subcontractors for BT and PPP projects for the three years ended 31 December 2014, 2015 and 2016 were nil, approximately RMB20.3 million and RMB79.3 million, respectively. All of the Group's top five subcontractors engaged for BT and PPP projects during the Track Record Period are Independent Third Parties. For further details, please refer to the paragraph headed "Reliance on Lianyungang Municipal Government and its related entities — Reliance on NH Development as our sole supplier for gneiss" on page 6 in this section and the section headed "Business — Reliance on Lianyungang Municipal Government and its related entities — Reliance on NH Development as our sole supplier for gneiss" on page 164 in this prospectus.

### CONNECTED TRANSACTIONS

We have entered into certain transactions that will constitute exempt continuing connected transactions with (i) NH Development in respect of leasing of property for office premise and

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## SUMMARY

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provision of pipeline maintenance work services; and (ii) NH Property Services in respect of procurement of staff catering services. We have also entered into (i) a transaction with NH Development in respect of supplying gneiss to our Group; and (ii) various construction management transactions with Jiangsu Xinhaik, Gaoke Investment and Zhongtong Keyun, that will constitute non-exempt continuing connected transactions which will be subject to the reporting, annual review, announcement and/or independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules upon Listing. Please refer to the section headed "Connected Transactions" on page 191 of this prospectus for further information on our continuing connected transactions.

### COMPETITIVE LANDSCAPE IN LIANYUNGANG

**Environmental maintenance services:** According to the Ipsos Report, our Group ranked third with our segment revenue representing a market share of approximately 5.4% of the industry in Lianyungang compared with the total revenue of other operators in 2016, while the market shares of the top two operators accounted for approximately 6.3% and 5.7%, respectively. The total revenue of environmental maintenance industry in Lianyungang in 2016 was approximately RMB1.7 billion representing approximately 0.2% of the total revenue of environmental maintenance industry in China in 2016 of approximately RMB903.0 billion. Approximately 100%, 100% and 99.7% of the revenue derived from environmental maintenance for the three years ended 31 December 2014, 2015 and 2016, respectively were generated from contracts entered into with Lianyungang Municipal Government and its related entities.

**Construction management services:** According to the Ipsos Report, our Group ranked first with a market share of approximately 19.5% of the industry in Lianyungang in terms of project value in 2016, while the market shares of the second and third largest construction companies accounted for approximately 13.9% and 11.1%, respectively. The total output value of construction in Lianyungang was approximately RMB65.0 billion representing approximately 0.3% of the total output value of construction in China in 2016 of approximately RMB19,357.0 billion. All of our revenue derived from construction management services during the Track Record Period were generated from Lianyungang Municipal Government and its related entities.

**Supply of construction material (gneiss):** According to the Ipsos Report, our Group ranked first with a market share of approximately 42.3% of the industry in Lianyungang in terms of revenue in 2016, while the market shares of the second and third largest gneiss supply companies accounted for approximately 14.5% and 8.9%, respectively. The sales value of gneiss in Lianyungang was approximately RMB270.3 million in 2016. The official national and provincial statistics for gneiss are not available as gneiss is not included in the official statistics of mineral resources in the PRC.

For further information on the rankings and other information on the competitive landscapes in the environmental maintenance industry, construction management industry and gneiss supply industry, please refer to the section headed "Industry Overview" on pages 74, 81 and 85 of this prospectus, respectively.

Our Directors believe that we compete with our competitors principally on qualifications, established relationship with the government, capital adequacy and good track record; and our business model enables our Group to sustain our market position and gives us a competitive edge over our competitors. For further details, please refer to the section headed "Industry overview" on page 67 in this prospectus.

### RELIANCE ON LIANYUNGANG MUNICIPAL GOVERNMENT AND ITS RELATED ENTITIES

Due to the nature of our Group's business, we have entered into various transactions with Lianyungang Municipal Government and its related entities, namely (i) NH Development and its subsidiaries, being Jiangsu Xinhaik, Gaoke Investment and Zhongtong Keyun (together, the "**NH Development Group**"); (ii) LET Development Zone Management Committee; (iii) LET Development Zone Planning and Construction Bureau; and (iv) Lianyungang High Tech Industry Development Zone.

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## SUMMARY

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### **Reliance on NH Development as our sole supplier for gneiss**

NH Development, a state-owned company, is wholly-owned by Lianyungang Municipal Government (江蘇省連雲港市人民政府) and administered and regulated by LET Development Zone Management Committee. NH Development has been our Group's sole supplier for gneiss and our Group's largest supplier for each of the three years ended 31 December 2014, 2015 and 2016. Substantially all of such gneiss supplied were used in our supply of construction material (gneiss) business.

Our Group entered into NH Development Supply Agreement with NH Development, pursuant to which NH Development shall supply gneiss to our Group exclusively during the contractual term from 1 January 2016 to 31 December 2018. During the Track Record Period, the total purchase of gneiss from NH Development accounted for approximately RMB38.6 million (or representing approximately 35.5%), RMB52.8 million (or representing approximately 41.6%) and RMB75.1 million (or representing approximately 43.3%) of our Group's total costs of sales for the three years ended 31 December 2014, 2015 and 2016.

In relation to our supply of construction material (gneiss) business, our Directors are of the view such reliance on Lianyungang Municipal Government and its related entities are inevitable as according to the Ipsos Report, other than the quarry operated by NH Development, there were nine gneiss quarries in operation in Lianyungang which were either directly owned by Lianyungang Municipal Government or indirectly by enterprises related to Lianyungang Municipal Government as at the Latest Practicable Date.

However, our Directors are of the view of that our Group's reliance on NH Development as the sole supplier of gneiss is not an extreme case since:

- (i) we have entered into the NH Development Supply Agreement with NH Development pursuant to which NH Development agreed to supply gneiss exclusively to our Group for a term of three years ending on 31 December 2018 and we have an option to renew;
- (ii) pursuant to the NH Development Supply Agreement, we are free to source gneiss from other gneiss quarries;
- (iii) considering the sales network of our senior management team, our large purchase quantity and, our Group's settlement term being pre-payment which gives NH Development confidence to our Group's credit, our Directors believe that NH Development would continue to sell gneiss to us; and
- (iv) given the mutual and complimentary relationship between our Group and NH Development explained above, we are capable to maintain such relationship with NH Development.

### **Reliance on Lianyungang Municipal Government and its related entities as our major customers**

During the Track Record Period, our major customers were government and state-invested enterprises for our provision of environmental maintenance services and provision of construction management services.

During the Track Record Period, our largest customer contributed approximately 60.5%, 41.1% and 30.8% of our total revenue for the three years ended 31 December 2014, 2015 and 2016, respectively, and our largest five customers, in aggregate, accounted for approximately 87.9%, 76.4% and 81.2% of our total revenue for the same years, respectively. During the Track Record Period, save for Jiangsu Xinhaike being owned as to 51% by NH Development, which is our substantial shareholder, none of our Directors or their respective associates or any Shareholder, to the best



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## SUMMARY

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knowledge of our Directors, own more than 5% of the issued shares immediately after the completion of the Global Offering, or had any interest in any of our largest five customers. For further details of our customers, please refer to section headed “Business — Major Customers” on page 150 in this prospectus.

***LET Development Zone Management Committee and LET Development Zone Planning and Construction Bureau as major customers of our environmental maintenance business***

According to the Ipsos Report, the environmental maintenance industry is an indispensable and irreplaceable industry, and that the government is usually the main customer. Our Directors are thus of the view that environmental maintenance of public space is one of the important public services driven by Lianyungang Municipal Government in Lianyungang and that deriving a majority of the revenue for the provision of environmental maintenance services from government and government related entities are inevitable. Since our Group commenced our business in Lianyungang, it is a natural course of business that our revenue for the provision of environmental maintenance services were predominately derived from Lianyungang Municipal Government and its related entities. During the three years ended 31 December 2014, 2015 and 2016, revenue in the amount of approximately RMB81.1 million, RMB85.5 million and RMB91.0 million, respectively, representing approximately 100.0%, 100.0% and 99.6% of the total revenue of our environmental maintenance business for the same years, were derived from Lianyungang Municipal Government and its related entities, namely LET Development Zone Management Committee, LET Development Zone Planning and Construction Bureau and Lianyungang High Tech Industry Development Zone Management Committee.

All of the environmental maintenance projects were obtained through a competitive public tendering process during the Track Record Period after competing with other independent bidders.

***NH Development Group and Chuanglian Investment as customers of our construction project management business***

Our construction project management services involve our undertakings of BT and PPP projects of infrastructure and public facilities starting in May 2015. According to the Ipsos Report, the Lianyungang Municipal Government is the main customer initiating construction project management projects in Lianyungang. According to the Ipsos Report, all of the construction project management projects in Lianyungang were public in nature and were issued by Lianyungang Municipal Government and its related entities for the years ended 31 December 2014, 2015 and 2016. Our Directors are thus of the view that the reliance on Lianyungang Municipal Government and its related entities in deriving revenue for our construction project management business is inevitable. During the Track Record Period and up to the Latest Practicable Date, all of our BT and PPP projects were awarded by NH Development Group or Chuanglian Investment through public tender.

During the Track Record Period, we provided construction project management services to NH Development Group and Chuanglian Investment, both are wholly-owned by Lianyungang Municipal Government. For the three years ended 31 December 2014, 2015 and 2016, we derived an aggregate revenue of nil, approximately RMB29.1 million and RMB128.7 million from NH Development Group and Chuanglian Investment, representing all of our Group’s revenue from construction project management services for the same years.

All of the BT and PPP projects were obtained through a competitive public tendering process during the Track Record Period after competing with other independent bidders. We did not win every single tender made and whether we were able to obtain the projects depends on, among other things, our Group’s qualifications, experience, credibility, reputation and the tender price.

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## SUMMARY

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### OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths contribute to our historical success and potential for future growth:

- We are a dual-qualified Lianyungang-based urban project management operator holding a Grade Three enterprise qualification in urban landscape construction and a Grade Three general contracting qualification in municipal and public construction
- Well-established in the environmental and construction management industry in Lianyungang
- Well-positioned to benefit from government's policy
- We offer a range of environmental and construction management services in Lianyungang
- Established working relationship with government authorities and administrative committees in Lianyungang

For details, please refer to the section headed "Business — Our Competitive Strengths" on page 114 in this prospectus.

### OUR STRATEGIES

We intend to strengthen our position as an urban project management operator in Lianyungang and enhance our overall competitiveness by pursuing the following key strategic initiatives:

- Further strengthen our business in Lianyungang
- Continue to attract and retain talented personnel to further develop our project management capabilities
- Continue to develop our information management system to improve our work efficiency and service quality
- Further promote our brand and increase our market penetration

For details, please refer to the section headed "Business — Our strategies" on page 116 in this prospectus.

### FINANCIAL INFORMATION

The table below sets out a summary of our audited consolidated financial information during the Track Record Period. You should read the following financial information together with the financial information included in the Accountant's Report set out in Appendix I to this prospectus, including the notes thereto.

#### Selected items in our consolidated statements of comprehensive income

	For the year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
<b>Revenue</b>	127,228	207,233	374,863
Cost of sales	<u>(108,515)</u>	<u>(126,857)</u>	<u>(173,597)</u>
<b>Gross profit</b>	18,713	80,376	201,266
<b>Profit before income tax</b>	12,274	63,376	169,193
<b>Profit for the year</b>	<u>8,329</u>	<u>46,384</u>	<u>120,074</u>



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### **Revenue contribution**

Revenue derived from provision of environmental maintenance services contributed approximately 63.7% of our Group's total revenue for the year ended 31 December 2014, decreased to approximately 41.3% and 24.4% for the two years ended 31 December 2016, respectively. We began our provision of construction management services starting in 2015 and contributed approximately 20.5% and 45.1% of our Group's total revenue for the two years ended 31 December 2016, respectively. Revenue derived from supply of construction material (gneiss) contributed approximately 36.3%, 38.2% and 30.5% of our Group's total revenue for the three years ended 31 December 2014, 2015 and 2016, respectively.

### **Gross profit contribution**

During the Track Record Period, respective contributions of the three business segments to our Group's total gross profit was generally in line with the trend of their revenue contributions. Gross profit derived from our environmental maintenance projects contributed approximately 63.3%, 30.6% and 13.4% of our Group's total gross profit for the three years ended 31 December 2014, 2015 and 2016, respectively. Gross profit derived from our construction management projects, contributed approximately nil, 37.3% and 67.0% of our Group's total gross profit for the three years ended 31 December 2014, 2015 and 2016 respectively. Supply of gneiss, a construction material, contributed approximately 36.7%, 32.1% and 19.5% of our Group's total gross profit for the three years ended 31 December 2014, 2015 and 2016, respectively.

The provision of construction management services has become our largest revenue and gross profit contribution segment for the year ended 31 December 2016. Based on our Directors' best estimates and comparing the respective contributions of each segment to our Group's total revenue and gross profit for the year ended 31 December 2016, considering a majority of our expected revenue and costs of sale from each segment can be reasonably projected based on our existing contracts and agreements, provision of construction management services is expected to continue to be our largest revenue and gross profit contribution segment for the two years ending 31 December 2017 and 2018, respectively. Based on our Directors' best estimate and the existing contracts of environmental maintenance projects with LET Development Zone, and the historical transaction amount for our supply of construction material (gneiss) business, no significant changes are expected in the contributions from the provision of environmental maintenance services and supply of gneiss business as a percentage of our Group's total revenue and gross profit.

### **Gross profit margin**

Our gross profit margin for our environmental maintenance projects increased from approximately 14.6% for the year ended 31 December 2014 to approximately 28.7% and 29.6% for the two years ended 31 December 2015 and 2016, respectively. Our gross profit margin for our construction management projects increased from approximately 70.3% for the year ended 31 December 2015 to approximately 79.8% for the year ended 31 December 2016. Our gross profit margin for the supply of construction material (gneiss) increased from approximately 14.9% for the year ended 31 December 2014 to approximately 32.6% and 34.4% for the two years ended 31 December 2015 and 2016, respectively.

The provision of construction management services recorded the highest gross profit margin for the year ended 31 December 2016. Based on our Directors' best estimates and comparing the gross profit margin of each segment for the year ended 31 December 2016, considering a majority of our expected revenue and costs of sale from each segment can be reasonably projected based on our existing contracts and agreements, it is expected that the gross profit margins of the three business segments for the two years ending 31 December 2017 and 2018 will be in line with the gross profit margins during the Track Record Period.

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### Selected items in our consolidated statements of financial position

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Current assets	92,043	143,012	316,241
Current liabilities	<u>55,286</u>	<u>53,688</u>	<u>97,980</u>
<b>Net current assets</b>	<u><u>36,757</u></u>	<u><u>89,324</u></u>	<u><u>218,261</u></u>

### Key financial ratios

	As at 31 December		
	2014	2015	2016
Current ratio (times)	1.7	2.7	3.2
Gearing ratio (%)	15.4	N/A	7.7
Debt to equity ratio (%)	N/A	N/A	N/A

For further information of the key financial ratios of our Group, please refer to the section headed “Financial Information — Key Financial Ratios” on page 274 of this prospectus.

### OUR SHAREHOLDING STRUCTURE

Immediately after the completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares which may be allotted and issued upon any exercise of the Over-allotment Option or options which have been or may be granted under the Share Option Scheme), Glorious Prosperity, Keen Smart and Best Talent Asia will hold approximately 24.75%, 22.50% and 14.25% of the total issued share capital of our Company, respectively. Each of Glorious Prosperity, Keen Smart and Best Talent Asia is held as to 100% by Mr. Wei. For further details, please refer to the section headed “Relationship with the Controlling Shareholders” on page 183 of this prospectus.

### REASONS FOR THE GLOBAL OFFERING AND USE OF PROCEEDS

Our Directors believe that the Global Offering of the Shares on GEM will enhance our profile and the net proceeds from the Global Offering will strengthen our financial position and will enable us to pursue our business objectives. At present, we are able to meet the minimum profit requirement for listing on the Main Board with a track record period of three years ended 31 December 2014, 2015 and 2016. Our application for listing on GEM was initially filed in July 2016 with a track record period of the two years ended 31 December 2014 and 2015 and four months ended 30 April 2016. At the relevant time if we were to apply for a listing on the Main Board, we would have been required to include three full financial years of the years ended 31 December 2013, 2014 and 2015 as our trading record period. However, we commenced the preparatory work for our urban project management business in November 2013, and we subsequently commenced our supply of construction material (gneiss) business and provision of environmental maintenance services business in December 2013 and January 2014, respectively. Accordingly, we would not have been able to satisfy the minimum trading record requirement of three years under the relevant Rules Governing the Listing of Securities on the Main Board of the Stock Exchange at the time of initial filing of our listing application. We subsequently updated our trading record period to the three years ended 31 December 2014, 2015 and 2016, as a result of which we are able to meet the minimum profit requirement for listing on the Main Board. However, we consider that a change of listing venue from GEM to the Main Board would have significantly affected our listing timetable and resulted in significant additional professional fees and listing expenses, and hence our Directors consider that it would be in the best interests of our Company and Shareholders (including the public investors) as a whole to continue seeking a listing on GEM.

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The net proceeds from the Global Offering, after deducting underwriting fees and commission and other estimated expenses in connection with the Global Offering, are estimated to amount to approximately HK\$263.7 million (assuming an Offer Price of HK\$1.55 per Share, being the mid-point of the indicative Offer Price range and assuming the Over-allotment Option is not exercised).

We intend to use the net proceeds for the following purposes:

- approximately HK\$237.3 million (approximately 90.0% of the net proceeds) will be used to further strengthen our business in Lianyungang by financing our existing BT and PPP projects;
- approximately HK\$0.9 million (approximately 0.3% of the net proceeds) will be used to further develop our project management capabilities by recruiting and retaining talented personnel including marketing staff, engineers and site managers;
- approximately HK\$1.1 million (approximately 0.4% of the net proceeds) will be used to develop our information management system to improve our work efficiency and service quality by purchasing suitable information technology systems;
- approximately HK\$3.3 million (approximately 1.3% of the net proceeds) will be used to promote our brand and increase market penetration; and
- the remaining amount of approximately HK\$21.1 million (approximately 8.0% of the net proceeds) will be used to provide funding for our working capital and other general corporate purposes.

### OFFER STATISTICS

	Based on the Offer Price of HK\$1.40	Based on the Offer Price of HK\$1.70
Market capitalisation of our Shares at Listing <sup>(1)</sup>	HK\$1,120.0 million	HK\$1,360.0 million
Unaudited pro forma adjusted consolidated net tangible asset value per Share <sup>(2)</sup>	HK\$0.60	HK\$0.68

*Notes:*

1. The calculation of the market capitalisation of our Shares is based on 800,000,000 Shares expected to be in issue immediately after completion of the Capitalisation Issue and the Global Offering, but does not take into account any Shares which may be allotted or issued pursuant to the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the issuing mandate and the repurchase mandate.
2. Please refer to the paragraph headed “Unaudited Pro Forma Adjusted Net Tangible Assets” in Appendix II to this prospectus for further details.

### LISTING EXPENSES

Assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$1.55 per Share, being the mid-point of our indicative price range for the Global Offering, the total listing expenses will be approximately HK\$46.3 million, of which approximately HK\$16.7 million is directly attributable to the Global Offering and is expected to be capitalised after the Global Offering. The remaining amount of approximately HK\$29.6 million is chargeable to the Company’s consolidated statements of comprehensive income, of which approximately HK\$16.5 million was charged to the three years ended 31 December 2016, and approximately HK\$13.1 million is expected to be charged to the year ending 31 December 2017.

### DIVIDEND

Our Group currently does not have a dividend policy. We did not distribute any dividend for the three years ended 31 December 2014, 2015 and 2016. For further details, please refer to the section headed “Financial Information — Dividend” on page 280 in this prospectus.

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### PRINCIPAL RISK FACTORS

We believe that there are certain risks involved in our operations, which are beyond our control. Please refer to the section headed “Risk factors” on page 29 in this prospectus for further details. The following highlights some of the risks which our Directors consider to be material:

- We rely substantially on Lianyungang Municipal Government and its related entities. Any significant economic downturn in Lianyungang, or negative development of the financial condition and credit rating of Lianyungang Municipal Government and its related entities could materially and adversely affect our business, results of operations and growth prospect.
- We face risks associated with undertaking BT and PPP projects.
- We may not be able to sustain our historical growth rates.
- Our future operations, working capital and cashflow position may be adversely affected if our customers fail or delay in settling the payment due to us.
- We may experience uncertainty and delay over undertaking construction management projects with connected persons in the future.

### RECENT DEVELOPMENT

In January 2017, we were awarded a PPP project, namely the LET Development Zone Infrastructure (Partial) PPP Project, of initial contract value of approximately RMB220 million. Please refer to the section headed “Business — Environmental Maintenance and Construction Management Projects — Our Environmental Maintenance and Construction Management Projects in Progress” on page 141 in this prospectus for details.

Based on the projects on hand as at the Latest Practicable Date, our Directors estimated that our gross profit margin for the two years ending 31 December 2017 and 2018 will decrease when compared with our gross profit margin for the year ended 31 December 2016. Such expected decrease in gross profit margin for the two years ending 31 December 2017 and 2018 is contemplated to be primarily contributed by the expected decrease in the gross profit margin of our construction management services segment, which is our largest gross profit contribution segment for the year ended 31 December 2016 and is expected to remain so for the two years ending 31 December 2017 and 2018. Our Directors estimated that such expected decrease in gross profit margin for the construction management services segment would be primarily due to the decrease in construction project management services to be provided in the two years ending 31 December 2017 and 2018 if our Group will not win any new BT and PPP projects. The gross profit margin for the provision of construction project management services which was approximately 99.7% for the year ended 31 December 2016 is notably higher than that of other business segments of our Group. Thus, the expected decrease of provision of construction project management services would negatively impact the gross profit margin for our construction management services segment.

Based on the projects on hand as at the Latest Practicable Date, our Directors estimated that our finance costs will increase significantly each year for the two years ending 31 December 2018 comparing with our finance costs of approximately RMB0.2 million for the year ended 31 December 2016. The expected increase in our finance costs for each of the two years ending 31 December 2018 is contemplated to be primarily due to the expected increase in our bank borrowings to finance our construction management projects.

As at the date of this prospectus, there has been no material adverse change to our financial, operational or trading position or prospects since 31 December 2016, being the date to which our most recent audited consolidated financial statements were prepared, and since that date, there has been no event up to the date of this prospectus that would materially affect the information shown in our consolidated financial statements included in the Accountant’s Report set out in Appendix I to this prospectus, in each case except as otherwise disclosed in this prospectus.

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## DEFINITIONS

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*In this prospectus, unless the context otherwise requires, the following expressions have the following meanings:*

“Acquisition”	the acquisition by Yuanyun Industrial of all the equity interests in New Headline Municipal Landscaping from Changsheng Industrial on 7 January 2015 pursuant to the state-owned equity transfer agreement (國有產權轉讓合同) dated 26 December 2014
“Application Form(s)”	<b>WHITE</b> Application Form(s), <b>YELLOW</b> Application Form(s), and <b>GREEN</b> Application Form(s), or where the context so requires, any of them, for the Hong Kong Public Offer
“Articles of Association” or “Articles”	the articles of association of our Company conditionally adopted on 26 June 2017 and taking effect upon Listing as amended from time to time, a summary of which is set out in Appendix III to this prospectus
“Audit Committee”	the audit committee of the Board
“Best Talent Asia”	Best Talent Asia Limited (佳才亞洲有限公司), a company incorporated in the Republic of Seychelles with limited liability on 26 September 2013, the entire shareholdings of which was transferred from Ms. Xie to Mr. Wei on 1 February 2016 and thereafter wholly-owned by Mr. Wei, and is our Controlling Shareholder
“Board” or “Board of Directors”	the board of Directors
“Business Day”	a day on which licensed banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of 599,990,000 Shares to be made upon capitalisation of an amount of US\$5,999,900 standing to the credit of the share premium account of our Company as referred to under the paragraph headed “Further information about the Company” in Appendix IV to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant

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## DEFINITIONS

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“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Operational Procedures”	the operational procedures of the HKSCC in relation to CCASS, containing the practices, procedures and alternative requirements relating to the operations and functions of CCASS, as from time to time in force
“CCASS Participant”	a CCASS Clearing Participant or a CCASS Custodian Participant or a CCASS Investor Participant
“Changsheng Industrial”	Lianyungang Development Zone Changsheng Industrial Development Company* (連雲港開發區昌盛實業發展公司), a state-owned enterprise established in the PRC on 5 June 1992 and wholly-owned by NH Development
“Chengyun Construction Management”	Lianyungang Chengyun Construction Management Company Limited* (連雲港誠運工程管理有限公司), a limited liability company established in the PRC on 7 April 2016, an indirect subsidiary of our Company which is owned as to 80% by Yuanyun Industrial and 20% by Chuanglian Investment
“China” or “PRC”	the People’s Republic of China, but for the purposes of this prospectus and unless otherwise indicated, excludes Hong Kong, Macau and Taiwan
“Chuanglian Investment”	Lianyungang City Chuanglian Investment Development Company Limited* (連雲港市創聯投資發展有限公司), a state-owned enterprise established in the PRC on 14 July 2005 and wholly owned by Lianyungang Municipal Government (江蘇省連雲港市人民政府), an Independent Third Party
“Circular 13”	Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving Policies for Foreign Exchange Administration for Direct Investment (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) promulgated by the SAFE on 28 February 2015 and effective from 1 June 2015



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## DEFINITIONS

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“Circular 19”	Circular of the State Administration of Foreign Exchange on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知) promulgated by the SAFE on 30 March 2015 and effective from 1 June 2015
“Circular 37”	Circular of the State Administration of Foreign Exchange on Issues Related to Foreign Exchange Administration in Terms of Overseas Investments and Financing via Special Purpose Companies and Return Investment by Domestic Residents (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) promulgated by the SAFE on 4 July 2014 and effective from the same day
“Circular 82”	Notice Regarding the Determination of Chinese-Controlled Offshore-Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (國家稅務總局關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知) promulgated by the State Tax Bureau on 22 April 2009 and effective from 1 January 2008
“Companies Law”	the Companies Law (as revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Cap. 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding up and Miscellaneous Provisions) Ordinance”	the Companies (Winding up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	New Headline Holdings Limited (新海連控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 30 October 2013
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the GEM Listing Rules and, for the purpose of this prospectus, refers to Mr. Wei, Glorious Prosperity, Keen Smart and Best Talent Asia
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the Chinese national securities markets

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## DEFINITIONS

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“Deed of Indemnity”	the deed of indemnity dated 26 June 2017 and executed by the Controlling Shareholders in favour of our Company (for itself and as trustee for its subsidiaries stated therein), the particulars of which are set forth in the paragraph headed “Other Information — 14. Estate Duty, Tax and Other Indemnities” in Appendix IV to this prospectus
“Deed of Non-Competition”	the deed of non-competition dated 26 June 2017 and executed by the Controlling Shareholders in favour of our Company, the particulars of which are set forth in the section headed “Relationship with the Controlling Shareholders — Deed of Non-Competition” in this prospectus
“Director(s)”	the director(s) of our Company
“EIT”	the enterprise income tax
“EIT Law”	the PRC Enterprise Income Tax Law
“Gaoke Investment”	Lianyungang Gaoke Investment Development Co., Ltd.* (連雲港高科技投資發展有限公司), a limited liability company established in the PRC on 5 June 2013 and owned as to 80.76% by NH Development, 0.82% by an Independent Third Party and the remaining 18.42% by another Independent Third Party. Gaoke Investment is a connected person of the Company
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules” or “Listing Rules”	the Rules Governing the Listing of Securities on GEM, as amended, supplemented or otherwise modified from time to time
“General Rules of CCASS”	the terms and conditions regulating the use of CCASS, as may be amended or modified from time to time and where the context so permits, shall include the CCASS Operational Procedures
“Global Offering”	the Hong Kong Public Offer and the International Placing
“Glorious Prosperity”	Glorious Prosperity Limited, a company incorporated in the Republic of Seychelles with limited liability on 26 September 2013, wholly-owned by Mr. Wei and is our Controlling Shareholder
“GREEN Application Form(s)”	the application form(s) to be completed by the <b>White Form eIPO</b> Service Provider, Computershare Hong Kong Investor Services Limited



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## DEFINITIONS

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“Group”, “our Group”, “we” or “us”	our Company and its subsidiaries, or where the context so requires in respect of the period prior to our Company becoming the holding company of its present subsidiaries, the business operated by such subsidiaries or their predecessors (as the case may be)
“Guotai Junan Capital” or “Sole Sponsor”	Guotai Junan Capital Limited, a licensed corporation under the SFO to conduct type 6 (advising on corporate finance) regulated activity under the SFO
“Guotai Junan Securities” or “Sole Global Coordinator”	Guotai Junan Securities (Hong Kong) Limited, a licensed corporation to conduct type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO
“HKFRS”	Hong Kong Financial Reporting Standards
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited
“HK Zhiyuan”	HK Zhiyuan Group Limited (香港智源有限公司), a company incorporated in Hong Kong with limited liability on 17 December 2014, wholly-owned by NH Development and is our substantial shareholder
“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”, “HKSAR” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Offer Shares”	the 20,000,000 new Shares being initially offered by our Company for subscription under the Hong Kong Public Offer, representing 10% of the initial number of the Offer Shares subject to re-allocation as described in the section headed “Structure and Conditions of the Global Offering” in this prospectus
“Hong Kong Public Offer”	the offer of the Hong Kong Offer Shares for subscription by members of the public in Hong Kong (subject to re-allocation as described in the section headed “Structure and Conditions of the Global Offering” in this prospectus) at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%), and on the terms and subject to the conditions described in this prospectus and the Application Forms
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited, the Hong Kong share registrar of our Company

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## DEFINITIONS

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“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offer, whose names are set out in the section headed “Underwriting — Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the conditional underwriting agreement dated 29 June 2017 relating to the Hong Kong Public Offer entered into between, among others, our Company and the Hong Kong Underwriters, particulars of which are summarised in the section headed “Underwriting” in this prospectus
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is not connected with (within the meaning of the GEM Listing Rules) any of our Directors, chief executive or substantial shareholders of our Company, its subsidiaries or any of their respective associates
“International Placing”	the conditional placing of International Placing Shares at the Offer Price to selected professional, institutional and other investors, as set out in the section headed “Structure and Conditions of the Global Offering” in this prospectus
“International Placing Shares”	the 180,000,000 new Shares being initially offered by our Company for subscription under the International Placing, representing 90% of the initial number of the Offer Shares subject to re-allocation and Over-allotment Option as described in the section headed “Structure and Conditions of the Global Offering” in this prospectus
“International Underwriters”	the underwriters of the International Placing, who are expected to enter into the International Underwriting Agreement
“International Underwriting Agreement”	the conditional underwriting agreement relating to the International Placing and expected to be entered into between, among others, our Company and the International Underwriters on or about the Price Determination Date
“Ipsos”	Ipsos Limited, a market research and consulting company, which is an Independent Third Party
“Ipsos Report”	an industry report prepared by Ipsos commissioned by our Company

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## DEFINITIONS

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“Jiangsu Xinhaike”	Jiangsu Xinhaike Industry and Investment Development Company Limited* (江蘇新海科產業投資發展有限公司), a limited liability company established in the PRC on 14 November 2012 and owned as to 51% by NH Development and 49% by Lianyungang Municipal Government and is a connected person of the Company
“Joint Bookrunners” or “Joint Lead Managers”	Guotai Junan Securities (Hong Kong) Limited, Gransing Securities Co., Limited and SPDB International Capital Limited
“Keen Smart”	Keen Smart Group Limited (建明集團有限公司), a company incorporated in the BVI with limited liability on 18 March 2013, wholly-owned by Mr. Wei and is our Controlling Shareholder
“Latest Practicable Date”	20 June 2017, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information in this prospectus prior to its publication
“LET Development Zone”	Lianyungang Economic & Technological Development Zone* (連雲港經濟技術開發區)
“LET Development Zone Management Committee”	Lianyungang Economic & Technological Development Zone Management Committee* (連雲港經濟技術開發區管理委員會), an authorised governmental body and is responsible for administering the LET Development Zone, an Independent Third Party
“LET Development Zone Planning and Construction Bureau”	Lianyungang Economic & Technological Development Zone Planning and Construction Bureau* (連雲港經濟技術開發區規劃建設局) an authorised governmental body and is responsible for construction and planning of the LET Development Zone, an Independent Third Party
“Listing”	the listing of our Shares on GEM
“Listing Date”	the date on which trading of the Shares first commences on GEM, which is expected to be on or about 19 July 2017
“Main Board”	the stock exchange (excluding the option markets) operated by the Stock Exchange which is independent from and operated in parallel with GEM
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company conditionally adopted on 26 June 2017 and taking effect upon Listing, as amended from time to time, a summary of which is set forth in Appendix III to this prospectus

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## DEFINITIONS

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“MOFCOM”	the Ministry of Commerce of the PRC (formerly known as the Ministry of Foreign Trade and Economic Cooperation of the PRC) (中華人民共和國商務部)
“Mr. Lin”	Mr. Lin Samuel Jr., who established our Company and ceased to have any interest in our Group since 2 May 2014, an Independent Third Party
“Mr. Wei”	Mr. Wei Hua (韋鏞), the spouse of Ms. Xie, the non-executive Director and is our Controlling Shareholder
“Ms. Xie”	Ms. Xie Birui (謝碧蕊), the spouse of Mr. Wei, an executive Director
“NH Development”	Jiangsu New Headline Development Group Company Limited* (江蘇新海連發展集團有限公司), a state-owned company established in the PRC with limited liability on 3 May 1994 and is our substantial shareholder and connected person. It is owned as to 100% by Lianyungang Municipal Government (江蘇省連雲港市人民政府) and is subject to the administration and supervision of LET Development Zone Management Committee
“NH Development Supply Agreement”	the gneiss supply agreement dated 25 December 2015 entered into between Yuanyun Industrial and NH Development in respect of the supply of gneiss by NH Development to our Group
“New Headline Group”	New Headline Group Limited, a company incorporated in BVI with limited liability on 31 October 2013, which is a direct wholly-owned subsidiary of our Company
“New Headline (Hong Kong)”	New Headline (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability on 7 November 2013, which is an indirect wholly-owned subsidiary of our Company
“New Headline Municipal Landscaping”	Lianyungang New Headline Municipal Landscaping Engineering Company Limited* (連雲港新海連市政園林工程有限公司), a limited liability company established in the PRC on 23 December 1997, which is an indirect wholly-owned subsidiary of our Company
“NH Property Services”	Lianyungang New Headline Property Services Co. Ltd.* (連雲港新海連物業服務有限公司), a limited liability company established in the PRC on 22 October 2012 and owned as to 100% by NH Development and is a connected person of the Company

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## DEFINITIONS

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“Nomination Committee”	the nomination committee of the Board
“Offer Price”	the final price per Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) at which the Offer Shares are to be subscribed for and issued pursuant to the Global Offering, to be determined as further described in the section headed “Structure and Conditions of the Global Offering — Determination of the Offer Price” in this prospectus
“Offer Shares”	the Hong Kong Offer Shares and the International Placing Shares together, where relevant, with any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option to be granted by our Company to the Underwriters exercisable by the Sole Global Coordinator on behalf of the Underwriters, pursuant to which our Company may be required to allot and issue up to 30,000,000 additional new Shares, representing 15% of the Shares initially available under the Global Offering at the Offer Price, to, among other things, cover over-allocations of the Global Offering (if any) as further described in the section headed “Structure and Conditions of the Global Offering” in this prospectus
“PRC Company Law”	The Company Law of the PRC* (中華人民共和國公司法), as adopted at the Fifth Session of the Standing Committee of the Eighth NPC on 29 December 1993, which became effective on 1 July 1994, as amended, supplemented or otherwise modified from time to time. The latest revision was approved on 28 December 2013 and came into effect on 1 March 2014
“PRC government” or “State”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof or, where the context otherwise specifies, any of them
“PRC Legal Advisers”	Jingtian & Gongcheng, the legal advisers to the Company as to PRC laws
“Price Determination Agreement”	the agreement to be entered into between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date to fix and record the Offer Price

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## DEFINITIONS

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“Price Determination Date”	the date, expected to be on or about 6 July 2017 or such later date as the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company may agree, on which the Offer Price will be fixed for the purpose of the Global Offering
“prospectus”	this prospectus being issued in connection with the Global Offering
“province” or “provinces”	the provinces, autonomous regions and municipalities of the PRC
“Puyuan Construction Management”	Lianyungang Puyuan Construction Management Company Limited* (連雲港浦源工程管理有限公司), a limited liability company established in the PRC on 8 March 2016, an indirect subsidiary of our Company which is owned as to 90% by Yuanyun Industrial and 10% by Jiangsu Xinhaikē
“Qiyuan Construction Management”	Lianyungang Qiyuan Construction Management Company Limited* (連雲港啟源工程管理有限公司), a limited liability company established in the PRC on 11 March 2016, which is an indirect wholly-owned subsidiary of our Company
“Remuneration Committee”	the remuneration committee of the Board
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國外匯管理局)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shares”	ordinary share(s) with a nominal value of US\$0.01 each in the capital of our Company
“Shareholder(s)”	holder(s) of the Shares
“Share Award Plan”	the share award plan conditionally adopted by our Company on 26 June 2017, the principal terms of which are summarised in the paragraph headed “Share Award Plan” in Appendix IV to this prospectus

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## DEFINITIONS

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“Share Award Plan SPV”	a special purpose vehicle which may be established by the Share Award Plan Trustee subject to the provisions of the trust deed to be executed by our Company as settlor and the Share Award Plan Trustee as trustee
“Share Award Plan Trustee”	such trustee or trustees as shall be from time to time appointed by our Company for the administration of Shares and other trust fund for the implementation of the Share Award Plan
“Share Option Scheme”	the share option scheme conditionally approved and adopted pursuant to resolutions passed by the Shareholders on 26 June 2017, the principal terms of which are summarised in the paragraph headed “Other Information — 12. Share Option Scheme” in Appendix IV to this prospectus
“sq.ft.”	square feet
“sq.m.”	square meter(s)
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into between Keen Smart and the Sole Global Coordinator pursuant to which the Sole Global Coordinator may borrow up to 30,000,000 Shares from Keen Smart for the purpose of covering over-allotment in the Global Offering
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the GEM Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Track Record Period”	the period comprising the three years ended 31 December 2014, 2015 and 2016
“US\$” or “US dollars”	United States dollars, the lawful currency of the United States
“Underwriters”	collectively, the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“ <b>WHITE</b> Application Form(s)”	the form of application for the Hong Kong Offer Shares for use by applicants who are members of the public in Hong Kong and require such Hong Kong Offer Shares to be issued in their own name

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## DEFINITIONS

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“White Form eIPO”	an application for Hong Kong Offer Shares to be issued in the applicant’s own name submitted online through the designated website of <b>White Form eIPO</b> at <a href="http://www.eipo.com.hk">www.eipo.com.hk</a>
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“YELLOW Application Form(s)”	the form of application for the Hong Kong Offer Shares for use by applicants who are members of the public in Hong Kong and require such Hong Kong Offer Shares to be deposited directly into CCASS
“Yuanyun Industrial”	Lianyungang Yuanyun Industrial Company Limited* (連雲港源運實業有限公司), a limited liability company established in the PRC on 20 November 2013, which is an indirect wholly-owned subsidiary of our Company
“Zhongtong Keyun”	Zhongtong Keyun Property (Lianyungang) Company Limited* (中通科雲置業(連雲港)有限公司), a limited liability company established in the PRC on 25 June 2014 and owned as to 82.5% by NH Development and 17.5% by an Independent Third Party and is a connected person of the Company
“%”	per cent

*In this prospectus:*

- *The terms “associate”, “close associate”, “connected person”, “connected person at the subsidiary level”, “core connected person”, “connected transaction” and “substantial shareholder” shall have the meanings ascribed thereto under the GEM Listing Rules, unless the context otherwise requires.*
- *Terms marked with “\*” denotes translation of certain PRC nationals, entities, enterprises, government authorities, departments, facilities, certificates, titles, laws and regulations into Chinese or English (as the case maybe), etc., or another language included in this prospectus for identification purposes only. In the event of any inconsistency, the Chinese name or the names in their original languages prevails.*
- *Unless otherwise expressly stated or the context otherwise requires, all data in this prospectus is as at the Latest Practicable Date.*
- *Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*



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## DEFINITIONS

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- *Unless otherwise specified, all references to “2014”, “2015” and “2016” are to the years ended 31 December 2014, 2015 and 2016, respectively.*
- *All times refer to Hong Kong time. Unless otherwise specified, reference to years in this prospectus are to calendar years.*
- *Certain figures used in this prospectus that are expressed in HK\$ are calculated based on the conversion rate of HK\$1 = RMB0.8981 and US\$1 = HK\$7.7547.*

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## GLOSSARY OF TECHNICAL TERMS

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*This glossary contains certain definitions of technical terms used in this prospectus as they relate to us and as they are used in this prospectus in connection with our business or us. Some of these definitions may not correspond to standard industry definitions.*

“BT”	build-transfer, a construction project management and financing model in which the private sector entity is responsible for overall management and financing of the project until the project is completed and transferred to the project initiator
“CAGR”	compound annual growth rate
“GB/T 19001-2008”	GB/T 19001-2008/ISO 9001:2008 and GB/T 50430-2007, quality management standards published by General Administration of Quality Supervision, Inspection and Quarantine of China (國家品質監督檢驗檢疫總局) and Standardisation Administration of China (國家標準化管理委員會)
“GDP”	gross domestic product (all reference to GDP growth rates are real as opposed to normal rates of GDP growth)
“GFA”	gross floor area
“ISO”	an acronym for a series of quality management and quality assurance standards published by International Organisation for Standardisation, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations
“OHSAS”	Occupational Health and Safety Assessment Series, a series of standards for health and safety management systems which are intended to help organisations to control occupational health and safety risks
“PPP”	public-private partnership, a construction project management and financing model in which there is a cooperation between the public sector entities and private sector entities in terms of project management, financing and operation
“subcontractor”	a qualified enterprise who is appointed for specific works in a project

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## FORWARD-LOOKING STATEMENTS

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This prospectus contains certain forward-looking statements relating to us that are based on the beliefs, intentions, expectations or predictions of the management of our Company for the future, as well as assumptions made by and information currently available to the management of our Company as at the date of this prospectus. These forward-looking statements are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:-

- our strategies, plans, objectives and goals;
- our operations and business prospects;
- our financial conditions;
- our future developments, trends and conditions in the industry and geographical markets in which we operate;
- our sales and marketing activities;
- our capital expenditure plans, future capital needs and funding plans;
- our relationships with key customers and related product/services providers;
- our ability to control costs;
- our dividend policy;
- our Directors' expectations and estimates on the operations such as the retention of financial, technical and human resources to meet routine operations and business expansions;
- the amount and nature of, and potential for, future development of our business;
- the regulatory environment and operating conditions in the industry and geographical markets in which we operate;
- the general economic trend and conditions of Lianyungang, Jiangsu Province and the PRC as well as the global market;
- certain statements in the section headed "Financial Information" in this prospectus with respect to trend in prices, volumes, operations, margins, overall market trends and risk management.

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## FORWARD-LOOKING STATEMENTS

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In some cases, we use the words “aim”, “anticipate”, “believe”, “consider”, “could”, “continue”, “estimate”, “envisage”, “expect”, “forecast”, “going forward”, “intend”, “may”, “ought to”, “perspective”, “potential”, “plan”, “predict”, “project”, “seek”, “should”, “strive”, “will”, “would” and similar expressions, and the negative of the aforementioned words as they relate to us, are intended to identify forward-looking statements. Such forward-looking statements reflect our views as at the date of this prospectus with respect to future events, some of which may not materialise or may change. These statements are not an assurance of future performance or development, and are subject to certain risks, uncertainties and assumptions, including the factors described in this prospectus. You are therefore strongly cautioned that reliance on any forward-looking statements contained herein involves known and unknown risks or uncertainties which may materialise, or the underlying assumptions of which may prove incorrect. Actual results and events may differ materially from the forward-looking statements as a result of a number of factors, including but not limited to:-

- any changes in the laws, rules and regulations relating to any aspects of our business operations;
- general business, economic and market conditions, including capital market developments;
- changes or volatility in interest rates, foreign exchange rates, debt and equity prices, commodity prices, or other rates or prices;
- various business opportunities that we may or may not pursue;
- level of persistency;
- our ability to identify, measure, assess, control and monitor risks in our business including our ability to manage and adapt to the overall risk profile and risk management practices of our Group;
- our ability to meet customer’s expectations and respond to changing customer’s preferences; and
- the risk factors discussed in this prospectus as well as other factors beyond our control.

Subject to the requirements of the applicable laws, rules (including the GEM Listing Rules) and regulations, we do not intend to publicly update or otherwise revise the forward-looking statements in the prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place due reliance on any forward-looking information or statements. All forward-looking statements in this prospectus are qualified by reference to the cautionary statements set forth in this section. Our Directors confirm that these forward-looking statements are made after due and careful consideration.

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## RISK FACTORS

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*Potential investors should carefully consider all of the information set out in this prospectus, including the risks and uncertainties described below before making any investment decision in relation to the Offer Shares. You should pay particular attention to the fact that all of our business is located in the PRC, and we are governed by a legal and regulatory environment which may differ from that in Hong Kong and other countries. If any of the risks described below actually occur, our business, financial position or results of operations could be materially and adversely affected, the market price of our Shares could decline, and you may lose all or part of your investment.*

### RISKS RELATING TO OUR BUSINESS

**We rely substantially on Lianyungang Municipal Government and its related entities. Any significant economic downturn in Lianyungang, or negative development of the financial condition and credit rating of Lianyungang Municipal Government and its related entities could materially and adversely affect our business, results of operations and growth prospect.**

We are based in Lianyungang of Jiangsu Province, and principally engaged in the provision of urban environmental and construction management services in this region. Due to the nature of our Group's business, we have been relying on Lianyungang Municipal Government and its related entities in all of our business segments during the Track Record Period.

***Environmental maintenance business.*** For our environmental maintenance business, during the three years ended 31 December 2014, 2015 and 2016, revenue in the amount of approximately RMB81.1 million, RMB85.5 million and RMB91.0 million, respectively, representing approximately 100.0%, 100.0% and 99.6% of the total revenue of our environmental maintenance business for the same years, were derived from Lianyungang Municipal Government and its related entities. According to the Ipsos Report, the environmental maintenance industry is an indispensable and irreplaceable industry, and that the government is usually the main customer. Our Directors are thus of the view that environmental maintenance of public space is one of the important public services driven by Lianyungang Municipal Government in Lianyungang and that deriving a majority of the revenue for the provision of environmental maintenance services from government and government related entities are inevitable. Since our Group commenced our business in Lianyungang, it is a natural course of business that our revenue for the provision of environmental maintenance services were predominately derived from Lianyungang Municipal Government and its related entities.

***Supply of construction material (gneiss).*** We rely on NH Development, a company wholly-owned by Lianyungang Municipal Government, as our sole supplier of gneiss in our supply of construction material (gneiss) business during the Track Record Period and up till the Latest Practicable Date. During the Track Record Period, the total purchase of gneiss from NH Development accounted for approximately RMB38.6 million (or representing approximately 35.5%), RMB52.8 million (or representing approximately 41.6%) and RMB75.1 million (or representing approximately 43.3%) of our Group's total costs of sales for the three years ended 31 December 2014, 2015 and 2016, respectively. In relation to our supply of construction material (gneiss) business, our Directors are of the view such reliance on Lianyungang Municipal Government and its related entities is inevitable as

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## RISK FACTORS

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according to the Ipsos Report, other than the quarry operated by NH Development, there were nine gneiss quarries in operation in Lianyungang which were either directly owned by Lianyungang Municipal Government or indirectly owned by enterprises related to Lianyungang Municipal Government as at the Latest Practicable Date.

***Construction management business.*** Our construction project management services involve our undertakings of BT and PPP projects of infrastructure and public facilities starting in May 2015. During the Track Record Period and up to the Latest Practicable Date, all of our BT and PPP projects were awarded by Lianyungang Municipal Government and its related entities through public tender. For the three years ended 31 December 2014, 2015 and 2016, we derived an aggregate revenue of nil, approximately RMB29.1 million and RMB128.7 million from Lianyungang Municipal Government and its related entities, representing all of our Group's total revenue for construction project management services for the same years. According to the Ipsos Report, all of the construction project management projects in Lianyungang were public in nature and were issued by Lianyungang Municipal Government and its related entities for the three years ended 31 December 2014, 2015 and 2016. Our Directors are thus of the view that the reliance on Lianyungang Municipal Government and its related entities in deriving revenue for our construction project management business is inevitable.

Based on the above, our business model may not be easily changed to reduce the level of reliance on Lianyungang Municipal Government and its related entities due to our business nature. We expect that the revenue derived from Lianyungang Municipal Government and its related entities will continue to represent a significant portion of our total revenue and we believe that such high level of reliance is unlikely to decrease in the foreseeable future. Any significant non-payment or for any reason Lianyungang Municipal Government and its related entities breaches its contractual obligations or otherwise terminates its business relationship with us, would result in a significant decrease in our revenue and could materially and adversely affect our business, financial condition and results of operations.

***Negative development in economy of Lianyungang.*** The future growth of the urban environmental and construction management industry depends on the continued planning and construction of major public works projects. Such public works projects in the PRC receive funding largely from municipal government budgets. Thus, our business relies heavily on policies promulgated by the PRC government and continuous governmental investment. The PRC government's public works investment is subject to periodic variations due to national and regional economic policies and changes in the development of the PRC economy. If Lianyungang experiences a significant economic downturn or other types of financial difficulties, the implementation of such projects may be limited by the capital available for investment by government. The government may reduce or postpone its spending on public works, and thus may reduce the number of projects available and eventually reduce the market demand for our services. As a result, any adverse changes in the government budgets, public spending and public policies in relation to the urban environmental and construction management industry, may have a material adverse impact on our business, financial position, results of operations and prospects.

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## RISK FACTORS

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***Negative development in the financial condition and credit ratings of Lianyungang Municipal Government and its related entities.*** Further, any negative development in the financial condition and credit ratings of Lianyungang Municipal Government and its related entities may have a material adverse effect on our business operation, the recoverability of our receivables due from Lianyungang Municipal Government and its related entities, our financial condition and prospect. In April 2017, Standard and Poors Financial Services LLC (“S&P”) published announcement (the “S&P Announcement”) lowered the long-term corporate credit rating on NH Development to “BB” from “BB+” and HK Zhiyuan to “BB-” from “BB”. According to the S&P Announcement, S&P downgraded NH Development because it is believed that the Lianyungang Municipal Government’s weakened credit quality will continue to constrain NH Development’s credit profiles over the next two years. Besides credit rating, Lianyungang Municipal Government was said to be burdened by contingent liabilities and slowdown in revenue growth in public articles. Given the decrease in credit rating and the potential worsening of contingent liabilities and slowdown in revenue growth, Lianyungang Municipal Government may be increasingly vulnerable to repayment liabilities. Being a very major customer in our environmental maintenance and construction management business, Lianyungang Municipal Government and its related entities’ increasing vulnerability to settle scheduled payment due to our Group may affect our Group’s recoverability of receivables in times of adverse business, financial, or economic conditions. If any of Lianyungang Municipal Government and its related entities default in paying our scheduled payment, our liquidity, financial condition, results of operations and prospectus would be materially and adversely affected.

**We face risks associated with undertaking BT and PPP projects.**

We believe that BT and PPP projects are attractive business opportunities that have high revenue potential. According to the Ipsos Report, an increasing number of construction projects in China are expected to be completed with a BT or PPP model in the future. As such, we have undertaken and expect to continue to undertake BT or PPP projects in the future. The risks associated with BT and PPP projects include, among others, (i) the discrepancy of cash outflow during the construction of the project and the cash inflow after the completion of construction of the project may put pressure on our liquidity; (ii) the project cycle of BT and PPP projects may cause our results of operations to vary significantly from period to period; and (iii) uncertainty and delay over undertaking construction project management projects and municipal construction projects with connected persons in the future.

***The discrepancy of cash outflow during the construction of the project and the cash inflow after the completion of construction of the project may put pressure on our liquidity.*** Our provision of construction management services in our BT and PPP projects is capital intensive in nature. We have to finance, and expect to continue to finance, significant costs during the construction phase, through engaging, paying and monitoring subcontractors to carry out all the construction works. Generally, we will be paid in instalments over an agreed period of time after completion of construction of such projects. We will not receive any progress payment during the construction phase of the relevant projects. Our accrued contract revenue as at 31 December 2014, 2015 and 2016 attributable to our BT and PPP projects amounted to nil, approximately RMB49.3 million and approximately RMB179.3 million, respectively. As we paid out substantial cash at the early stages of our BT and PPP projects, and we do not anticipate generating positive operating cashflow until after the completion of construction of such projects, such may put pressure on our liquidity and cause us to resort to bank borrowings to fund our projects and day-to-day business operations. This in turn could have a material adverse effect on our business, financial position and results of operations.

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## RISK FACTORS

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Further, undertaking BT and PPP projects also requires significant working capital over extended period of time which would have an adverse impact on our cashflow. The financial position and future results of our Group may be adversely and materially affected, taking into account any debts which may be required to be raised and any banking facilities which may be required to be utilised by our Group to support the provision of project financing services for our BT and PPP projects.

In addition, the profitability of such projects may also depend on relevant government policies. Any changes in relevant government policies may affect our ability to generate profits in these projects. We have limited experience in assessing the risks associated with construction management projects. As a result, we may not be able to execute or complete BT and PPP projects as planned to generate sufficient, or any, returns on our investment, and failure to do so will materially and adversely affect our business, financial position and results of operations and prospects.

*The project cycle of BT and PPP projects may cause our results of operations to vary significantly from period to period.* The project cycle of our BT and PPP projects may range from months or years to complete and the number of BT and PPP projects we undertook during a specific accounting period may be limited due to the substantial amount of capital required to fund and pay construction costs on behalf of our customers. We normally incur cash outflow during the construction phase of such projects and generate cash inflow when our customers pay us after the completion of construction of the projects. Therefore, our results of operations may fluctuate in the future due to a combination of factors, such as the overall project schedule or work progress of our BT and PPP projects, our revenue recognition policies and any changes in costs and in expenses. Our results of operations therefore may vary significantly from period to period, depending on project progress and may lead to fluctuations in revenue recognised from period to period. Accordingly, our interim results for a certain period may not be indicative of our performance for that financial year or otherwise comparable to our results in the previous periods. In light of the above, our Directors believe that period-to-period comparisons of our operating results may not be as meaningful as they would be for a company with a greater proportion of recurring revenues. If our operating results in one or more periods do not meet the market's expectations, the price of our Shares could be materially adversely affected.

*We may experience uncertainty and delay over undertaking construction project management projects and municipal construction projects with connected persons in the future.* During the Track Record Period and up to the Latest Practicable Date, six out of eight of our BT and PPP projects were awarded by NH Development and its subsidiary, being Jiangsu Xinhaike, through public tender. During the Track Record Period, we also entered into various transactions with the subsidiaries of NH Development, namely Gao Ke Investment and Zhongtong Keyun, for the provision of municipal construction services. NH Development is one of our substantial shareholders and hence NH Development and its subsidiaries are considered as connected person of our Group under Chapter 20 of the GEM Listing Rules. All of such projects constituted continuing connected transactions of our Group under Chapter 20 of the GEM Listing Rules. For details, please refer to the section headed "Connected Transactions" in this prospectus.



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## RISK FACTORS

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NH Development and its subsidiaries, being the administrative arm of LET Development Zone Management Committee, is responsible to hold public tender for infrastructure and public facilities in LET Development Zone. Given our construction project management services involved our undertakings of BT and PPP projects of infrastructure and public facilities and our business focus is in Lianyungang, we will continue to bid for projects given by NH Development and its subsidiaries in the future. Depending on the scale of our projects of construction project management and municipal construction, these projects to be awarded by NH Development Group may constitute non-exempt continuing connected transactions for our Company under Chapter 20 of the GEM Listing Rules and we will be required to comply with the relevant requirements under Chapter 20 of the GEM Listing Rules, including obtaining independent Shareholders' approval. We cannot assure you that independent Shareholders' approval can be obtained in the future for construction project management projects and municipal construction projects awarded by connected person in time or at all. If we fail to obtain the required independent Shareholders' approval for our transactions with NH Development Group or in time, we may experience uncertainty and/or delay over undertaking certain construction project management projects and municipal construction projects, and in turn our results of operations, financial performance and growth prospects will be adversely affected.

**We may not be able to sustain our historical growth rates.**

We have experienced rapid growth in terms of revenue and profit during the Track Record Period. Our revenue increased by 62.9% from approximately RMB127.2 million for the year ended 31 December 2014 to approximately RMB207.2 million for the year ended 31 December 2015; and increased by approximately 80.9% from approximately RMB207.2 million for the year ended 31 December 2015 to approximately RMB374.9 million for the year ended 31 December 2016. Our profit for the year increased by 456.9% from approximately RMB8.3 million for the year ended 31 December 2014 to approximately RMB46.4 million for the year ended 31 December 2015; and further increased by 158.9% to approximately RMB120.1 million for the year ended 31 December 2016. Such a rapid growth, to a large extent, was resulted from our undertakings of BT and PPP projects starting in May 2015. For further details of our environmental maintenance and construction management projects completed or in progress, please refer to the section headed "Business — Environmental Maintenance and Construction Management Projects" in this prospectus. However, such projects are generally one-off and non-recurring in nature. There is no assurance that we will be able to continue to win projects for BT and PPP projects through tendering and maintain our historical growth rates in the future.

In addition, our revenue and profit for a year will also depend on a number of factors, many of which are beyond our control, including but not limited to global economic condition, changes in macroeconomic policies of the PRC government, the level of competition in our industry, and changes in fixed assets investment. We cannot assure you that we will be able to maintain our historically high growth rate and, to the extent that we may experience any significant decrease in demand for our services or any material increase in market competition. If our growth rate declines, investors' perceptions of our business and prospects may be adversely affected and the market price of our Shares may decline.

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## RISK FACTORS

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**Our future operations, working capital and cashflow position may be adversely affected if our customers fail or delay in settling the payment due to us.**

Due to the nature of our provision of environmental maintenance and construction management services, we are subject to the credit risks of our customers. Our profitability and cashflow are therefore largely dependent on the timely settlement of payments by our customers for the services we rendered to them.

In respect of our environmental maintenance projects, we submit monthly reports to our customers setting out the progress and/or value of work we have performed each month, and based on these reports, we bill and invoice our customers. We cannot assure you that our customers will make payments to us on a timely basis or in full. In the event that our customers fail to make such payments on time or in full, our liquidity position may be materially and adversely affected.

In respect of our BT and PPP projects, as part of our provision of project management services and project financing services, we are often required to pay out a substantial amount of cash to engage subcontractors to carry out all the construction works. Generally, we will only be paid for our management services income for our management services, interest income for our financing services and subcontracting fees we paid on behalf of our customers, by instalments over an agreed period of time after completion of the construction of the projects subject to adjustment to be made after the determination of the settlement audit sum and upon issuance of an invoice. We will not receive any progress payment during the construction phase.

In respect of our municipal construction projects, we will only be paid for our services by instalments over an agreed period of time after the completion of construction of the projects and following determination of the settlement audit sum.

Further, our customers may need to go through internal procedures for approving settlement. The time required for our customers to complete such exercise varies greatly, which can be affected by factors such as the overall project schedule or work progress, internal procedures of our customers as well as the government policy (such as whether the project is the policy focus in case of public funded projects which may affect the resource allocation of the government), which are beyond our control.

In particular, our customers mainly consisted of government and state-invested enterprises during the Track Record Period. In general, the PRC government's spending on public works historically been, and will continue to be, cyclical in nature and vulnerable to fluctuations in China's economic and political conditions. It is noted that there have been concerns in recent years in relation to the financial standing of certain PRC local governments according to publicly available information and media reports. Therefore, to the extent that our projects are providing services to, or receiving payments from, PRC governmental entities, the timing of invoicing and collection of payments are subject to delays or changes as a result of changes in the government's policies. We cannot assure you that our major government and state-invested enterprises customers will be able to continue to maintain their current strong financial position. The failure of any of them to make timely payments for our provision of services could have a material and adverse impact on our business, financial position, results of operations and prospects.

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We cannot assure you that we will be able to collect all or any of our trade receivables on time, or at all. If any of our customers face unexpected situations, including, but not limited to, financial difficulties caused by fiscal constraints or change in fiscal policy of the government or delay in completion of the entire project of which our project forms part, our customers may delay or even default in their payment obligation. As a result, we may not be able to receive from such customers payment of uncollected debts in full, or at all, and we may need to make provisions for trade receivables. The occurrence of such event would materially and adversely affect our financial position and results of operations.

**We may not be able to source gneiss from other gneiss quarries in Lianyungang on comparable terms in the future.**

During the Track Record Period, a significant portion of our revenue was derived from our sale of gneiss. Our sale of gneiss represents approximately 36.3%, 38.2% and 30.5%, respectively, of our total revenue for the three years ended 31 December 2014, 2015 and 2016. We did not engage in the exploration or mining of gneiss and we are only engaged in the sale of gneiss. Our Group, as purchaser, entered into the NH Development Supply Agreement with NH Development, as supplier, for a term of three years effective from 1 January 2016 to 31 December 2018. Accordingly, we rely on our sole supplier, NH Development, to supply us with gneiss that meet our required standards. There is no assurance that we will be able to find new suppliers, i.e. other gneiss quarries in Lianyungang, to supply us with gneiss on comparable terms, or at all, in which case our business, financial position and results of operations may be materially and adversely affected.

**We may face uncertainties relating to our sale of gneiss.**

We sourced all of our gneiss from NH Development. Problem with our supplier's production facilities or processes, or occurrence of natural disasters and other unanticipated catastrophic events, could result in defects or failure to produce an adequate amount of gneiss or even suspension of mining process. In addition, in the first quarter of 2014, there was a temporary suspension of mining process due to renewal of the relevant mining licence. We cannot assure you that we can secure or maintain a stable or uninterrupted source of supply of gneiss. If the relevant mining licence of our supplier failed to be renewed or subject to renewal, this may in turn adversely affect our business, financial position, results of operations and prospects.

The future growth and level of profitability of our sale of gneiss also depends on the level of urban public facilities investment in the PRC, which is in turn affected by many factors, including changes in the PRC's political and economic environment. According to the Ipsos Report, gneiss is mainly used in paving and reclamation and can be used as a substitute for limestone soil in road construction. Any development and fluctuations in the level of urban public facilities investment in the PRC will affect the demand for gneiss which could in turn have a material adverse impact on our business, financial position and results of operations.

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**The demand for gneiss may decrease due to changes in our customers' consumption pattern.**

As we engage in the sale of gneiss, any adverse change in market demand, customer preference or market prices for gneiss products or any failure to predict and adapt to such adverse change could result in decrease in our sale of gneiss and increase pressure on the selling price of gneiss. In these circumstances, the prospects, financial position and the sales volume of gneiss may be adversely affected. Our profitability depends on our customer's demand for our gneiss. Consumer preferences change over time, and gneiss may not meet the particular preferences of our customers, or replace their existing preferences. Our failure to anticipate, identify or react to these particular preferences or changes in customer preferences may result in us not being able to grow our supply of gneiss business as planned.

**Any non-compliance with anti-bribery and anti-corruption laws by our employees may materially and adversely affect our reputation and business operation.**

We are subject to risks in relation to actions taken by us or our employees that constitute violations of applicable anti-bribery and anti-corruption laws and regulations in the PRC. Failure to comply with these measures or to effectively manage our employees could have a material adverse impact on our reputation, business, and results of operations, financial condition and prospects.

In businesses that involve significant reliance on the government such as ours, especially since most of our major customers are state-invested enterprises or government and its related entities, are subject to risk in relation to corrupt practices, include, among others, giving or acceptance of kickbacks, bribes or other illegal gains or benefits to government officials. While we have internal controls and procedures in place to monitor our compliance with anti-corruption laws, regulations and policies, we cannot assure you that such internal controls and procedures will always be effective in protecting us from violations committed by our employees and parties with whom we have a business relationship. If we, our employees or other parties with whom we have a business relationship violate these laws, rules or regulations, we could be required to pay damages or fines, which could materially and adversely affect our business, results of operations, financial condition and prospects. Actions by PRC regulatory authorities or the courts to provide an interpretation of PRC laws and regulations that differs from our own or to adopt additional anti-bribery and anti-corruption laws and regulations could also require us to make alterations to our operations. Our reputation and our business activities could be materially and adversely affected if we become the target of any negative publicity as a result of actions taken by us, our employees or other parties.

**Our business operations are influenced by governmental decisions and actions, over which we have no control.**

We undertake various environmental maintenance and construction management projects initiated by the PRC governmental entities, in particular the LET Development Zone Management Committee and Lianyungang Municipal Government. Our undertaking of environmental maintenance and construction management projects are therefore influenced by government decisions and actions. We have no control over the decision making processes of these governmental authorities, and certain

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decisions they make or actions they take may not be in line with our business or financial interests. Depending on the decisions and actions taken by the governmental authorities, our business and results of operations could fluctuate significantly from year to year or be materially and adversely impacted.

**We had negative net operating cash flow from our operating activities for the year ended 31 December 2015. We cannot assure you that we can maintain net cash inflows from some of our operating activities. If we are unable to meet our payment obligations, our business, financial condition and results of operations may be materially and adversely affected.**

We recorded negative net cash flow from operating activities of approximately RMB0.3 million for the year ended 31 December 2015, which was mainly due to an increase in trade receivables, other receivable, and prepayment of approximately RMB46.8 million, mainly as a result of the increase in accrued contract revenue and trade receivables due to revenue generated from our commencement of the provision of construction management services starting in 2015.

Due to the nature of our business, we may from time to time experience net operating cash outflows at the early stage of our BT and PPP projects when we are required to pay out the costs in advance of receiving payments from our customers. The increase in the cash outflows of our BT and PPP projects may not be compensated by the cash inflows of our other projects. In these circumstances, our corresponding cashflow position may be adversely affected. There is no assurance that our operations will generate sufficient cashflows to meet our operating and capital requirements in the future. If we fail to manage the fluctuation of our cashflow, our business, financial position and results of operations could be materially and adversely affected.

**If our industry qualifications or business licences are downgraded, cancelled, suspended or fail to be renewed, our business, financial position and results of operations may be materially and adversely affected.**

We rely on our industry qualifications and business licences to successfully operate our business. We hold a Grade Three enterprise qualification in urban landscape construction, which allows us to undertake maintenance and management projects in greenery of all types and scales. We also hold a Grade Three general contracting qualification in municipal and public construction, which allows us to undertake various municipal and public construction projects. In addition, we also hold business licence and work safety permit which are also eligibility requirements to participate in project tendering. We must comply with the restrictions and conditions imposed by the government in order to keep the relevant industry qualifications and business licences.

If we fail to comply with the applicable requirements or any required conditions to keep the qualifications and licences, our qualifications may be downgraded, suspended or cancelled. Delay or refusal may occur when renewing such qualifications and licences upon expiration. Failure to keep or renew the qualifications and licences may result in suspension of our business operations, restriction or prohibition of certain business activities, or commencement of new business, thereby materially and adversely affecting our business, financial position, results of operations and prospects. For details of our industry qualifications, please refer to the section headed “Regulatory Overview” in this prospectus.

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**We record our revenue and profit for our construction management projects based on our best estimates at the relevant times, which are subject to inherent uncertainties and subsequent adjustments.**

In respect of our construction management projects, we measure and recognise our revenue when we performed our services. We recognise our revenue based on our estimates on the final outcomes, including the contract revenue and costs, of each contract which requires management's best estimates and judgments. We estimate the revenue in accordance with the terms set out in the relevant contracts and the relevant costs based on the quotations and variation orders provided by our subcontractors and suppliers from time to time. Although we estimate the revenue and costs based on our best efforts and historical experience, the inherent uncertainty of the estimation may result in material differences between the actual revenue and cost from the estimates, which could lead to material adjustments to our profits in subsequent fiscal periods.

During the Track Record Period, most of the construction management projects awarded to us were secured through tendering. In preparation of our tender submission or fee quotation, we based our estimation on available information provided to us by potential customers and taking into account (i) the nature, scope and complexity of the project; (ii) the estimated number and types of workers required; (iii) the costs of raw materials and subcontracting fees; (iv) the completion time requested by customer; and (v) the prevailing market conditions. We may suffer losses if there is any underestimation or overrun, therefore our tender submissions or fee quotations may have inherent risks, such as unforeseen difficulties in completing the construction management projects or incidents that may cause increase in our any unexpected time or cost.

For example, our operating costs and gross profits may vary as a result of:

- any unanticipated technical problems requiring us to incur additional time and costs;
- any failure of our subcontractors in performing subcontracted works may force us to incur additional costs in replacing the defaulting subcontractor or carrying out the rectification works; and
- any exacerbation of any or most of the aforesaid factors alongside with the growth of the projects in terms of both their size and complexity.

**Failure to fully comply with the pre-agreed project schedules under our construction management projects may result in losses to us.**

Our construction management contracts generally provide for specific project schedule completion requirements with compensation payable by us if we fail to meet the schedule requirements. Compensation are generally payable at a rate as provided in the relevant contract. For our construction management projects in progress as at the Latest Practicable Date, if such projects were delayed due to reasons caused by us for a period of 30 days or more, a compensation at a rate

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of 0.01% of the initial project value is payable by us for each day of the delay and the other contracting party has the right to terminate the contract. Any failure to meet the schedule requirements of the construction management projects may cause our Group to pay significant amount of compensation, which would adversely affect our liquidity and cashflow, as well as our business and reputation.

**We generate part of our revenue on a project by project basis and our business, financial position and results of operations depend significantly on our success rate for project tendering.**

The environmental maintenance and construction management projects undertaken by us are mainly awarded to us on a project by project basis. We have to go through a competitive tendering process to secure new projects. Due to the nature of project tendering, we may not be able to maintain business relationship with our existing customers, or we may not be able to secure new projects from customers. As a result, there is no assurance that we could achieve the same or higher success rate in project tendering in the future. In the event that we fail to secure new projects or there is a significant reduction in the number of projects awarded to us through project tendering in the future, our business, financial position, results of operations and prospects may be adversely affected. Based on our Company's internal record, during the Track Record Period and up till the Latest Practicable Date, we submitted 88 tenders, and were awarded 18 projects. The success rate for our project tendering was approximately 20.5%.

**Intense competition in the construction management industry in Lianyungang in which we operate may reduce our market share and profits.**

The construction management industry in Lianyungang is highly competitive. The tendering in Lianyungang is highly competitive with limited number of construction management projects and a large number of competitors. Industry participants registered outside of Lianyungang, with stronger financial strength and higher qualification, can also participate in project tendering in Lianyungang.

Factors that affect our competitiveness include possession of higher qualifications, quality and reputation. Some of our competitors have operations nationwide or with greater financial and other resources than we do; and some may have longer business track record and are more experienced in the construction management industry than we do. Less experienced or qualified competitors may also win project contracts through submitting lower tender price. We therefore cannot assure you that our competitors will not develop the expertise, experience and resources necessary to provide services that are superior in quality or price or both to our services, or that potential changes in the relevant governmental regulations, industry trends or market conditions will not alter the competitive landscape for our services beyond our projections. During economic downturns that correspond with reduced government funding for construction management contracts or periods in which there is low market demand but a simultaneous increase in number of industry participants, competition for available projects is likely to intensify. Failure to maintain or enhance our competitive position within the industry may result in pressure to reduce prices for our services, and decreased profit margins and loss of market share.



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**A significant portion of our revenue is derived from our five largest customers in terms of revenue generated.**

During the Track Record Period, our customer base was highly concentrated. Our revenue generated from contracts with our five largest customers accounted for approximately 87.9%, 76.4% and 81.2% of our total revenue for the three years ended 31 December 2014, 2015 and 2016, respectively. Our largest customer accounted for approximately 60.5%, 41.1% and 30.8% for the same years. During the Track Record Period, our major customers were government and state-invested enterprises for our provision of environmental maintenance services and provision of construction management services; while our major customers were private sector entities such as property developers and construction contractors, for our supply of construction material (gneiss). These major customers may continue to account for similar or even higher proportion of our revenue in the future. In light of the above, we face risks associated with having concentration of customers in the future. If there is any deterioration in our major customers' businesses, the number of projects awarded to us may also decline correspondingly.

There is also no assurance that any of our major customers will maintain the current business relationship with us upon the expiry of our existing contract and engage us in the future with similar terms. If the number of projects awarded to us by any of our major customers reduce significantly or they cease their business relationships with us, we cannot assure you that we would be able to find new customers to engage us on comparable terms, or at all, in which case our business, operating results and financial position may be materially and adversely affected.

In the event of defaulting payments by any of our major customers, we may be unable to recover significant amounts of receivables and thus our cash flow, business and financial position could be adversely affected. We may not be able to meet our working capital requirement if we experience significant increase in trade receivables and accrued contract revenue. We also cannot assure you that we can diversify the composition of our customer base.

**There is no guarantee that we would not be subject to any claims in relation to defects of our provision of services, which may result in further costs to make good the defects, and/or claims from our customers against us and/or deduction of the retention money in respect of some of our construction management projects to be released.**

We may be subject to claims in relation to defects of our provision of services. Our customers in respect of our greening and construction management projects require us to provide a warranty period, during which we will remain responsible for remedying any defects discovered. In the event that substantive remedial actions are required, we might have to incur significant costs and time or be subject to claims from our customers against us. If we fail to make good the defects as required, they may claim damages from us. Our customers in respect of some of our construction management projects may also reduce or forfeit the retention money withheld from us.



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**The work of our environmental maintenance and construction management projects is labour intensive and we rely on a stable supply of labour to carry out our projects.**

The work of our environmental maintenance and construction management projects is labour intensive. We have outsourced most of our environmental maintenance and municipal construction projects and all of our BT and PPP projects to our subcontractors. For any given project, a large amount of work is generally required from different labours with different skills. There is no assurance that the supply of labour in local markets will be stable. In the event that we or our subcontractors fail to retain existing labour and/or recruit sufficient labour in a timely manner to meet the demand of our existing or future projects, or there is a significant increase in costs of labour, we may not be able to complete our projects on schedule or within budget and our operations and profitability may be adversely affected.

**We rely on our subcontractors to complete our environmental maintenance and construction management projects and the work performance of the subcontractors may be beyond our control.**

During the Track Record Period, we outsourced a major part of our environmental maintenance projects and municipal construction projects, and all of our BT and PPP projects to our subcontractors. We have standard procedures in place for selecting and monitoring our subcontractors. We have maintained good relationships with our subcontractors throughout our business operation. However, subcontractors may not be readily available when we need to outsource our work under the relevant projects. Our ability to complete our projects on time may be impaired if we are unable to secure qualified subcontractors. If a subcontractor fails to provide the services as required under a contract, or in the event that we have disputes with, or lose the services of, any of our existing subcontractors, we may not be able to find suitable alternative subcontractors on a timely basis to complete our work, which could adversely affect our business, financial position and results of operations.

We cannot guarantee the service quality provided by these subcontractors and we cannot assure you that our monitoring of the work and performance of our subcontractors will be sufficient to control the quality of their work. In the event that our subcontractors fail to meet our or our client's quality and other operating standards and those standards required by the relevant laws and regulations in the PRC, we may be liable to third parties and our clients. Costs associated with rectifying any problems caused by our subcontractors may have a material adverse effect on our business, financial condition and results of operations.

**There is no guarantee that safety measures and procedures implemented by us could prevent the occurrence of industrial accidents of all kinds, which in turn might lead to claims in respect of personal injuries, and/or property damage against us.**

We are committed to providing a safe and healthy working environment. However, we cannot guarantee that all of the safety measures and procedures are strictly adhered to at all times, nor can

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we assure you that our safety measures and procedures are sufficient to prevent the occurrence of industrial accidents of all kinds. If the safety measures and procedures implemented at construction sites are insufficient or not strictly adhered to, it may result in industrial accidents which would in turn lead to claims in respect of personal injuries, fatal accidents, and/or property damage against us. These would result in significant financial loss, damages to our reputation in the industry, and adversely affect our financial position.

**We do not have insurance to cover damages to all risks related to our business operations.**

Save for our vehicles, we currently do not maintain insurance coverage on our leased properties, machinery, equipment and other assets. We have neither purchased third party insurance to cover claims in connection with personal injuries or oversight or negligence in our business operations, nor have we purchased third party insurance for property or environmental damages that may occur during implementation of our projects. In addition, we have not maintained insurance policies against losses arising from our environmental interruption, industrial accidents, work stoppages, civil unrest or other activities.

We have outsourced most of our environmental maintenance and municipal construction projects and all of our BT and PPP projects to our subcontractors. In accordance with applicable PRC laws and regulations, our subcontractors, as employers, are required to purchase insurance for their construction workers. As a result, we currently do not maintain such insurance ourselves. We typically required the subcontractors of our construction management projects and our labour service subcontractors for our environmental maintenance projects and municipal construction projects to purchase insurance for our projects. We believe that the practice of our Group is consistent with the customary industry standard adopted by other urban project management operators in Lianyungang and is sufficient for the needs of our business operations and appropriate for our current risk profile. Although we believe that such arrangement is appropriate for our current risk profile, we cannot guarantee that such arrangement is sufficient to cover all potential risks and losses. If we face any operating risks resulting from any event in relation to the failure to purchase insurance, we may bear a substantial cost and experience a loss. If we were held liable for uninsured losses, our business and results of operations may be adversely affected.

**We depend on the continuing services of our senior management team and other key personnel.**

Our future success depends upon the continued services of our executive Directors and members of our senior management team. In particular, our senior management team is headed by Ms. Zhang Delan, our executive Director and chief executive officer, who has more than 10 years of experience of management experience in China. Most of our executive Directors have been serving in the Group since our establishment. The experience, expertise and contributions of our Directors and other members of our senior management team whose names are set out in the section headed “Directors and Senior Management” in this prospectus are also essential to our business operations. If one or more of our key management members are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all and may incur additional expenses to recruit and train new personnel with equivalent qualifications. Our business operations could be severely disrupted and our business, financial position, results of operations and prospects may be adversely affected.

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**Our Controlling Shareholders have substantial control over our company and their interests may not be aligned with the interests of our other public minority Shareholders.**

Immediately following the Global Offering, our Controlling Shareholders will remain to exert substantial control over our issued share capital. As a result, subject to our Memorandum and Articles of Association and the Companies Law, our Controlling Shareholders, by virtue of their controlling ownership of our share capital and their positions on our Board of Directors, will be able to exercise significant control or influence over our business or otherwise on matters of significance to us. Certain matters for which our Controlling Shareholders could have significant control or influence in determining the outcome include, among others:

- election of Directors;
- selection of senior management;
- amount and timing of dividend payments and other distributions;
- acquisition of, or merger with, other entities;
- overall strategic development and investment decisions;
- issuance of securities and adjustment to our capital structure; and
- amendments to our Memorandum and Articles of Association.

The interests of our Controlling Shareholders may differ from the interests of our other public minority Shareholders and our Controlling Shareholders are free to exercise their votes according to their interests. In the event that there is a divergence of our strategic and other interests from those of our Controlling Shareholders in the future, the Controlling Shareholders may exercise control over us in ways that conflict with the interests of our other Shareholders, and the interest of minority Shareholders could be disadvantaged.

**The financial performance of our Group for the year ending 31 December 2017 will be affected by certain non-recurring expenses incurred by our Group in relation to the Listing.**

The financial performance of our Group will be affected by certain non-recurring expenses incurred by our Group in relation to the Listing. Our estimated listing expenses primarily consist of underwriting commissions in addition to professional fees paid to the Sole Sponsor, legal advisers and the reporting accountant for their services rendered in relation to the Listing. Assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$1.55 per Share, being the mid-point of our indicative price range for the Global Offering stated in this prospectus, the total listing expenses will be approximately HK\$46.3 million (equivalent to approximately RMB41.6 million), of which approximately HK\$16.7 million (equivalent to approximately RMB15.0 million) is directly attributable to the Listing and is expected to be capitalised after the Listing. The remaining amount of approximately HK\$29.6 million (equivalent to approximately RMB26.6 million) is chargeable to our Company's consolidated statements of comprehensive income, of which nil,

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## RISK FACTORS

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approximately HK\$4.4 million and HK\$12.1 million (equivalent to nil, approximately RMB4.0 million and RMB10.8 million, respectively) were charged to our Company's consolidated statements of comprehensive income for the three years ended 31 December 2014, 2015 and 2016, respectively, and approximately HK\$13.1 million (equivalent to RMB11.8 million) is expected to be charged for the year ending 31 December 2017. The estimated listing expenses are subject to adjustments based on the actual amount incurred or to be incurred. Accordingly, the Shareholders and potential investors should be informed that the financial performance of our Group for the financial year ending 31 December 2017 will materially and adversely be affected by the expenses in relation to the Listing.

**There can be no assurance that we will declare dividends in the future.**

During the three years ended 31 December 2014, 2015 and 2016, our Group did not declare any special dividend. After Listing, any future dividend declaration and distribution by us will be at the discretion of our Directors and will depend upon our financial results, Shareholders' interest, general business conditions, strategies and future expansion needs, our capital requirements, possible effects on liquidity and financial position of our Company and such other factors as our Board may consider relevant. For further details, please refer to the section headed "Financial Information — Dividend" in this prospectus. Potential investors should note the dividend payment in the past should not be regarded as an indication of future dividend policy. No assurance can be given that dividends will be paid in the future.

**Investors may face difficulties in protecting their interests because our Company is incorporated under Cayman Islands laws, which may provide remedies to minority shareholders that are different from the laws of certain other jurisdictions.**

Our Company's corporate affairs are governed by our Memorandum and Articles of Association, and by the Companies Law and the common law of the Cayman Islands. Cayman Islands law relating to the protection of the interests of minority shareholders differs in some respects from that established under statutes and under judicial precedents in other jurisdictions. This may mean that the remedies available to our Company's minority shareholders may be different to those they would have under the laws of other jurisdictions. Please see Appendix III to this prospectus for a Summary of the Constitution of our Company and the Cayman Islands Company Law.

### RISKS RELATING TO THE INDUSTRIES WE OPERATE

**Our business and prospects could be adversely affected by competition.**

The environmental and construction management industry is highly competitive as there are a large number of competitors. Some of our competitors may have greater financial, marketing, management and other resources than we do. We compete with competitors on the basis of variety and quality of our services, pricing of our services, and quality of our services we provide.

Due to the large number of competitors, we may face significant downward pricing pressure or loss of our market share thereby reducing our profit margins. If we do not provide a competitive bid as compared to our competitors, our services may not be attractive to customers, which may have a material adverse effect on our financial condition and results of operations.

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## RISK FACTORS

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**Work progress of our environmental maintenance and construction management projects could be affected by adverse weather conditions.**

Since our environmental maintenance and construction management projects are mainly located outdoors, any adverse weather condition such as rainstorms, tropical cyclones and continuous rain may interrupt or otherwise affect the progress of our projects. In the event that any delay is caused by such adverse weather condition, we may have to accelerate our work progress afterwards so as to meet the time for completion as scheduled, and such acceleration works will typically involve additional costs, thereby adversely affecting the profitability of our business.

Besides, if there is any delay in completion of our construction management projects, we may be subject to the payment of compensation which could materially and adversely affect our business, financial position and results of operations.

### **RISKS RELATING TO CONDUCTING OUR BUSINESS IN THE PRC**

**Our business, financial position and results of operations are heavily impacted by the political and economic situation in the PRC.**

The PRC economy has experienced significant growth over the past few decades. However, the PRC economy has shown signs of potential slowdown or downturn in recent periods. In addition, the PRC government may from time to time implement measures to control the rate of economic growth in China. As a result, we cannot assure you that the PRC economy will continue to grow at its historical rate, or at all, in the future.

The PRC economy differs from the economies of most developed countries in many respects, including structure, government involvement, level of development, economic growth rate, control of foreign exchange, allocation of resources and balance of payment position. For the past three decades, the PRC government has implemented economic reform measures emphasising utilisation of market forces in development of the PRC economy. Although we believe these reforms will have a positive effect on the PRC's overall long-term development, we cannot predict whether changes in the economic, political and social conditions of the PRC will materially and adversely affect our current or future business, financial position, results of operations or prospects. Moreover, even if new policies may benefit us in the long-term, we cannot assure you that we will be able to successfully adjust to such policies. If there is a further slowdown in the economic growth of the PRC, or if the PRC economy experiences a recession, demand for our services may also decrease and our business, financial position, results of operations and operations may be materially and adversely affected.

In addition, demand for our services may be affected by a variety of factors, many of which may be beyond our control, including:

- political stability or changes in social conditions within the PRC;
- changes in laws and regulations or the interpretation of laws and regulations;

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## RISK FACTORS

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- measures which may be introduced to control inflation or deflation;
- changes in the rate of method of taxation; and
- imposition of additional restrictions on currency conversion and remittance abroad.

Any significant changes in relation to any of these factors may materially and adversely affect our business, financial position, results of operation and prospects.

### **We may be treated as a resident enterprise for PRC tax purposes under the EIT Law, which could result in unfavourable tax consequences to us and our non-PRC Shareholders**

We are incorporated under the laws of the Cayman Islands, but substantially all of our operations are in China. Under the EIT Law and its implementation rules, an enterprise incorporated in a foreign country or region may be classified as either a “non-resident enterprise” or a “resident enterprise”. If an enterprise incorporated in a foreign country or region has its “de facto management bodies” located within China, such enterprise will be considered a PRC tax resident enterprise and will normally be subject to the enterprise income tax of 25% on its worldwide income. The relevant implementation rules define “de facto management bodies” as those which exercise substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties and other aspects of an enterprise. In April 2009, the State Tax Bureau issued the Circular 82, which sets forth certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled offshore-incorporated enterprise is located in mainland China. However, the Circular 82 only applies to offshore enterprises controlled by PRC enterprises and not those controlled by PRC individuals. Substantially all of the members of our management are currently located in China and we expect them to continue to be located in China. Due to the lack of clear guidance on the criteria pursuant to which the PRC tax authorities will determine our tax residency under the EIT Law, it remains unclear whether the PRC tax authorities will treat us as a PRC resident enterprise for tax purposes. As a result, if we are deemed to be a PRC tax resident enterprise, we will be subject to an enterprise income tax rate of 25% on our worldwide income. The withholding income tax rate is 10%, unless otherwise provided under applicable double taxation treaties between China and the governments of foreign tax jurisdictions where Shareholders reside. In addition, if we are deemed to be a PRC resident enterprise for tax purposes under the EIT Law, gains on sales or other transfers of the Offer Shares by an investor may also be treated as income derived from sources within the PRC and be subject to PRC tax.

### **China’s legal system is still developing and there are inherent uncertainties that may affect the protection afforded to our business and Shareholders**

As substantially all of our businesses are conducted, and substantially all of our assets are located, in the PRC, our operations are governed principally by PRC laws and regulations. The PRC legal system is based on written statutes, and prior court decisions can only be cited as reference. Since 1979, the PRC government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commerce, taxation, foreign exchange and trade, with a view to developing a comprehensive system of commercial law. However, China has not developed a fully integrated legal system. Recently-enacted laws and

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## **RISK FACTORS**

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regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their nonbinding nature, interpretations and enforcement of these laws and regulations involve uncertainties. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis) that may have a retrospective effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

We are a holding company that substantially relies on dividend payments from our subsidiaries for funding, and our corporate structure may limit our ability to receive dividends from, and transfer funds to, our PRC subsidiaries, which could restrict our ability to act in response to changing market conditions and reallocate funds from one affiliated PRC entity to another in a timely manner.

We are a holding company incorporated in the Cayman Islands and operate our core business through our subsidiaries in China. Therefore, the availability of funds to us to pay dividends to our Shareholders depends upon dividends received from these subsidiaries. PRC laws require that dividends be paid only out of the profit for the year calculated according to PRC accounting principles, which differ in certain aspects from generally accepted accounting principles in other jurisdictions, including HKFRS. PRC laws also require foreign-invested enterprises, such as some of our subsidiaries in China, to set aside part of their profits for the year as statutory reserves. These statutory reserves are not available for distribution as cash dividends. In addition, restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries are currently subject to or may enter into in the future may also restrict the ability of our subsidiaries to make contributions to us and our ability to receive distributions. Therefore, these restrictions on availability and usage of our major source of funding may impact our ability to pay dividends to our Shareholders and to service our indebtedness.

### **Governmental control of currency conversion may affect the value of the Shares**

The PRC government imposes controls on convertibility of RMB into foreign currencies and, in certain cases, remittance of currency out of China. We receive substantially all of our revenues in RMB. Under our current structure, our income is primarily derived from dividend payments from our PRC subsidiaries. Shortages in availability of foreign currencies may restrict the ability of our PRC subsidiaries to remit sufficient foreign currencies to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations, if any. Under existing PRC foreign exchange regulations, payments of certain current account items can be made in foreign currencies without prior approval from the local SAFE branch by complying with certain procedural requirements. However, approval from appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as repayment of bank borrowings denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders.



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### **Dividends payable by us to our foreign investors and gains on the sale of our Shares may become subject to withholding taxes under the PRC tax laws**

Under PRC Laws, dividends may be paid only out of distributable profits of our PRC subsidiaries. Distributable profits are our profit for the year as determined under PRC GAAP, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient or any distributable profits of our PRC subsidiaries to enable us to make dividend distributions to our Shareholders in the future, including periods for which our financial statements indicate that our operations have been unprofitable. Any distributable profits of our PRC subsidiaries that are not distributed in a given year are retained and available for distribution in subsequent years. Under the current PRC tax laws, regulations and applicable tax treaties, the payment of dividends to a non-PRC resident shareholder is subject to withholding tax of 10% unless that shareholder is incorporated in Hong Kong and meets the relevant requirements where the rate is reduced to 5% under the *Arrangements between the Mainland China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion With Respect To Taxes On Income* 《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》.

### **It may be difficult to seek recognition and enforcement of foreign judgments or arbitral awards in the PRC**

As most of our Directors, and members of senior management reside within the PRC, and substantially all of our Group's assets as well as those of such individuals are also located within the PRC. As such, Investors may encounter difficulties in effecting service of process from outside the PRC upon recognising and enforcing foreign judgments or arbitral awards against us or such individuals within the territory of the PRC. Further, recognition and enforcement in the PRC of judgments of certain overseas courts in relation to any matter not subject to a binding arbitration provision may not be possible.

The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom or Japan, among many jurisdictions, and therefore recognition and enforcement of foreign judgment in the PRC involves considerable uncertainty. On 14 July 2006, Hong Kong and the PRC entered into the *Arrangement on Reciprocal Recognition and Enforcement of Judgments in Region Pursuant to Choice of Court Agreements Between Parties Concerned* 《最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商案件判決的安排》 (the “**Arrangement**”), pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and enforcement of such judgment in the PRC. Likewise, a party with a final judgment rendered by a PRC court requiring monetary payment in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of such judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute concerned. Hence, it is not possible to enforce a



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## RISK FACTORS

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judgment rendered by a Hong Kong court in the PRC if the parties in dispute have not entered in writing a choice of court agreement. Under the aforesaid circumstances, investors may encounter difficulties in effecting service of process against our Group's assets in the PRC for the purpose of seeking recognition and enforcement of foreign judgments in the PRC.

The PRC is a signatory to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “**New York Convention**”), which allows for the recognition and enforcement of arbitral awards given by the arbitral bodies of other New York Convention signatories. Following the resumption of sovereignty over Hong Kong by the PRC on 1 July 1997, the New York Convention is no longer applicable for the enforcement of arbitral awards of Hong Kong in the PRC (i.e. Mainland China). As a result, a memorandum of understanding was signed on 21 June 1999 to permit reciprocal enforcement of arbitral awards between Hong Kong and the PRC. Such memorandum of understanding was approved by the People's Court and the Hong Kong Legislative Council, and came into operation on 1 February 2000. Nonetheless, it may still be difficult to seek recognition and enforcement of arbitral awards in the PRC if such awards were awarded by arbitral bodies that are not signatories to the New York Convention and have not had entered into arrangements similar in substance to that under the memorandum of understanding between Hong Kong and the PRC.

**We may face foreign exchange and currency conversion risks, and fluctuation in the currency exchange rate of RMB may materially and adversely affect our business**

Operating revenues and expenses of our Group have been and are expected to continue to be primarily denominated in RMB and our Group is exposed to the risks associated with the fluctuation in the currency exchange rate of RMB. Should RMB appreciate against other currencies, the value of the proceeds from the Global Offering and any further financings, which are to be converted from HK Dollar or other currencies into RMB, would be reduced and might accordingly hinder the business development of our Group on account of the lesser amount of funds raised. On the other hand, in the event of the devaluation of RMB, the dividend payments of our Company, which are in HK Dollars after the conversion of the distributable profit denominated in RMB, would be reduced. Furthermore, the devaluation of RMB would also likely increase our costs on importation from overseas of tools, accessories or equipments necessary for the maintenance and enhancement of our operations. As such, substantial fluctuation in the currency exchange rate of RMB may have a material adverse effect on our business, results of operation as well as financial position and the value of your investment under the Global Offering.

**Restricted convertibility of RMB under the PRC government's regime on foreign exchange control may affect our results of operations and financial condition**

RMB is not freely convertible into any foreign currencies, and the conversion of RMB into and remittance of foreign currencies are subject to stringent control of the PRC government under the prevailing foreign exchange laws and regulations which would affect exchange rates and our foreign exchange transactions. It cannot be guaranteed that under a certain exchange rate, we will have sufficient foreign exchange to meet our foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us (including, for instance, distribution of profits and payment of dividends to foreign investors) do not require submission of the documentary evidence of such transactions to SAFE for approval in advance

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as long as the same are conducted at designated foreign exchange banks within the PRC that are granted the licences to carry out foreign exchange business. As a result following the completion of the Global Offering, we will be able to pay dividends in foreign currencies without prior approval from the SAFE on the condition that certain procedural requirements are complied with. However, our foreign exchange transactions under the capital account (including, for instance, direct investment, loan and investment securities) must still require prior approval or registration by the SAFE.

There can be no assurance that the prevailing policies regarding foreign exchange transactions under the current account and the capital account will continue to be implemented in the future. In addition, these foreign exchange policies may restrict our ability to obtain sufficient foreign exchange, which could have an adverse impact on our foreign exchange transactions as well as the fulfilment of our other foreign exchange requirements. In case of any changes in the foreign exchange policies regarding the conversion of RMB into foreign currencies for, amongst others, the payment of dividends to shareholders and settlement of any debt or costs that may be incurred by us, or should we fail to obtain approval from the SAFE on RMB conversion to facilitate other foreign exchange transactions, our capital expenditure plans, and even our business, financial condition and results of operation may be adversely affected.

**PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of the Global Offering to make loans or capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business**

In utilising the proceeds from the Global Offering or any future offerings, as an offshore holding company of our PRC subsidiaries, we may make loans to our PRC subsidiaries, or we may make capital contributions to our PRC subsidiaries. Any loans to our PRC subsidiaries are subject to PRC regulations and approvals. For example, loans by us to our wholly-owned PRC subsidiaries in China to finance their activities may not exceed statutory limits and must be registered with SAFE or its local counterpart. Any capital contributions to our PRC subsidiaries must be approved by the MOFCOM or its local counterpart. In addition, on 30 March 2015, SAFE promulgated the Circular 19 which requires that Renminbi obtained from the settlement of capital and the capital of a foreign-invested enterprise shall not be used for the purposes including without limitation: it shall not be directly or indirectly used for the payment beyond the business scope of the enterprise or the payment prohibited by national laws and regulations. Furthermore, SAFE has been strengthening its oversight of the flow and use of Renminbi funds converted from the foreign currency-denominated capital of a foreign invested enterprise. The use of such Renminbi may not be changed without approval from SAFE, and may not be used to repay Renminbi loans if the proceeds of such loans have not yet been used for purposes within the foreign-invested enterprise's approved business scope. We cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans by us to our PRC subsidiaries or with respect to future capital contributions by us to our PRC subsidiaries. If we fail to complete such registrations or obtain such approvals, our ability to use the proceeds we receive from the Global Offering and to capitalise or otherwise fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

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**We may be subject to penalties, including restriction on our ability to inject capital into our PRC subsidiaries and our PRC subsidiaries' ability to distribute profits to us, if our PRC resident shareholders or beneficial owners fail to comply with the relevant PRC foreign exchange regulations, which may have a material adverse impact on our business and financial condition**

SAFE issued the Circular 37 which became effective on 4 July 2014 and replaced the previous SAFE Circular 75. SAFE Circular 37 requires “PRC residents”, including PRC individuals and enterprises, to register with SAFE or its local branches in relation to their direct establishment or indirect control of an offshore special purpose vehicle. An offshore special purpose vehicle is an offshore entity used for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests. In addition, such PRC residents must update their foreign exchange registration with SAFE when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, share transfers or exchanges, or mergers or divisions.

If any shareholder holding interest in an offshore special purpose vehicle, who is a “PRC resident” as determined by SAFE Circular 37, fails to fulfil the required foreign exchange registration with the local SAFE branches, the PRC subsidiaries of that offshore special purpose vehicle may be prohibited from distributing their profits and dividends to their offshore parent company or from carrying out other subsequent cross-border foreign exchange activities, and the offshore special purpose vehicle may be restricted in its ability to contribute additional capital to its PRC subsidiaries. Moreover, failure to comply with the SAFE registration described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

We may not be fully informed of the identities of all our shareholders or beneficial owners who are “PRC residents”, and we cannot provide any assurance that all of our shareholders and beneficial owners who are “PRC residents” will comply with our request to make, obtain, or update any applicable registrations or comply with other requirements required by Circular 37 or other related rules in a timely manner. If any of our shareholders who is a “PRC resident” as determined by Circular 37, fails to fulfil the required foreign exchange registration with the local SAFE branches, our PRC subsidiaries may be prohibited from distributing their profits and dividends to us or from carrying out other subsequent cross-border foreign exchange activities. We may also be restricted in our ability to contribute additional capital to our PRC subsidiaries, which may adversely affect our business and have a material adverse effect on our financial condition.

**The national and regional economies in China and our prospects may be adversely affected by natural disasters, acts of God, and occurrence of epidemics**

Our business is subject to general economic and social conditions in China. Natural disasters, epidemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in China. Some cities in China may be under the threat of flood, earthquake, rainstorm or drought. In addition, past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in China. A recurrence of SARS, H5N1 avian flu, H1N1 influenza or an outbreak of any other epidemics in China,

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## **RISK FACTORS**

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including the spread of MERS and H7N9 avian influenza virus, especially in the cities in which we operate, may result in material disruptions to our property development projects and our sales and marketing efforts, which in turn may adversely affect our results of operations and financial position.

### **RISKS RELATING TO THE GLOBAL OFFERING**

#### **There has been no prior public market for the Shares, and the liquidity, market price and trading volume of the Shares may be volatile**

Prior to the Global Offering, there has been no public market for the Shares. The Offer Price for the Shares will be the result of negotiations between the Sole Global Coordinator (on behalf of the Underwriters) and our Company, and may differ from the market prices for the Shares after the Listing. We have applied to the Stock Exchange for the listing of, and permission to deal in, the Shares. However, there can be no assurance that the Global Offering will result in the development of an active and liquid public trading market for the Shares. The market price, liquidity and trading volume of the Shares may be volatile. There can be no assurance as to the ability of our Shareholders to sell their Shares or the price at which the Shares can be sold. As a result, Shareholders may not be able to sell their Shares at prices equal to or greater than the price paid for their Shares under the Global Offering. Factors that may affect the volume and price at which the Shares will be traded include, among other things, variations in our sales, earnings, cash flows and costs, announcements of new investments, and changes in laws and regulations in China. There is no assurance that these developments will not occur in the future. In addition, shares of other companies listed on the Stock Exchange with significant operations and assets in China have experienced price volatility in the past, and it is possible that the Shares may be subject to changes in price not directly related to our performance.

#### **Issuance of new Shares or equity linked securities may cause dilution in shareholding**

We may require additional funds due to changes in business conditions or other future developments relating to, inter alia, our existing operations or new acquisitions. If additional funds are raised by way of issuance of new Shares or equity linked securities other than on a pro rata basis to existing shareholders, the percentage of ownership of our existing Shareholders in our Company, the earnings per Share and the net asset value per Share may be reduced. In addition, any such new securities may have preferred rights, options or pre-emptive rights that make them more valuable than or senior to the Shares.

#### **There may be dilution because of the issuance of Shares pursuant to the options granted under the Share Option Scheme**

Our Company has conditionally adopted the Share Option Scheme, the details of which are summarised in the section headed “Appendix IV — Statutory and General Information” to this prospectus. The exercise of share options under the Share Option Scheme will result in an increase in the number of Shares, and may result in a dilution to the percentage of ownership of the shareholders

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## RISK FACTORS

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of our Company, the earnings per Share and net asset value per Share depending on the exercise price. Any issuance of new Shares upon exercise of the options granted under the Share Option Scheme will also lead to a dilution of our earnings per Share and net asset value per Share because the number of Shares outstanding will be increased as a result of such issuance.

### **Future sales of Shares by existing Shareholders could materially and adversely affect the prevailing market price of the Shares**

The Shares beneficially owned by our Controlling Shareholders are subject to certain lock-up periods. There are no assurances that any Controlling Shareholders will not dispose of the Shares held by them following the expiration of the lock-up periods, or that any substantial Shareholders will not dispose of the Shares held by them, or any Shares, our existing Controlling Shareholders and substantial Shareholders may come to own in the future. We cannot predict the effect, if any, of any future sales of the Shares by any substantial Shareholder or Controlling Shareholder on the market price of the Shares. Sale of a substantial amount of Shares by any of them or the issue of a substantial amount of new Shares, or the market perception that such sale or issue may occur, could materially and adversely affect the prevailing market price of the Shares.

Certain statistics and facts in this prospectus are derived from various sources and may not be reliable. This prospectus includes certain statistics and facts extracted in whole or in part from various government official sources and publications or from the Ipsos Report or other sources. We believe that the sources of these statistics and facts are appropriate for such statistics and facts and we have taken reasonable care in extracting and reproducing such statistics and facts from their respective sources. We have no reason to believe that such statistics and facts are false or misleading in any material respect or that any fact has been omitted that would render such statistics and facts false or misleading in any material respect. These statistics and facts have not yet been independently verified by our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Underwriters, any of their respective directors or associates, or any other party involved in the Global Offering. In addition, the information contained in the Ipsos Report was derived by means of, inter alia, desk research, client consultation and interviewing with key stakeholders and industry experts in Hong Kong, which includes information that is not publicly available. Therefore, we make no representation as to the accuracy or completeness of these statistics and facts, as such these statistics and facts should not be unduly relied upon.

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## **WAIVER FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES**

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### **WAIVER FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES**

In preparation for the Global Offering, we have sought the following waiver from strict compliance with the relevant provisions of the GEM Listing Rules:

#### **CONTINUING CONNECTED TRANSACTION**

After the Listing, certain transactions, whereby we have entered into or will continue to conduct, will constitute non-exempt continuing connected transactions for our Company under the GEM Listing Rules. The transactions under the Gaoke Investment Landscaping and Greening Contract and the Zhongtong Keyun Landscaping and Greening Contract are subject to the reporting, annual review and announcement requirements; and the transactions under the Xinhaiké Project Contracts and the NH Development Supply Agreement are subject to reporting, annual review, announcement, circular and independent Shareholders' approval requirements (as the case may be) under Chapter 20 of the GEM Listing Rules, and the Company has applied for a waiver from compliance with the applicable requirements under Rule 20.103 of the GEM Listing Rules and the Stock Exchange has granted, a waiver from strict compliance with the announcement, circular and independent Shareholders' approval requirements set forth in Chapter 20 of the GEM Listing Rules for such non-exempt continuing connected transaction. Further information on such waiver in relation to the reasons, annual caps and basis is set forth in the section headed "Connected Transactions" in this prospectus.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This prospectus, for which our Directors collectively and individually take full responsibility, includes particulars given in compliance with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the laws of Hong Kong) and the GEM Listing Rules for the purposes of giving information with regard to our Company. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief:

- (a) the information contained in this prospectus is accurate and complete in all material respects and is neither misleading nor deceptive;
- (b) there are no other matters the omission of which would render any statement herein or this prospectus as a whole misleading; and
- (c) all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are considered fair and reasonable.

### **STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING**

Details of the structure and conditions of the Global Offering are set out in the section headed “Structure and Conditions of the Global Offering” in this prospectus.

### **OFFER SHARES ARE FULLY UNDERWRITTEN**

This prospectus is published solely in connection with the Hong Kong Public Offer which forms part of the Global Offering. For applicants under the Hong Kong Public Offer, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offer.

The Listing is sponsored by the Sole Sponsor. The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and the International Placing is expected to be fully underwritten by the International Underwriters pursuant to the International Underwriting Agreement and are subject to our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) agreeing on the Offer Price. The Global Offering is managed by the Sole Global Coordinator.

If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before the Price Determination Date, the Global Offering will not proceed. For information about the Underwriters and the underwriting arrangements, please refer to the section headed “Underwriting” in this prospectus.



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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **OFFER PRICE**

The Offer Shares are being offered at the Offer Price, which is expected to be fixed by the Price Determination Agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date, which is currently scheduled to be on Thursday, 6 July 2017, and in any event, not later than 5:00 p.m. on Thursday, 6 July 2017. If, for whatever reason, the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company are unable to agree on the Offer Price by 5:00 p.m. on the Price Determination Date, the Global Offering will not become unconditional and will lapse. For more information relating to the determination of the Offer Price, please refer to the section headed “Structure and Conditions of the Global Offering” in this prospectus.

### **RESTRICTIONS ON SALE OF THE OFFER SHARES**

As at the Latest Practicable Date, no action has been taken to permit any offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, any offer or invitation nor is it taken as an invitation or solicitation of offers in any jurisdiction or under any circumstances where such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable laws, rules and regulations of such jurisdictions pursuant to registration with or authorisation by the relevant regulatory authorities or as an exemption therefrom.

Each person acquiring the Offer Shares will be required to confirm, or by his or her acquisition of the Offer Shares be deemed to confirm, that he or she is aware of the restrictions on the offering of the Offer Shares described in this prospectus and that he or she is not acquiring, and has not been offered, any such shares in circumstance that contravenes any such restrictions.

The Offer Shares are offered for subscription solely on the basis of the information contained and the representations made in this prospectus. No person is authorised in connection with the Global Offering to give any information, or to make any representation, not contained in this prospectus. Any information or representation not contained herein shall likewise not be relied upon as having been authorised by our Company, the Sole Sponsor, the Sole Global Coordinator, the Underwriters, any of the respective directors, officers, agents, employees and/or representatives or any other person or parties involved in the Global Offering.

Prospective investors for the Offer Shares should consult their financial advisers and take legal advice as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction.



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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **APPLICATION FOR LISTING ON GEM**

Application has been made to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option and any Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme) on GEM.

Only securities registered on the branch register of members of our Company kept in Hong Kong may be traded on GEM unless the Stock Exchange otherwise agrees.

Under section 44B(1) of the Companies (Winding up and Miscellaneous Provisions) Ordinance, if the permission for listing of, and dealing in, the Shares on GEM has been refused prior to the expiration of three weeks from the date of the closing of the Global Offering or such longer period not exceeding six weeks as may, within the said three weeks, be notified to our Company by or on behalf of the Stock Exchange, then any allotment made in respect of any offering of the Offer Shares shall, whenever made, be void.

No part of the Shares or loan capital of our Company is listed, traded or dealt in on any other stock exchange. At present, we are not seeking or proposing to seek a listing of, or permission to deal in, any part of the Shares or loan capital on any other stock exchange.

### **SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

Subject to the Stock Exchange granting of the approval of listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on GEM and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date, or any other date as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. Investors should seek the advice of their stockbroker or other professional advisers for details of those settlement arrangements as such arrangements will affect their rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

### **MINIMUM PUBLIC FLOAT**

Pursuant to Rule 11.23 of the GEM Listing Rules, at least 25% of the total issued share capital of our Company must at all times be held by the public. Our Directors will ensure that there will be a minimum 25% of the total issued shares held in public hands in accordance with Rule 11.23(7) of the GEM Listing Rules after the completion of the Global Offering.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **COMMENCEMENT OF DEALINGS IN THE SHARES**

Dealings in the Shares on GEM are expected to commence at 9:00 a.m. (Hong Kong time) on or about Wednesday, 19 July 2017. Shares will be traded in board lots 2,000 Shares each and are freely transferrable. Our GEM stock code is 8276.

Our Company will not issue any temporary document of title.

### **HONG KONG SHARE REGISTER AND STAMP DUTY**

All of the Shares will be registered in our Company's branch register of members to be maintained in Hong Kong by the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Only securities registered on the branch register of members of our Company kept in Hong Kong may be traded on GEM unless the Stock Exchange agrees otherwise.

Dealings in the Shares registered in the branch register of members of our Company in Hong Kong will be subject to Hong Kong stamp duty.

Unless determined otherwise by our Company, dividends payable in Hong Kong dollars in respect of our Shares will be paid to the Shareholders listed on our Company's Hong Kong branch register of members to be maintained in Hong Kong, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder or its joint Shareholders, to the first-named therein in accordance with the Articles.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to taxation implications of the subscription for, purchase, holding or disposal of, dealings in or the exercise of any rights in relation to, the Offer Shares. None of our Company, our Directors, the Sole Sponsor, the Sole Global Coordinator, the Underwriters, any of their respective directors, advisers, officers, employees, agents or representatives (where applicable) or any other persons involved in the Global Offering accepts responsibility for any tax effects on or liabilities of any person resulting from the subscription for, purchase, holding or disposal of, dealings in, or the exercise of any rights in relation to, the Offer Shares.

### **LANGUAGE**

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Names of any PRC laws and regulations, governmental authorities, institutions, natural persons or other entities which have been translated into English and included in this prospectus and for which no official English translation exists are unofficial translations for your reference only.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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### ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. As a result, any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding. Where information is presented in thousands or millions of units, amounts may have been rounded up or down.

### EXCHANGE RATE CONVERSION

For exchange rate conversions throughout this prospectus, unless otherwise specified, or except in respect of transactions that have occurred at historical exchange rates, all conversions from US dollars into Hong Kong dollars were made at the rate of US\$1.00 to HK\$7.7547 and from Hong Kong dollars into Renminbi were made at the rate of HK\$1.00 to RMB0.8981. We make no representation and none should be construed as being made, that any of the HK dollar, US dollar and RMB amounts contained in this prospectus could have been or could be converted into amounts of any other currencies at any particular rate or at all on such date or any other date.

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### DIRECTORS

Name	Residential Address	Nationality
<i>Executive Directors</i>		
Ms. Xie Birui (謝碧蕊)	No. 10 2255 Lane Luoshan Road Pudong New District, Shanghai PRC	Chinese
Ms. Zhang Delan (張德蘭)	B4, Lihua City Garden Xinpu District Lianyungang City Jiangsu Province PRC	Chinese
Mr. Su Haishan (蘇海山)	Room 521, Unit 1, Building 34 199 Tongguan North Road Xinpu District, Lianyungang City Jiangsu Province PRC	Chinese
<i>Non-executive Director</i>		
Mr. Wei Hua (韋鏞) (Chairman)	No. 10 2255 Lane Luoshan Road Pudong New District, Shanghai PRC	Chinese
<i>Independent non-executive Directors</i>		
Mr. Chan So Kuen (陳素權)	Room 1909, Block D Hon Pak Court Lam Tin, Kowloon Hong Kong	Chinese
Ms. Xiao Xia (肖俠)	Room 104, Block 7 57 Cangwu Road Haizhou District Lianyungang City Jiangsu Province PRC	Chinese
Mr. Chen Fangzheng (陳方正)	Room 1501, No. 11 629 Lane Baotounan Road Yangpu District Shanghai PRC	Chinese

Please also refer to the section headed “Directors and Senior Management” in this prospectus for further details.

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### PARTIES INVOLVED IN THE GLOBAL OFFERING

#### Sole Sponsor

#### **Guotai Junan Capital Limited**

27/F, Low Block  
Grand Millennium Plaza  
181 Queen's Road Central  
Hong Kong

*(A licensed corporation to carry on type 6 (advising on corporate finance) regulated activity under the SFO)*

#### Sole Global Coordinator

#### **Guotai Junan Securities (Hong Kong) Limited**

27/F, Low Block  
Grand Millennium Plaza  
181 Queen's Road Central  
Hong Kong

*(A licensed corporation to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO)*

#### Joint Bookrunners and Joint Lead Managers

#### **Guotai Junan Securities (Hong Kong) Limited**

27/F, Low Block  
Grand Millennium Plaza  
181 Queen's Road Central  
Hong Kong

*(A licensed corporation to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO)*

#### **Gransing Securities Co., Limited**

17/F, Hing Yip Commercial Centre  
272-284 Des Voeux Road Central  
Hong Kong

*(A licensed corporation to carry on type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO)*

#### **SPDB International Capital Limited**

Suites 3207-3212  
One Pacific Place  
88 Queensway  
Hong Kong

*(A licensed corporation to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO)*

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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**Co-lead manager**

**Founder Securities (Hong Kong) Limited**

21st Floor, 33 Des Voeux Road Central  
Central, Hong Kong

*(A licensed corporation to carry on type 1 (dealing in securities) regulated activities under the SFO)*

**Co-manager**

**Great Roc Capital Securities Limited**

Suite 1601-1603, 16/F, West Tower, Shun Tak Centre  
168-200 Connaught Road Central  
Central, Hong Kong

*(A licensed corporation to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO)*

**Legal advisers to the Company**

*As to Hong Kong Law:*

**Li & Partners**

22nd Floor  
World-Wide House  
19 Des Voeux Road Central  
Hong Kong

*As to PRC law:*

**Jingtian & Gongcheng**

Suite 1202-1204  
K. Wah Centre, 1010 Huai Hai Road (M)  
Xu Hui District, Shanghai 200031  
PRC

*As to Cayman Islands law:*

**Appleby**

2206-19 Jardine House  
1 Connaught Place  
Central  
Hong Kong

**Legal advisers to the Sole Sponsor  
and the Underwriters**

*As to Hong Kong law:*

**Sidley Austin**

39/F  
Two Int'l Finance Centre  
Central  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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*As to PRC law:*

**Dentons**

15/16F Shanghai Tower  
501 Yincheng Road (M)  
Pudong New Area  
Shanghai  
PRC

**Reporting accountant**

**PricewaterhouseCoopers**

*Certified Public Accountants*

22/F, Prince's Building  
Central  
Hong Kong

**Independent industry consultant**

**Ipsos Limited**

22/F, Leighton Centre  
77 Leighton Road  
Causeway Bay  
Hong Kong

**Property valuer**

**Jones Lang LaSalle Corporate  
Appraisal and Advisory Limited**

6/F Three Pacific Place  
1 Queen's Road East  
Hong Kong

**Receiving Bank**

**Industrial and Commercial Bank  
of China (Asia) Limited**

33/F, ICBC Tower  
3 Garden Road  
Central  
Hong Kong

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## CORPORATE INFORMATION

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<b>Registered office</b>	P.O. Box 31119 Grand Pavilion, Hibiscus Way 802 West Bay Road Grand Cayman KY1-1205 Cayman Islands
<b>Head office and principal place of business in the PRC</b>	Rooms 601-627, New Headline Mansion No. 601 Huaguoshan Avenue LET Development Zone, Lianyungang Jiangsu PRC
<b>Principal place of business in Hong Kong</b>	27/F, World Wide House 19 Des Voeux Road Central Hong Kong
<b>Company's website</b>	<u><a href="http://www.newheadline.com.hk">www.newheadline.com.hk</a></u> <i>(Note: contents in this website do not form part of this prospectus)</i>
<b>Company secretary</b>	Ms. Ho Nga Yee (何雅儀) CPA, ACIS, ACS, FCCA 12A Cornwall Court 54 King's Road North Point Hong Kong
<b>Authorised representatives</b>	Ms. Zhang Delan (張德蘭) B4, Lihua City Garden Xinpu District Lianyungang City Jiangsu Province PRC  Ms. Ho Nga Yee (何雅儀) CPA, ACIS, ACS, FCCA 12A Cornwall Court 54 King's Road North Point Hong Kong
<b>Compliance officer</b>	Ms. Zhang Delan (張德蘭) B4, Lihua City Garden Xinpu District Lianyungang City Jiangsu Province PRC



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## CORPORATE INFORMATION

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<b>Audit committee</b>	Mr. Chan So Kuen (陳素權) ( <i>Chairman</i> ) Ms. Xiao Xia (肖俠) Mr. Chen Fangzheng (陳方正)
<b>Remuneration committee</b>	Ms. Xiao Xia (肖俠) ( <i>Chairman</i> ) Mr. Chan So Kuen (陳素權) Mr. Chen Fangzheng (陳方正)
<b>Nomination committee</b>	Mr. Chen Fangzheng (陳方正) ( <i>Chairman</i> ) Ms. Xiao Xia (肖俠) Mr. Chan So Kuen (陳素權)
<b>Compliance adviser</b>	<b>Guotai Junan Capital Limited</b> 27/F, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong  <i>(A licensed corporation to carry on type 6 (advising on corporate finance) regulated activity under the SFO)</i>
<b>Principal share registrar and transfer office</b>	<b>Estera Trust (Cayman) Limited</b> Clifton House 75 Fort Street PO Box 1350 Grand Cayman KY1-1108 Cayman Islands
<b>Hong Kong Share Registrar</b>	<b>Computershare Hong Kong Investor Services Limited</b> Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
<b>Principal bankers</b>	<b>Bank of Jiangsu, LET Development Zone Sub-Branch*</b> (江蘇銀行連雲港開發區支行) 1 Huanghe Road Lianyungang Economic & Technological Development Zone Lianyungang Jiangsu Province PRC

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## CORPORATE INFORMATION

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**Bank of Communications, Lianyungang Technology  
Sub-Branch\***

(交通銀行連雲港科技支行)

45 Huanghe Road

LET Development Zone, Lianyungang

Jiangsu Province

PRC

**China Merchants Bank Co., Ltd.**

**Lianyungang Branch\***

(招商銀行股份有限公司連雲港分行)

35 Cangwu Road

Haizhou District

Lianyungang

Jiangsu Province

PRC

\* *for identification purposes only*

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## INDUSTRY OVERVIEW

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*The information presented in this section, unless otherwise indicated, is derived from various official government publications and other publications and from the market research report prepared by Ipsos, an Independent Third Party, which was commissioned by our Group. We believe that the information is derived from appropriate sources and have taken reasonable care in extracting and reproducing the information. We have no reason to believe that the information is false or misleading in any material respect or that any fact has been omitted that would render the information false or misleading in any material respect. The information has not been independently verified by us, the Controlling Shareholders, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any of their respective affiliates, advisers, directors, officers or representatives or any other person involved in the Global Offering, and none of them gives any representation as to the accuracy, completeness or fairness of such information.*

*The information extracted from the Ipsos Report reflects estimates of market conditions based on samples, and is prepared primarily as a market research tool. References to Ipsos should not be considered as the opinion of Ipsos as to the value of any security or the advisability of investing in our Group.*

### SOURCE OF INFORMATION

We commissioned Ipsos, an independent market research company, to analyse and report on, among others, the industry development, trends and competitive landscape of the environmental maintenance industry, construction management industry and supply of construction material (gneiss) industry in China, Jiangsu and Lianyungang at a total fee of RMB984,000. The report prepared by Ipsos is independent from our influence. The payment of such service fee was not conditional on our successful Listing or upon the results of the Ipsos Report.

Ipsos is part of Ipsos SA which was founded in Paris, France in 1975 and publicly listed on the NYSE Euronext Paris in 1999. Ipsos SA acquired Synovate Ltd in 2011. After the combination, Ipsos becomes the third largest research company in the world which employs approximately 16,000 personnel worldwide across 85 countries. Ipsos conducts research on market profiles, market size, share and segmentation analyses, distribution and value analyses, competitor tracking and corporate intelligence. Save for the Ipsos Report, we did not commission any other report in connection with the Listing. Figures and statistics provided in this prospectus and attributed to Ipsos or the Ipsos Report have been extracted from the Ipsos Report and published with the consent of Ipsos.

Some of the information extracted from the Ipsos Report are also referred to in the sections headed “Summary,” “Risk Factors,” “Business” and “Financial Information” in this prospectus. Our Directors confirm that, after taking reasonable care, there is no adverse change in the market information since the date of the Ipsos Report which may qualify, contradict or have an impact on the information in this section.

The information contained in the Ipsos Report is derived by means of data and intelligence gathering which include: (i) primary research by interviewing key stakeholders and industry experts in China, including but not limited to government officials, industry associations and industry experts

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## INDUSTRY OVERVIEW

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(ii) secondary research covering government and regulatory statistics, trade and business press, company annual reports and publicity materials, industry reports, industry association statistics and industry journals; and (iii) project data obtained from a review over the historic data and market development trend, plotted against macroeconomic data with reference to specific industry-related drivers, and a cross-check through interviews with industry players as well as established government numbers where available. According to Ipsos, this methodology has guaranteed a full circle/multi-level information sourcing process, where information gathered was able to be cross-referenced to ensure accuracy. The intelligence gathered by Ipsos has been analysed, assessed and validated using Ipsos' in-house analysis models and techniques. Based on the above, the Directors consider that the data and statistics in the Ipsos Report are reliable.

The following assumptions are used in the Ipsos Report:

- the supply and demand of environmental maintenance industry, construction management and supply of construction material (gneiss) in China are assumed to be stable and without shortage over the forecast period;
- there is no external shock such as financial crisis or natural disasters will affect the demand and supply for environmental maintenance industry, construction management and supply of construction material (gneiss) in China over the forecast period; and
- the PRC economy is expected to maintain steady growth over the forecast period from 2017 to 2020.

The following parameters are used in the Ipsos Report:

- GDP and GDP growth rate in China from 2010 to 2016 (including the recent slowdown in the China's economy in 2015 and 2016 and the forecast period from 2017 to 2020);
- GDP per capita and GDP per capita growth rate from 2010 to 2016 (including the recent slowdown in the China's economy in 2015 and the forecast period from 2017 to 2020);
- total investment in fixed assets in China from 2010 to 2020; and
- urbanisation rate in China from 2010 to 2020.

On these bases, our Directors and the Sole Sponsor are satisfied that the future outlook and development trend disclosed in this section are not misleading.

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## INDUSTRY OVERVIEW

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### MACRO-ECONOMIC ENVIRONMENT IN CHINA, JIANGSU AND LIANYUNGANG

#### PRC Economy

According to the National Bureau of Statistics of China, China's real GDP growth rate declined from approximately 10.6% in 2010 to approximately 6.7% in 2016 but remains as one of the world's most dynamic economies. During the same period, the real GDP growth rate in Jiangsu also slowed down from approximately 12.6% to approximately 7.8%. Lianyungang has achieved an annual real GDP growth rate of over 10.0% from 2010 to 2016, as supported by positive government policies such as the *Jiangsu Coastal Development Strategy* 《江蘇沿海開發戰略》. According to Ipsos Report, China's and Jiangsu's GDP growth is expected to decline further to approximately 6.3% and 7.3% in 2020, respectively, as a result of a nationwide slowdown of economic development. Lianyungang's GDP is expected to reach around RMB352 billion in 2020 with an estimated double digit growth from 2017 to 2020. On 6 April 2017, Standard and Poors Financial Services LLC published an announcement lowering the long-term corporate credit rating of NH Development, being the financing vehicle of Lianyungang Municipal Government, by one notch from BB+ to BB and HK Zhiyuan by one notch from BB to BB-, due to, among others, (i) the decline in revenue growth and excessive financial burden of Lianyungang Municipal Government, and (ii) the weakening of the credit quality of Lianyungang Municipal Government placing constraints on the credit outlook of NH Development and HK Zhiyuan in the next two years.

The Directors and the Sole Sponsor are of the view that the slowdown in revenue growth and excessive burden of the Lianyungang Municipal Government; and the lowering of long-term corporate credit rating of NH Development and HK Zhiyuan would have minimal impact on our Group due to the following reasons:

NH Development and HK Zhiyuan, both being either directly or indirectly wholly owned by Lianyungang Municipal Government, are our substantial shareholders. Save for NH Development which in aggregate guaranteed our Group's bank facilities in the amount of approximately RMB310.0 million, representing 42.2% of our Group's bank facilities as at 30 April 2017 neither Lianyungang Municipal Government nor HK Zhiyuan had guaranteed or provided any security for our financing obligations. Our Directors confirm that all such guarantees provided by our substantial shareholder to our Group will be released before Listing. Our Group has an independent financial system and makes financial decisions according to its own business needs and would not rely on our Controlling Shareholders and our substantial shareholders for financing after Listing.

In addition, having considered that (i) we have established our own organisational structure comprising individual departments and business and administrative units, each with specific areas of responsibilities; and (ii) our Group does not share our operational resources, such as marketing, sale and general administration resources with our substantial shareholders and/or their close associates, our Directors consider that our Group can operate independently from our substantial shareholders from the operational perspective.

As at 31 December 2016, trade receivables and accrued contract revenue in the amount of approximately RMB172 million were due from NH Development and its subsidiaries (together the

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## INDUSTRY OVERVIEW

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“NH Development Group”). As at 30 April 2017 (based on our Group’s management accounts), approximately RMB157.3 million, representing approximately 91.6% of the trade receivables and accrued contract revenue balances from NH Development Group as at 31 December 2016, had been subsequently settled.

We have received payment from NH Development Group according to the respective contractual payment schedule during the Track Record Period and up to the Latest Practicable Date and had not experienced any prolonged delay in settlement from NH Development Group. Further, as part of our Group’s credit management, our Group may obtain financial reports from its customers. Our Directors noted from the consolidated financial report of NH Development Group that, as at 31 December 2016, NH Development Group had (i) net current assets amounted to approximately RMB17,861 million (as at 31 December 2015: approximately RMB11,417 million); (ii) net asset value of approximately RMB17,119 million (as at 31 December 2015: approximately RMB13,110 million); (iii) cash and cash equivalents of approximately RMB2,788 million (as at 31 December 2015: approximately RMB1,279 million); and (iv) contingencies, being the amounts of guarantees provided to third parties, amounted to approximately RMB140.0 million (as at 31 December 2015: approximately RMB76.3 million). Moreover, our Directors noted from the consolidated management account of NH Development Group that, as at 31 March 2017, NH Development Group had (i) net current assets amounted to approximately RMB19,777 million; (ii) net asset value of approximately RMB17,174 million; and (iii) cash and cash equivalents of approximately RMB4,317 million. Based on the above information of NH Development Group, our Directors are of the view that NH Development Group is solvent and financially liquid.

Given the historical credit history of NH Development Group with us and its historical financial performances, our Directors are confident in the ability of the NH Development Group in making future payments to the Group.

Although NH Development is the sole supplier of gneiss to our Group during the Track Record Period pursuant to the terms of the NH Development Supply Agreement, we are free to source gneiss from other gneiss quarries in Lianyungang. NH Development has the right to mine gneiss in one gneiss quarry out of a total 10 gneiss quarries in Lianyungang and the remaining nine gneiss suppliers in operation in Lianyungang, all of which were either directly owned by Lianyungang Municipal Government or indirectly by enterprises related to Lianyungang Municipal Government as at the Latest Practicable Date. The unit price of gneiss is determined from time to time and we obtain quotations from different gneiss suppliers in Lianyungang on a periodic basis to ensure the unit price of gneiss offered by NH Development are comparable to other gneiss suppliers in Lianyungang. Based on the quotations we have obtained, generally the unit price of gneiss offered by other gneiss suppliers in Lianyungang is similar to that offered by NH Development. Thus, we are able to find substitute supplier of gneiss at a comparable price should NH Development’s financial standing worsen.

Environmental maintenance industry is an indispensable and irreplaceable industry, and that the government is usually the main customer. Our Directors are thus of the view that environmental maintenance of public space is one of the important public services provided by Lianyungang Municipal Government in Lianyungang. Given (i) environmental maintenance is an indispensable and important public services provided by Lianyungang Municipal Government; and (ii) among others, we have entered into a three-year contract with Lianyungang Municipal Government or its

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## INDUSTRY OVERVIEW

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administrative arms (“**Lianyungang Governmental Bodies**”) for provision of the environmental maintenance services in the LET Development Zone until January 2019, our Directors are of the view that the worsening of financial standing of Lianyungang Municipal Government would not affect our environmental maintenance business.

We have received payments from Lianyungang Governmental Bodies according to the respective environmental maintenance services contractual payment schedule during the Track Record Period and up to the Latest Practicable Date and had not experienced any prolonged delay in settlement from Lianyungang Governmental Bodies. As at 30 April 2017 (based on our Group’s management accounts), approximately RMB15.3 million, representing approximately 96.9% of the trade receivables and accrued contract revenue balances due from Lianyungang Governmental Bodies as at 31 December 2016, had been subsequently settled.

### Urbanisation

Economic growth in China has been accompanied by rapid urbanisation. According to National Bureau of Statistics of China, urbanisation rate in China increased from approximately 49.7% in 2010 to approximately 57.4% in 2016, above the global average of 54.0%. Due to a booming economy and government support, urbanisation rate in Jiangsu increased from approximately 60.6% in 2010 to approximately 67.7% in 2016, whereas urbanisation rate in Lianyungang increased from approximately 51.8% in 2010 to 60.8% in 2016. It is expected that the urbanisation rates in China, Jiangsu and Lianyungang will reach approximately 60.5%, 71.5% and 67.7% by 2020, respectively. According to the *Overall Plan on Lianyungang City (2008-2030)* 《連雲港市城市中長期整體規劃2008-2030》, the Lianyungang government shall expand construction of traffic and municipal infrastructure, and to actively promote the development of small towns.

### Total fixed asset investment in city public facilities

According to the National Bureau of Statistics of China, the total fixed asset investment in city public facilities in China and Jiangsu increased from 2010 to 2015, at a CAGR of approximately 2.5% and 2.2%, respectively. According to the Ipsos Report, the total fixed assets investment in city public facilities in Lianyungang grew rapidly from about RMB2.0 billion in 2010 to about RMB8.0 billion in 2013, and then slowed down to RMB2.2 billion in 2015 mainly due to the industry periodical fluctuation. It is expected to increase to RMB5.6 billion in 2020, at a CAGR of approximately 6.2% as the Lianyungang government will further promote the municipal construction development and infrastructure connectivity with the nearby regions.

## THE ENVIRONMENTAL MAINTENANCE INDUSTRY IN CHINA, JIANGSU AND LIANYUNGANG

### Number of environmental maintenance companies in China, Jiangsu and Lianyungang

According to the Ipsos Report, the total number of environmental maintenance companies in Lianyungang increased rapidly from 127 in 2010 to 290 in 2015, at a CAGR of approximately 18.0%, faster than that of 10.8% for China and 9.6% for Jiangsu for the same period. Out of the 290 in Lianyungang, 209 were in the greening industry and 81 were in the environmental sanitation industry.

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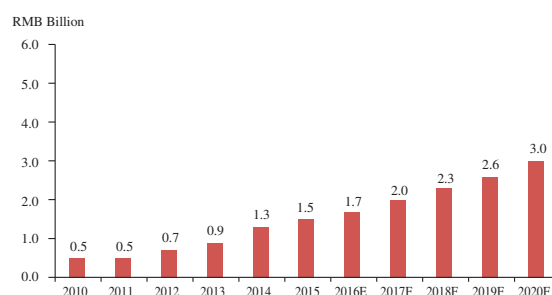
## INDUSTRY OVERVIEW

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The growing demand for environmental maintenance services in Lianyungang was driven by the increasing rates of installation and public facilities construction and the gradual opening up of the market through competitive public bidding. Privatisation of government bodies responsible for facility management also contributed to the increase. The Lianyungang market is still dominated by the local government where 67.8% of the employees worked in state-owned enterprises and its privatisation is still at an early stage.

### Revenue of environmental maintenance industry in China, Jiangsu and Lianyungang

According to Ipsos Report, the total revenue of environmental maintenance industry in China, Jiangsu and Lianyungang reached approximately RMB903 billion, RMB68 billion and RMB1.7 billion in 2016, respectively. The total revenue of environmental maintenance industry achieved a faster CAGR of approximately 22.8% than a CAGR of approximately 9.6% in China and a CAGR of approximately 10.5% in Jiangsu. This is partially driven by the increasing project volume and rapid growth in public facilities. For instance, the green space area in Lianyungang expanded at a faster CAGR of 8.4% from 2010 to 2015, indicating a growing demand for green space management service. It is expected that the revenue of environmental maintenance industry in Lianyungang will maintain a healthy growth rate of 14.8% from 2017 to 2020, mainly attributable to a faster growth in public facilities. The following table sets forth the total revenue of the environmental maintenance industry in Lianyungang from 2010 to 2015 and from 2016 to 2020, respectively:



Source: Statistical Bureau of Lianyungang

Note: Actual revenue figure of environmental maintenance industry in Lianyungang for the year 2016 is not available as at the Latest Practicable Date. Only estimated revenue figure is available.

### Trend in average prices of raw materials in China and labour costs in Lianyungang in respect of the environmental maintenance industry

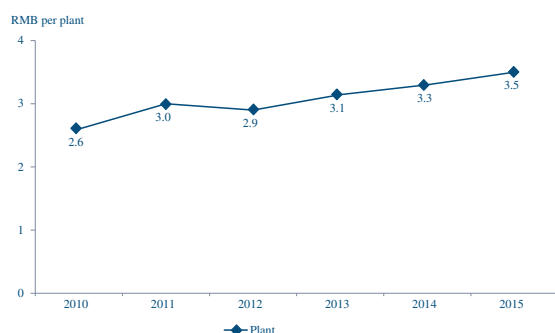
Plants is a major raw material in the environmental maintenance industry in China and its average sales price of plants increased from approximately RMB2.6 per plant in 2010 to approximately RMB3.5 per plant in 2015, representing a CAGR of approximately 6.1%. The increase was primarily due to the growing demand for plants driven by the rapid urbanisation rate in China and continuous development of urban greening.



## INDUSTRY OVERVIEW

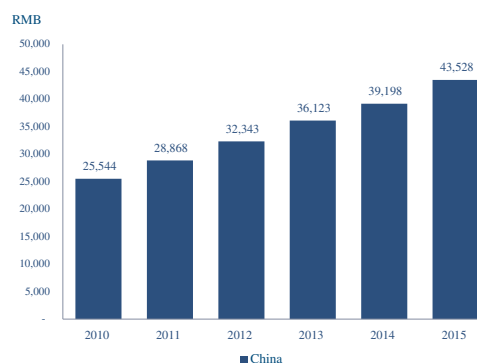
According to Ipsos Report, the annual average wage of labour in environmental maintenance industry in China grew at a CAGR of approximately 11.2% from 2010 to 2015. The steady growth of the annual average wage of labour was primarily due to the growing demand for the provision of environmental maintenance services, driven by rapid urbanisation in China.

Average sales price of  
plant in China



*Source: Ministry of Agriculture of China and the China Flower Association*

Annual average wage of labour in environmental  
maintenance industry in China



*Source: National Bureau of Statistics of China*

### Trend in average contract price of environmental maintenance industry for public sector in Lianyungang

The average contract price of environmental maintenance industry for public sector in Lianyungang increased rapidly from 2010 to 2016. In particular, the average contract price for environmental sanitation services increased from RMB2.9 in 2010 to RMB6.6 per square meter in 2016 at a CAGR of approximately 10.8%, compared with that of 14.7% for greening services, which increased from approximately RMB3.9 in 2010 per square meter to approximately RMB7.2 per square meter in 2016. Higher average contract price is mainly attributable to higher investment in machinery, and partially driven by the cost factors, such as labour and raw materials costs. The average contract price of environmental sanitation services and greening services is expected to grow at a slower CAGR of approximately 3.4% and 2.4%, respectively, due to fierce market competition. The following table

## INDUSTRY OVERVIEW

sets forth the average contract price for the public sector in Lianyungang from 2010 to 2016 and from 2017 to 2020, respectively:



Source: Ministry of Finance of China, Ministry of Agriculture of China and China Bidding Network

### Competitive landscape of the environmental maintenance industry in Lianyungang

According to the Ipsos Report, environmental maintenance industry is a fundamental industry and is therefore indispensable and irreplaceable. The Lianyungang market is highly fragmented with 290 competitors in 2015. Our Group ranked third with a market share of approximately 5.4% in terms of total revenue in Lianyungang in 2016 and there were two environmental maintenance companies which were able to provide environmental maintenance services on a similar scale as the Company, in terms of the total revenue in 2016. The environmental maintenance industry is labour-intensive and the government is the main customer where it decentralises its purchasing process to government related organisations to obtain competitive prices and therefore, has a high bargaining power.

According to Ipsos Report, the Lianyungang government holds open tender for public-funded project of more than RMB500,000 in value and relevant qualification such as the enterprise qualification in urban landscape construction is often required as a tender requirement. According to Ipsos Report, the market share of the environmental maintenance industry in Lianyungang in terms of revenue, by Lianyungang Municipal Government and its related entities for the years ended 31 December 2014, 2015 and 2016 was estimated to be 71.4%, 65.3% and 62.4% respectively. Therefore, a significant amount of environmental maintenance works undertaken by our competitors also came from the Lianyungang Municipal Government and its related entities. The following table sets forth

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## INDUSTRY OVERVIEW

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the rankings and other information of the environmental maintenance companies in Lianyungang in 2016:

Ranking	Company	Headquarter location	Enterprise Qualification in Urban Landscape Construction	Total revenue in 2016 (RMB million) <sup>(1)</sup>	2016 market share
1	Company A	Lianyungang	Grade Two	104.9	6.3%
2	Company B	Lianyungang	Grade Two	96.1	5.7%
3	Our Group	Lianyungang	Grade Three	91.3 <sup>(Note)</sup>	5.4%
4	Company C	Lianyungang	Grade Two	31.5	1.9%
5	Company D	Lianyungang	Grade Two	16.7	1.0%
	Others			1,336.5	79.7%
		Total		1,677.0	100%

Source: Ipsos Report

Note: The revenue figure represents the segment revenue of our Group in respect of our provision of environmental maintenance services.

According to the Ipsos Report, LET Development Zone is the only area in Lianyungang which has realised complete market privatisation. Our Group has maintained a good relationship with the local government and has been the winner of environmental maintenance projects in LET Development Zone since 2014. We have also acquired New Headline Municipal Landscaping in 2015, which has over 18 years of experience in environmental maintenance services and has obtained Grade Three enterprise qualification in urban landscape construction. Our extensive experience also allow us to have a more efficient project management and resource allocation system that optimises our cost structure and thus allow us to achieve higher profit margin.

### Growth drivers

The environmental maintenance industry closely relates to the development of public facilities. With supportive policies on strengthening municipal infrastructure, such as the *12th Five-year Plan* which aims at promoting steady and fast economic growth in the PRC and *the Overall Plan on Lianyungang City 2008-2030*, which results in rapid growth of public facilities in Lianyungang from 2010 to 2015. The municipal cleaning area in Lianyungang expanded at a CAGR of 7.0% during the same period, indicating a growing demand for environmental sanitation services. The local government has also issued a series of policies to encourage private investment, aiming at introducing market competition mechanism, and thus lowering the price and shortening project cycle to create a bigger market.

### Entry barriers and threats to the environmental maintenance industry in Lianyungang

Environmental maintenance companies are normally required to have relevant qualifications as part of the tender requirement. Other bidding requirements include capital requirements and a good track record, which new entrants tend to lack.

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## INDUSTRY OVERVIEW

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Provision of environmental maintenance services is often characterised by municipal monopoly and it limits the operators' capacity to expand across provinces. Despite the highly fragmented market share, the LET Development Zone market is dominated by three companies. There are approximately 72.1% of operators in Lianyungang providing greening services and thereby resulted in fiercer competition.

### Future prospect

**Policy environment:** The PRC government promulgated a series of policies and regulations to encourage development of the environmental maintenance industry. The State Council issued the *National New Urbanisation Plan (2014-2020)* 《國家新型城鎮化規劃2014-2020年》 in 2014, stressing on the importance of municipal infrastructure construction. According to the 18th five plenary session (十八屆五中全會) held in 2015, construction of an ecologically-civilised city was a key task during the *13th five years plan* 《十三五計劃》. The Jiangsu and Lianyungang government also put forward related policies, such as the *New type of urbanisation and the integration of urban and rural development in Jiangsu Province* 《江蘇省新型城鎮化與城鄉發展一體化規劃》, *Overall Plan on Lianyungang City 2008-2030 and Thoughts about environment protection and ecological construction of Lianyungang during the 13th five years plan* 《連雲港市“十三五”環境保護和生態建設思路與對策》. These policies provided guidance for city construction development and it is expected that there will be continuous growing demand in the environmental maintenance industry.

**Better track record, rich experience and economies of scale:** The total revenue of environmental maintenance industry in Lianyungang is expected to rise at a higher growth rate than that of China and Jiangsu. The increasing public facilities and higher requirements for environmental maintenance services indicate a growing market demand. The rapid increase in labour and raw material costs contributed to a steady growth in its average contract price. Large enterprises therefore have a higher competitive edge over new entrants due to a better track record, technological expertise and economies of scale.

**Privatisation of environmental maintenance industry:** Since 2001, the PRC government attempted to accelerate market privatisation. The *Several opinions on promoting and guiding private investment* 《關於促進和引導民間投資的若干意見》 issued by State Development Planning Commission in 2001 indicated full opening of environmental maintenance market. In 2002, *Opinions about accelerating the process of marketisation of municipal utility industry* 《關於加快市政公用行業市場化進程的意見》 was released by the Ministry of Construction. The Jiangsu government issued *Opinions about accelerating the reform of city's public in Jiangsu province* 《關於進一步推進全省城市市政公用事業改革的意見》 in 2003, breaking administrative monopoly and fully opening up the market for private enterprises. Lianyungang Housing Bureau issued the *Lianyungang City Construction 12th Five Years Plan* 《連雲港城市建設十二五規劃》, aimed at actively promoting market privatisation. Limited government budget is a growth barrier and these policies helped to reduce financial pressures on government budget and introduced private capital. It would create a more flexible market environment and improve service levels.

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## INDUSTRY OVERVIEW

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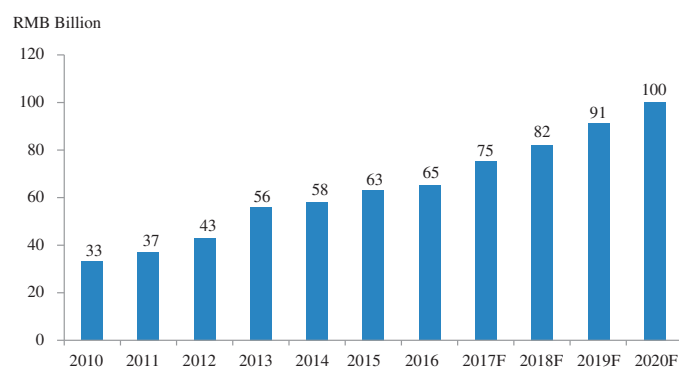
### THE CONSTRUCTION MANAGEMENT INDUSTRY IN CHINA, JIANGSU AND LIANYUNGANG

#### Number of construction management companies in China, Jiangsu and Lianyungang

According to the Ipsos Report, the total number of construction management companies in China increased from approximately 11,040 units in 2010 to approximately 13,628 units in 2015, at a CAGR of approximately 4.3%. During the same period, the total number of construction management operators in Jiangsu increased from approximately 1,484 units to approximately 2,688 units, at a CAGR of approximately 12.6%. The total number of construction management companies registered in Lianyungang increased much faster than that in China from approximately 35 units in 2010 to approximately 60 units in 2015, at a CAGR of approximately 11.4%. The construction management industry in Lianyungang is still in an early stage of development.

#### Market size of construction industry in China, Jiangsu and Lianyungang

According to Ipsos Report, the total output value of construction in China, Jiangsu and Lianyungang increased from approximately RMB9,603 billion, RMB1,241 billion and RMB33 billion in 2010 to approximately RMB19,357 billion, RMB2,579 billion and RMB65 billion in 2016, growing at a CAGR of approximately 12.4%, 13.0% and 11.9% respectively. The rapid growth of the construction industry output in China could be attributed to the development of the real estate market. Since 2006, the total output value of construction in Jiangsu ranked the first in China, mainly driven by local government support according to the *Construction Industry 12th Five Year Development Plan* 《建築業“十二五”發展規劃》. Therefore, a significant amount of construction management works undertaken by our competitors also came from the Lianyungang Municipal Government and its related entities. Growing urbanisation and the increase in the total investment in fixed assets promoted the development of the construction management industry. The total output value of construction in China, Jiangsu and Lianyungang is expected to continue to increase and reach approximately RMB26,620 billion, RMB3,800 billion and RMB100 billion in 2020, respectively. The following table sets forth the total output value of the construction services in Lianyungang from 2010 to 2016 and from 2017 to 2020, respectively:



Source: Statistical Bureau of Lianyungang

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## INDUSTRY OVERVIEW

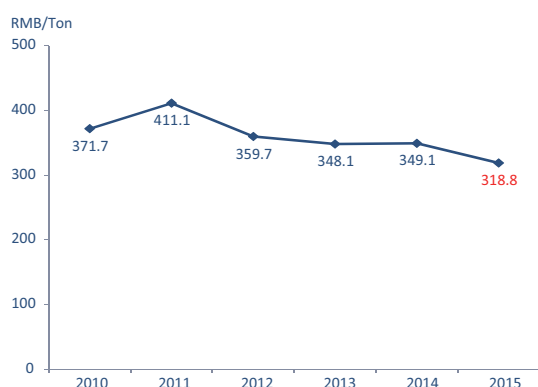
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### Trend in average prices of raw materials and labour costs in the construction management industry in China

Cement is the major raw material in the construction management industry and its average sales price increased from approximately RMB371.7 per ton in 2010 to approximately RMB411.1 per ton in 2011, then decreased to approximately RMB318.8 per ton in 2015. The rapid increase in 2011 was mainly attributable to the short supply affected by the cement power rationing policy under the *Notice on further strengthening work to ensure 11th five-year plan energy conservation and emissions reduction targets* 《國務院關於進一步加大工作力度確保實現十一五節能減排目標的通知》 issued by the State Council in 2010. The significant reduction in the price of coal, one of the main raw materials of cement, from 2010 to 2015 contributes to the decreasing sales price of cement.

According to Ipsos Report, the annual average wage of labour in construction management industry in China increased from approximately RMB33,609 in 2010 to approximately RMB59,503 in 2015, at a CAGR of approximately 12.1%. The rapid increase was primarily due to the development of the construction industry, the growing GDP and the total output value of construction in China.

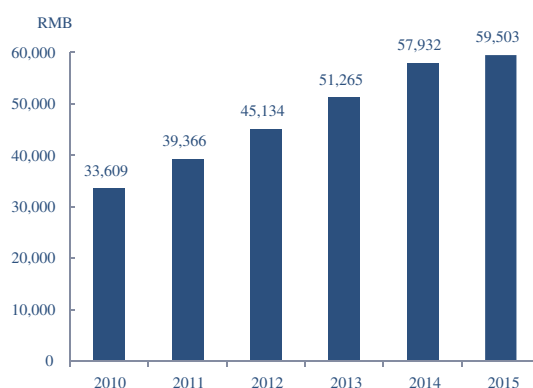
Average sales price of cement in China



Source: National Bureau of Statistics of China

Note: The average sales price of cement in China for the year 2016 is not available as at the Latest Practicable Date

Annual average wage of labour in construction management industry in China



Source: National Bureau of Statistics of China

Note: The annual average wage of labour in construction management industry in China for the year 2016 is not available as at the Latest Practicable Date

### Trend of BT and PPP models

Due to limited government budget, BT and PPP projects emerge and have received increasing interest as construction project management and financing models for governments. Lianyungang has adopted the BT model in construction management since 2004. In BT project, government organisations as customer do not make progress payments before project completion but pay the relevant project value by instalments over an agreed period of time after completion of construction of the project. Companies need to inject substantial amount of capital outlay during the construction phase, hence BT projects can alleviate the financial burden of the local government.

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## INDUSTRY OVERVIEW

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PPP is a model where the government enters joint ventures with construction management companies, thereby sharing profit and loss concurrently. Construction management companies manage most of the design, construction, operation and maintenance works to gain reasonable investment returns such as user fees and government payment where government is responsible for price and quality control. PPP projects can also provide financial support to the local government where companies can enjoy lower investment risk and receive continuous governmental support. The Finance Ministry of China issued a series of policies from 2014 to 2015, such as the *Notice on Guidelines for the Government and Social Capital Cooperation Mode* 《政府和社會資本合作模式操作指南的通知》 and *Notice On Municipal Utilities Sector to Carry Out the Government and Social Capital Cooperation Projects* 《關於市政公用領域開展政府和社會資本合作專案推介工作的通知》. The PRC government has further issued a series of improvement measures on PPP execution since December 2015, and PPP model is expected to develop from exploration to execution stage in the next five years. Backed up by these supportive national policies, Lianyungang has initiated the PPP model for urban construction since 2016. In July 2016, the Development and Reform Commission of Lianyungang and the Bureau of Finance of Lianyungang set up the first PPP information platform, covering for instance construction management and public transportation PPP projects, with a total project value of approximately RMB6.98 billion.

The following table summarises the key characteristics of BT and PPP models:

	<b>BT Project</b>	<b>PPP Project</b>
Financing body	The construction management company.	Joint equity ownership in the project company by the government and construction management company.
Cooperation model	Cooperates in a vertical model where government authorizes construction management company to manage and finance the project.	Cooperates in a horizontal or cooperative model where government enters into joint venture with construction management company. Construction management company is responsible for managing and financing the project through the project management company.
Earnings	Construction management company receives a concession from government to finance construction under a BT project.	Construction management company and the government share profit and loss in the project through its joint equity ownership in the project management company.
Risk sharing	Higher investment risk as construction management company needs to pay out substantial cash during the construction phase.	Lower investment risk as government and construction management company form project management company through joint equity ownership.

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The following table summarises the general rights, obligations and risks associated with BT and PPP models:

		<b>BT Project</b>	<b>PPP Project</b>
<b>Rights</b>	Concession right	Customer grants concession rights of financing and management during the construction phase to the Group	The Group forms a project management company with customer, and the project management company will be granted concession rights of financing and management during the construction phase; and involved in operational arrangement after the construction phase.
	Operation right	The Group does not have operation right after the construction phase.	The Group will be involved in the operational arrangement of the project after the construction phase.
	Income right	The Group receives interest income and management services income from customer for the provision of project financing and project management services	Apart from receiving interest income and management services income, the Group will also receive services income through operational arrangement from the undertaking of post-construction maintenance work to the project after the construction phase.
<b>Obligations</b>		The Group is mainly responsible for project financing and project management during the construction phase.	The Group is mainly responsible for project financing and project management during the construction phase, and is involved in the operational arrangement after the construction phase.
<b>Risks</b>	Operational	There is no operation-related risks as the Group does not undertake any post-construction maintenance work after the construction phase.	The Group takes up certain operation-related risks through operational arrangement for its undertaking of post-construction maintenance work after the construction phase.
	Financial	The Group takes up financial risks such as credit and liquidity risks.	The Group and customer share the financial risks such as credit and liquidity risks through the project management company.

According to the Ipsos Report, backed up with positive government policies, new models such as BT and PPP are expected to develop quickly in the next few years. Since our commencement of the provision of construction management services and up to the Latest Practicable Date, our Group has already obtained five BT projects with a total project value of approximately RMB492.3 million and



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three PPP projects with a total project value of approximately RMB1,293.8 million. BT and PPP projects focuses more on the bidder's project management capability due to project complexity. Accordingly to Ipsos Report, as our Group has focused its resources on training of its project management and technical team, it enjoys competitive edges in large-scale BT and PPP projects tendering.

### Competitive landscape of the construction management industry in Lianyungang

According to the Ipsos Report, there are approximately 60 construction management companies registered in Lianyungang in 2015 together with a number of non-Lianyungang registered companies. The construction management industry in Lianyungang is therefore highly competitive among the top five companies, which in aggregate, accounting for approximately 58.8% of the total project value of the Lianyungang construction management industry in 2016 and there were two construction management companies which were able to provide construction management services on a similar scale as the Company, in terms of project value in 2016. Enterprises registered outside of Lianyungang, with stronger financial strength and higher qualification, also entered into the Lianyungang market, and were more likely to win large-scale tenders. According to Ipsos Report, our Group ranked first with a market share of 19.5% in terms of project value in 2016. The following table sets forth the rankings and other information of the construction management companies in Lianyungang in terms of project value in relation to the provision of construction management services in 2016:

Ranking	Company	Headquarter Location	General Contracting Qualification in Municipal Public Construction	The value of projects in Lianyungang (RMB million)	Estimated 2016 market share
1	Our Group	Lianyungang	Grade Three	892.0	19.5%
2	Company E	Nanjing	Grade One	636.8	13.9%
3	Company F	Lianyungang	Grade Two	508.7	11.1%
4	Company G	Jinan	Grade One	449.3	9.8%
5	Company H	Lianyungang	Grade Two	203.0	4.5%
	Others			1,885.6	41.2%
				<u>4,575.4</u>	<u>100%</u>

Source: China Bidding Network

According to the Ipsos Report, public funded projects are often required by law to hold open or inviting tender. It is also the industry norm for local governments to establish urban construction investment groups for municipal infrastructure construction so as to reduce the financial pressure on local government budgets.

According to the Ipsos Report, construction management of city infrastructure are public goods and hence the industry faces minimal threat of substitution. The Lianyungang government is the main customer initiating the construction management projects, accordingly it enjoys high bargaining

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power. According to Ipsos Report, all of the construction project management projects in Lianyungang were public in nature and were issued by Lianyungang Municipal Government and its related entities for the years ended 31 December 2014, 2015 and 2016. The bidding in Lianyungang is highly competitive with a large number of market competitors. According to the Engineering Construction Bidding Network in Jiangsu, the success rate was only approximately 2% in 2014. Accordingly, the construction management companies have lower bargaining power. Our Group is also the winner of the first batch of PPP projects opened up for tender. Government usually considers factors such as company size, capital adequacy and track record when selecting a construction management company. Our Group has established a good corporate reputation in the industry and built up stable cooperative relationship with the government. Our Group has also obtained Grade Three general contracting qualification in municipal and public construction.

### **Growth drivers**

Growing urbanisation contributes to the construction of more municipal public utility. According to the *National Urban System Plan (2005-2020)* 《全國城鎮體系規劃2005-2020》，the construction management industry will still be accelerated by growing urbanisation as China has set a target urbanisation rate of approximately 60.5%. According to the Ipsos Report, urbanisation development in Lianyungang drove the rapid development of construction management industry from 2010 to 2015, and urbanisation rate is expected to rise steadily, requiring construction of more municipal public facilities.

### **Entry barriers and threats to the construction management industry in Lianyungang**

According to the Ipsos Report, the government promulgated regulations to strictly control the standard of qualifications for construction companies which forms a barrier for new entrants due to its requirements in financial strength, qualification of staff, project performance and technical equipment. Construction companies with good track record generally are able to build long-term relationships with customers. New market entrants without adequate experience and proven record find it difficult to compete in the construction management industry.

According to the Ipsos Report, the average labour cost grew at a CAGR of 12.1% from 2010 to 2015 and shortage of skilled labour further drives the labour cost higher. Market competition in Lianyungang is expected to intensify as government opens up more projects for public tender.

Despite increase in the total fixed asset investment in China, construction management funding is still limited as a result of Lianyungang's low public budget. As a result, the total fixed asset in public facilities was insufficient to support infrastructure construction development.

Laws and regulations in relation to environmental protection, such as the Environmental Protection Law of the PRC 《中華人民共和國環境保護法》 and the Administrative Regulations on Environmental Protection for Construction Projects 《建設項目環境保護管理條例》 have created higher entry barriers for new entrants due to higher costs.

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### Future prospect

**Strong government support:** The PRC government promulgated a series of policies and regulations to encourage development of construction management industry. *The Silk Road Economic Belt and the 21st century Maritime Silk Road* 《絲綢之路經濟帶和21世紀海上絲綢之路》 (the “One Belt and One Road” strategy) unveiled in 2013, focuses on cooperation among Eurasia countries in which more public infrastructure will be established across regions through resources integration. The State Council issued (i) the *Opinion About Strengthening the Construction of Urban Infrastructure* 《國務院關於加強城市基礎設施建設的意見》 in 2013, emphasising on construction of urban infrastructure construction; and (ii) *National New Urbanisation Planning (2014-2020)*, stressing on construction of municipal public facilities. The Jiangsu and Lianyungang government also put forward related policies, such as the *Opinion on Strengthening the Construction of Urban Infrastructure Implementation* (2014) 《關於加強城市基礎設施建設的實施意見(2014)》, *Lianyungang City Construction 12th Five Years Plan and Construction Plan Lianyungang Ecological Civilisation (2015-2022)* 《連雲港生態文明建設規劃2015-2022》.

**Rapid development of city construction:** Growing urbanisation has been a key driver for continuous investment in the construction management industry. According to the *National Urban System Plan (2005-2020)*, growing urbanisation rate in China, Jiangsu and Lianyungang requires more urban infrastructure, thus resulting in a growing construction management industry. The steady growth of fixed assets investment in city public facilities in Lianyungang also provided financial support for the industry in which investment is expected to grow to approximately RMB5.6 billion in 2020. The Science and Technology Ministry has also approved Lianyungang as the innovative pilot city in 2011 where overall government policies has set Lianyungang as a focus city for development, this provides demand for construction management projects in the future.

### THE SUPPLY OF CONSTRUCTION MATERIAL (GNEISS) IN LIANYUNGANG

#### Number of licensed gneiss quarries in Lianyungang

According to Ipsos Report, the total number of licensed gneiss quarries in Lianyungang was 14 units in 2010, with a sudden decrease in 2011 to 9 units but rose again to 10 units as at the Latest Practicable Date. The increase in number of licensed gneiss quarries can be attributed to the transfer of mining rights of Hushan Quarry in LET Development Zone since 2011 and the Dadaoshan Quarry in Yuntai Town since 2012. Three more gneiss mining rights in Donghai County were also transferred to gneiss mining companies in 2013 thereby increasing the number of licensed quarries to 10 as at the Latest Practicable Date.

#### Annual output of licensed gneiss quarries in Lianyungang

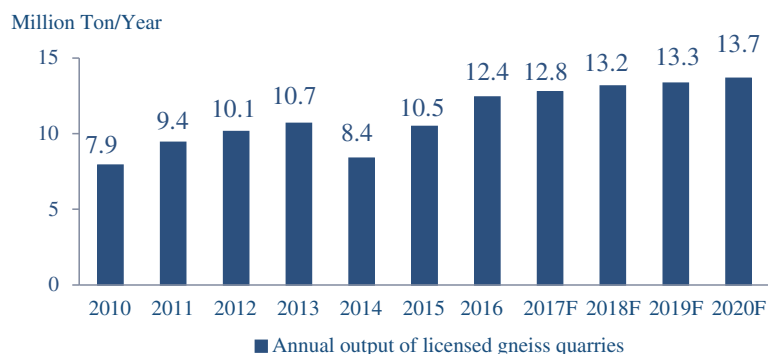
According to Ipsos Report, the annual output of gneiss quarries in Lianyungang increased from approximately 7.9 million tons in 2010 to approximately 12.4 million tons in 2016, at a CAGR of approximately 7.8%. The annual output is expected to increase from approximately 12.8 million tons in 2017 to approximately 13.7 million tons in 2020 at a CAGR of approximately 2.3%, due to the growing demand from downstream industries such as throw fill foundation and construction. According to Ipsos Report, in general, the production capacity is determined by the demand for gneiss.

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The explosive strength can be controlled to produce different amounts of gneiss to correspond with market demand. The following table sets forth the annual output of licensed gneiss quarries in Lianyungang from 2010 to 2016 and from 2017 to 2020, respectively:



Source: Ministry of Land and Resources of Lianyungang

### Trend in average selling price and trade value of gneiss in Lianyungang

According to Ipsos Report, the average selling price of gneiss in Lianyungang increased from approximately RMB18.8 per ton in 2010 to approximately RMB21.7 per ton in 2016, at a CAGR of approximately 2.5%. The average selling price of gneiss in Lianyungang is expected to increase to approximately RMB25.0 per ton in 2020, a CAGR of approximately 3.6%. There are no raw material for gneiss as gneiss comes from the mountain's massif. Since no further processing or manufacturing procedures are required after the blast of the mountain, the manufacturing cost experienced little change from 2010 to 2016. The slight increase in the selling price is attributed to inflation, diminishing resources and the enlargement of gap between supply and demand.

The sales value of gneiss in Lianyungang increased from approximately RMB148.5 million in 2010 to approximately RMB270.3 million in 2016, at a CAGR of approximately 10.5%. The increase in sales value corresponds with its annual output in Lianyungang. The growth in city road and urban construction drove the sale of gneiss growth from 2010 to 2016. The sudden decrease in annual output in 2014 was mainly attributable to the temporary suspension of production of the Hushan Quarry in the first quarter of 2014 due to renewal of the relevant mining licence. According to the Ipsos Report, the sales value of gneiss in Lianyungang is expected to increase at a CAGR of approximately 5.9% from 2017 to 2020 due to the stable increase in both the output and selling price of gneiss. The proportion of output of gneiss to total output of construction material is expected to increase from approximately 31.5% in 2016 to more than 35% in 2020 as Lianyungang has sufficient capacity of gneiss to exploit new quarries despite government control on the total output of construction material

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due to environmental reasons. The following table sets forth the sales value of gneiss in Lianyungang from 2010 to 2016 and from 2017 to 2020, respectively:



Source: Ministry of Land and Resources of Lianyungang

### Competitive landscape of the supply of construction material (gneiss) in Lianyungang

According to Ipsos Report, gneiss is mainly used in paving and reclamation and can be used as a substitute for limestone soil in road construction. Threats from substitutes, are therefore limited as it is more expensive than the locally sourced gneiss. According to Ipsos Report, there are currently 10 licensed gneiss quarries in Lianyungang as at the Latest Practicable Date, among which the top 5 gneiss supply companies contributed to approximately 75.7% of the market in terms of revenue in 2016. The second phase of Hushan Quarry contributes nearly half of the total market share, forming a relatively concentrated market and limited competition. Our Group ranked first with a market share of approximately 42.3% of the gneiss supply industry in Lianyungang in terms of revenue in 2016. Despite the low entry barrier for new entrants, Yuanyun Industrial has entered into the NH Development Supply Agreement (for details, please refer to the section headed “Business — Salient terms of the NH Development Supply Agreement” in this prospectus) with NH Development, consolidating its leading position in the gneiss supply market in Lianyungang. The following table sets forth the rankings and other information of the top five gneiss sellers in Lianyungang in terms of revenue in 2016:

Ranking	Company	Revenue in 2016 (RMB million)	2016 market share	Key business activities	Quarry Name
1	Our Group	114.4	42.3%	Infrastructure construction; Municipal greening; Gneiss supply	Hushan Quarry (Second Phase)
2	Company M	39.1	14.5%	Gneiss exploitation; Building stones processing	Fangshan Gneiss Quarry
3	Company N	24.1	8.9%	Stone and mineral wholesaling and retailing; Gneiss exploitation	Fushan Gneiss Quarry

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Ranking	Company	Revenue in 2016 (RMB million)	2016 market share	Key business activities	Quarry Name
4	Company O	14.1	5.2%	Building stones processing, wholesaling and retailing; Domestic freight forwarding	Xizoushan Gneiss Rock Quarry
5	Company P	13.0	4.8%	Gneiss exploitation	Donghai Liren Forest Farm 4th Gneiss Rock Quarry
	Others	<u>65.6</u>	<u>24.3%</u>		
	Total	<u><u>270.3</u></u>	<u><u>100.0%</u></u>		

Source: Ipsos Report

According to Ipsos Report and based on the information available on hand, the market share of Lianyungang Municipal Government and its related entities contributed to approximately 80.3% of the estimated revenue generated by the top five gneiss sellers in Lianyungang for the year ended 31 December 2015; whereas the market share of Lianyungang Municipal Government and its related entities contributed to approximately 79.6% of the estimated revenue generated by the top four gneiss sellers in Lianyungang for the year ended 31 December 2016.

According to Ipsos Report, with the implementation of the *General Planning of Mineral Resources from 2008 to 2015* 《連雲港市礦產資源總體規劃 2008-2015年》, the Lianyungang government closed several mining areas and reduced issuance of mining licences. As a result, the yield of gneiss in Lianyungang decreased, which strengthens suppliers' bargaining power. With the promotion of "One Belt and One Road" strategy and supported by its growing fixed assets investment, infrastructure construction in Lianyungang accelerates. The booming construction industry is projected to require more building materials, leading to the increase of gneiss demand.

### Growth drivers

Transportation construction in Lianyungang experienced rapid development, in which its investments increased from approximately RMB5.0 billion in 2013 to approximately RMB11.0 billion in 2016 and it is expected to increase to approximately RMB11.5 billion in 2017. Besides, the scale of sea reclamation expands at a fast pace with the sum of approved reclamation area in Lianyungang from 2010 to 2013 added up to approximately 1,269.5 hectares, while it was approximately 1,223.7 hectares in 2014 and the expansion is expected to continue in the near future. The "One Belt and One Road" strategy has also set Lianyungang as the new node of the Asia Europe Continental Bridge Economic Corridor (新亞歐大陸橋), boosting construction of transportation infrastructure. The development of construction management industry in Lianyungang will benefit the growth of sale of gneiss.

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### **Entry barrier and threats to the supply of construction material (gneiss) industry in Lianyungang**

According to Ipsos Report, entry barriers are relatively low since there is no requirement of particular license for selling gneiss, thus attracting more medium and small gneiss sellers into the market.

The Lianyungang government has increased downward pressure on the total mining volume of construction material given its environmental impact, and thus placed the annual outputs of each quarry under strict control. Accordingly, market expansion is partially restricted by the government's general plan of controlling construction material exploitation.

Mining companies may also sell gneiss directly to end users to enjoy production advantages and sales integration. In contrast, intermediate sellers have relatively high reliance on suppliers and they may be in an inferior position in competition.

### **Future prospect**

**Policy environment:** The PRC government promulgated a series of policies and regulations to encourage development of the construction material mining industry. The *Twelfth Five-year Plan on Building Materials Industry* 《建築材料工業十二五發展規劃》 was issued in 2011 to encourage development of specialised and functional rock products and to enhance comprehensive utilisation of waste rocks to create more added value from construction materials. Companies can gain higher profit once they perform deep-processing on construction material that reduces wastes and increases output. The *Industrial structure adjustment guidance catalogue (2011)* 《產業結構調整指導目錄2011年本》 issued by the National Development and Reform Commission in 2013 encouraged “mechanisation of stone mining”. Besides, the Ministry of Land and Resources of Lianyungang issued the *General Planning of Mineral Resources from 2008 to 2015* 《連雲港市礦產資源總體規劃2008-2015》 in 2008 to guide the mining structure optimisation, and to maximise resource utilisation and promote setting up of green-ecological mines.

**Gradual rationalisation of quarries:** With the issuance of the *General Planning of Mineral Resources* since 2000, governmental management on mineral resources results in more than 25 mining quarries being closed down and the quarries gradually concentrate towards remote mountains in Lianyungang.

**Urbanisation and urban construction:** According to Ipsos Report, enhancement of urban construction and rapid urbanisation stimulates building materials. The Lianyungang government also carried out five-year sea reclamation plans, to expand the total reclamation area. To better fulfil the port construction and attract investment to establish enterprises, there will be an increasing demand for gneiss, offering room for gneiss selling industry to grow in the future.



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### REGULATIONS

#### PRC LAWS AND REGULATIONS IN RELATION TO FOREIGN INVESTMENT

The establishment and management of companies in the PRC are governed by the Company Law of the PRC (《中華人民共和國公司法》) which was enacted by the Standing Committee of the National People's Congress (the "Standing Committee of NPC") on 29 December 1993 and was implemented on 1 July 1994 (the "Company Law"). The Standing Committee of NPC amended the Company Law on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013 respectively. The newly amended PRC Company Law of the PRC has been effective from March 1, 2014. The Company Law provides for the establishment, corporate structure and corporate management of companies. The Company Law also applies to foreign-invested enterprises. Where laws and regulations relating to foreign-invested enterprises otherwise stipulate, such stipulations shall apply.

Wholly foreign-owned enterprises are also governed by The Law on Wholly Foreign-Owned Enterprise Law of the PRC (《中華人民共和國外資企業法》) (the "Wholly Foreign-Owned Enterprise Law") and Wholly Foreign-Owned Enterprise Law Implementing Rules (《中華人民共和國外資企業法實施細則》). The Wholly Foreign-Owned Enterprise Law was adopted at the 4th Meeting of the Sixth National People's Congress on 12 April 1986 and was amended by the Standing Committee of NPC on 31 October 2000. The establishment procedures, approval procedures, registered capital and corporate structures of wholly foreign-owned enterprises are regulated in the abovementioned laws and regulations.

The Catalogue for the Guidance of Foreign Investment Industries (2015 Revision) (外商投資產業指導目錄(2015年修訂)) (the "Catalogue") was issued by the NDRC and MOFCOM on 10 March 2015 and became effective from 10 April 2015. Pursuant to the Catalogue, foreign invested projects in the PRC are divided into three categories: encouraged, restricted and prohibited. Any industry not falling into any of the encouraged, restricted or prohibited categories is classified as a permitted industry for foreign investment. Our principal business of maintenance, management and construction of urban landscape projects is thus a permitted industry for foreign investment.

#### PRC LAWS AND REGULATIONS IN RELATION TO URBAN LANDSCAPE

According to the Regulations of Urban Landscape (《城市綠化條例》) promulgated by the Stated Council on 22 June 1992 effective as from 1 August 1992 and as amended in 2011 and 2017, and the Regulations of the Administration Urban Landscape in Jiangsu Province (2003 Revision) (江蘇省城市綠化管理條例) (2003年修訂) issued by the Standing Committee of Jiangsu Provincial People's Congress as effective on 27 October 1992 and amended on 24 June 2003, the construction of urban landscape projects shall entrust the enterprise with qualifications to undertake and build. The urban landscape projects shall not be put into operation until it is completed and checked for acceptance by the local urban landscape authorities. The enterprise engaged in the construction work of urban landscape projects shall obtain relevant qualifications. After completion check and acceptance of the landscape project, the enterprise shall submit relevant documents to the local landscape authorities for the record.



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### Qualifications of Urban Landscape

Under the Notice on Amending Urban Landscape Qualification Standards (《住房和城鄉建設部關於修訂〈城市園林綠化企業資質標準〉的通知》) promulgated by the MOHURD on 9 October 2009 and effective as from 9 October 2009 and amended on 23 June 2016 (the “Qualification Standards”), Enterprise Qualification in Urban Landscape Construction (城市園林綠化企業資質) can be divided into four grades, which are Grade One, Grade Two, Grade Three and below Grade Three based on their registered capital and paid-in capital, net value of fixed assets and annual production value of landscape projects, the number of professional and technical personnel, scale of nursery production and cultivation bases, project experience and achievements. Pursuant to the Qualification Standards, any enterprise applying for Grade Three Enterprise Qualification in Urban Landscape Construction shall satisfy the following requirements:

- (1) its fixed assets shall be more than RMB1 million;
- (2) it has been an independent professional landscape construction enterprise with the status of legal person;
- (3) its managers shall have more than two years’ experience in landscape operation and management or holding professional title of junior level in landscape, its chief engineer shall hold professional title of intermediate level in landscape;
- (4) it has in total at least 10 landscape professionals, full-time managers and technicians in engineering, management, economics and other related specialties and at least 2 employees with professional titles of intermediate level in landscape; and
- (5) it has at least 10 workers with professional title of intermediate level or above, including landscape workers, flower cultivation workers, tilers (or bricklayers), carpenters, electricians and other relevant industry workers, including at least three senior landscape workers and/or senior flower cultivation workers in total.

In addition, under the Qualification Standards, enterprises with Grade Three Enterprise Qualification in Urban Landscape Construction are able to engage in:

- (1) the construction of landscape projects the total cost of which is not more than 5 million project, including the construction of comprehensive parks, community parks, theme parks, linear parks, production lawn, protective lawn, auxiliary lawn;
- (2) the land levelling and cultivation as part of the landscape projects, the construction furniture, flower bed, garden pathway, water system, fountains, rockeries, sculptures, square paving, embankment, landscape pedestrian bridge with a single span of less than 10 metre, dock and landscape facilities and equipment installation;

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- (3) integrated maintenance and management projects in greenery and landscape in any scale and of any type; and
- (4) the cultivation, production and operation of landscape plants, flowers, potted plants and lawn.

According to the Notice on Carrying Out the Work relating to the Cancellation of the Approval, Administrative Permit of the Enterprise Qualification in Urban Landscape Construction by the General Office of the MOHURD, housing urban construction authorities at all levels will not accept the relevant applications for the Enterprise Qualification in Urban Landscape Construction and shall not, in any way, require the Enterprise Qualification in Urban Landscape Construction as a condition of contracting the construction business of landscape projects.

### Standards for Construction and Check for Acceptance of Landscape Projects

According to the Announcement on Issuance of Industrial Standards for Construction and Check for Acceptance of Landscape Projects (《關於發布行業標準<園林綠化工程施工及驗收規範>的公告》) promulgated by the MOHURD on 24 December 2012 and effective as from 1 May 2013, MOHURD approves new standards for construction and check for acceptance of landscape projects (CJJ82-2012). The Announcement on Issuance of Project Construction Standards in Jiangsu Province for Construction and Check for Acceptance of Landscape Projects promulgated by Housing and Urban-Rural Development Department of Jiangsu Province (《江蘇省住房和城鄉建設廳關於發佈江蘇省工程建設標準<園林綠化工程施工及驗收規範>的公告》) issued on 1 November 2016 and effective on 1 December 2016, also approved Project Construction Standards in Jiangsu Province (DGJ32/TJ201-2016). Such Standards specify basic requirements for preparation prior to landscape construction, plant materials and seeds, soil treatment before cultivation, excavation of cultivation hole (slot), seedling transportation, pruning of fake plants and seedlings before cultivation, cultivation of various plants, roof landscape, earth covering and landscape of underground facilities, vertical landscape, slope protection landscape, auxiliary facilities of landscape projects and project acceptance. Such Standards shall also apply to construction and check for acceptance of public lawn, preservation lawn, auxiliary lawn and other lawn and landscape projects and their auxiliary facilities.

### PRC LAWS AND REGULATIONS IN RELATION TO CONSTRUCTION PROJECT

Under the Construction Law of the PRC (《中華人民共和國建築法》) promulgated by the Standing Committee of the National People's Congress on 1 November 1997, as amended in 22 April 2011 and effective as from 1 March 1998 ("Construction Law"), enterprises engaged in construction, engineering survey, engineering design and supervision shall apply for the qualifications of different grades according to its registered capital, professional and technical personnel, technical equipment and achievements and after passing the qualification examination, could separately obtain qualification certificates of commensurate grades for construction, surveying, design, supervision, only with which, can it undertake construction, survey, design, and supervision activities within the scope set out in its qualifications.

Pursuant to the Measures for the Administration of Subcontracted Housing and Municipal Infrastructure Construction Projects (《房屋建築和市政基礎設施工程施工分包管理辦法》) promulgated by Ministry of Construction on 3 February 2004 and came into force on 1 April 2004 amended and effective on 27 August 2014, the subcontracting of labour services refers to an activity in which an enterprise which undertakes an entire construction project or an enterprise with a specialized subcontracted contract subcontracts the labour service of a project it undertakes to a labour services. The subcontracting of labour service shall be stipulated by the labour service contract letting party and the labour service contractor through a labour contract. A labour service contractor shall finish the said task by itself.

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According to the Opinion on Utilizing Foreign Funds in the Construction of Municipal Public Unities (Trial) (《關於城市市政公用設施建設利用外資工作的意見(試行)》) promulgated and implemented by the MOHURD on 20 May 1997, foreign loans and investment should be optimized to improve the standard of urban landscape in accordance with the Ninth Five Year Plan of Construction Work and 2010 Blueprint, and foreign investment should be used in the new construction, expansion and reconstruction of municipal public unities projects, upgrading relevant equipment and improvement of the management skill level of the project.

In accordance with the Guiding Opinions on the Fostering and Development of Enterprises for General Project Contracting and Project Management issued by the Ministry of Construction on 13 February 2003 and effective as from 13 February 2003 (《建設部關於培育發展工程總承包和工程項目管理企業的指導意見》(建市[2003]30號)), general contractors that possess necessary conditions shall be encouraged to adopt the contracting modes of Build-Transfer (BT), Build-Operate-Transfer (BOT), Build-Own-Operate (BOO) and Build-Own-Operate-Transfer (BOOT) in construction projects that possess necessary conditions according to the demand of project owners.

According to the “Several Opinions of the State Council on Encouraging and Guiding the Healthy Development of Private Investment” (《國務院關於鼓勵和引導民間投資健康發展的若干意見》) promulgated and effective on 7 May 2010, the government encourages and guides the private investment to enter into the basic industries and infrastructure area, encourages private capital to participate in construction of municipal utilities, such as the city water supply, gas supply, heat supply, sewage and waste disposal, public transport, urban landscaping and other urban areas.

With respect to the administration of Public-Private Partnership (PPP) model, PRC government has promulgated various PRC laws and regulations to guide local government authorities on implementing PPP projects, including without limitation, the Circular on Further Advancing the Public-Private Partnership in Public Services (《關於在公共服務領域深入推進政府和社會資本合作工作的通知》) promulgated and effective on 11 October 2016 by MOF, and the Circular of the NDRC on Issuing the Guidance on Implementing Public-Private Partnership (PPP) Projects in the Sectors of Traditional Infrastructure (國家發展改革委關於印發《傳統基礎設施領域實施政府和社會資本合作項目工作導則》的通知) promulgated and effective on 24 October 2016 by NDRC.

Pursuant to the Administrative Measures for Infrastructure and Public Utility Concession promulgated by the National Development and Reform Commission, Ministry of Finance, Ministry of Housing and Urban-Rural Development, Ministry of Transport, Ministry of Water Resources and People’s Bank of China on 25 April 2015 and effective as from 1 June 2015 (《基礎設施和公用事業特許經營管理辦法》), public utilities projects are encouraged to adopt the method of “infrastructure and public utility concession” (Public-Private-Partnership/PPP), which refers to the governments authorize the legal persons or other organizations inside and outside the territory of China on a competitive basis in accordance with law, and reach agreement, which specify rights and obligations as well as risk sharing, with the aforesaid legal persons or other organizations which shall invest in the construction and operation of infrastructure and public utilities and can obtain earnings within certain time limit and scope and provide public products or public services. It also provides that implementing institution shall sign a concession agreement with concession operators selected in accordance with the law. If where it is necessary to establish a project company, the implementing institution shall enter into a preliminary agreement with the investor selected in accordance with the

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law on the establishment of the project company within a prescribed time limit, and conclude a franchise agreement with the project company. Implementing institution shall select the concession operators through tendering, competitive negotiation and other competitive ways according to the approved scheme of Implementing Concession Projects. Furthermore, the selection of concession operators shall comply with the provisions of the laws and administrative regulations related to domestic and foreign investment access and so on.

### Qualifications for Construction Enterprise

Pursuant to the Regulations on Administration of Qualifications of Construction Enterprises (《建築業企業資質管理規定》(建設部令159號)) promulgated by the Ministry of Construction (the predecessor of MOHURD) and effective as from 1 September 2007, amended on 13 September 2016 and effective on 20 October 2016 qualifications for construction enterprises are divided into three groups, namely general construction contracting (施工總承包資質), specialty contracting (專業承包資質) and labour subcontracting (施工勞務資質). Each group is divided into various categories of qualifications according to the nature and technical characteristics of the relevant construction projects, and each category of qualifications is further divided into various classes in accordance with the stipulated conditions.

An enterprise which has obtained general construction contracting qualifications may undertake general construction contracting projects. A general construction contracting enterprise may undertake the construction of each specialty project in its general construction contracting project, or subcontract any specialty projects or labour works to specialty contracting enterprises or labour subcontractors with relevant qualifications in accordance with the laws and regulations.

An enterprise which has obtained specialty contracting qualifications can undertake specialty construction projects subcontracted by the general construction contractor and those contracted out by a construction enterprise in accordance with the relevant regulations. A specialty contracting enterprise may construct all the specialty projects it undertakes or subcontract any labour works to labour service subcontractors with relevant qualifications in accordance with the laws and regulations.

Pursuant to the Notification on Construction Enterprise Qualification Standards issued by MOHURD on 6 November 2014 and effective as from 1 January 2015 (《住房和城鄉建設部關於印發<建築業企業資質標準>的通知》) and the Notice of the MOHURD on simplifying a partial index of the Qualification Standards of Enterprises in the Construction Industry (《住房城鄉建設部關於簡化建築業企業資質標準部份指標的通知》) promulgated on 14 October 2016 and implemented as from 1 November 2016, general contracting qualifications in municipal and public construction are divided into Grade One, Grade Two and Grade Three. It provides the qualifications standards and contracting scope for Grade Three.

The qualification standards for Grade Three in municipal and public construction require a construction enterprise to have a net asset over 10 million and a certain number of key personnel as follows:

- (1) At least five certified constructors for municipal utility project;

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- (2) a technology officer possesses at least five years work experience on construction technical management and holds intermediate title or above as certified constructor for municipal utility project, leading at least eight people who hold intermediate level or above in related major;
- (3) at least 15 certified managerial staffs on construction site together with all kinds of staffs, such as construction workers, quality controllers, safety officials, machinists, cost members and labour members;
- (4) at least 30 intermediate mechanics or above passing examination or training evaluation; and
- (5) at least two second-level municipal utility projects or above have been carried out by the technology officer or certified constructors.

The contracting scope for Grade Three contains:

- (1) urban road engineering (express way not included); urban bridge engineering with a single span less than 25 meters;
- (2) water supply plant with the limit of 80,000 tons per day; sewage disposal work with the limit of 60,000 tons per day; pump station for water supply, sewage disposal and rainfall with the limit of 100,000 tons per day; water supply pipeline with diameter less than one meter; sewer pipeline and middle waterway with diameter less than 1.5 meter;
- (3) medium or low pressure gas pipeline with the size less than two square centimetres or weight less than two kilograms; regulator station; heating engineering supplying power for area less than 500,000 square meters;
- (4) urban solid waste disposal project with the individual contract price less than RMB25 million;
- (5) underground transportation engineering with the individual contract price less than RMB20 million (railway transportation engineering not included);
- (6) city square and ground parking lot covered by rigid material with area less than 5,000 square meters; and
- (7) comprehensive municipal project with an individual contract value less than RMB25 million.

### **Tender and Bid of Construction Project and Services**

Pursuant to the Construction Law, the invitations for bids and tenders for the outsourcing and contracting of a construction project shall comply with principles of transparency, impartiality and equal competition, and the contracting party shall be selected based on merits.

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Pursuant to the Tender and Bidding Law of the PRC (《中華人民共和國招標投標法》) promulgated by Standing Committee of the National People's Congress and effective as from 1 January 2000 ("Tender and Bidding Law"), an invitation for tender is required for the following construction projects (including the survey, design, construction and supervision of and the procurement of important equipment and materials related to such projects): (1) large-scale infrastructure, public utilities and other projects that relate to general public interests and public security; (2) projects that utilize in whole or in part the investment of the state-owned fund or financed by the PRC government; and (3) projects financed with loan or financial aids from such entities as international organizations and foreign governments. Specific requirements and procedures for bidding and tending of construction projects were prescribed by the Tender and Bidding Law and Implementing Regulations on the Tendering and Bidding Law of the PRC (《中華人民共和國招標投標法實施條例》) promulgated by State Council on 20 December 2011 and effective on 1 February 2012 ("the Tender and Bidding Law Implementation Regulations").

Pursuant to the Construction Law, the Tender and Bidding Law, the Tender and Bidding Law Implementation Regulations and the Property Development and Municipal Infrastructure Facilities Construction Tender Management Regulations (《房屋建築和市政基礎設施工程施工招標投標管理辦法》) promulgated by the Ministry of Construction in 1 June 2001 (the "Tender Regulations"), a Tender Appraisal Committee should be set up for the appraisal of the tender for construction works for the project. According to the Tender Regulations, the Tender Appraisal Committee to be organized by our Group shall include the representatives and relevant specialists selected by our Group from a list certified by the construction administration authorities. The number of members of the Tender Appraisal Committee shall be an odd number and shall consist of at least five members. The relevant specialists shall make up no less than two-thirds of the membership. In accordance with the Tender Regulations, if the estimated price of a single construction contract amounts to RMB2 million or more or the total investment of the project is RMB30 million or more, the developer is required to undertake a bidding process for the award of the construction contracts. Our Group sets the tender conditions as written in the tender report provided by the Tender Appraisal Committee, and when the tender work is completed, our Group (through a subsidiary) shall contract with the successful bidder in writing complying to the terms and conditions of the tender. The quality and timeline of the construction are usually warranted in those contracts. Typically, those construction contracts provide for payments to be made in instalment by our Group to the construction companies at agreed phases of completion of the constructions project.

According to Regulations on Scope and Scale of Construction Projects for Tendering (《工程建設項目招標範圍和規模標準規定》) promulgated by National Development and Planning Commission and effective as from 1 May 2000, an invitation for tender is required for the construction projects (including the survey, design, construction and supervision of and the procurement of important equipment and materials related to projects) that satisfy the following standards:

- (1) the estimated price for the separate construction contract exceeds RMB2 million;
- (2) the estimated price for the separate procurement contract of important equipment and materials exceeds RMB1 million;



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- (3) the estimated price for the separate service contract in relations to survey, design or consultation exceeds RMB500,000; and
- (4) the estimated price for contracts in relation to construction, procurement of equipment and material, survey, design or consultation does not reach the threshold separately as described above but the total investment of the project exceeds RMB30 million.

Pursuant to the Measures for the Administration of Tenders and Invitations to Bid in Government Procurement of Goods and Services (《政府採購貨物和服務招標投標管理辦法》) promulgated by Ministry of Finance on 11 August 2004 and effective on 11 September 2004. Invitations to bid concerning goods or services may be classified into public invitations to bid and invitation-based tenders for bid. A public invitation for bid means that a bid-invitation procurement entity lawfully invites uncertain suppliers to bid by announcement.

An invitation-based tender for bid means that a bid-invitation procurement entity lawfully and randomly selects three or more suppliers from the qualified ones, whom are invited by an invitation letter to bid. A bid-invitation procurement entity shall organize and arrange the activities of tenders and invitations to bid concerning goods and services in accordance with the Measures. A bidder shall comply bidding documents according to the requirements in the bid-invitation documents. The bidding documents shall substantively respond to the requirements and conditions proposed by the bid-invitation documents.

### Quality Controls

Pursuant to the Regulations on the Administration of Quality Control of Construction Projects (《建設工程質量管理條例》) promulgated by the State Council and effective as from 30 January 2000, enterprises that develop the project or undertake surveying, design, construction or project supervision are responsible for the project quality control. All construction activities must be conducted in strict compliance with basic construction procedures and by adhering to the principle of surveying first, then designing and finally constructing. For any construction project under a general contract, the general contractor shall be responsible for the quality of the whole construction project. For the construction project survey, design, construction and equipment purchase, if one or more than one of the aforesaid tasks is under a general contract, the general contractor shall be responsible for the quality of the construction project contracted by it or equipment purchased by it. Where a general contractor subcontracts the construction project in question to another contractor in accordance with the law, the subcontractor shall, under the stipulations of the subcontract, be responsible to the general contractor for the quality of the project subcontracted by it. The general contractor and the subcontractor shall be jointly and severally responsible for the quality of the aforesaid project. After a construction project owner receives a completion report for the construction project, it shall organise all the enterprises that have undertaken design, construction, project supervision and other tasks for the project to conduct a completion check and acceptance. Specific requirements and procedures were prescribed by the Regulations on the Acceptance of the Completion of the Property Development and Municipal Infrastructure Facilities Construction (《房屋建築和市政基礎設施工程竣工驗收備案管理辦法》) promulgated by MOHURD on 7 April 2000 and amended and effective on 19 October 2009.

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## REGULATORY OVERVIEW

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### Construction Pricing

In accordance with the Interim Regulations on the Management of the Contract and Sub-contract Price of Construction Project (《建設工程施工發包與承包價格管理暫行規定》) promulgated by the Ministry of Construction on 6 January 1999, the Interim Measures for Settlement of Construction Fees (《建設工程價款結算暫行辦法》) jointly enacted and promulgated by the Ministry of Finance and Ministry of construction on 20 October 2004, the Management Rules Regarding the Pricing of the Contract and Sub-contract Price of Construction Projects (《建築工程施工發包與承包計價管理辦法》) enacted and promulgated by the MOHURD on 11 December 2013 and came into force on 1 February 2014 and other related regulations, the construction pricing methods include: (i) bidding projects shall be priced by tendering-biding method through the tendering-biding supervision and administration institutions at the location of the projects. (ii) for projects not suitable for tendering-biding method, the prices may, on the basis of the approved working drawing estimation, be determined through consultation by and between Party A and Party B. (iii) prices of ordinary existing house decoration projects may be agreed on the basis of comprehensive unit price.

Pursuant to the Management Rules regarding the Construction Cost in Jiangsu Province (《江蘇省建設工程造價管理辦法》) promulgated by the People's Government of Jiangsu Province on 26 August 2010 and implemented since 1 November 2010, Construction project construction issuing and contracting price can be used in a way of bill of quantities valuation, also can use way of engineering quota valuation. Related items with respect to the construction cost shall be stipulated in the construction contract.

### Work safety in relation to Engineering Construction

With regard to the administration of work safety in the process of engineering construction contracting, in addition to the Construction Law of the PRC, the PRC government has promulgated various laws and regulations, including, among others, the Work Safety Law of the PRC (《中華人民共和國安全生產法》), the Regulations on Work Safety Permits (《安全生產許可證條例》), the Construction Safety Regulations and the Regulations on Administration of Construction Enterprises' work Safety Permit (《建築施工企業安全生產許可證管理規定》) to regulate the administration of the work safety of construction projects. Under the foregoing laws and regulations, construction enterprises shall establish a work safety management organisation or provide personnel dedicated for work safety management. The PRC government implements the work safety permit system for construction enterprises. Without obtaining a work safety permit, a construction enterprise should not engage in construction activities. To develop the project or undertake survey, design, construction, project supervision or other work safety-related activities, enterprises must comply with the provisions of the work safety laws and regulations, ensure the work safety of the construction project and assume responsibilities for work safety in accordance with laws and regulations.

### PRC LAWS AND REGULATIONS IN RELATION TO ENVIRONMENTAL PROTECTION

The main PRC environmental protection laws and regulations applicable to us include the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) (the "Environmental Protection Law"), the Law of the PRC on Appraising of Environmental Impacts (《中華人民共和國環境影響評價法》), the Administrative Regulations on Environmental Protection for Construction



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## REGULATORY OVERVIEW

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Projects (《建設項目環境保護管理條例》), the Administrative Regulations on Environmental Protection for Acceptance Examination upon Completion of Construction Projects (《建設項目竣工環境保護驗收管理辦法》), the Prevention and Control of Atmospheric Pollution Law of the PRC (《中華人民共和國大氣污染防治法》) (the “Atmospheric Pollution and Prevention Law”) promulgated by the Standing Committee latest amended on 29 August 2015 and effective on 1 January 2016, the Prevention and Control of the Water Pollution Law of the PRC (《中華人民共和國水污染防治法》) (the “Water Pollution and Prevention Law”) promulgated by the Standing Committee latest amended on 28 February 2008 and effective on 1 June 2008, the Prevention and Control of the Noise Pollution Law of the PRC (《中華人民共和國環境噪聲污染防治法》) (the “Noise Pollution and Prevention Law”) promulgated by the Standing Committee on 29 October 1996 and effective on 1 March 1997, the Prevention and Control of the Solid Waste Pollution Law of the PRC (《中華人民共和國固體廢物污染環境防治法》) (the “Solid Pollution and Prevention Law”) promulgated by the Standing Committee latest amended and effective on 24 April 2015 and other relevant laws and regulations.

In accordance with the Environmental Protection Law promulgated by the Standing Committee on 24 April 2014 and implemented on 1 January 2015, the environmental protection administrative department under the State Council shall formulate national environmental quality standards. The people’s governments of provinces, autonomous regions and municipalities may formulate local environmental quality standards for matters not specified in national environmental quality standards. They may formulate local environmental quality standards which are stricter than the national environmental quality standards for matters already specified in national environmental quality standards.

According to the Administrative Measures for Urban Living Garbage (《城市生活垃圾管理辦法》) promulgated by the Ministry of Construction on 28 April 2007 and effective as from 1 July 2007 and as amended on 4 May 2015, The enterprise engaged in transportation activities of urban living garbage shall obtain transportation service license of urban living garbage.

### PRC LAWS AND REGULATIONS IN RELATION TO LABOUR AND SOCIAL INSURANCE

On 5 July 1994, the Standing Committee of NPC promulgated The Labour Law of the PRC (《中華人民共和國勞動法》), which became effective on 1 January 1995. On 29 June 2007 the Standing Committee of NPC promulgated Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), which latest amended on 28 December 2012 and effective on 1 July 2013. Pursuant to the said law, a written labour contract shall be concluded within one month from the date when an employee commences work, otherwise the employer shall pay twice of the monthly wage until a labour contract without fixed term is deemed as concluded. Labour contract is divided into two types, namely labour contract with fixed term and labour contract without fixed term. Where the employee has already worked for the employer for one full year in the absence of a written labour contract, a labour contract without fixed term shall be deemed to have been concluded. Where the employee has already worked for the employer for at least ten full years consecutively or the labour contract is to be renewed after two fixed-term labour contracts have been concluded consecutively, a labour contract without fixed term shall be concluded, unless an employee requests the conclusion of a fixed term labour contract.

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## REGULATORY OVERVIEW

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The PRC Law for Promotion of Employment(《中華人民共和國就業促進法》), promulgated by NPC Standing Committee on 30 August 2007 and effective as at 1 January 2008, amended and effective on 24 April 2015, provides that no employee can be discriminated in employment by reason of ethnic group, race, gender, or religious belief. The employer should neither refuse, nor request higher conditions for, the employment of any woman, merely because of such gender; and no provision limiting any woman employee in marriage and child-bearing is allowed in the labour contract. The employer should not refuse the employment of anybody just because of such person being an infection pathogen carrier, unless otherwise stated by laws and regulations. Additionally, enterprises should allocate the employee education fund intended for occupational training and further education of employees, violation of which may result in punishment imposed by the labour administration.

Pursuant to Interim Provisions on Labour Despatch (《勞務派遣暫行規定》) (the “Interim Provisions”) which was promulgated on 24 January 2014 and became effective on 1 March 2014, the number of despatched workers employed by an employer shall not exceed 10% of the total number of workers. If the number of despatch workers employed by an employer exceeded 10% of its total workers before the effective date of the Interim Provisions, the employer shall adjust its employment structure and reduce the proportion of despatched workers to the statutory limit within two years from the effective date of the Interim Provisions, which is before 1 March 2016.

Although Article 27 of the Interim Provisions apparently applies to labour dispatch in the form of “hired work and outsourcing,” only labour despatch falls under the scope of the provision, rather than workers under labour subcontracting agreements. This is confirmed by the Human Resources and Social Security Bureau of Shenzhen, a competent authority to comment on such provision.

Pursuant to Social Insurance Law of the PRC (《中華人民共和國社會保險法》) promulgated by the Standing Committee on 28 October 2010 and effective on 1 July 2011, the Interim Regulations Concerning the Levy of Social Insurance Fees (《社會保險費繳納暫行條例》) promulgated and implemented on 22 January 1999 by the State Council, the Interim Measures Concerning the Maternity Insurance of Enterprise Employees (《企業職工生育保險試行辦法》) promulgated on 14 December 1994 and implemented on 1 January 1995 by former Ministry of Labour, the Regulation Concerning the Administration of Housing Fund (《住房公積金管理條例》) promulgated and implemented on 3 April 1999 and amended on 24 March 2002 by the State Council, the Regulation on Occupational Injury Insurance (《工傷保險條例》) promulgated on 27 April 2003 by the State Council, amended on 20 December 2010 and effective on 1 January 2011, the employer shall pay pension insurance fund, basic medical insurance fund, unemployment insurance fund, occupational insurance fund, maternity insurance fund and housing fund for the employees.

### PRC LAWS AND REGULATIONS IN RELATION TO FOREIGN EXCHANGE CONTROLS

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations of the PRC (《中華人民共和國外匯管理條例》) promulgated by the State Council on 29 January 1996, came into effective on 1 April 1996 and as amended on 14 January 1997 and 5 August 2008 and the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment (《結匯、售匯及付匯管理規定》) promulgated by People’s Bank of China on 20 June 1996 and became effective on 1 July 1996. Pursuant to these regulations and other

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## REGULATORY OVERVIEW

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PRC rules and regulations on currency conversion, RMB is freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as direct investment, loan or investment in securities outside China unless prior approval of SAFE or its local counterpart is obtained.

Foreign invested enterprises are permitted to convert their after tax dividends into foreign exchange and to remit such foreign exchange out of their foreign exchange bank accounts in the PRC. However, overseas direct investment or initial offering or transaction in securities and derivative products abroad by PRC institutions or PRC individuals are subject to registration with SAFE and approval from or filing with the relevant PRC government authorities (if necessary). However, according to Notice regarding Further Simplifying and Improving Direct Investment Foreign Exchange Management Policy promulgated by SAFE on 13 February 2015 (《關於進一步簡化和改進直接投資外匯管理政策的通知》), from 1 June 2015 onwards, overseas direct investment or domestic direct investment will no longer be subject to approval by SAFE. Instead, certain qualified local banks will take charge of relevant registration procedures.

According to the Notice on the Reformation of the Administration Methods concerning the Foreign Currency Capital Settlement of Foreign-invested Enterprises (《關於改革外商投資企業外匯資本金結匯管理方式的通知》) promulgated on 30 March 2015 by SAFE and came into effect on 1 June 2015, the use of capital of a foreign-invested enterprise shall follow the truth and self-use principle within the business scope of the business. Capital of a foreign-invested enterprise and its settled RMB funds are forbidden to be used for the following purposes:

- (1) to be used directly or indirectly outside the business scope of the enterprise or as expenditures that are forbidden by PRC laws and regulations;
- (2) to be used directly or indirectly in securities investments unless otherwise set forth in laws and regulations;
- (3) to be used directly or indirectly for extending RMB entrusted loans (unless otherwise permitted in the business scope), repay loans among enterprises (including prepayment of third parties), and repay RMB bank loans which have been assigned to third parties; and
- (4) to be used to pay the relevant fees to purchase non-self-use real estate unless the enterprise is a foreign-invested real estate enterprise.

On 4 July 2014, SAFE issued Notice of the State Administration of Foreign Exchange on the Administration of Foreign Exchange Involved in Overseas Investment, Financing and Return on Investment Conducted by Residents in China via Special-Purpose Companies (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (HuiFa [2014] No.37) (the “Circular No. 37”) which became effective as On 4 July 2014. According to Circular No. 37, a “special purpose company” refers to the overseas enterprises that are directly established or indirectly controlled for the purpose of investment and financing by Mainland residents (including Mainland institutions and resident individuals) with their legitimate holdings of the assets or interests

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## REGULATORY OVERVIEW

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in Mainland enterprises, or their legitimate holdings of overseas assets or interests. Prior to establishing or assuming control of such special purpose company, each PRC resident, whether a natural or legal person, must complete the overseas investment foreign exchange registration procedures with the relevant local SAFE branch.

### PRC LAWS AND REGULATIONS IN RELATION TO TAX

#### a) Enterprise Income Tax

According to the EIT Law According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the “EIT Law”) promulgated on 16 March 2007 and came into effect from 1 January 2008 and the Implementation Rules of Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) enacted by the State Council on 6 December 2007 (the aforesaid laws and regulation were enforced from 1 January 2008 onwards) (“Implementation Rules”), a uniform income tax rate of 25% will be applied towards foreign investment enterprise and foreign enterprises which have set up production and operation facilities in the PRC as well as PRC enterprises. Under the EIT Law and its Implementation Rules, enterprises established under the laws of or within the territory of the PRC, or established under the laws of a foreign country (region), but whose “de facto management body” is located in the PRC are treated as resident enterprises for PRC tax purposes. If an entity is treated as a resident enterprise for PRC tax purposes, it will be subject to PRC tax on its worldwide income at the 25% uniform tax rate, which will include any dividend income that the entity receives from its subsidiaries, unless otherwise provided therein. Although the EIT Law provides that dividend income between qualified resident enterprises is exempted income, it is not clear what is considered as a qualified resident enterprise under the EIT Law. Furthermore, the EIT Law and its Implementation Rules provide that withholding tax at a rate of 10% will normally apply to dividends payable to non-PRC investors which are derived from sources within the PRC. Moreover, any gain realised on the transfer of shares by investors will be subject to 10% tax if such gain is regarded as income derived from sources within the PRC.

According to the Law of the People’s Republic of China Concerning the Administration of Tax Collection (《中華人民共和國稅收徵收管理法》) and the Detailed Rule for the Implementation of the Law of the People’s Republic of China on the Administration of Tax Collection (《中華人民共和國稅收徵收管理法實施細則》), the relevant tax authorities have the right to determine the tax collection method for payment of the PRC EIT in accordance with the principles of collecting tax payments on time in full amounts, expediting the payments by taxpayers and reducing tax collection costs. The Circular of the State Administration of Taxation on the Procedures for Verification and Collection of Enterprise Income Tax (for Trial Implementation) (國家稅務總局關於印發《企業所得稅核定徵收辦法》(試行)的通知) provides that under certain circumstances taxpayers are subject to the verification and collection of enterprise income tax.

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## REGULATORY OVERVIEW

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### b) Dividend Tax

According to the Arrangement between the Mainland and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) effective on 1 January 2007, the withholding tax rate for dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise is no more than 5%, if the Hong Kong enterprise directly owns at least 25% of the capital of the PRC resident enterprise. If the beneficiary is a Hong Kong resident enterprise which directly holds less than 25% equity interests of the PRC enterprise, the tax levied shall be no more than 10% of the distributed dividends. According to the Notice of the State Administration of Taxation on the Issues relating to the Administration of the Dividend Provision in Tax Treaties (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) promulgated on 20 February 2009, the fiscal residents of the other party as corporate recipients of dividends distributed by the PRC resident enterprises must satisfy the direct ownership thresholds at all times during the 12 consecutive months preceding the receipt of the dividends.

### c) Business Tax

Pursuant to the Provisional Regulations on Business Tax of the PRC (《中華人民共和國營業稅暫行條例》) promulgated by the State Council on 13 December 1993 and latest amended on 10 November 2008 and effective on 1 January 2009, as its Implementation Rules on the Provisional Regulations on Business Tax of the PRC (《中華人民共和國營業稅暫行條例實施細則》) issued by MOF on 25 December 1993 and amended on 28 October 2011, the tax rate for the construction industry, culture and sports industry is 3% and the tax rate for the recreation industry is 5% - 20%. The tax rate for the service industry and the transfer of immovable properties, their superstructures and attachments is 5%.

In November 2011, the Ministry of Finance and the State Administration of Taxation promulgated the Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax (《營業稅改徵增值稅試點方案》), the Pilot Plan shall be commenced on 1 January 2012. Pursuant to this plan and relevant notices, a VAT was imposed to replace the business tax in the transport and shipping industry and some of the modern service industries in certain pilot regions. Under the pilot plan, the tax rate of 11% shall be applicable to the construction industry, and the general VAT calculation method shall in principle apply to the construction industry, the sale of real property and the transfer of intangible assets etc. Announcement of the State Administration of Taxation of Issues Concerning Administration on Nationwide Pilot Collection of Value-Added Tax in Lieu of Business Tax (《國家稅務總局關於在全國開展營業稅改徵增值稅試點有關徵收管理問題的公告》) issued by the State Administration of Taxation on 10 July 2013 and effective on 1 August 2013, and Announcement of the State Administration of Taxation on Matters relating to Tax Levying and Administration concerning the Comprehensive Promotion of the Pilot Collection of Value-added Tax in lieu of Business Tax (《國家稅務總局關於在全國開展營業稅改徵增值稅試點有關徵收管理問題的公告》) (the “**PRC Tax Reform**”) issued by the State Administration of Taxation on 19 April 2016 and effective on 1 May 2016, specify the full implementation of the pilot reform of collection of value-added tax in lieu of business tax.

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## REGULATORY OVERVIEW

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### d) Value-added tax

Pursuant the Provisional Regulations of the People's Republic of China on Value-added Tax (《中華人民共和國增值稅暫行條例》) promulgated in 1993 and implemented since 1 January 1994 (as amended on 10 November 2008 and 6 February 2016) and the Detailed Rules for the Implementation of the Interim Regulations of the People's Republic of China on Value-added Taxes (《中華人民共和國增值稅暫行條例實施細則》) promulgated on 15 December 2008 and implemented since 1 January 2009 (as amended on 28 October 2011 and effective on 1 November 2011), all units and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, and the importation of goods within the territory of the PRC shall pay VAT in accordance with the nature of the sold and imported goods or labour service.

### e) Urban Maintenance and Construction Tax

Under the Provisional Regulations of the PRC on Urban Maintenance and Construction Tax (《中華人民共和國城市維護建設稅暫行條例》) enacted by the State Council on 8 February 1985 and as amended on 8 January 2011, any taxpayer, whether an entity or individual, of product tax, value-added tax or business tax shall be required to pay urban maintenance and construction tax. The tax rate shall be 7% for a taxpayer whose domicile is in an urban area, 5% for a taxpayer whose domicile is in a county or a town, and 1% for a taxpayer whose domicile is not in any urban area or county or town. Pursuant to the Notice of Unifying the System of Urban Maintenance and Construction Tax and Education Surcharge Paid by Domestic and Foreign-invested Enterprises and Individuals (《關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》) (GuoFa[2010] No.35) ("Notice No. 35") promulgated by the State Council on 18 October 2010, the Provisional Regulations of the PRC on Urban Maintenance and Construction Tax issued by the State Council in 1985 shall be applicable to foreign-invested enterprises, foreign enterprises and foreign individuals from 1 December 2010. Regulations, rules and policies in respect of urban maintenance and construction tax and education surcharge issued by the State Council as well as finance and tax department of State Council since 1985 and 1986 shall also be applicable to foreign-invested enterprises, foreign enterprises and foreign individuals.



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## HISTORY AND CORPORATE STRUCTURE

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### BUSINESS HISTORY

Our Company was incorporated in the Cayman Islands as an exempted company on 30 October 2013 with limited liability under the Companies Law. Our Company has been the holding company of our Group since its establishment with our business conducted through our Company's subsidiaries.

Since our establishment in October 2013, we had become a fast-growing urban project management operator principally engaged in the provision of environmental and construction management services, namely (1) environmental maintenance services; (2) construction management services; and (3) supply of gneiss, a construction material, in Lianyungang, Jiangsu Province, the PRC.

The key milestones of our business development are as follows:

<b>Time</b>	<b>Business Achievement</b>
November 2013	<ul style="list-style-type: none"><li>• We established Yuanyun Industrial and commenced our urban project management business.</li></ul>
December 2013	<ul style="list-style-type: none"><li>• We entered into master supply agreement for construction material (gneiss) with NH Development.</li></ul>
January 2014	<ul style="list-style-type: none"><li>• We were awarded projects for the provision of environmental maintenance services in the LET Development Zone.</li></ul>
January 2015	<ul style="list-style-type: none"><li>• We acquired New Headline Municipal Landscaping.</li><li>• We obtained Grade Three enterprise qualification in urban landscape construction (城市園林綠化企業三級資質) and Grade Three general contracting qualification in municipal and public construction work (市政公用工程施工總承包三級資質) as a result of the Acquisition.</li><li>• We started to provide municipal construction services as a result of the Acquisition.</li></ul>
May 2015	<ul style="list-style-type: none"><li>• We were awarded project for the provision of construction project management services.</li></ul>
November 2015	<ul style="list-style-type: none"><li>• We received the award of “Enterprise of Observing Contracts and Valuing Credit (守合同重信用企業)” granted by the Industry and Commerce Administration Bureau of Lianyungang.</li></ul>
March-April 2016	<ul style="list-style-type: none"><li>• We established three subsidiaries, namely Qiyuan Construction Management, Puyuan Construction Management, and Chengyun Construction Management, for our business of construction project management.</li></ul>

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## HISTORY AND CORPORATE STRUCTURE

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### CORPORATE DEVELOPMENT

The history of our Group started when Mr. Lin established our Company in the Cayman Islands as an exempted company with limited liability on 30 October 2013. Mr. Lin financed his subscription of share in the Company with his own savings.

To the best of the knowledge of our Directors, Mr. Lin was a businessman involved in various industries including information technology, finance, retail and manufacture and sales of garment and has no prior experience in the industry of construction management, environmental maintenance and supply of construction material when he established our Company.

The following describes the corporate history of our Company and our subsidiaries.

#### **Our Company**

Our Company was incorporated in the Cayman Islands on 30 October 2013 as an exempted company with limited liability with an authorised share capital of US\$50,000 divided into 50,000 Shares of US\$1.00 each and is the holding company of our subsidiaries. On the same date, Offshore Incorporations (Cayman Limited), the initial subscriber, transferred one Share to Mr. Lin, an Independent Third Party, at the consideration of US\$1.00.

Mr. Lin has decided not to proceed with his investment in our Group as he reckoned the development direction of the Group did not align with his business portfolio. On 2 May 2014, Mr. Lin transferred one Share in our Company to Best Talent Asia for a consideration of US\$1.00, being the capital paid by Mr. Lin prior to the transfer. The transfer was settled by way of cash by Best Talent Asia on the same date.

Glorious Prosperity was incorporated in the Republic of Seychelles on 26 September 2013. All of its shareholding was transferred from the initial subscriber, Asia Capitol Limited (an Independent Third Party), to Mr. Wei on 15 December 2014.

Keen Smart was incorporated in the British Virgin Islands on 18 March 2013. All of its shareholding was transferred from the initial subscriber (who is a third party PRC individual) to Mr. Wei on 1 November 2014.

On 31 December 2014, 18, 33, 30 and 18 Shares of US\$1.00 each were allotted and issued to Best Talent Asia, Glorious Prosperity, Keen Smart and HK Zhiyuan for a consideration of HK\$9.5 million, HK\$16.5 million, HK\$15.0 million and HK\$9.0 million respectively. The considerations paid by Glorious Prosperity, Keen Smart, Best Talent Asia and HK Zhiyuan were determined with reference to the registered capital of Yuanyun Industrial. The considerations paid by Glorious Prosperity, Keen Smart and Best Talent Asia were settled on 31 December 2014 by way of an offset against the loan from Ms. Xie to our Group which was used as capital investment in our Group. The consideration paid by HK Zhiyuan was settled by cash on 31 March 2015.



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## HISTORY AND CORPORATE STRUCTURE

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Upon family arrangement between Ms. Xie and Mr. Wei (the spouse of Ms. Xie), the entire shareholding of Best Talent Asia was transferred from Ms. Xie to Mr. Wei on 1 February 2016 for the consideration of US\$1.00, being the par value of the one Share issued and allotted to Ms. Xie prior to the transfer.

On 26 June 2017, each of the issued and unissued share of a par value of US\$1.00 in the share capital of the Company was sub-divided into 100 shares of a par value of US\$0.01 each (“**Share Subdivision**”). As a result of the Share Subdivision, the authorized share capital of the Company was US\$50,000 divided into 5,000,000 Shares of a par value of US\$0.01 each and the existing issued Shares in the issued share capital of the Company became 10,000 Shares of a par value of US\$0.01 each.

On 26 June 2017, the authorized share capital of the Company was further increased to US\$100,000,000 by creation of further 9,995,000,000 Shares pursuant to a resolution passed by the Shareholders. Since then, the authorised capital of our Company was US\$100,000,000 divided into 10,000,000,000 Shares of US\$0.01 each.

As at the Latest Practicable Date, our Company was owned as to 33% by Glorious Prosperity, 30% by Keen Smart, 19% by Best Talent Asia, each of which in turn was wholly-owned by Mr. Wei and 18% by HK Zhiyuan, which in turn was wholly-owned by NH Development.

HK Zhiyuan or its owners (including, without limitation, Lianyungang Municipal Government) (i) have not entered into any agreements with other existing direct or indirect Shareholders of the Company, their shareholding in the Company or the management of the Group; or (ii) are not interested, directly or indirectly, in the Shares held by each of Best Talent Asia, Glorious Prosperity and Keen Smart. The Group has never been and is neither a wholly owned nor controlled company of Lianyungang Municipal Government directly or indirectly and that save for its indirect 18% interest in the Company, Lianyungang Municipal Government does not hold any Shares in the Company directly or indirectly.

### OUR SUBSIDIARIES IN THE BVI, HONG KONG AND THE PRC

#### **BVI**

##### *New Headline Group*

New Headline Group was incorporated in the BVI on 31 October 2013 as a limited liability company with an authorized share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On the same date, one share of New Headline Group was issued to our Company for a consideration of US\$1.00.

Since the date of its incorporation, New Headline Group has been owned as to 100% by our Company. It serves as an intermediate holding company in our Group.

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## HISTORY AND CORPORATE STRUCTURE

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### **Hong Kong**

#### *New Headline (Hong Kong)*

New Headline (Hong Kong) was incorporated in Hong Kong on 7 November 2013 as a limited liability company. At the time of its incorporation, one share of New Headline (Hong Kong) was issued to New Headline Group for a consideration of HK\$1.00.

On 31 December 2014, nine additional shares of New Headline (Hong Kong) of HK\$1.00 each were allotted and issued to New Headline Group for a consideration of HK\$4,999,999. As a result, a total 10 shares of New Headline (Hong Kong) of HK\$1.00 each were allotted and issued to New Headline Group.

Since the date of its incorporation, New Headline (Hong Kong) has been owned as to 100% by New Headline Group. It serves as an intermediate holding company in our Group.

### **PRC**

#### *Yuanyun Industrial*

Yuanyun Industrial is a wholly foreign-owned limited liability company established in the PRC on 20 November 2013. As at 27 November 2013, its registered capital of HK\$50,000,000 was fully paid up by New Headline (Hong Kong), and as such, the status of the paying up of the registered capital of Yuanyun Industrial is in compliance with the requirement of its articles of association, being that 100% of the registered capital of Yuanyun Industrial to be paid up in full within 90 days from the date of issuance of its business licence.

In line with our Group's accounting policies that are consistent with HKFRS, we recorded accumulated losses of approximately RMB0.6 million as at 1 January 2014 which primarily consisted of exchange loss resulting from conversion of HK\$50,000,000 (the "**Bank Balance**") which was deposited in the bank account of Yuanyun Industrial as injection of registered capital by New Headline (Hong Kong) (the "**Capital Injection**") in November 2013. Since Renminbi is the functional currency of Yuanyun Industrial while Hong Kong dollars are considered as foreign currency in the accounts of Yuanyun Industrial, we recorded exchange losses between the period from the Capital Injection and prior to 1 January 2014 arising from (i) a number of conversions which converted a majority portion of the Bank Balance denominated in Hong Kong dollars into Renminbi for the use in day-to-day operation of Yuanyun Industrial during the fore-mentioned period; (ii) the re-valuation of the unconverted portion of the Bank Balance as at 31 December 2013; as Hong Kong dollars depreciated against Renminbi during such period.

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## HISTORY AND CORPORATE STRUCTURE

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Since the date of its establishment, the equity interest of Yuanyun Industrial has been owned as to 100% by New Headline (Hong Kong). Yuanyun Industrial commenced its business in November 2013. Yuanyun Industrial is principally engaged in the provision of urban construction management services, namely, environmental maintenance services, construction management services and supply of construction material (gneiss).

### *New Headline Municipal Landscaping*

New Headline Municipal Landscaping's history traced back to its predecessor, Lianyungang Development Zone Songtiao Municipal Urban Development Centre (連雲港開發區宋跳市政建設服務中心), which was a state-owned enterprise (國有制企業) established on 23 December 1997 in the PRC with a registered share capital of RMB0.8 million fully paid up by Changsheng Industrial, which in turn was wholly-owned by NH Development. New Headline Municipal Landscaping commenced its business in December 1997. Subsequently, the registered capital was increased to RMB2.8 million in June 2003 and further to RMB10.0 million in December 2011 in order to increase the scale of business of New Headline Municipal Landscaping.

On 11 October 2012, New Headline Municipal Landscaping was converted into a limited liability company according to the relevant national and local regulations and policies on state-owned enterprise reform in the PRC. On the same date, New Headline Municipal Landscaping formally changed its name to Lianyungang New Headline Municipal Landscaping Engineering Company Limited (連雲港新海連市政園林工程有限公司).

Pursuant to the state-owned equity transfer agreement dated 26 December 2014 and a confirmation of transfer of state-owned equity transfer dated 7 January 2015, Changsheng Industrial transferred its 100% equity interest in New Headline Municipal Landscaping to Yuanyun Industrial for the consideration of approximately RMB31.3 million. The consideration of the equity transfer was determined with reference to the net asset value as at 31 July 2014 in the valuation report dated 24 September 2014 prepared by an independent valuer. The consideration for the equity transfer was fully settled by cash on 7 January 2015.

Since 7 January 2015, the equity interest of New Headline Municipal Landscaping has been owned as to 100% by Yuanyun Industrial. New Headline Municipal Landscaping is principally engaged in the business of, amongst other things, municipal construction and environmental maintenance.

### **Qiyuan Construction Management**

Qiyuan Construction Management is a limited liability company established in the PRC on 11 March 2016 and has a registered capital of RMB5.0 million. Qiyuan Construction Management has been owned as to 100% by Yuanyun Industrial since its establishment. Qiyuan Construction Management is principally engaged in the business of construction project management and consultation services.

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## HISTORY AND CORPORATE STRUCTURE

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### **Puyuan Construction Management**

Puyuan Construction Management is a limited liability company established in the PRC on 8 March 2016 and has a registered capital of RMB54.0 million. Puyuan Construction Management has been owned as to 90% by Yuanyun Industrial and 10% by Jiangsu Xinhaik since its establishment. Puyuan Construction Management has been principally engaged in the business of, amongst other things, construction management and municipal, road and environmental maintenance.

### **Chengyun Construction Management**

Chengyun Construction Management is a limited liability company established in the PRC on 7 April 2016 and has a registered capital of RMB30.0 million. Chengyun Construction Management has been owned as to 80% by Yuanyun Industrial and 20% by Chuanglian Investment, an Independent Third Party, since its establishment. Chengyun Construction Management is principally engaged in the business of, amongst other things, construction management and municipal, road and environmental maintenance.

As advised by our PRC Legal Advisers, all of the aforementioned incorporation, equity transfers and any changes in the registered capital (where applicable) of the PRC companies in our Group were properly and legally completed and settled and all necessary approvals and registrations from the relevant PRC authorities have been obtained and completed in line with the procedures under the applicable laws and regulations of the PRC.

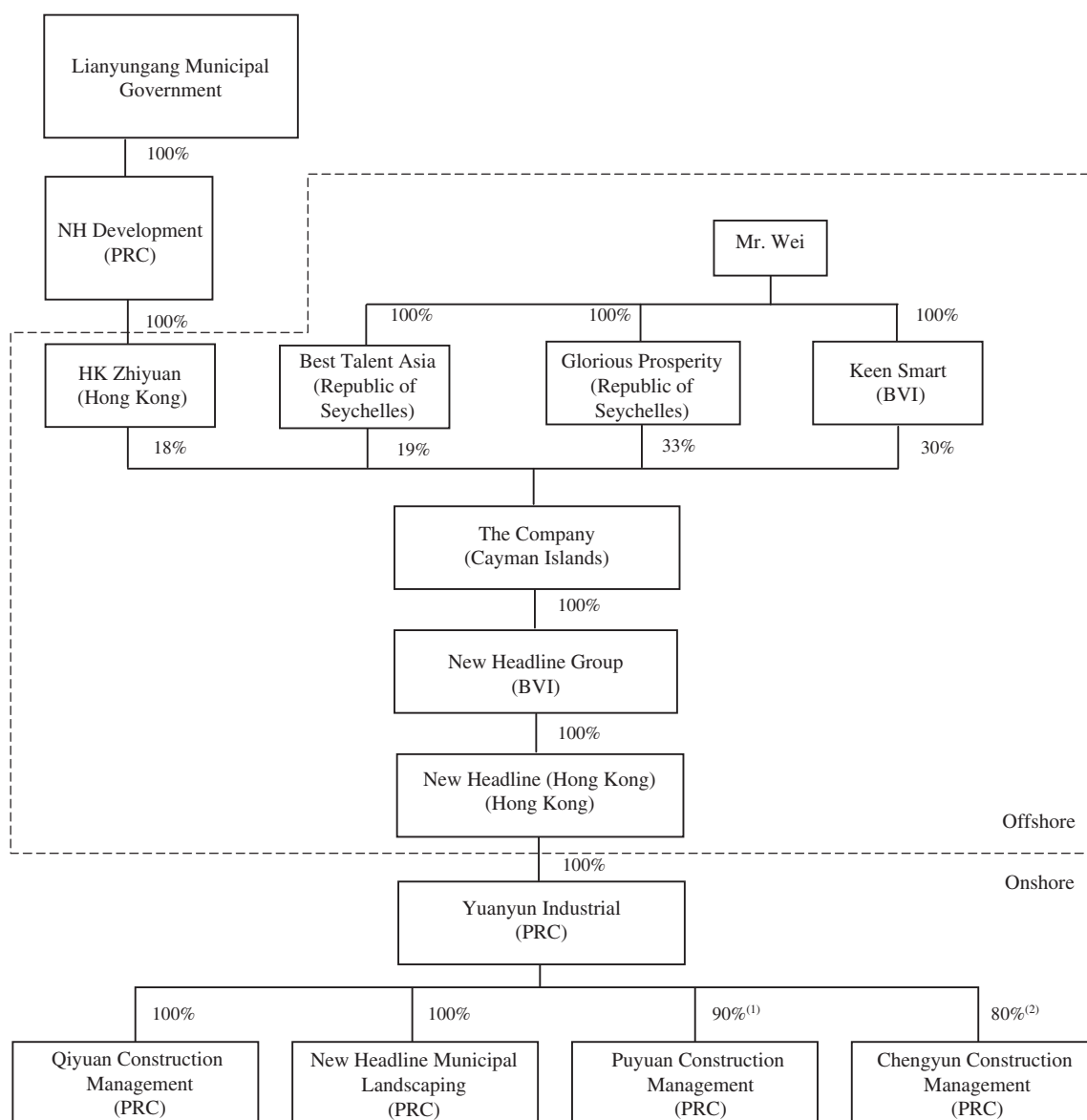
## **SHAREHOLDING AND CORPORATE STRUCTURE**

### **Prior to the Capitalisation Issue and Global Offering**

Our Company did not undergo any reorganisation for the purpose of Listing prior to the completion of the Capitalisation Issue and Global Offering.

## HISTORY AND CORPORATE STRUCTURE

The following chart sets out the shareholding and corporate structure of our Group before completion of the Capitalisation Issue and Global Offering (without taking into account any Shares which may be allotted and issued upon any exercise of the Over-allotment Option or options which have been or may be granted under the Share Option Scheme):



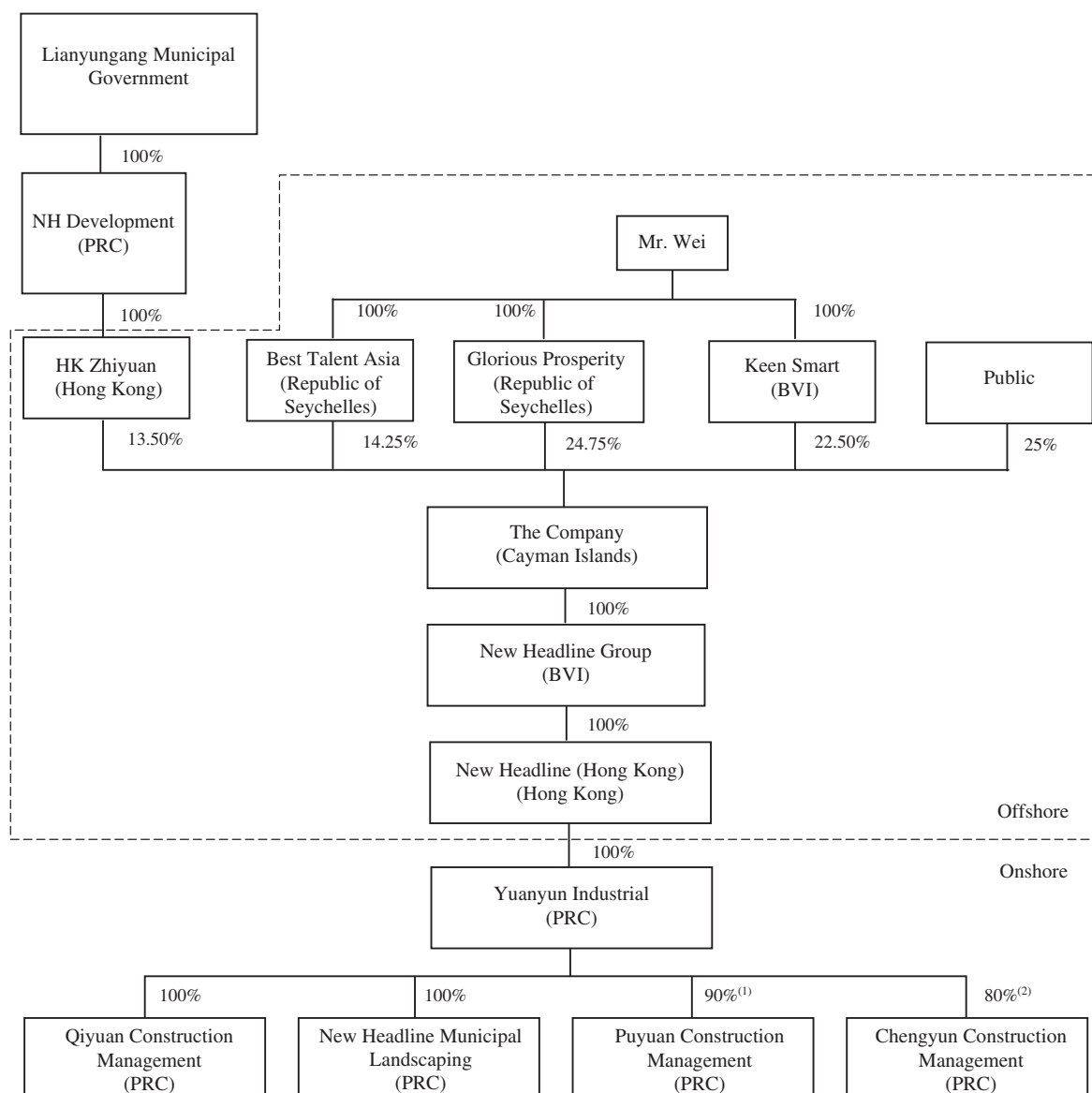
*Note:*

- (1) Puyuan Construction Management has been owned as to 90% by Yuanyun Industrial and 10% by Jiangsu Xinhaik since its establishment.
- (2) Chengyun Construction Management has been owned as to 80% by Yuanyun Industrial and 20% by Chuanglian Investment, an Independent Third Party, since its establishment.

## HISTORY AND CORPORATE STRUCTURE

### Capitalisation Issue and the Global Offering

The following chart sets forth the corporate structure and shareholding structure of our Group upon completion of the Capitalisation Issue and Global Offering (without taking into account any Shares which may be allotted and issued upon any exercise of the Over-allotment Option or options which have been or may be granted under the Share Option Scheme):



*Note:*

- (1) Puyuan Construction Management has been owned as to 90% by Yuanyun Industrial and 10% by Jiangsu Xinhaik since its establishment.
- (2) Chengyun Construction Management has been owned as to 80% by Yuanyun Industrial and 20% by Chuanglian Investment, an Independent Third Party, since its establishment.

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## HISTORY AND CORPORATE STRUCTURE

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### LEGAL COMPLIANCE

Our PRC Legal Advisers have confirmed that all relevant approvals and permits in relation to the share transfers and any changes in the registered capital in respect of the PRC companies in our Group as described above had been obtained and the procedures involved had been carried out in accordance with PRC laws and regulations and do not violate any PRC laws and regulations.

### M&A Rules

According to the *Provisions of the Ministry of Commerce on M&A of a Domestic Enterprise by Foreign Investors* (《關於外國投資者併購境內企業的規定》) (the “**M&A Rules**”) jointly issued by the MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the State Administration of Taxation, the CSRC, State Administration for Industry & Commerce and the SAFE on 8 September 2006, effective as at 8 September 2006 and amended on 22 June 2009 by the MOFCOM, a foreign investor is required to obtain necessary approvals when it (i) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (ii) subscribes the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (iii) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets; or (iv) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise. The M&A Rules, among other things, further purport that a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall be approved by the MOFCOM prior to its establishment and obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange.

Our PRC Legal Advisers consider that, as all requisite approvals, permits and licences required in all material aspects under the PRC laws and regulations in connection with the equity interests transfers of our subsidiaries in the PRC as set forth in this section have been obtained, and that the acquisition of New Headline Municipal Landscaping’s equity interest by the Company does not fall within the scope of such acquisition by the foreign investor as stipulated under the M&A Rules, our PRC Legal Advisers are of the opinion that no approval of the CSRC or the MOFCOM is required for the Company and its PRC subsidiaries for the purpose of the Listing.

### SAFE Registration in the PRC

The Circular 37 requires a PRC individual resident (the “**PRC Resident**”) to register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (the “**Offshore SPV**”) that is directly established or controlled by the PRC Resident for the purpose of conducting investment or financing. Following the initial registration, the PRC Resident is also required to register with the local SAFE branch for any major change in respect of the Offshore SPV, including, among other things, any major change of a PRC Resident shareholder, name or term of operation of the Offshore SPV, or any increase or reduction of the Offshore SPV’s registered capital, share transfer or swap, merger or division.

Our PRC Legal Advisers consider that, each of Mr. Wei and Ms. Xie, being PRC individual resident and beneficial owner of our Company at that time, has completed supplementary foreign exchange registration procedure in Lianyungang Branch of SAFE in accordance with Circular 37.

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## BUSINESS

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### OVERVIEW

We are a fast-growing urban project management operator principally engaged in the provision of environmental and construction management services, namely, (1) environmental maintenance services; (2) construction management services; and (3) supply of gneiss (片麻岩), a construction material, in Lianyungang (連雲港), Jiangsu Province (江蘇省), the PRC.

We commenced our urban environmental and construction management business in November 2013. For the two years ended 31 December 2014 and 2015, we have achieved rapid growth and enhanced our profitability, in which our revenue increased by approximately RMB80.0 million, or approximately 62.9%; and our profit for the year increased by approximately RMB38.1 million, or approximately 456.9%. For the year ended 31 December 2016, our revenue further increased by approximately RMB167.6 million, or approximately 80.9%; and our profit for the year increased by approximately RMB73.7 million, or approximately 158.9%, when compared with the year ended 31 December 2015. The following table sets forth the revenue attributable to each segment of our business during the Track Record Period:

	Year ended 31 December					
	2014		2015		2016	
	RMB'000	% RMB'000	RMB'000	% RMB'000	RMB'000	%
Environmental Maintenance	81,054	63.7	85,511	41.3	91,303	24.4
Construction Management	—	—	42,648	20.5	169,209	45.1
<i>Construction Project Management</i>	—	—	29,086	14.0	128,730	34.3
<i>Municipal Construction</i>	—	—	13,562	6.5	40,479	10.8
Supply of Construction Material (gneiss)	46,174	36.3	79,074	38.2	114,351	30.5
<b>Total</b>	<u>127,228</u>	<u>100.0</u>	<u>207,233</u>	<u>100.0</u>	<u>374,863</u>	<u>100.0</u>

*(1) Provision of environmental maintenance services:* We provide two types of environmental maintenance services, namely, greening and environmental sanitation. Our greening services cover the provision of (a) landscape greening services; (b) horticultural maintenance services; (c) supply of plant products; and (d) pest management services, to a wide range of premises and venues in the urban areas, including recreational venues, commercial premises and public facilities. Our provision of environmental sanitation services include sanitation and maintenance work in various commercial and public areas.

*(2) Provision of construction management services:* We provide two types of construction management services, namely construction project management and municipal construction. Our construction project management services involve our undertakings of BT and PPP projects of infrastructure and public facilities starting in May 2015. BT and PPP are construction project management and financing models under which we are responsible to provide project management services and pay subcontracting fees for our customers. During the Track Record Period and up to the Latest Practicable Date, the BT and PPP projects undertaken by us are construction of infrastructure



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## BUSINESS

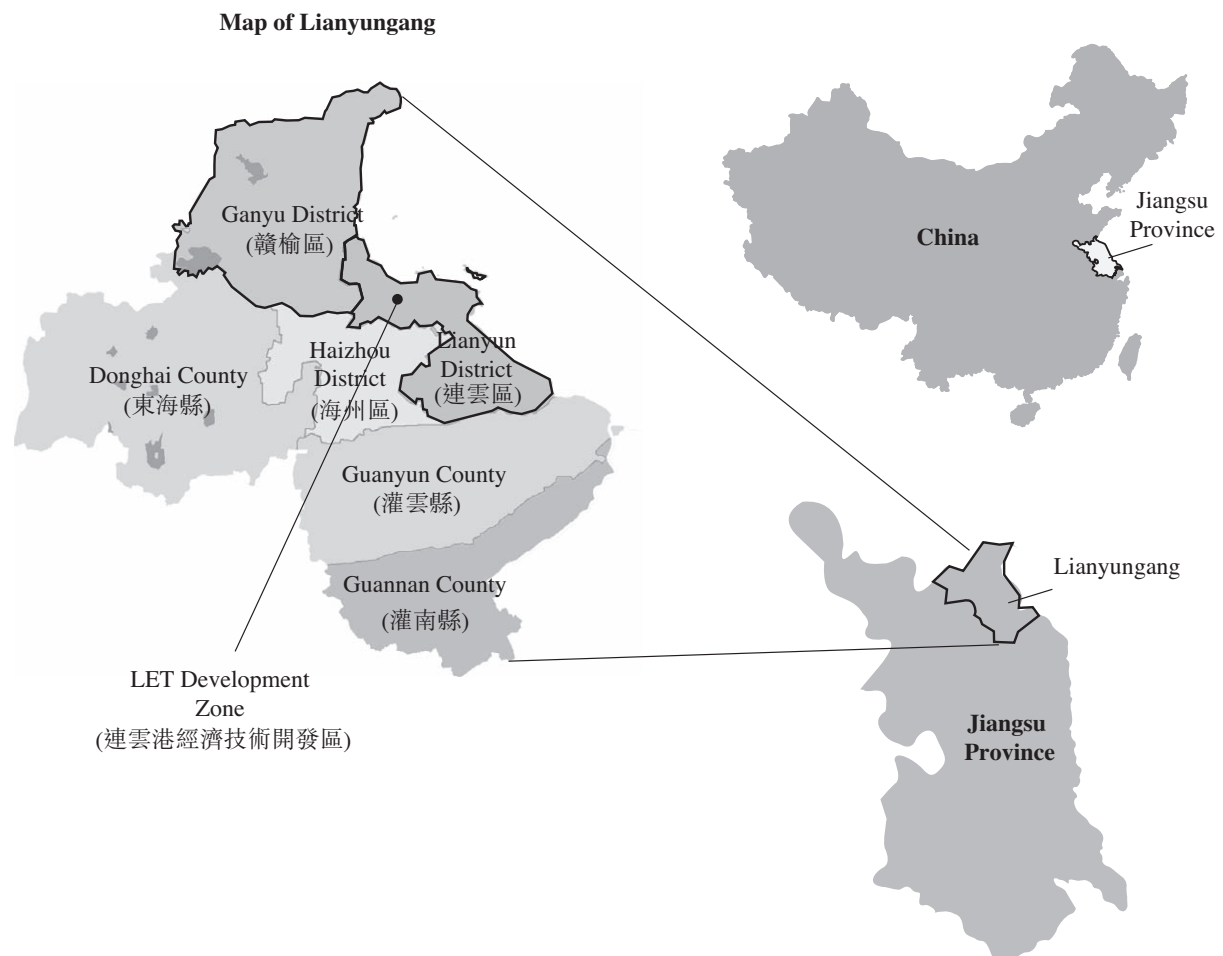
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and public facilities in which our customers are either local government or state-invested enterprises. Our municipal construction services involve our undertakings of municipal public work projects which include landscape construction work, road construction work, earthwork engineering and repair, public facilities construction and maintenance work, which we started to provide after the Acquisition of New Headline Municipal Landscaping in January 2015.

*(3) Supply of construction material (gneiss):* We also sell gneiss, a construction material, to our customers. According to the Ipsos Report, gneiss has been commonly used as a substitute for limestone soil in urban road construction and has been mainly used as the cornerstone of paving and reclamation.

We currently hold a Grade Three enterprise qualification in urban landscape construction which allows us to undertake maintenance and management projects in greenery of all types and scales and a Grade Three general contracting qualification in municipal and public construction. We believe that our dual industry qualifications give us a competitive advantage in our ability to undertake different types of greening and construction management projects.

During the Track Record Period, we principally operated in LET Development Zone and Ganyu District in Lianyung District, both in Lianyungang, Jiangsu Province, the PRC. The following map shows the geographical location of Lianyungang:



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## BUSINESS

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### OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths are crucial to our success and essential for our future growth:

**We are a dual-qualified Lianyungang-based urban project management operator holding a Grade Three enterprise qualification in urban landscape construction and a Grade Three general contracting qualification in municipal and public construction**

We hold a Grade Three enterprise qualification in urban landscape construction which entitles us to undertake maintenance and management projects in greenery of all types and scales. Moreover, we hold a Grade Three general contracting qualification in municipal and public construction which entitles us to undertake various municipal and public construction projects. Our dual industry qualifications and our experience in greening and construction management projects enable us to offer practical urban project management services to our customers. Our dual qualifications also give us the ability to undertake various projects which require providers to possess certain types of technical expertise in urban landscape planning and management, project construction work and ongoing project maintenance.

During the Track Record Period, we have been awarded various environmental maintenance and construction management projects. For details of the major environmental maintenance and construction management projects awarded to us during the Track Record Period and up to the Latest Practicable Date, please refer to the paragraph headed “Our Business Model of the Provision of Environmental Maintenance and Construction Management Projects” in this section. We believe our strong capabilities in urban project management services, technical expertise and service quality are well recognised by our customers.

### **Well-established in the environmental and construction management industry in Lianyungang**

We are well-established in the environmental and construction management industry in Lianyungang. Our subsidiary acquired in January 2015, New Headline Municipal Landscaping, had over 18 years of experience in providing environmental maintenance services and construction management services in Lianyungang. We believe that we have competitive advantage over other potential competitors entering the urban project management industry in Lianyungang. Some of our construction management projects are part of the government’s urbanisation schemes forming an integral part of urban development. Therefore, we believe that if the government authorities in Lianyungang intend to further expand the urbanisation schemes, we will have a notable competitive edge given our experience in the provision of environmental and construction management services and our established working relationships with the government.

### **Well-positioned to benefit from government’s policy**

We believe the demand for construction management service will increase in the near future as the PRC government plans to ramp up investments in the development of Lianyungang. According to Ipsos Report, the PRC government has adopted various strategic policies, such as the *Advice on Developing 13th Five-year Plan for National Economic and Social Development*

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## BUSINESS

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《中共中央關於制定國民經濟和社會發展第十三個五年規劃的建議》，the *National New Urbanisation Plan (2014-2020)*《國家新型城鎮化規劃(2014-2020)》，the *12th Five-year Plan for National Economic and Social Development*《國民經濟與社會發展第十二個五年規劃綱要》and the *Four Trillion Stimulus Plan*《國家四萬億投資計劃》to strengthen urbanisation and infrastructure development in Lianyungang.

Furthermore, the growing urbanisation and accelerating development in Jiangsu Province and Lianyungang will also amplify the demand for more environmental and construction management services. According to the *New Type of Urbanisation and Integration of Urban and Rural Areas in Jiangsu Province*《江蘇省新型城鎮化與城鄉發展一體化規劃》，the Jiangsu provincial government has targeted a minimum urbanisation rate of approximately 72% by 2020. In addition, the Urban Planning Bureau of Lianyungang Government has issued the *Overall Plan for Lianyungang City for 2008-2030*《連雲港市城市中長期整體規劃2008-2030》，which is set to expand construction of municipal infrastructure and promote the development of small towns. It is expected that the urbanisation rate of Lianyungang will reach 75% by 2030. With our understanding of the local government authorities and the regulatory environment in the regions in which we operate, and our proven project execution capability and experience, we believe that we are well positioned to benefit from the favourable governmental policies in Lianyungang, Jiangsu Province and the PRC.

### **We offer a range of environmental and construction management services in Lianyungang**

Leveraging our experience in the urban environmental and construction management industry in Lianyungang, we provide high-quality services to meet the needs of our customers. With our expertise in the provision of environmental and construction management services, we work closely with each of our customers and assist them in implementing the project execution plans. As a project manager, we oversee all aspects of the project work and assume overall project management responsibility and quality control depending on the types and requirements of the projects. We deploy a project management team for each project to ensure that all of our projects follow our comprehensive set of practices and guidelines on project implementation and management in different stages (such as the tendering process for selection of subcontractors, construction, and on-going quality control). We have engaged subcontractors to perform the works under the projects. We generally conduct on-site inspections on our subcontractors' work and closely monitor the progress and quality of our projects, pursuant to the applicable laws and regulations in the PRC from time to time. Our senior management also conduct meetings with our subcontractors and customers from time to time to assess any potential problems or issues during the course of the projects. We believe that our ability to deliver our projects to the satisfaction of our customers are crucial to the success of our business.

### **Established working relationship with government authorities and administrative committees in Lianyungang**

We have been working closely with the local government authorities in Lianyungang and have established working relationship with them. During the Track Record Period, we have undertaken various environmental maintenance and construction management projects awarded by government or state-owned enterprises through open tender.

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## BUSINESS

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We believe that having an established working relationship with the relevant governmental authorities fosters greater mutual understanding which in turn, enables them to better understand our capabilities as well as providing us with the opportunities to better identify their needs and requirements. We believe our operation record demonstrates our expertise and capability to the government. In addition, members of our senior management team are familiar with the criteria of our customers in assessing the submitted tenders and choosing our subcontractors service providers. They have previous experience in government infrastructure development projects as well as project financing, that they understand the relevant risks associated with such projects and also the growth opportunity in the market. We believe that our management team's experience in the provision of environmental and construction management services and our well-established working relationship with the government gives us competitive edge when bidding for environmental maintenance and construction management projects in Lianyungang.

### OUR STRATEGIES

We intend to strengthen our position as an urban project management operator in Lianyungang and enhance our overall competitiveness by pursuing the following key strategic initiatives:

#### **Further strengthen our business in Lianyungang**

Leveraging on our experience and expertise, we intend to further strengthen our business position in Lianyungang by providing comprehensive environmental and construction management services. In particular, we plan to take up more BT and PPP projects in Lianyungang as we believe that construction project management services are attractive business opportunities that have high revenue potential. Strongly advocated by national policy, BT and PPP models are emerging construction project management and financing model for the construction project management industry in the PRC. The PRC Ministry of Finance has issued a series of policies including Notice on Guidelines for the Government and Social Capital Cooperation Mode (Trial) 《政府和社會資本合作模式操作指南(試行)的通知》 and Notice On Municipal Utilities Sector to Carry Out the Government and Social Capital Cooperation Projects 《關於市政公用領域開展政府和社會資本合作項目推介工作的通知》 in 2014 and 2015 to support and promote the use of PPP model in the urban project management services. We believe such favourable government policies would result in an increasing number of urban construction projects adopting the BT or PPP models.

With a plan to take up more BT and PPP projects, we intend to (i) provide the lower stream construction work and (ii) post-construction works related to environmental maintenance and municipal construction of these projects, both to the extent that we are qualified to provide.

In January 2015, we acquired New Headline Municipal Landscaping, which has over 18 years of experience in providing environmental maintenance services and construction management services in Lianyungang with its Grade Three enterprise qualification in urban landscape construction and Grade Three general contracting qualification in municipal and public construction. Through the Acquisition, we successfully (i) integrated part of our lower stream work processes of our environmental maintenance business; and (ii) incorporated abilities for the delivery of municipal construction services.

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With an intent to integrate our lower stream work processes of our BT and PPP projects, we take up part of the subcontractors' work for our BT and PPP projects. New Headline Municipal Landscaping is engaged as one of the subcontractors to provide municipal construction services for our BT or PPP projects to the extent that it is qualified to provide. In particular, New Headline Municipal Landscaping has taken up part of the subcontractors' municipal construction work for Ganyu Zone Basic Infrastructure PPP Project and G25 Songzhang Exit to 242 Highway Connection Line Reconstruction BT Project.

Further, with the distinctive characteristics of PPP model being the cooperation between the public sector and private sector in terms of project financing, management and operation, in such PPP contract, we would also agree with our customers to undertake post-construction works related to environmental maintenance and municipal construction for the project to the extent that we are qualified to provide. The details of such post-construction work would be subsequently agreed between our Group and our customers. Examples of such municipal construction work include repair and maintenance of roads and municipal facilities; and maintenance and clearance of underground pipelines. As such, we are able to extend our environmental maintenance or municipal construction services to our PPP projects and for a period beyond their construction phase.

### **Continue to attract and retain talented personnel to further develop our project management capabilities**

We believe our success and future growth strategies depend on our ability to attract and retain talented professionals. We take a long-term view on recruitment, training and career development of our employees. We plan to expand our project management team by recruiting more technicians and engineers. We believe that we will be able to recruit well-qualified employees to support our future business operations. We also intend to invest more resources to strengthen our project management capability and to raise our standard and quality of services by providing on-going job training to our employees in respect of, among others, workplace safety and operational skills. We believe that with the support of our well-trained and experienced employees, we are able to develop our project management capabilities and to quickly respond to the developing trend in the industry and the business needs of our customers.

### **Continue to develop our information management system to improve our work efficiency and service quality**

We believe our efficiency and service quality are crucial to the success of our business. We intend to further develop our information management system and to enhance its functions for our business operation. We believe that our enhanced information management system will allow us to better monitor the progress of our projects, to ensure the quality of our work and to strengthen our control over costs and expenses.

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### **Further promote our brand and increase our market penetration**

We will give more efforts to promote our brand and put sales and marketing effort to increase our market share. Our Directors believe that we can further expand and increase our market share by further enhancing our marketing force as well as our quality of services. Our plans include (i) preparing company brochure and marketing materials; and (ii) continuing to support and participate in social campaigns whereby enhancing our public exposure and corporate image.

### **OUR PRINCIPAL BUSINESS**

We principally engaged in the provision of environmental and construction management services, namely (1) environmental maintenance services; (2) construction management services; and (3) supply of gneiss, a construction material, in Lianyungang, Jiangsu Province, the PRC.

#### **Provision of environmental maintenance services**

We provide two types of environmental maintenance services, namely, greening and environmental sanitation.

Before the Acquisition of New Headline Municipal Landscaping in January 2015, we had been outsourcing all our environmental maintenance work to subcontractors. Through the Acquisition of New Headline Municipal Landscaping in January 2015, which was one of our subcontractors for the provision of both greening services and environmental sanitation services in 2014, we successfully integrated part of our lower stream work processes to our business and increased our profit margin by delivering part of our environmental maintenance services directly without engaging subcontractor. In respect of greening services, through the Acquisition, we also obtained Grade Three qualification in urban landscape construction (城市園林綠化企業三級資質) allowing us to undertake maintenance and management projects in greenery of all types and scales. For the three years ended 31 December 2014, 2015 and 2016, we incurred approximately RMB64.7 million, RMB53.1 million and RMB59.8 million as subcontracting fees to our subcontractors in the provision of environmental maintenance services.

As advised by our PRC Legal Advisers, before the Acquisition, since we had been outsourcing all our environmental maintenance work to qualified subcontractors while we only took up the role of project manager, we did not involve in the project construction and engineering that require specific qualifications under the laws and regulations of the PRC. After the Acquisition, as advised by our PRC Legal Advisers, we are permitted, through New Headline Municipal Landscaping, to undertake maintenance and management projects in greenery of all types and scales under Grade Three qualification in urban landscape construction.

For details of major environmental maintenance projects awarded to us during the Track Record Period and up to the Latest Practicable Date, please refer to items 1, 2, 8 and 9 as set out in the paragraph headed “Environmental Maintenance and Construction Management Projects” in this section.

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During the Track Record Period, substantially all of our revenue of this segment was derived from our services provided in the LET Development Zone. Pursuant to two projects awarded by the LET Development Zone Management Committee\* (連雲港經濟技術開發區管理委員會) of local government (items 1 and 2 as set out in the paragraph headed “Environmental Maintenance and Construction Management Projects” in this section) through project tendering, we provided greening and environmental sanitation services in LET Development Zone with term from 11 January 2014 to 10 January 2016. We successfully obtained the projects for the provision of greening and environmental sanitation services in LET Development Zone for the term from 11 January 2016 to 10 January 2019 through project tendering and entered into two contracts with LET Development Zone Planning and Construction Bureau\* (連雲港經濟技術開發區規劃建設局) of local government (items 8 and 9 as set out in the paragraph headed “Environmental Maintenance and Construction Management Projects” in this section). During the Track Record Period, we also provided environmental maintenance management services to customer outside the LET Development Zone.

We provide greening services to a wide range of premises and venues in the urban areas, including parks, gardens, recreational venues, commercial premises, pavement, streets and roads and public facilities. Our greening services cover (a) landscape greening; (b) horticultural maintenance; (c) supply of plant products; and (d) pest management. Generally, pursuant to the relevant contracts, relatively more greening services are delivered by our Group in the summer time than in the winter time. The following set out further details of our greening services:

**(a) *Landscape greening***

Our landscape greening services mainly include basic soiling, planting, tree preservation, transplanting and compensatory planting. We also perform greening works to implement the landscape greening plan.

**(b) *Horticultural maintenance***

Our horticultural maintenance services mainly include garden cultivation and plant maintenance, such as watering, fertilising, scarification, weeding, pruning, mowing, removal and replacement of dead plants, and general garden repair and maintenance works.

**(c) *Supply of plant products***

We supply plants, such as seasonal flowers, potted plants, shrubs and trees and ancillary materials such as soil conditioners and grass blinders, which we procured from Independent Third Parties to our customers.

**(d) *Pest management***

Our pest management services help our customers to control different types of (i) pests such as fall webworm, red spiders and beetles; and (ii) fungus disease such as Anthracnose and Pythium.



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We provide different types of environmental sanitation services in a wide range of venues including streets, roads, rivers, recreational premises, buildings, industrial parks, commercial premises and other public areas. Environmental sanitation services include labour and mechanical cleaning and maintenance for plaza and road, clearance of rainwater wells, river cleaning, bridge railings cleaning, public transport station and advertisement light box cleaning, emptying and cleaning of litter containers, public toilet cleaning, rubbish collection and removal and other cleaning services relating to public facilities. Our services for public areas cover streets and roads, lanes, public transport interchanges, footpath, footbridges, river, plaza, pedestrian subway, pavements, sitting-out area, vacant state lands and carparks. We also provide environmental sanitation services for specific events and occasions (such as festival events and celebration ceremonies) at the request of our customers. Our staff deploy specialised vehicles (such as road sweepers and waste collection vehicles) and cleaning equipment in carrying out our environmental sanitation services.

For the PPP projects which we had taken up, we would also agree with our customers to undertake post-construction works which may be related to environmental maintenance for the project to the extent that we are qualified to provide. The details of such post-construction work would be subsequently agreed between our Company and our customers.

According to the Ipsos Report, environmental maintenance industry is an indispensable and irreplaceable industry, and that the government is usually the main customer. Our Directors are of the view that environmental maintenance of public space is one of the important public services provided by Lianyungang Municipal Government in Lianyungang. Out of such Lianyungang Municipal Government's spending, the amount spent on our Group (i.e the amount of revenue derived from our provision of environmental maintenance services) for the years ended 31 December 2014, 2015 and 2016, were approximately RMB81.1 million, RMB85.5 million, and RMB91.3 million, representing approximately 8.6%, 8.7% and 8.8% of the total Lianyungang Municipal Government's spending for the relevant years, respectively.

For details of the business model of our provision of environmental maintenance services, please refer to the paragraph headed "Our Business Model of the Provision of Environmental Maintenance and Construction Management Services" in this section.

### **Provision of construction management services**

We provide two types of construction management services, namely construction project management and municipal construction. Both types of construction management services share similar business model and require similar construction project management expertise. While the projects for construction project management involve large scale construction where we usually subcontract the construction to third parties, projects for municipal construction services involve relatively smaller scale construction where we would usually take up the construction work to the extent which our operating subsidiary, New Headline Municipal Landscaping, is qualified to undertake. Accordingly, the basis for revenue recognition for services provided for construction project management and the municipal construction are different.



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### *Construction project management*

Our construction project management services involved our undertakings of BT and PPP projects of infrastructure and public facilities. We entered into legally binding contract with our customer for our first BT project in May 2015. We started carrying out preparation work for the provision of construction project management services (such as conducting market research, preparing tender documents and recruiting management) since December 2014. BT and PPP are construction project management and financing models under which we are responsible to provide project management services and pay subcontracting fee for our customers. Our PRC Legal Advisers confirm that our Group's engagements in BT and PPP projects which are responsible to provide project management services and paying subcontractor fees for our customers do not need to obtain any qualifications, permits, authorisations and licences since we do not involve in the project construction and engineering that require specific qualifications under the laws and regulations of the PRC.

Leveraging our strong operating cashflow position and our experience and expertise in environmental maintenance project management, we ventured into construction project management business in May 2015 by participating in open tender offered by state-invested enterprise for public construction projects. During the Track Record Period and up to the Latest Practicable Date, the BT and PPP projects undertaken by us are construction of infrastructure and public facilities in which our customers are either local government or state-invested enterprises. We believe construction project management business could diversify our business and make use of our strong operating cashflow position. We also believe that BT and PPP projects are attractive business opportunities that have high revenue potential. According to Ipsos Report, an increasing number of infrastructure projects in China are expected to be completed with a BT or PPP model in the coming years.

BT refers to build-transfer, a type of project management and financing model in which the project initiator and the project manager would enter into agreement pursuant to which the project manager would undertake the overall management and financing of the project until the project is completed and transferred to the project initiator. PPP refers to public-private partnership, a construction project management and financing model in which there is a cooperation between the public sector entities and private sector entities in terms of project financing, management and operation, generally involving operational arrangement after the construction phase. Similar to the BT projects undertaken by us, in our PPP projects, we would undertake the overall management and financing of the project until the project is completed and transferred to the project initiator. According to the Ipsos Report, such PPP model is considered to be more capable to obtain project loans than BT model due to government participation and strong governmental policy support. We would also agree with our customers to undertake post-construction works related to environmental maintenance and municipal construction for the project to the extent that we are qualified to provide. The details of such post-construction work would be subsequently agreed between our Company and our customers. Examples of such municipal construction work include repair and maintenance of roads and municipal facilities; and maintenance and clearance of underground pipelines.

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In respect of our BT and PPP projects, as part of our provision of project management services and project financing services, we engage, pay and monitor subcontractors to carry out all the construction work, on behalf of our customers. The subcontractors are selected through public tendering process as required by PRC laws and regulation and the engagement of the subcontractors and the content and volume of work to be carried out by the subcontractors have to be agreed by our customers. Generally, we will only be paid for our management services income for our management services, interest income for our financing services and subcontracting fees we paid on behalf of our customers, after completion of construction of such projects by instalments and will not receive any progress payment during the construction phase. As a result, we may not always be able to match cash inflows from our operations with cash outflows paid during the construction phase of our BT and PPP projects. For details, please refer to the section headed “Risk Factors — We face risk associated with undertaking BT and PPP projects” in this prospectus.

We deploy our project management team to handle our projects for construction project management, principally by engaging appropriate subcontractors by tendering, managing project budgeting and financing and monitoring project construction progress. As at the Latest Practicable Date, our project management team responsible for our construction project management business consists of 13 personnel whom on average has over eight years of experience in construction project management. Our project management team is led by a core management team of five members whom on average has over ten years of experience in construction project management. The core management team of our construction project management business is overseen by Ms. Zhang Delan, who is our executive Director and chief executive officer and consists of Mr. Li Qixiu, who is our deputy general manager of our construction project management business, Mr. Jia Shaofeng, who is our vice president of our construction project management business, Mr. Shen Chao and Mr. Jiao Wentan, both of whom are our deputy department head and Mr. Cai Qian who is our chief engineer. Each of Mr. Li Qixiu, Mr. Jia Shaofeng, Mr. Shen Chao, Mr. Jiao Wentan and Mr. Cai Qian possess over 12, 15, seven, seven and 12 years of experience in construction project management, respectively. The experience in construction project management of our core management team was acquired from their present and previous working experience where they have participated in various construction management projects during their tenure in our Group and prior to joining our Group. Amongst which, prior to joining our Group, Mr. Li Qixiu worked in the Bureau of Development and Construction of the Lianyungang for over eight years and was mainly responsible for managing construction projects in LET Development Zone, Mr. Jia Shaofeng worked in the Bureau of Development and Construction of the Lianyungang and the Construction Command Unit of the Lianyungang Development Zone for over nine years and was mainly responsible for managing construction projects in LET Development Zone, Mr. Shen Chao has worked in New Headline Municipal Landscaping for over three years prior to our acquisition in January 2015 and both Mr. Jiao Wentan and Cai Qian had been working in construction companies for over four years and nine years, respectively and were mainly responsible for managing construction projects. During the Track Record Period, we financed our projects for construction project management mainly using our internal resources.

Out of such Lianyungang Municipal Government’s spending and since our first BT project was awarded in May 2015, the amount spent on our Group (i.e. the project value of projects in the construction project management segment of our Group) for the years ended 31 December 2015 and 2016, were approximately RMB455.3 million and RMB892.0 million, representing approximately 23.0% and 19.5% of the total Lianyungang Municipal Government’s spending for the relevant years, respectively.

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For details of the major construction management projects awarded to us during the Track Record Period and up to the Latest Practicable Date, please refer to items 3 to 7 and 10 to 12 as set out in the paragraph headed “Environmental Maintenance and Construction Management Projects” in this section.

### *Municipal construction*

We commenced the business of provision of municipal construction services through acquiring New Headline Municipal Landscaping in January 2015 which is qualified to undertake various municipal and public construction projects with its Grade Three general contracting qualification in municipal and public construction (市政公用工程施工總承包三級資質). New Headline Municipal Landscaping had over 18 years of experience in providing municipal construction services. Such municipal public work projects include landscape construction work, road construction work, earthwork engineering and repair, public facilities construction and maintenance work. We obtained these municipal public work projects mainly through fee quotation invitations. Since 2016, we have also provided certain municipal construction services to our BT and PPP projects. We take up some smaller scale construction works while outsourcing the construction work for some of the municipal public work projects to subcontractors during the Track Record Period. From time to time, depending on the services required, we lease necessary machinery and equipment such as milling machines, rollers, pavers, excavators and forklifts and obtain labour through labour subcontractor.

As advised by our PRC Legal Advisers, according to the Grade Three general contracting qualification in municipal and public construction, New Headline Municipal Landscaping is qualified to undertake municipal construction projects with individual contract value of less than RMB25 million. Since the Acquisition and up to the Latest Practicable Date, all of the municipal construction projects undertaken by New Headline Municipal Landscaping were of individual contract value of less than RMB25 million and as advised by the Company’s PRC Legal Adviser, the Company complies with the relevant rules and regulations in carrying out municipal construction projects.

As part of our expansion plan, New Headline Municipal Landscaping has been engaged as a subcontractor to provide certain municipal construction services since 2016. For the year ended 31 December 2016, New Headline Municipal Landscaping has taken up part of the municipal construction services for one of our PPP projects and one of our BT projects in the approximate aggregate project value of RMB23.1 million. New Headline Municipal Landscaping is expected to be engaged as one of the subcontractors to provide municipal construction services for our BT and PPP projects to the extent that it is qualified to provide in the future.

For details of the business model of our provision of construction management services, please refer to the paragraph headed “Our Business Model of the Provision of Environmental Maintenance and Construction Management Services” in this section.

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### Supply of construction material (gneiss)

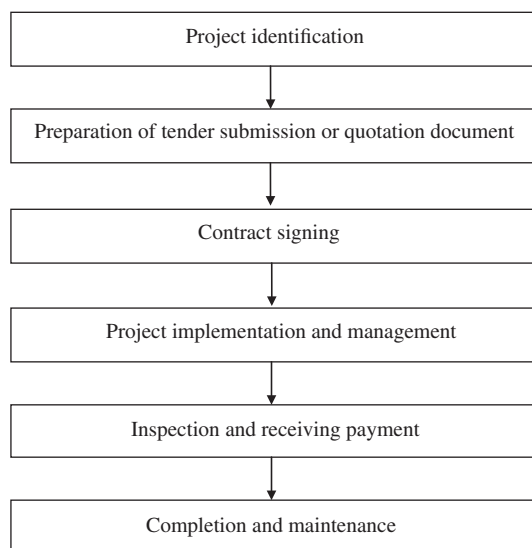
We also engage in the business of supply of construction material. According to Ipsos Report, gneiss has been commonly used as a substitute for limestone soil in urban road construction and has been mainly used as the cornerstone of paving and reclamation. According to Ipsos Report, we ranked as the largest seller of gneiss in Lianyungang in 2016 with reference to the amount of revenue generated from the sale of gneiss, which accounts for approximately 42.3% of the market share in terms of the revenue in 2016.

During the Track Record Period, we did not engage in the exploration or mining of gneiss and all of our gneiss were sourced from NH Development, one of our substantial shareholders. The gneiss we sourced from NH Development did not need any further processing before we subsequently sold to our customers. Leveraging our project management expertise and sales network, we believe we are able to market and sell gneiss we sourced from NH Development to potential customers effectively. With the stable supply of gneiss from NH Development, our Group can strategically promote the sales of gneiss through our sales network and fulfil the customers' need with a steady and sufficient supply.

For details of the business model of our supply of gneiss, a construction material, please refer to the paragraph headed "Our Business Model of the Supply of Construction Material (Gneiss)" in this section.

### OUR BUSINESS MODEL OF THE PROVISION OF ENVIRONMENTAL MAINTENANCE AND CONSTRUCTION MANAGEMENT SERVICES

The following diagram illustrates the operational model of our provision of environmental maintenance and construction management services:



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### Project identification

We may receive fee quotation invitations for undertaking projects from our potential customers; or we may otherwise actively participate in open tenders which we identify from publicly available sources such as the relevant websites of the local government. During the Track Record Period, most of our environmental maintenance and construction management projects were obtained through open tender, save and except for municipal construction projects and certain environmental sanitation projects where we principally obtained through fee quotation invitations. Based on the Company's internal record, during the Track Record Period and up till the Latest Practicable Date we submitted 88 tenders and was awarded 18 projects. The success rate for our project tendering was approximately 20.5%.

The following table sets forth a breakdown of the Company's success rate of project tendering for our environmental maintenance and construction management projects during the Track Record Period and up to the Latest Practicable Date:

	Year ended 31 December				From 1 January 2017 up to the Latest Practicable Date	Total
	2013	2014	2015	2016		
<b>Environmental maintenance projects</b>						
Number of tenders submitted	2	—	2	2	2	8
Number of contracts awarded	2	—	2	2	2	8
Tender success rate	100%	N/A	100%	100%	100%	100%
<b>Construction management projects</b>						
Number of tenders submitted	—	—	27	16	37	80
Number of contracts awarded	—	—	5	3	2	10
Tender success rate	N/A	N/A	18.5%	18.8%	5.4%	12.5%
Total number of tenders submitted	2	—	29	18	39	88
Total number of contracts awarded	2	—	7	5	4	18
Total Tender success rate <sup>(Note)</sup>	100%	N/A	24.1%	27.8%	10.3%	20.5%

*Note:* Success rate is calculated as the number of contracts awarded up to the Latest Practicable Date in respect of the tenders submitted, divided by the number of tenders submitted during the Track Record Period and up to the Latest Practicable Date.

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If we decide to accept the request for providing a fee quotation or participate in the tender, our marketing department will coordinate the preparation work and prepare the tender submission or quotation document with reference to the requirements set out in the relevant tender or fee quotation invitations.

Before preparing our tender submission or quotation document, we first review the relevant documents and collect information on the requirements of the tender or fee quotation invitations. Based on the potential customers' specifications, we will perform preliminary assessment on the types and amounts of work required, in particular, we will consider, among other things, the services to be provided, fees chargeable, schedule of completion, payment terms, site and environmental conditions, project constraints, financial resources for funding the project and procurement of raw materials. Based on this assessment, we evaluate the feasibility of the potential project and determine whether to submit bid for the tenders or provide our fee quotations. We have been tended to only bid for projects in tendering which we are confident to satisfy all the specifications in the tender documents after our internal evaluation and assessment and we also have been tended to bid for projects upon expiry of our existing projects. Our Directors are of the view that given the existing working relationship with the tenderer and our historical record of performance, our tender success rate for existing projects upon expiry are inclined to be relatively higher. Such strategies have enabled us to achieve a high tender success rate for our environmental maintenance projects where four out of eight tenders submitted during the Track Record Period and up to the Latest Practicable Date were renewal of existing projects.

### **Preparation of tender submission or quotation document**

Our engineering department, marketing department and finance department cooperate in preparing our tender submission or quotation document and the project budget in accordance with the requirements and specifications as set out in the tender or fee quotation invitations. We normally take into account a number of factors, including (i) the prevailing market price and market trends; (ii) our available resources; (iii) the need for procurement of additional resources; (iv) our budget; (v) our cost and potential increase in cost during contract term; (vi) our cashflow during and after the contract term; and (vii) the specific requirements of the tender or fee quotation invitations.

Our tender submission or quotation document will then be reviewed and approved by our management before being submitted to the potential customer for consideration. It generally takes approximately two to three weeks from the receipt of fee quotation invitations or identification of open tenders to submission of the tender or quotation documents.

### **Contract signing**

If we succeed in the tendering process or our customers accept our fee quotation, we will enter into legally binding contracts with our customers, generally with the following principal terms:

#### ***Principal contract terms***

##### ***(a) Initial contract value***

Generally, the initial contract value is determined by (i) applying the unit price of each category of maintenance or construction work, or raw materials ("**Unit Price**") to the estimated volume of construction work or raw materials in accordance with the specifications in the fee quotation invitation or tender documents; and (ii) other project-related estimated expenses. The Unit Price is determined by reference to various applicable government-prescribed pricing guidelines.

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For our BT and PPP projects, generally, the initial contract value is determined by (i) applying the Unit Price to the estimated volume of construction work or raw materials in accordance with the specifications in the fee quotation invitation or tender documents; (ii) other project-related estimated expenses; and (iii) an agreed rate of return.

*(b) Scope of work*

Following our customer's specifications and needs, the relevant contracts to be entered into with our customers shall set out the scope of work(s) to be performed by us. During the Track Record Period, none of our contracts entered into with our customers contained exclusivity clause which restricted our ability to provide similar services to other customers.

*(c) Payment terms*

In respect of our environmental maintenance projects, we submit monthly reports to our customers setting out the progress and/or value of work we have performed each month, and based on these reports, we bill and invoice our customers. We generally receive payments from our customers within 30 days after issuance of our invoices.

In respect of our construction management projects, we generally receive payment from our customers after completion of the relevant projects. When a project is completed, we shall submit to our customers a report detailing the actual volume of works done. Our customer conducts a final inspection of the construction work to determine the settlement audit sum of the project (the "**Settlement Audit Sum**"). In some occasions, our customer may engage an independent project consulting company to assist our customer in the inspection process. Such Settlement Audit Sum shall be agreed upon and confirmed by our customer, our Group and such independent project consulting company if appointed. Such process of final inspection and determination of the Settlement Audit Sum generally takes approximately six months. The Settlement Audit Sum is determined by applying the Unit Price to the actual volume of the construction work done or raw materials used. For our municipal construction projects, a final contract sum (the "**Final Contract Sum**"), being the Settlement Audit Sum, will be paid to us by instalments over an agreed period of time after completion of construction of the projects and following the determination of the Settlement Audit Sum. For our BT and PPP projects we will be paid the Final Contract Sum, being the Settlement Audit Sum and an agreed percentage of the Settlement Audit Sum, by instalments over an agreed period of time after the completion of the construction of the relevant projects subject to adjustment to be made after the determination of the Settlement Audit Sum and upon issuance of an invoice. For details of the payment terms for our major construction management projects awarded to us as at the Latest Practicable Date, please refer to items 3 to 7 and items 10 to 12 as set out in the paragraph headed "Environmental Maintenance and Construction Management Projects" in this section.

*(d) Warranty period*

Our customers normally require a warranty period during which we are responsible for any work defect rectifications and maintenance works. Due to the maintenance nature of the our environmental sanitation services, no warranty period would be provided to our customers. The warranty period for our greening projects are normally two years while for the construction management projects are usually determined in accordance with the specific terms of the relevant contract.



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In the event that our customers identify any defect, we will first notify the head of our engineering department for our environmental maintenance projects or our project manager for our construction management projects. We will then either send our supervisor in charge or procure the responsible subcontractor to remedy such defects within a specified time. If we are unable to remedy the defects within a specified period of time, our customers may remedy the defects themselves and either recover the costs incurred from us or such costs shall be deducted from the retention money (if any) withheld by our customers for some of the construction management projects. During the Track Record Period, there were no material claims of defects by our customers in respect of our environmental maintenance and construction management projects.

Our customers of some of the construction management projects typically withhold a portion of the Final Contract Sum as retention money after completion of the project and upon determination of the Settlement Audit Sum. The retention money is generally 1% to 5% of the Final Contract Sum of the relevant project and will be released to us after the warranty period.

### *(e) Termination*

In general, the contracts include termination clauses giving both parties the right to terminate in different circumstances. In certain contracts, each party can terminate the contract by giving prior notice to the other party.

The contracts may be terminated by our customers on the grounds including (i) failure to comply with the standard of services required by the contract; and (ii) delay in performing the contractual duties as prescribed in the contract.

During the Track Record Period, our Directors confirm that none of our contracts was terminated by reason of material breach by the parties to the contract and we had not experienced any material claims by our customers.

## **Project implementation and management**

### ***Formation of project management team***

After a project is awarded to us, we shall form a project management team to be responsible for preparing a preliminary execution plan. Our project management team will then discuss with our customers to understand their specific needs and requirements and revise the preliminary execution plan accordingly.

In particular, our project management team for the construction management projects is led by a project manager and generally comprises, amongst others, a site engineer, a procurement manager and a number of technical staff (such as safety supervisor and quantity surveyor).

Upon commencement of a project, our project management team oversees and monitors the project. Our project manager is responsible for the overall coordination and day to day operation of the project and will perform on-site supervision, progress and quality control to ensure that our work meets the relevant requirements prescribed in the relevant contracts and will be completed in accordance with the agreed schedule.

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### *Subcontracting*

We have outsourced most of our environmental maintenance and municipal construction projects and all of our BT and PPP projects to our subcontractors. According to Ipsos Report, it is an industry norm for market participants to outsource works of environmental maintenance and municipal construction projects upon identifying the need after considering factors including capacity, urgency of work, nature and specification of work and costs effectiveness.

We are selective of the subcontractors we work with and we implement appropriate management procedures to supervise the work of our subcontractors. During the Track Record Period, our Directors confirm that we did not experience any difficulty in procuring services from our subcontractors and we did not incur any material damages, penalties, accidents or other liabilities arising from the contractual violations or misconduct of our subcontractors.

In respect of our environmental maintenance and construction management projects, we select our subcontractors either through open tendering procedures as prescribed by relevant PRC laws and regulations; or from our pre-approved list of subcontractors in accordance with relevant PRC laws and regulations, in order to ensure our subcontractors possess the relevant qualifications and capabilities.

For projects which we select our subcontractors from our pre-approved list of subcontractors, we invite subcontractors on our pre-approved list to submit fee quotations. Such pre-approved list of subcontractors is reviewed and updated from time to time based on our performance assessment of the subcontractors on the list. We generally take into account the following criteria when selecting our subcontractors:

- qualifications (where applicable) and industry experience;
- financial standing;
- track record in respect of on-time delivery;
- compliance track record with our Group's policies;
- safety performance;
- promptness in follow-up on orders/replacement service; and
- reputation, including any current negative publicity.

During the Track Record Period, we select third party subcontractors through open tendering procedures for all of our BT and PPP projects and some of our environmental maintenance projects. We normally obtain fixed-price quotations from our subcontractors for our projects.

Due to the cost effectiveness of engaging subcontractors compared to maintaining a large number of employees, we rely on our subcontractors in completing the works as required in our projects. For the three years ended 31 December 2014, 2015 and 2016, the subcontracting fees amounted to

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approximately RMB64.7 million, RMB64.0 million and RMB83.8 million respectively, representing approximately 59.6%, 50.4% and 48.3% respectively of our total cost of sales over the same periods.

We generally enter into standard service contract with our subcontractors. These standard service contracts may be modified to fulfil specific requirements of our customers in relation to the relevant project. The principal terms of our standard service contract are set out as follows:

- the scope of subcontracting work and subcontracting fees;
- the qualifications held by our subcontractors (if any) and their staff and the resources to be allocated for the subcontracting work;
- the commencement date and completion date of the subcontracting work;
- our subcontractors' obligation to employ workers or technical staff and procure raw materials for the subcontracting work. We generally inspect such raw materials and are entitled to reject the raw materials which do not meet our requirements. Our subcontractors will bear the relevant costs for the raw materials rejected by us;
- the amount of compensation in the event that our subcontractors fail to complete the relevant work on the agreed completion date;
- the amount of retention money (if any) to be determined with reference to the specific terms of the relevant service contract;
- our rights to terminate the service contract in the event that our subcontractors failed to complete the subcontracting work on the agreed completion date or the quality of the subcontracting work fails to meet our requirements.

Our subcontractors are generally responsible for procurement of raw materials and employment of workers or technicians required for the subcontracted work. They generally pay for the raw materials and the wages of the workers and include such costs in the subcontracting fee.

We generally pay our subcontractors for the environmental maintenance projects based on the progress and/or value of work our subcontractors performed each month. Our subcontractors will bill and invoice us based on these monthly progress reports. Further, we generally pay our subcontractors for the construction management projects in the agreed percentage as stipulated in the relevant service contract with reference to the amount of works done each month. Our subcontractors will bill and invoice us based on these progress reports. For all of our projects, we generally pay our subcontractors within 30 days after issuance of the invoices by our subcontractors.

During the Track Record Period, we outsourced a major part of the environmental maintenance services to subcontractors while we delivered the rest through our subsidiary, New Headline Municipal Landscaping. For the three years ended 31 December 2014, 2015 and 2016, we incurred approximately RMB64.7 million, RMB53.1 million and RMB59.8 million as subcontracting fees to our subcontractors in the provision of environmental maintenance services.

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We take up some smaller scale construction works while outsourcing the construction work for some of the municipal public work projects to subcontractors during the Track Record Period. From time to time, depending on the services required, we lease necessary machinery and equipment such as milling machines, rollers, pavers, excavators and forklifts and obtain labour through labour subcontractor. For the three years ended 31 December 2014, 2015 and 2016, we incurred nil, approximately RMB10.9 million and RMB24.0 million as subcontracting fees to our subcontractors in the provision of municipal construction services.

In respect of our BT and PPP projects, as part of our provision of project management services and project financing services, we engage, pay and monitor subcontractors to carry out all the construction work, on behalf of our customers. During the Track Record Period, we outsourced a major part of the construction works of our BT and PPP projects to third party subcontractors while we delivered the rest through our subsidiary, New Headline Municipal Landscaping. As part of our expansion plan, New Headline Municipal Landscaping has been engaged as a subcontractor to provide certain municipal construction services in the approximate aggregate project value of approximately RMB23.1 million for one of our PPP projects and one of our BT projects. New Headline Municipal Landscaping is expected to be engaged as one of the subcontractors to provide municipal construction services for our BT and PPP projects to the extent that it is qualified to provide in the future. For the three years ended 31 December 2014, 2015 and 2016, we paid nil, approximately RMB20.3 million and RMB79.3 million as subcontracting fees to third party subcontractors, on behalf of our customers.

During the Track Record Period, all third party subcontractors engaged by our Group are Independent Third Parties.

### *Procurement of raw materials*

Our subcontractors are responsible for procuring substantially all of construction materials. We typically provide our specifications regarding construction materials to subcontractors and require them to procure from a range of selected sources. We closely monitor the construction materials used by and the costs incurred by the subcontractors. Generally, for construction materials procured by our subcontractors, the risk of price fluctuations is absorbed by them. Thus, any change in the costs of our raw materials, will not materially affect our total costs of sales. For the three years ended 31 December 2014, 2015 and 2016, we incurred approximately RMB38.6 million, RMB52.8 million and RMB74.8 million, respectively, for purchasing our raw materials, representing approximately 35.5%, 41.6% and 43.1% of our total costs of sales for the same periods.

For environmental maintenance and certain municipal construction projects, where we are responsible for the procurement of raw materials, which principally includes seedlings and plants for our provision of environmental maintenance services, and construction materials such as cement and sand for our provision of certain municipal construction services.

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We currently maintain a multiple supplier policy for most of our suppliers in an effort to avoid reliance on any single supplier. We believe that the sources of raw materials that our projects require are abundant in China. In preparing our tender submission or quotation document for a new project, we conduct market research on the prevailing market prices of major raw materials to be used for the project and the track record of the various suppliers located close to the project site. Accordingly, in case any of our existing supplier is no longer able, or willing, to supply raw materials to us at an attractive price, we will be able to identify suitable substitute suppliers in a timely manner. We do not generally maintain inventory for raw materials and order these materials only on an as needed basis.

During the Track Record Period, our raw materials are primarily purchased from suppliers in the PRC. Selected raw materials supplier will enter into supply agreement with us. The supply agreements generally set out the specific types of raw materials, prices, quantities, delivery arrangement and payment terms. We are not subject to any minimum purchase commitment under these supply agreements. Credit terms given by our suppliers vary from cash payment on delivery to payment based on the timing that we receive payments from our customers in accordance with relevant agreements. We generally fix prices of raw materials in the supply agreements with no price adjustment mechanism for the raw materials.

We inspect the raw materials delivered to ensure that they meet our requirements. If we find that any of raw materials fail to meet our requirements, we reject such sub-standard raw materials and the suppliers are required to redeliver new raw materials which meet our requirements at their own costs. During the Track Record Period, we did not experience any material shortage or delay in the supply nor return of raw materials to our suppliers.

### *Procurement of labour service*

For some of our environmental maintenance and municipal construction projects, we procure our labour services through labour subcontracting companies in order not to maintain a large number of employees and reduce the related risk involved in direct employment. For the three years ended 31 December 2014, 2015 and 2016, we incurred nil, approximately RMB5.2 million and RMB16.8 million, respectively, for procuring of labour services from third party labour subcontracting companies, representing nil, approximately 4.1% and 9.7% of our total costs of sales for the same years. During the Track Record Period, we entered into labour services contracts with five Independent Third Parties.

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The major terms of our labour services contracts are summarised as follows:

- the subcontracting rates or prices;
- the general responsibilities and the scope of services to be provided by the labour subcontractors;
- the labour subcontractors' responsibility for purchasing insurance for the subcontracted labour to insure against accidents that may arise from the subcontracted work and our responsibility for the economic loss caused by us;
- our rights to claim for damages for delay and breach of contract by our labour subcontractors;
- the payment terms comprising monthly payment to our labour subcontractors, which is calculated based on actual wages and related expenses paid by the labour subcontractors to the subcontracted labour, with variable management and service fees calculated according to the terms of the contract; and
- our rights to terminate the labour service contracts in the event that our labour subcontractors fail to perform the contractual obligations, and our rights to claim for all economic losses arising from such termination.

For selection of our labour subcontracting companies, please refer to the paragraph headed "Subcontracting" in this section for further details. We provide training to our subcontracted labour force on quality, occupational health and safety matters before commencement of each project. The project management team for each project oversees and manages the work and safety of our subcontracted labour force.

### *Lease of equipment and machinery*

To carry out different types of work that may be required in our municipal construction projects, we lease certain equipment and machinery, together with the respective operators for use at our project sites, such as milling machines, rollers, pavers, excavators and forklifts. We consider that leasing of equipment and machinery can increase our efficiency and reduce our project costs and maintenance costs for these equipment and machinery.

### *Contract performance*

In respect of our environmental maintenance projects, we have engaged subcontractors to perform the works stipulated in the relevant contract and these subcontractors must ensure that the work performed conforms to the required contractual standard. Our project management team will be responsible for providing overall project supervision and management by conducting site visits and reviewing the quality of works performed by our subcontractors.

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In respect of the construction management projects, we have engaged subcontractors to perform the construction works. Our subcontractors will arrange a team of construction workers and technical staff to carry out the field work. Such construction workers and technical staff are supervised by site supervisor appointed by our subcontractors to supervise the quality of field work, ensure adherence to project schedule and our operational guidelines, coordinate with the ground staff, and ensure sufficiency of resources. Our subcontractors will also submit monthly progress report to us, which would be reviewed and confirmed by our engineering department, the relevant subcontractor and the relevant construction supervisor (if appointed), to facilitate our preparation of our progress report to be submitted to our customers. Based on the progress reports agreed among our engineering department, the relevant subcontracts and the relevant supervisors (if appointed), we shall then prepare and submit progress report to our customers, which would be reviewed and confirmed by our engineering department, the relevant customer and supervisors (if appointed). Our project management team, together with a construction supervisor (監理) (an Independent Third Party appointed either by us or our customers as required by relevant PRC laws and regulations), will be responsible for providing overall project supervision and management, and coordinating with the site supervisors of our subcontractors. At the end of each month, we will conduct a meeting with our customers, the construction supervisor and our subcontractors to monitor the performance and progress of our construction management projects.

During the Track Record Period, we did not receive any material claims from our customers in respect of the quality of our services provided.

### **Inspection and receiving payment**

In respect of all our projects, our project management team conducts on-site inspections from time to time to ensure that the work performed meet our customers' specifications and requirements as stipulated in the relevant contracts.

For our environmental maintenance projects, our inspection team will conduct weekly inspection with our subcontractors to monitor the performance and quality of the services provided by our subcontractors.

For our construction management projects, the head of our engineering department will also closely monitor the progress of the project to ensure that the relevant work under the project is completed within the budget and schedule. A quality control supervisor (an Independent Third Party appointed by either us or our customers) will be responsible for providing overall supervision over quality control issues and coordinating with our project management team if any quality issue is identified.

For our environmental maintenance projects, we submit monthly reports to our customers setting out the progress and/or value of work we have performed each month, and based on these reports, we bill and invoice our customers. We generally receive payments from our customers within approximately 30 days after the issuance of our invoices.



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We generally receive payment from our customers for our construction management projects after completion of the respective phases of the relevant projects. Generally, we bill the Final Contract Sum for our BT and PPP projects by instalments over an agreed period of time following the completion of construction of the respective phases of the projects subject to adjustment to be made after the determination of the Settlement Audit Sum and upon issuance of an invoice. The Directors confirm that there were no incidents that the Settlement Audit Sum was materially smaller than the initial project value during the Track Record Period and up to the Latest Practicable Date. We bill the Final Contract Sum for our municipal construction projects by instalments over an agreed period of time following the determination of the Settlement Audit Sum and upon issuance of an invoice. We generally receive payments from our customers within approximately 30 days after issuance of our invoices.

### **Completion and maintenance**

Upon completion of our environmental maintenance and construction management projects, we may be requested by our customers to perform subsequent maintenance work in addition to the works as specified in the relevant contract. We normally charge a separate fee for such additional works. However, the costs of maintenance work carried out during the warranty period as specified in the relevant contracts are included in the Final Contract Sum of the relevant project subject to adjustment to be made after the determination of the Settlement Audit Sum.

### **Special arrangement for BT and PPP Projects**

BT and PPP projects are projects we take up under BT and PPP models, respectively. BT and PPP models are construction project management and financing models under which we are responsible to provide project management services and pay subcontracting fee for our customers. During the Track Record Period and up to the Latest Practicable Date, the BT and PPP projects undertaken by us were construction of infrastructure and public facilities in which our customers are either local government or state-invested enterprises. We are obligated under the terms of the contract in our BT and PPP projects to transfer of all rights relating to the projects to the customer after the completion of the projects. Pursuant to the relevant contracts we have with our customers in relation to BT and PPP projects, we are mainly responsible for the following:

- *project management*: the planning, coordination and overall management of the projects and to ensure that the construction work is completed in accordance with the relevant construction plans and in compliance with the standards and requirements of applicable laws and regulations; and
- *project financing*: the timely and adequate financing required for the implementation of the project during the construction phase.

During the Track Record Period, we outsourced a major part of the construction works of our BT and PPP projects to third party subcontractors while we delivered the rest through our subsidiary, New Headline Municipal Landscaping. For the years ended 31 December 2015 and 2016, the amount of subcontracting fees paid to third party subcontractors on behalf of our customers which were included in the initial project value of the relevant projects were approximately RMB20.3 million and RMB79.3

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million, respectively. As part of our expansion plan, New Headline Municipal Landscaping has been engaged as one of the subcontractors to provide certain municipal construction services for our BT and PPP projects to the extent that it is qualified to provide since 2016. For the year ended 31 December 2016, New Headline Municipal Landscaping has taken up part of the municipal construction work for Ganyu Zone Basic Infrastructure PPP Project and G25 Songzhang Exit to 242 Highway Connection Line Reconstruction BT Project in the approximate aggregate project value of RMB23.1 million.

As at the Latest Practicable Date, we were awarded five BT and three PPP projects in Lianyungang, with an aggregate initial project value of RMB492.3 million and RMB1,293.8 million, respectively. The revenue recognised in relation to the BT and PPP projects for the three years ended 31 December 2014, 2015 and 2016 were nil, approximately RMB29.1 million and RMB128.7 million, respectively, represented approximately nil, approximately 14.0% and 34.3% of our total revenues for the same years. During the Track Record Period and up to 30 April 2017, our Group has received a total of approximately RMB100.3 million for our completed BT and PPP projects, representing approximately 58.6% of the aggregate of (i) the final contract sum of Jinqiao Road and Dapu Road Reconstruction BT Project and Eastern Avenue Reconstruction BT Project; and (ii) the initial project value of G25 Songzhang Exit to 242 Highway Connection Line Reconstruction BT Project. As at the Latest Practicable Date, we have received payments from all of our customers of our BT and PPP projects in the amount and timing according to the contractual payment schedule. For details of the BT and PPP projects awarded to us as at the Latest Practicable Date, please refer to items 3 to 7 and items 10 to 12 as set out in the paragraph headed “Environmental Maintenance and Construction Management Projects” in this section.

Similar to the BT projects undertaken by us, in our PPP projects, we would undertake the overall management and financing of the project until the project is completed and transferred to the project initiator. PPP refers to public-private partnership, a construction project management and financing model in which there is a cooperation between the public sector and private sector in terms of project financing, management and operation, generally involving operational arrangement after the construction phase. We would also agree with our customers to undertake post-construction works related to environmental maintenance and municipal construction for the project to the extent that we are qualified to provide. The details of such post-construction work would be subsequently agreed between our Company and our customers. Examples of such municipal construction work include repair and maintenance of roads and municipal facilities; and maintenance and clearance of underground pipelines.

In our PPP projects, each of us and the project initiator shall contribute to the registered capital of the project management company in accordance with its articles of association. The project initiator and the project management company would then enter into agreement pursuant to which the project management company would be the project management entity undertaking the management and financing of the project until the project is completed and all the rights attached to the project transferred back to the project initiator. Generally, the project initiator would then pay us for the Final Contract Sum by instalments over an agreed period of time after the completion of construction of the project, subject to adjustment to be made after determination of the Settlement Audit Sum and upon issuance of an invoice. For further details of the key characteristics of BT and PPP projects, please refer to the section headed “Industry Overview” in this prospectus.

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For our BT and PPP projects, generally we do not receive any progress payments paid by our customers during construction. As part of our provision of project management and project financing services, we engage, pay and monitor subcontractors to procure and execute all the construction works, on behalf of our customers. We will only be paid generally after the completion of construction of the projects and upon issuance of an invoice. As such, there is a mismatch between our cash outflow during the construction phase and the cash inflow upon completion. For details, please refer to the section headed “Risk Factors — We face risks associated with undertaking BT and PPP projects”.

In addition, for our BT and PPP projects, we also face the risks that our customers may delay, or even be unable to make, payment upon completion of construction of the relevant project and our possible inaccurate estimate of the project’s profitability. For details, please refer to the section headed “Risk Factors — We face risks associated with undertaking BT and PPP projects” in this prospectus. We have adopted various measures in mitigating with our credit risks arising from our customers of BT and PPP projects. For more details, please refer to the section headed “Financial Information — Market Risks — Credit Risk” in this prospectus. In order to estimate the profitability of the BT and PPP projects more accurately, we closely monitor the progress and quality of our BT and PPP projects by conducting on-site inspections of our subcontractors’ work from time to time, conducting meetings with our subcontractors and customers from time to time to assess any potential problems or issues during the course of the projects; reviewing the monthly progress report submitted by our subcontractors; preparing, discussing and confirming with our customers and construction supervisor (監理) (if appointed) regarding the monthly progress report we submit to our customers.

According to our Group’s accounting policy for revenue recognition, we recognise revenue (i) as management services income for our provision of project management services for the period by applying the percentage of completion method, measured by reference to the actual services performed in the corresponding period according to the progress report prepared and submitted by us to our customer, which is to be reviewed and confirmed by our engineering department, the relevant customer and the relevant supervisor (if appointed), as a proportion of the estimated total services to be performed, to the amount of estimated total services; and (ii) as interest income for our provision of financing services on a time-proportion basis over the term of the BT and PPP project.

According to Ipsos Report, an increasing number of construction management projects in Lianyungang are expected to be completed with a BT and PPP model. As such, we intend to develop business opportunities and to leverage on our track record of high-quality public construction management projects, so as to undertake more BT and PPP projects in the near future. For the relevant risks and impact associated with undertaking BT and PPP projects, please refer to the section headed “Risk Factors — We face risks associated with undertaking BT and PPP projects” in this prospectus.

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### ENVIRONMENTAL MAINTENANCE AND CONSTRUCTION MANAGEMENT PROJECTS

The following table sets out our major environmental maintenance and construction management projects completed and in progress as at the Latest Practicable Date. The aggregate revenue attributed to each of the following projects represents approximately 90% of our total revenue generated, from our project portfolio during the Track Record Period.

#### Our completed environmental maintenance and construction management projects

Item	Project name	Customer type	Nature of project	Site address	Approximate initial project value (RMB'000)	Commencement of construction	Completion of construction	Approximate revenue recognised during the Track Record Period (RMB'000)	Approximate subcontracting fees paid on behalf of customers during Track Record Period (RMB'000)
1	LET Development Zone greening maintenance and implementation for the years 2014-2015	Government <sup>(5)</sup>	Provision of greening services	LET Development Zone	98,800 <sup>(1)</sup>	January 2014	January 2016	100,841 <sup>(2)</sup>	N/A
2	LET Development Zone environmental sanitation management for the years 2014-2015	Government <sup>(5)</sup>	Provision of environmental sanitation services	LET Development Zone	68,805 <sup>(1)</sup>	January 2014	January 2016	68,178 <sup>(2)</sup>	N/A
3	Jinqiao Road and Dapu Road Reconstruction BT Project	State-invested enterprise <sup>(6)</sup>	BT project- Construction and paving	Jinqiao Road (Dapu Road — Chiyue Road), Dapu Road (State Road 310 — Linhong Avenue), LET Development Zone, Lianyungang 連雲港市連雲港經濟技術開發區金橋路(大浦路-池月路)、大浦路(310國道-臨洪大道)	82,910 <sup>(3)</sup>	August 2015	December 2015 <sup>(7)</sup>	25,622 <sup>(4)</sup>	32,243
4	Eastern Avenue Reconstruction BT Project	State-invested enterprise <sup>(6)</sup>	BT project- Construction and paving	Eastern Avenue (Xinguang Road — Ping Shan Road), LET Development Zone, Lianyungang 連雲港市連雲港經濟技術開發區東方大道(新光路-平山路)	43,543 <sup>(3)</sup>	October 2015	April 2016 <sup>(8)</sup>	13,779 <sup>(4)</sup>	14,456
5.	G25 Songzhang Exit to 242 Highway Connection Line Reconstruction BT Project	State-invested enterprise	BT project- Construction and paving	G25 Songzhang Exit to 242 Highway Connection Line, Ganyu Zone, Lianyungang (連雲港市G25宋莊出口至242省道連接線)	42,055 <sup>(3)</sup>	July 2016	December 2016 <sup>(9)</sup>	8,380 <sup>(4)</sup>	8,450

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### Notes

- (1) The initial project value is the estimated project value representing the estimation of our service income; the final actual value of which depends on the Settlement Audit Sum after final inspection by our customers.
- (2) The revenue recognised during the Track Record Period represent our service income recognised during the Track Record Period. The difference between the initial project value of the project and the revenue recognised for the project was due to the modification(s) of workload of the project.
- (3) The initial project value is the estimated project value representing the estimation of the aggregate of our management services income, interest income and subcontractors fees paid on behalf of our customers, to be received by us after completion of the project. The final actual value of which depends on the Settlement Audit Sum after final inspection by our customers. The initial project value therefore represents the estimated sum of cash to be received by our Group after completion of construction of the project.
- (4) The revenue recognised during the Track Record Period represents our management services income and interest income recognised during the Track Record Period. The difference between the initial project value of the project and the revenue recognised for the project was (i) primarily due to the revenue recognised did not include the subcontractors fees our Group paid on behalf of our customers to be received after the completion of construction of the project; and (ii) to a smaller extent due to the modification(s) of the workload of the project during construction phase.
- (5) The project was awarded to us by LET Development Zone Management Committee.
- (6) The project was awarded to us by Jiangsu Xinhaike. For further details of this project, please refer to the section headed “Connected Transactions” in this prospectus.
- (7) The construction of this project was completed in December 2015 (the “**Completion Date**”). As at the Latest Practicable Date, our customer has completed final inspection and has determined the Settlement Audit Sum, being approximately RMB76.8 million.

The final contract sum to be paid to us for this project comprises the settlement audit sum (being the sum determined after the final inspection of the construction work by our customers) and 8% of such settlement audit sum. Such final contract sum is payable to us in three instalments. The first instalment comprising 40% of the final contract sum and is payable to us within six months following the Completion Date. The second instalment comprising 30% of the final contract sum and is payable to us within 18 months following the Completion Date and the third instalment comprising the remaining 30% of the final contract sum and is payable to us within 30 months following the Completion Date.

Up to 30 April 2017, an aggregate payment of approximately RMB58.0 million had been received from our customer, representing approximately 70.0% of the Final Contract Sum. Our Directors confirm that we have received the payments in accordance with the contractual payment schedule. Based on our unaudited management accounts for the four months ended 30 April 2017, an aggregate revenue of approximately RMB25.6 million had been recognised up to 30 April 2017 since the commencement of the project.

- (8) The construction of this project was completed in April 2016 (the “**Completion Date**”). As at the Latest Practicable Date, our customer has completed final inspection and has determined the Settlement Audit Sum, being approximately RMB42.7 million.

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The final contract sum to be paid to us for this project comprises the settlement audit sum (being the sum determined after the final inspection of the construction work by our customers), and 8% of such settlement audit sum. Such final contract sum is payable to us in three instalments. The first instalment comprising 40% of the final contract sum and is payable to us within six months following the Completion Date. The second instalment comprising 30% of the final contract sum and is payable to us within 18 months following the Completion Date and the third instalment comprising the remaining 30% of the final contract sum and is payable to us within 30 months following the Completion Date.

Up to 30 April 2017, an aggregate payment of approximately RMB32.3 million had been received from our customer, representing approximately 70.0% of the Final Contract Sum. Our Directors confirm that we have received the payments in accordance with the contractual payment schedule. Based on our unaudited management accounts for the four months ended 30 April 2017, an aggregate revenue of approximately RMB13.8 million had been recognised up to 30 April 2017 since the commencement of the project.

- (9) The construction of this project was completed in December 2016 (the “**Completion Date**”). As at the Latest Practicable Date, this project is in the process of final inspection and by our customer and determination of the Settlement Audit Sum.

This project is managed by a project management company, namely Qiyuan Construction Management. Pursuant to the relevant contract, our customer, Chuanglian Investment, paid a sum of RMB10 million as start-up funds for the project. The final contract sum to be paid to us for this project comprises the settlement audit sum (being the sum determined after the final inspection of the construction work by our customers) less the start-up funds contributed by our customer. Such final contract sum is payable to us in two instalments. The first instalment comprising 60% of the final contract sum and is payable to us within 12 months following the completion of construction of the project (the “**Completion Date**”) and the second instalment comprising the remaining 40% of the final contract sum and is payable to us within 24 months following the Completion Date.

Up to 30 April 2017, an aggregate payment of approximately RMB10.0 million had been received from our customer, Chuanglian Investment, representing approximately 24% of the initial project value. Our Directors confirm that we have received the payments in accordance with the contractual payment schedule. Based on our unaudited management accounts for the four months ended 30 April 2017, an aggregate revenue of approximately RMB8.5 million had been recognised up to 30 April 2017 since the commencement of the project.

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### Our environmental maintenance and construction management projects in progress

Item	Project name	Customer type	Nature of project	Site address	Approximate	Actual/expected	Expected	Approximate	Approximate
					initial project value	commencement of construction	completion of construction	revenue recognised during the Track Record Period	fees paid on behalf of customers during Track Record Period
					(RMB'000)			(RMB'000)	(RMB'000)
6	Houzui Three Road New Construction BT Project	State-invested enterprise <sup>(5)</sup>	BT project- Construction and paving	Jinqiao Road (Chiyue Road-Changwei Road), Fotang Road (Dapu Road - Huaguoshan Avenue), Xianfeng Road (Hou Zui Industrial and Commercial Bureau - Huaguoshan Avenue), LET Development Zone, Lianyungang 連雲港市連雲港經濟技術開發區金橋路(池月路-昌圩路)、佛堂路(大浦路-花果山大道)、先鋒路(猴嘴工商所-花果山大道)	205,387 <sup>(1)</sup>	October 2015	December 2017 <sup>(8)(13)</sup>	23,925 <sup>(2)</sup>	5,815
7	LET Development Zone Theme Park Greening and Construction BT Project	State-invested enterprise <sup>(5)</sup>	BT project- Construction landscaping and greening	LET Development Zone	118,438 <sup>(1)</sup>	October 2015	August 2017 <sup>(9)</sup>	23,527 <sup>(2)</sup>	15,600
8	LET Development Zone greening maintenance and management for the years 2016-2018	Government <sup>(6)</sup>	Provision of greening services	LET Development Zone	157,798 <sup>(3)</sup>	January 2016	January 2019	47,686 <sup>(4)</sup>	N/A
9	LET Development Zone environmental sanitation management for the years 2016-2018	Government <sup>(6)</sup>	Provision of environmental sanitation services	LET Development Zone	121,290 <sup>(3)</sup>	January 2016	January 2019	37,163 <sup>(4)</sup>	N/A



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Item	Project name	Customer type	Nature of project	Site address	Approximate	Actual/expected commencement of construction	Expected completion of construction	Approximate	Approximate
					initial project value			revenue recognised during the Track Record Period	fees paid on behalf of customers during Track Record Period
					(RMB'000)			(RMB'000)	(RMB'000)
10	Dapu Road PPP Project	State-invested enterprise <sup>(5)</sup>	PPP project- Construction landscaping and greening	Dapu Road (Linhong Road - 242 Highway), Yunyan River (Yuehu Road - Dapu Road), Chengwei River (242 Highway - Eastern Avenue), Dapu Road (Linhong Avenue - 242 Highway), LET Development Zone, Lianyungang 連雲港市連雲港經濟技術開發區 (大浦路 (臨洪路 - 242省道)、運鹽河(羅湖路- 大浦路)、程圩河(242省道 - 東方大道)、大浦路(臨洪大道 - 242省道))	297,000 <sup>(1)</sup>	May 2016	June 2018 <sup>(11)(13)</sup>	57,060 <sup>(2)</sup>	21,436
11	Ganyu Zone Basic Infrastructure PPP Project	State-invested enterprise	PPP project- Construction and paving	Ganyu Zone, Lianyungang (連雲港市贛榆區)	776,800 <sup>(1)</sup>	September 2016	December 2019 <sup>(10)(13)</sup>	5,521 <sup>(2)</sup>	1,600
12	LET Development Zone Infrastructure (Partial) PPP Project	State-invested enterprise <sup>(5)</sup>	PPP project- Construction landscaping and greening	LET Development Zone	220,000 <sup>(1)</sup>	March 2017	February 2018 <sup>(12)</sup>	nil <sup>(7)</sup>	nil

*Note:*

- (1) The initial project value is the estimated project value representing the estimation of the aggregate of our management services income, interest income and subcontractors fees paid on behalf of our customers, to be received by us generally after completion of construction of the project. The final actual value of which depends on the Settlement Audit Sum after final inspection by our customers. The initial project value therefore represents the estimated sum of cash to be received by our Group generally after completion of construction of the project.
- (2) The revenue recognised during the Track Record Period represent the aggregate of our management services income and interest income recognised during the Track Record Period. The difference between the initial project value of the project and the revenue recognised for the project during the Track Record Period was due to (i) the revenue recognised did not include the subcontractors fees our Group paid on behalf of our customers to be received generally after the completion of construction of the project; (ii) only a portion of the revenue was recognised during the Track Record Period; and (iii) the modification(s) of the workload of the project during construction phase.
- (3) The initial project value is the estimated project value representing the estimation of our service income; the final actual value of which depends on the Settlement Audit Sum after final inspection by our customers.

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- (4) The revenue recognised during the Track Record Period represent our service income recognised during the Track Record Period. The difference between the initial project value of the project and the revenue recognised for the project was due to (i) the modification(s) of workload of the project; and (ii) only a portion of the revenue was recognised during the Track Record Period.
- (5) The project was awarded to us by Jiangsu Xinhaik. For further details of this project, please refer to the section headed “Connected Transactions” in this prospectus.
- (6) The project was awarded to us by LET Development Zone Planning and Construction Bureau.
- (7) Since this project had not commenced before the end of the Track Record Period, no revenue was recognised during the Track Record Period.
- (8) The project is divided into three phases, of which the first and second phases were completed in January 2017 and the third phase is expected to be completed in December 2017. The final contract sum to be paid to us for this project comprises the settlement audit sum (being the sum determined after the final inspection of the construction work by our customers in phases) and 10% of such settlement audit sum. The final contract sum for each phase is payable to us in three instalments after the completion of each phase of the project. The first instalment comprising 40% of the final contract sum and is payable to us within six months following the completion of construction of each phase of the project (the “**Completion Date**”). The second instalment comprising 30% of the final contract sum and is payable to us within 18 months following the Completion Date and the third instalment comprising the remaining 30% of the final contract sum and is payable to us within 30 months following the Completion Date.
- (9) The final contract sum to be paid to us for this project comprises the settlement audit sum (being the sum determined after the final inspection of the construction work by our customers) and 10% of such settlement audit sum. Such final contract sum is payable to us in three instalments. The first instalment comprising 40% of the final contract sum and is payable to us within six months following the completion of construction of the project (the “**Completion Date**”). The second instalment comprising 30% of the final contract sum and is payable to us within 18 months following the Payment Date and the third instalment comprising the remaining 30% of the final contract sum and is payable to us within 30 months following the Completion Date.
- (10) This project is managed by a project management company, namely Chengyun Construction Management which is owned as to 80% by Yuanyun Industrial and 20% by our customer, Chuanglian Investment. We and our customer shall contribute 80% and 20% of the registered capital in the project management company, respectively upon the formation of the project management company. The board of directors of the project management company shall consist of three directors, of which two directors will be nominated by us and one will be nominated by our customer.

Pursuant to the relevant contract, the entire construction work of the project shall be completed within five years from the date of commencement. The first phase of seven phases of the project, being Jiangsu Beidamen, with contract value of RMB25 million, is expected to be completed in December 2017. The second phase of the project, being Ganyu G15, with contract value of RMB15 million, is expected to be completed in December 2017. The third phase of the project, being Qindao Tianlai and Huanghai Donglu, with contract value of RMB85 million, is expected to be completed in January 2019. The fourth phase of the project, being Car Integrated Service Centre, with contract value of RMB50 million, is expected to be completed in or before June 2018. To the best knowledge of our Directors, the fifth phase of the project, being Ganyu City Zone Municipal Greening Integrated Project, with contract value of approximately RMB75 million, is expected to be completed in or before June 2018. The sixth phase of the project, being Ganyu Ocean Park Zone Integrated Project, with contract value of approximately RMB200 million, is expected to be completed in December 2018. The seventh phase of the project, being Ganyu City Zone Coastal Facilities Project, with contract value of approximately RMB150 million, is expected to be completed in December 2019.

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The final contract sum to be paid to us for this project comprises (i) 1.5% of the settlement audit sum (being the sum determined after the final inspection of the construction work by our customers); (ii) interests return of the settlement audit sum for the construction period, which is expected to be from September 2016 to December 2019, divided by two at an annual rate of 9.5%; and (iii) interests return of the outstanding settlement audit sum during the post construction period, which is expected to be commencing from the day after the completion date and continue up to the date mutually determined by the project initiator and us at an annual rate of 9.5%.

Such final contract sum is payable to us in five instalments after the completion of each phase of the project. The first instalment comprising 30% of the final contract sum and is payable to us within 12 months following the completion of construction of each phase of the project (the “**Completion Date**”). The second instalment comprising 30% of the final contract sum and is payable to us within 24 months following the Completion Date and the third instalment comprising the 20% of the final contract sum and is payable to us within 36 months following the Completion Date. The fourth instalment comprising 10% of the final contract sum and is payable to us within 48 months following the Completion Date and the fifth instalment comprising the remaining 10% of the final contract sum and is payable to us within 60 months following the Completion Date.

- (11) This project is managed by a project management company, namely Lianyungang Puyuan Construction Management Company Limited\* (連雲港浦源工程管理有限公司). We have formed a project management company with our customer, Jiangsu Xinhaikē, to manage the project. Our Group and Jiangsu Xinhaikē shall contribute 90% and 10% of the registered capital in the project management company, respectively, upon the formation of the project management company. The board of directors of the project management company shall consist of three directors, of which two directors will be nominated by us and one will be nominated by Jiangsu Xinhaikē.

The project is divided into two phases, of which the first phase was completed in December 2016 and the second phase is expected to be completed in June 2018. The final contract sum to be paid to us for this project comprises the settlement audit sum (being the sum determined after the final inspection of the construction work by our customers) and 10% of such settlement audit sum. Such final contract sum is payable to us in three instalments after the completion of each phase of the project. The first instalment comprising 40% of the final contract sum and is payable to us within 12 months following the completion of construction of each phase of the project (the “**Completion Date**”). The second instalment comprising 30% of the final contract sum and is payable to us within 24 months following the Completion Date and the third instalment comprising the remaining 30% of the final contract sum and is payable to us within 36 months following the Completion Date.

- (12) This project is managed by Lianyungang Puyuan Construction Management Company Limited\* (連雲港浦源工程管理有限公司). Our Group and Jiangsu Xinhaikē, as our customer, shall contribute 90% and 10% of the registered capital in the project management company, respectively. The board of directors of the project management company consists of three directors, of which two directors are nominated by us and one is nominated by Jiangsu Xinhaikē.

The final contract sum to be paid to us for this project comprises the settlement audit sum (being the sum determined after the final inspection of the construction work by our customers) and 10% of such settlement audit sum. Such final contract sum is payable to us in three instalments. The first instalment comprising 40% of the final contract sum and is payable to us within 12 months following the completion of construction of the project (the “**Completion Date**”). The second instalment comprising 30% of the final contract sum and is payable to us within 24 months following the Completion Date and the third instalment comprising the remaining 30% of the final contract sum and is payable to us within 36 months following the Completion Date.

- (13) The construction of Houzui Three Road New Construction BT Project, Dapu Road PPP Project and Ganyu Zone Basic Infrastructure PPP Project are divided into phases. Final contract sum of such projects is payable to the Group in three or five instalments after the completion of each phases of the project, while each instalment may be made by the Group’s customers to the Group in one or more payments within the agreed period. The number of receipts of payment may thus be more than the number of instalments. Payments of instalments from different phases may coincide with each other.

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### ESTIMATED FINANCING COMMITMENT FOR OUR PROJECTS OF CONSTRUCTION PROJECT MANAGEMENT

As at the Latest Practicable Date, based on our internal records and current development plan of our projects of construction project management and our financial and operational condition, the estimated financing commitment of our projects of construction project management, being the estimated subcontractors fees payable by our Group, and their respective expected source of funding are as follows:

Project	From Latest Practicable Date to 30 June 2017	Six months ending 31 December 2017		Six months ending 30 June 2018		Six months ending 31 December 2018		Six months ending 30 June 2019		Since 1 July 2019		Total (RMB'000)
		Estimated financing commitment (RMB'000)	Expected source of funding (Note)	Estimated financing commitment (RMB'000)	Expected source of funding (Note)	Estimated financing commitment (RMB'000)	Expected source of funding (Note)	Estimated financing commitment (RMB'000)	Expected source of funding (Note)	Estimated financing commitment (RMB'000)	Expected source of funding (Note)	
1. Jingqiao Road and Dapu Road Reconstruction BT Project	11,798	(2)	—	5,662	(1)	—	—	—	—	—	—	17,460
2. Eastern Avenue Reconstruction BT Project	5,263	(2)	9,781	(1)	3,260	(1)	—	—	—	—	—	18,304
3. G25 Songzhang Exit to 242 Highway Connection Line Reconstruction BT Project	5,952	(2)	3,328	(1)	4,025	(2)	—	—	10,449	(2)	—	23,754
4. Houzui Three Road New Construction BT Project	28,718	(2)	32,311	(1)	16,043 11,463	(1) (2)	—	—	19,236	(2)	5,463	113,234
5. LET Development Zone Theme Park Greening and Construction BT Project	10,563	(2)	14,707	(1)	4,147	(2)	—	—	2,574	(2)	27,902	59,893
6. Dapu Road PPP Project	47,649	(2)	10,051	(2)	59,713	(2)	5,150	(2)	15,442	(2)	20,410	158,415
7. Ganyu Zone Basic Infrastructure PPP Project	14,146	(2)	50,577	(1)	95,573	(2)	110,008	(2)	66,663	(2)	259,833	596,800
8. LET Development Zone Infrastructure (Partial) PPP Project	7,551	(2)	77,428	(1)	19,485	(2)	18,965	(2)	23,379	(2)	24,192	171,000
<b>Total</b>	<b>131,640</b>		<b>198,183</b>		<b>219,371</b>		<b>134,123</b>		<b>137,743</b>		<b>337,800</b>	<b>1,158,860</b>

Notes:

- (1) Expected source of funding being net proceeds from the Global Offering.
- (2) Expected source of funding being internal resources and/or external financing.

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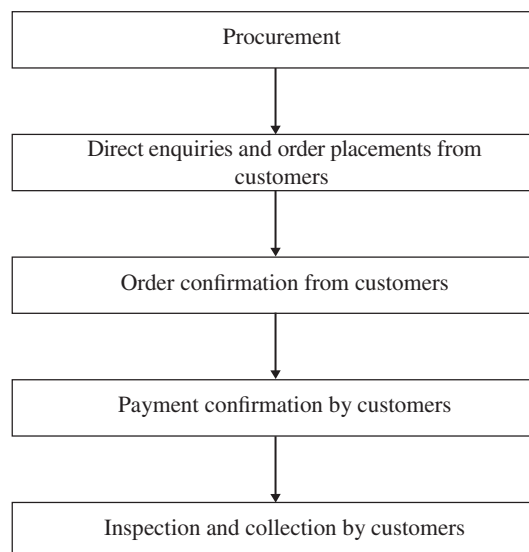
Our Directors are of the view that, taking into account (i) the estimated net proceeds available to our Group from the Global Offering; (ii) the available banking facilities, cash and cash equivalents as at the Latest Practicable Date; (iii) the expected cash flows to be generated from our Group's operations; (iv) the current development plan of our construction management projects; and (v) our Directors' best estimates as at the Latest Practicable Date of our future financial and operational condition, our Group is able to secure sufficient financial resources to fulfill the financing commitment under our Group's existing construction management projects.

Given the expected increase in external financing to be utilised by our Group, our Directors expect that our Group's finance costs and the debt to equity ratio will increase for the years ending 31 December 2017 and 2018.

We continue to actively identify new projects through various channels to achieve sustainable growth. We regularly monitor the open tenders published in publicly available sources such as the relevant websites of the local government, and closely follow up with our customers for new project opportunities.

### OUR BUSINESS MODEL OF THE SUPPLY OF CONSTRUCTION MATERIAL (GNEISS)

The following diagram illustrates the operational model for our supply of construction material (gneiss) business:



### Procurement

During the Track Record Period, we did not engage in the exploration or mining of gneiss and all of our gneiss were sourced from NH Development, one of our substantial shareholders. The gneiss we sourced from NH Development did not need any further processing before we subsequently sold to our customers.

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During the Track Record Period, we sourced gneiss from NH Development pursuant to a master supply agreement dated 11 December 2013 for a term of 15 years from the date of agreement. On substantially the same terms as such master supply agreement and with the effect of terminating such master supply agreement, on 25 December 2015, we, as purchaser, entered into the NH Development Supply Agreement with NH Development, as supplier, for a term of three years effective from 1 January 2016 to 31 December 2018. On 26 December 2016, a supplemental agreement to the NH Development Supply Agreement was entered into between our Group and NH Development to record the agreed unit price of gneiss for the year ending 31 December 2017. We consider that such long term supply agreement with NH Development ensures that we have stable source of gneiss for our business.

We obtain quotations from different gneiss suppliers in Lianyungang on a periodic basis. Based on Ipsos Report, there are gneiss suppliers in Lianyungang which are able to supply gneiss in the quantity and quality required by our Group and offer terms comparable to that offered by NH Development. Based on the Ipsos Report, as at the Latest Practicable Date, there were nine gneiss suppliers in operation in Lianyungang, all of which were either directly owned by Lianyungang Municipal Government or indirectly by enterprises related to Lianyungang Municipal Government. Our Directors are of the view that, and the Sole Sponsor concurs, the material terms offered by the other gneiss suppliers, being the unit price of gneiss and payment terms (which are by prepayments), in Lianyungang are comparable to those offered by NH Development. According to the Ipsos Report, the payment term offered by NH Development, being prepayment is a normal commercial term in the market. Given our business relationship with NH Development, our Directors are of the view that sourcing gneiss from NH Development is in the interest of our Company and our Shareholders as a whole.

Our Directors believe that NH Development, being a state-owned enterprise, was first drawn to our Group by the sales network of our Group's senior management team which enables us to market and sell gneiss to commercial entities effectively. In addition, according to Ipsos Report, our Group contributed approximately 42.3% of the gneiss supply industry in Lianyungang in terms of revenue in 2016. Thus, given the mutual and complimentary relationship between the Group and NH Development, our Directors believe we are able to maintain such relationship with NH Development.

The salient terms of the NH Development Supply Agreement are summarised as follows:

Parties:	NH Development (as supplier); and Yuanyun Industrial (as purchaser)
Exclusivity:	NH Development agreed to supply gneiss exclusively to us. We are permitted to source gneiss from suppliers other than NH Development.
Price and quantity:	The unit price of gneiss for the year ended 31 December 2016 and the year ending 31 December 2017 were determined, while the unit price of gneiss for the year ending 31 December 2018 is to be further agreed by the parties in writing.

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The price of gneiss to be supplied by NH Development shall be subject to review of both parties with reference to the gneiss output from the quarry and the actual market condition. Any adjustment to the price of gneiss must be determined and confirmed by written agreement between both parties.

The quantity of gneiss to be supplied by NH Development each month shall be determined by the actual demand of our Group. We shall notify NH Development by written notice of the quantity required for the next month on or before the 30th day of each month or such other time as agreed between parties.

There is an annual target quantity of gneiss to be purchased by us from NH Development but there is no penalty clause for non-fulfilment. The annual target quantity may be amended by mutual agreement between us and NH Development during the contract term with reference to gneiss mining progress and actual market conditions.

If we cannot meet the annual target quantity of gneiss, we shall pay a sum that is equivalent to the difference between the actual quantity supplied and the annual target quantity times the unit price of gneiss for the year as prepayment for our purchases next year.

Payment terms:

Payment for the expected required quantity of gneiss to be supplied to our Group in the coming month shall be paid in full by us to NH Development in advanced prior to the start of each month. If the actual quantity of gneiss supplied to us during the month exceeded or was less than the expected required quantity of gneiss, our Group would settle such difference in the advanced payment for the next month.

Return policy:

If defects are found by the purchaser, the supplier shall be informed by written notice within five days after delivery of the product to the purchaser. Thereafter, within five days after service of the written notice, the supplier and the purchaser shall jointly conduct an inspection and the supplier shall take remedial measures to address the defects found in the gneiss sold.

Warranty:

The supplier shall warrant that the quality of gneiss is fit for its intended use; and is free from any encumbrances, charges, mortgages, or any other interests of any third party.



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- Termination: The NH Development Supply Agreement can be terminated upon occurrence of the following events:
- (i) if either party fails to perform its obligations under this agreement and does not rectify the breach of the agreement after 15 days of receipt of the written notice requesting for the breach to be rectified, the other party may terminate the agreement by written notice; or
  - (ii) if the business licence of either party is revoked; or it cannot repay its debts; or it is in the process of voluntary or involuntary liquidation or winding up procedure, the other party may terminate the agreement by written notice; or
  - (iii) through mutual agreement between the parties in writing.
- Option to renew: Upon the expiry of the term of the agreement, we have an option to renew the agreement for a further term of three years.

For further details of the connected transactions between our Group and NH Development, please refer to the section headed “Connected Transactions” in this prospectus.

Our sales team shall gather information about the current prevailing market demand and customers’ purchase orders in order to prepare our monthly procurement forecast for the next month. We prepare a monthly procurement forecast specifying the quantity of gneiss required to be purchased from NH Development. We shall then notify NH Development of the quantity of gneiss required for next month and make prepayment to NH Development with reference to the monthly procurement forecast. Our customers shall then collect the gneiss directly at the gneiss quarry site of NH Development (the “**Collection Point**”). At the end of each month, any deviation in the actual amount purchased for the month shall be accounted for in the prepayment to NH Development for the next month.

Our Directors consider that we have in place a comprehensive system of preparing a reliable procurement forecast as we prepare our forecast after comparing information collected from NH Development and our major customers, identifying any discrepancies and making necessary adjustments. We continue to monitor the market conditions after we placed our orders with NH Development based on the monthly forecast. We may place additional orders with NH Development after considering the demand.

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### **Direct enquiries and order placements from customers for quotation**

Our Group generally sells gneiss through incoming enquiries or direct order placements from repeat and potential customers. After receiving such enquiry, our sales team will prepare a quotation for the customers' consideration. For potential customers, we will conduct background check on their source of funds, purchase purpose and, accuracy and completeness of information provided by them, to assess their credibility.

### **Quotation confirmation from customers**

Upon confirmation of quotation from customers, we will enter into a standard sale and purchase agreement with our customers, which stipulates the relevant terms of sale, including price and quantity of gneiss and payment terms.

### **Payment confirmation by customers**

Our customers are required to make full payment in advance. Once payment is received from our customers, our finance department will issue an invoice and liaise with our on-site sales team to facilitate collection of gneiss by our customers at the Collection Point. All the relevant sale and purchase agreements entered into between our Group and our customers are copied to the supervisor of our sales team and our finance department to monitor customer payment and the sales volume of gneiss.

### **Inspection and collection by customers**

The gneiss will be weighed at the weight house stored at the Collection Point and our on-site sales team will check against the quantity to be delivered under the relevant sale and purchase agreement before it is collected by our customers. At the Collection Point, our customers will inspect the quality and amount of gneiss to be purchased under the relevant sale and purchase agreement. In the event that any issues arise during inspection, our on-site sales team will take remedial action immediately. Our customers shall then arrange transportation at its own costs to collect the gneiss from the Collection Point.

## **MAJOR CUSTOMERS**

During the Track Record Period, our major customers were government and state-invested enterprises for our provision of environmental maintenance services and provision of construction management services; while our major customers were private sector entities such as property developers and construction contractors, for our supply of construction material (gneiss). During the Track Record Period, our largest customer contributed approximately 60.5%, 41.1% and 30.8% of our total revenue for the three years ended 31 December 2014, 2015 and 2016, respectively, and our largest five customers, in aggregate, accounted for approximately 87.9%, 76.4% and 81.2% of our total revenue for the same years, respectively.

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Set out below is a breakdown of the Group's revenue attributable to the Group's top five customers during the Track Record Period and their respective background information:

*For the year ended 31 December 2014*

Rank	Customer	Principal business	Date in which our business relationship commenced	Approximate % of our revenue	Services/products provided by our Group	Settlement
1	LET Development Zone Management Committee	LET Development Zone government	January 2014	60.5	Environmental maintenance management services	No credit term, usually settled within approximately 30 days upon issuance of invoice
2	Lianyungang Golden Coast Development and Construction Co., Limited* (連雲港金海岸開發建設有限公司)	Road and urban construction, leasing and property management	April 2014	12.5	Construction material (gneiss)	Prepayment
3	Customer A <sup>(1)</sup>	Property building, municipal public construction, road construction and landscaping and greening projects	April 2014	10.0	Construction material (gneiss)	Prepayment
4	Customer B <sup>(2)</sup>	Basic urban infrastructure development	May 2014	3.1	Construction material (gneiss)	Prepayment
5	Customer C <sup>(3)</sup>	Construction projects and landscaping and greening project design	September 2014	1.8	Construction material (gneiss)	Prepayment
<b>Approximate % of our revenue attributable by our top five customers</b>				<b><u>87.9</u></b>		

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*For the year ended 31 December 2015*

Rank	Customer	Principal business	Date in which our business relationship commenced	Approximate % of our revenue	Services/ products provided by our Group	Settlement
1	LET Development Zone Management Committee	LET Development Zone government	January 2014	41.1	Environmental maintenance management services	No credit term, usually settled within approximately 30 days upon issuance of invoice
2	Jiangsu Xinhaik	National asset operation and management, basic urban infrastructure construction, municipal and public construction and maintenance, and property development	May 2015	14.0	Construction management services	After completion by instalments
3	Customer A <sup>(1)</sup>	Property building, municipal public construction, road construction and landscaping and greening projects	April 2014	11.1	Construction material (gneiss)	Prepayment
4	LET Development Zone Planning and Construction Bureau	Management of public works projects in LET Development Zone	January 2015	5.3	Construction management services	After completion by instalments
5	Lianyungang Golden Coast Development and Construction Co., Limited* (連雲港金海岸開發建設有限公司)	Road and urban construction, leasing and property management	April 2014	4.9	Construction material (gneiss)	Prepayment
<b>Approximate % of our revenue attributable by our top five customers</b>				<b>76.4</b>		

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*For the year ended 31 December 2016*

Rank	Customer	Principal business	Date in which our business relationship commenced	Approximate % of our revenue	Services/ products provided by our Group	Settlement
1	Jiangsu Xinhaik	National asset operation and management, basic urban infrastructure construction, municipal and public construction and maintenance, and property development	May 2015	30.8	Construction management services	After completion by instalments
2	LET Development Zone Planning and Construction Bureau	Management of public works projects in LET Development Zone	January 2015	26.3	Environmental maintenance and municipal construction management services	No credit term, usually settled within approximately 30 days upon issuance of invoice
3	Customer D <sup>(4)</sup>	Supply of construction materials and processing, hardware commodity	December 2015	11.7	Construction material (gneiss)	Prepayment
4	Customer E <sup>(5)</sup>	Construction investment, landscaping and greening projects, municipal construction, real estate agency service and supply of construction materials	March 2016	9.0	Construction management services	After completion by instalments
5	Customer F <sup>(6)</sup>	Road construction, landscaping and greening projects and supply of construction materials	March 2016	3.4	Construction material (gneiss)	Prepayment
<b>Approximate % of our revenue attributable by our top five customers</b>				<b>81.2</b>		

*Notes:*

- (1) Based on the best knowledge of our Directors, Customer A is a limited liability company established in the PRC with registered capital of RMB50 million which principally carries out business in and around Lianyungang.
- (2) Based on the best knowledge of our Directors, Customer B is an equity joint venture enterprise with limited liability established in the PRC with registered capital of USD25.88 million which principally carries out business in and around Lianyungang.
- (3) Based on the best knowledge of our Directors, Customer C is a limited liability company established in the PRC with registered capital of RMB2 million which principally carries out business in and around Lianyungang.
- (4) Based on the best knowledge of our Directors, Customer D is a limited liability company established in the PRC with registered capital of RMB2 million which principally carries out business in and around Lianyungang.
- (5) Based on the best knowledge of our Directors, Customer E is a limited liability company established in the PRC with registered capital of RMB200 million which principally carries out business in and around Lianyungang.
- (6) Based on the best knowledge of our Directors, Customer F is a limited liability company established in the PRC with registered capital of RMB2 million which principally carries out business in and around Shenzhen, Beijing and Lianyungang.

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During the Track Record Period, save for Jiangsu Xinhaik being owned as to 51% by NH Development, which is our substantial shareholder, none of our Directors or their respective associates or any Shareholder, to the best knowledge of our Directors, own more than 5% of the of the issued Shares immediately after the completion of the Global Offering, or had any interest in any of our largest five customers. For further details of the connected transactions between Jiangsu Xinhaik and our Group, please refer to section headed “Connected Transactions” in this prospectus.

LET Development Zone Management Committee, an authorised governmental body, was our largest customer for the two years ended 31 December 2014 and 2015 due to our provision of environmental maintenance management services to them pursuant to two projects awarded by them (items 1 and 2 as set out in the paragraph headed “Environmental Maintenance and Construction Management Projects” in this section) through public tendering. We successfully obtained the projects for the provision of environmental maintenance management services in LET Development Zone for the term from 11 January 2016 to 10 January 2019 through public tendering and entered into two contracts with LET Development Zone Planning and Construction Bureau (items 8 and 9 as set out in the paragraph headed “Environmental Maintenance and Construction Management Projects” in this section). Thus, LET Development Zone Planning and Construction Bureau, an authorised governmental body, was our largest customer for the two years ended 31 December 2014 and 2015, and our second largest customer for the year ended 31 December 2016.

During the Track Record Period, we provided construction management services to NH Development, being our substantial shareholder, and three subsidiaries of NH Development, namely Jiangsu Xinhaik, Gaoke Investment and Zhongtong Keyun (together the “**NH Development Subsidiaries**”). For the three years ended 31 December 2014, 2015 and 2016, we derived revenue of an aggregate of nil, approximately RMB29.1 million and RMB124.8 million, representing nil, approximately 14.0% and 33.3% of our total revenue for the same years.

Jiangsu Xinhaik, being owned as to 51% by NH Development and 49% by Lianyungang Municipal Government is our second largest customer for the year ended 31 December 2015 and the largest customer for the year ended 31 December 2016. Jiangsu Xinhaik, being a state-owned enterprise with principal business of national asset management, public infrastructure and property development, holds public tendering for public work projects. During the Track Record Period, six out of eight BT and PPP projects were awarded by Jiangsu Xinhaik through public tender.

Given the nature of developing urban facilities project management industry in Lianyungang, the demand for services is highly driven by governmental policies and regulations whereby the ultimate customers are essentially governmental bodies or state-invested enterprise of the local government, resulting in a higher degree of concentration of governmental bodies and state-invested enterprise of the local government as our Group’s customers, which we are entrusted with the duties to manage and develop urban facilities in Lianyungang. Therefore, a substantial portion of revenue generated from our provision of environmental maintenance and construction management services is derived from the government and its related entities.

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During the Track Record Period, we also provided municipal construction services to Jiangsu Xinhaike, Gaoke Investment and Zhongtong Keyun. For details of the connected transactions between our Group on one hand and NH Development and Gaoke Investment on the other hand, please refer to the section headed “Connected Transactions” in this prospectus.

During the Track Record Period, most of our customers settled our bills by cheques or telegraphic transfers.

The Group has an internal policy in monitoring the settlement of our trade receivables from time to time, and follow up with all outstanding account receivables diligently. In the event that there is delay in receiving payments from our customers from our BT and PPP projects, the Group will seek to obtain external financing from our existing banking facilities. Our Directors are of the view our Group has sufficient financial resources in meeting our financial commitment even if there is a delay in receiving payments from customers, based on the existing banking facilities available to our Group, provided that such banking facilities will be renewed upon maturities. Our Group will also continue to liaise with various banks in obtaining additional banking facilities, including but not limited to project loans, accounts receivables loans, general credit lines so as to meet our business and financial needs. Our Group will also consider raising additional funds from our shareholders if necessary.

### PRICING POLICY

#### **Environmental maintenance and construction management projects**

Before preparing our tender submission or quotation document, our Group usually determines the tender price or quotation on a project-by-project basis depending on: (i) the nature, scope and complexity of the project; (ii) the estimated number and types of workers required; (iii) the costs of raw materials and subcontracting fees; (iv) the completion time requested by customer; and (v) the prevailing market conditions.

In light of the increasing labour costs, fluctuations in the price of raw materials, and other unforeseen factors, such as adverse weather conditions, accidents, unforeseen site conditions, our Group had adopted the following cost control measures during the Track Record Period: (i) based on the details of the customers’ specifications and the work complexity, a detailed estimate of time and costs expected to be incurred for the project will be prepared by the project manager and will be reviewed by our engineering department, marketing department and finance department before submitting tender or quotation document to our customers; (ii) a fixed work scope is to be agreed with customers, based on which our Group’s tender or fee quotation is prepared. Customers’ requests for variation in the scope of work are to be accepted on the basis that a variation order is agreed upon; and (iii) during the course of project implementation, the project manager will regularly liaise with our customers and subcontractors so as to monitor and control the work progress and the project budget.



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### Supply of construction material (gneiss)

Our Group determines the sale price at cost-plus basis with reference to the market price and the cost of gneiss. The sale price will be reviewed and approved by our Group's senior management to ensure the gneiss are sold at an accepted profit margin.

### MAJOR SUPPLIERS

During the Track Record Period, our major suppliers are supplier of gneiss, supplier of labour services and subcontractors we engaged for our environmental maintenance projects and certain municipal construction projects.

During the Track Record Period, in terms of our cost of sales, our purchases from our largest supplier accounted for approximately 35.5%, 41.6% and 43.3% of our total cost of sales for the three years ended 31 December 2014, 2015 and 2016, respectively, and our purchases from the largest five suppliers, in aggregate, accounted for approximately 95.1%, 83.6% and 78.5% of our total cost of sales for the same years, respectively.

Set out below is a breakdown of the Group's purchases in terms of cost of sales by the Group's top five suppliers during the Track Record Period:

*For the year ended 31 December 2014*

	<b>Supplier</b>	<b>Principal business</b>	<b>Date in which our business relationship commenced</b>	<b>Approximate % of our cost of sales</b>	<b>Services/ products supplied to our Group</b>	<b>Settlement</b>
1	NH Development	Administration and management of State-owned assets, gneiss mining and basic infrastructure development	December 2013	35.5	Construction material (gneiss)	Prepayment
2	Supplier A	Environmental maintenance and municipal maintenance services	January 2014	23.1	Environmental maintenance services	No credit term, usually settled within approximately 30 days upon issuance of invoice
3	New Headline Municipal Landscaping <sup>(Note)</sup>	Municipal and public construction, environmental maintenance services and sale of construction materials	January 2014	17.6	Environmental maintenance services	No credit term, usually settled within approximately 30 days upon issuance of invoice

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Supplier	Principal business	Date in which our business relationship commenced	Approximate % of our cost of sales	Services/ products supplied to our Group	Settlement	
4	Supplier B	Environmental maintenance and municipal maintenance services	January 2014	16.3	Environmental maintenance services	No credit term, usually settled within approximately 30 days upon issuance of invoice
5	Supplier C	Environmental maintenance and municipal maintenance services	January 2014	2.6	Environmental maintenance services	No credit term, usually settled within approximately 30 days upon issuance of invoice
			_____			
<b>Approximate % of our total cost of sales attributable to our top five suppliers</b>			<b>95.1</b>			
			=====			

*Note:* New Headline Municipal Landscaping was one of our subcontractors for the provision of greening services and environmental sanitation services in 2014. In January 2015, we acquired New Headline Municipal Landscaping through the Acquisition and it became one of our Group's subsidiaries since then.

*For the year ended 31 December 2015*

Supplier	Principal business	Date in which our business relationship commenced	Approximate % of our cost of sales	Services/ products supplied to our Group	Settlement	
1	NH Development	Administration and management of State-owned assets, gneiss mining and basic infrastructure development	December 2013	41.6	Construction material (gneiss)	Prepayment
2	Supplier A	Environmental maintenance and municipal maintenance services	January 2014	20.7	Environmental maintenance services	No credit term, usually settled within approximately 30 days upon issuance of invoice
3	Supplier B	Environmental maintenance and municipal maintenance services	January 2014	14.2	Environmental maintenance services	No credit term, usually settled within approximately 30 days upon issuance of invoice
4	Supplier D	Provision of labour subcontracting services and vocational training	September 2015	3.6	Labour services	No credit term, usually settled within approximately 30 days upon issuance of invoice
5	Supplier E	Municipal road construction, construction projects, landscaping and greening project and sale of construction materials	March 2015	3.5	Construction management services (paving)	No credit term, usually settled within approximately 30 days upon issuance of invoice
			_____			
<b>Approximate % of our total cost of sales attributable to our top five suppliers</b>			<b>83.6</b>			
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*For the year ended 31 December 2016*

	<b>Supplier</b>	<b>Principal business</b>	<b>Date in which our business relationship commenced</b>	<b>Approximate % of our cost of sales</b>	<b>Services/products supplied to our Group</b>	<b>Settlement</b>
1	NH Development	Administration and management of State-owned assets, gneiss mining and basic infrastructure development	December 2013	43.3	Construction material (gneiss)	Prepayment
2	Supplier A	Environmental maintenance and municipal maintenance services	January 2014	16.5	Environmental maintenance services	No credit term, usually settled within approximately 30 days upon issuance of invoice
3	Supplier B	Environmental maintenance and municipal maintenance services	January 2014	11.6	Environmental maintenance services	No credit term, usually settled within approximately 30 days upon issuance of invoice
4	Supplier D	Provision of labour subcontracting services and vocational training	September 2015	3.8	Labour services	No credit term, usually settled within approximately 30 days upon issuance of invoice
5	Supplier F	Provision of labour subcontracting services and vocational training	August 2016	3.3	Labour services	No credit term, usually settled within approximately 30 days upon issuance of invoice
<b>Approximate % of our total cost of sales attributable to our top five suppliers</b>				<u><u>78.5</u></u>		

Our Directors confirm that we did not have any significant dispute with any of our service providers and suppliers during the Track Record Period and up to the Latest Practicable Date.

During the Track Record Period, save for (i) NH Development, being our substantial shareholder; and (ii) New Headline Municipal Landscaping, which became one of our subsidiaries after completion of the Acquisition, none of our Directors or their respective associates or any Shareholder, to the best knowledge of our Directors, owns more than 5% of the issued Shares immediately after the completion of the Global Offering, or had any interest in any of our largest five suppliers.

NH Development has been our largest supplier for each of the three years ended 31 December 2014, 2015 and 2016 for their supply of gneiss to us. NH Development is a state-owned company wholly-owned by Lianyungang Municipal Government (江蘇省連雲港市政府) and is subject to the administration and supervision of LET Development Zone Management Committee. For details of the connected transaction between our Group and NH Development, please refer to the section headed “Connected Transactions” in this prospectus.

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According to the Ipsos Report, NH Development has the right to mine gneiss in one gneiss quarry out of a total 10 gneiss quarries in Lianyungang as at the Latest Practicable Date. NH Development previously supplied gneiss to governmental authorities before selling to us with a view to explore the commercial market for gneiss. Our Directors believe that NH Development was first drawn to us by the sales network of our senior management team which enables us to market and sell gneiss to commercial entities effectively. Our ability to gain from the onward sell of gneiss to our customers stems from our bulk purchase arrangement from NH Development, our pre-payment settlement method giving NH Development confidence to our credit and our efficiency of marketing and selling gneiss utilizing our marketing ability and experience in project management. Though we can source gneiss from other gneiss quarries in Lianyungang, we cannot assure you that we are able to source gneiss from other suppliers on comparable terms in the future. For details, please refer to the section headed “Risk Factor — We may not be able to source gneiss from other gneiss quarries in Lianyungang on comparable terms in the future” in this prospectus. During the Track Record Period, we also procured catering services from the restaurant in New Headline Mansion operated by NH Property Services, a subsidiary of NH Development. For details, please refer to the section headed “Connected Transactions” in this prospectus.

In addition, during the Track Record Period, three subsidiaries of NH Development, namely Jiangsu Xinhaikē, Gaoke Investment and Zhongtong Keyun (together the “**NH Development Subsidiaries**”) are also our customers for our construction management services. For details of our transactions with NH Development Subsidiaries, please refer to the paragraph headed “Major Customers” in this section.

During the Track Record Period, our purchases were all settled in RMB and most of them were settled by cheques or telegraphic transfers.

We commenced undertaking BT and PPP projects in May 2015. Since the subcontracting fees for BT and PPP projects did not contribute to the cost of sales during the Track Record Period, set out below were the top five subcontractors for our BT and PPP projects taken during the Track Record Period based on subcontracting fees paid on behalf of our customers.

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*For the year ended 31 December 2015*

Rank	Subcontractor	Principal business	Date in which our business relationship commenced	Approximate amount of subcontracting fees paid (RMB'000)	Services provided to our Group
1	Subcontractor A	Municipal construction, road construction and greening works	July 2015	11,900	Project construction
2	Subcontractor B	Road and bridge construction and municipal public construction	July 2015	7,000	Project construction
3	Subcontractor C	Main contractor for property construction and municipal public construction	September 2015	800	Project construction
4	Subcontractor D	Construction tendering consultancy and agency services and construction supervision	May 2015	485	Project tendering consultancy services
5	Subcontractor E	Municipal construction road construction and green works	August 2015	77	Project tendering consultancy services
<b>Approximate % of our total subcontracting fees paid for BT and PPP projects attributable to our top five subcontractors</b>				<b><u>100%</u></b>	

*For the year ended 31 December 2016*

Rank	Subcontractor	Principal business	Date in which our business relationship commenced	Approximate amount of subcontracting fees paid (RMB'000)	Services provided to our Group
1	Subcontractor C	Main contractor for property construction and municipal public construction	September 2015	13,500	Project construction
2	Subcontractor F	Road construction, municipal construction and landscaping projects	April 2016	10,800	Project construction
3	Subcontractor G	Road construction, municipal construction and landscaping projects	July 2016	8,450	Project construction
4	Subcontractor H	Landscaping projects, municipal construction and decoration services	April 2016	8,200	Project construction
5	Subcontractor A	Municipal construction, road construction and green works	July 2015	6,100	Project construction
<b>Approximate % of our total subcontracting fees paid for BT and PPP projects attributable to our top five subcontractors</b>				<b><u>59.3%</u></b>	

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All of our Group's top five subcontractors for BT and PPP projects during the Track Record Period are Independent Third Parties. To the best knowledge of the Directors, none of the Directors, their associates, or any Shareholders (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital upon completion of the Global Offering) had any interest (direct or indirect) in any of the Group's five largest subcontractors for BT and PPP projects during the Track Record Period.

### QUALITY CONTROL

We have established a strict quality management system which is accredited with GB/T 19001-2008/ ISO 9001:2008 standards in respect of urban road greening and environmental sanitation and GB/T 19001-2008/ ISO 9001:2008 and GB/T 50430-2007 standards in respect of municipal construction and landscape greening, accredited by China Quality Mark Certification Group (方圓標誌認證集團) on 22 December 2015 and remains effective until 15 September 2018.

#### Quality control team

In respect of our environmental maintenance projects, our inspection team will conduct weekly inspection with our subcontractors to monitor quality of our provision of services.

In respect of our construction management projects, we have established an internal quality control team consisted of experienced technicians and engineers to monitor the operation process and conduct regular inspection at the project sites in order to maintain consistent quality services for our customers. In addition, an independent construction supervisor is also engaged to inspect the quality of our construction management projects in accordance with relevant PRC laws and regulations. Our subcontractors are also responsible for ensuring the quality of the construction work complies with the customer's requirements as specified in the relevant contracts.

#### Quality control measures of projects

Our quality control measures are summarised as follows:

- **Preliminary assessment:** For a potential project, our marketing department conducts a preliminary assessment and contacts our customer to ascertain the requirements of the relevant project. Cross-departmental meetings are held among our engineering department, marketing department and finance department to ensure that we have the necessary capability and resources to fulfil our customer's requirements. If necessary, our procurement staff would collect price quotations of the raw materials to be used for the relevant project from suppliers and conduct market research on the prevailing market prices of such raw materials in order to ensure that we purchase high-quality raw materials at competitive prices. We would also engage subcontractors for construction services or labour provision services when we consider necessary.

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- **Implementation:** In respect of our environmental maintenance projects, we generally engage subcontractors to procure labour services. Our project management team is responsible for monitoring the quality of works performed by our subcontractors. Our service contracts with the relevant subcontractors specified the quality and standard required in the provision of environmental maintenance services.

In respect of our construction management projects, we generally engage subcontractors to carry out all of the construction works. Our project management team is responsible for monitoring the quality and the progress of the construction work and conducting on-site inspections of the project progress periodically. The project manager will then document the inspection results and report to the head of our engineering department. If there are any existing or potential non-conformities with our customers' specifications, the project manager will take immediate rectification where necessary. An independent construction supervisor (監理) will be appointed by us or our customers pursuant to the relevant contract and in accordance with relevant PRC laws and regulations. At the end of each month, our project management team will conduct a meeting with our customers, the construction supervisor and our subcontractors to discuss the progress of the project and then deliver the progress report to our customers.

A quality control supervisor (an Independent Third Party appointed by either us or our customers) will be responsible for providing overall supervision over quality control issues, and coordinating with our project management team if any quality issue is identified.

- **Completion:** In respect of our environmental maintenance projects, our inspection team conducts weekly inspection with our subcontractors to monitor the performance and quality of the services provided by our subcontractors. The head of our engineering department reviews and prepares the relevant weekly inspection report.

In respect of our construction management projects, our customer, our project management team and our subcontractors conduct on-site inspection and document the project status upon completion. Our engineering department also conducts a post-completion inspection and obtains approval from our customer after completion of the inspection procedures. The quality control supervisor will also conduct a separate post-completion inspection and deliver an independent quality report in respect of the relevant project.

### Quality control measures of subcontractors

We assess our subcontractors in terms of their reputation, management capability, technology level, track record and ability to perform specific works under the relevant service contracts. Our project management team and construction supervisor monitors and inspects the on-site quality of the construction work undertaken by the subcontractors. If there is any sub-standard work identified during our regular site inspection, we instruct the subcontractors to rectify the defects as soon as practicable. In respect of the construction management projects where we have engaged subcontractors, we inspect and monitor the performance of our subcontractors based on the requirements under the tender invitations and the applicable PRC laws and regulations.

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### **Quality control measures of suppliers of raw materials**

For projects we did not engage subcontractors, we impose stringent standards on the quality of raw materials used in these projects. In selecting our suppliers, we consider various factors such as quality of raw materials, price competitiveness, geographical location, quality of after-sales service, reputation, delivery schedule, transaction record, and reliability of supply. Based on our evaluation of suppliers according to the aforesaid factors during the course of our business operations, we have maintained a list of qualified suppliers. We inspect the quality of the raw materials before they are delivered to us. We reject those raw materials which are sub-standard or do not comply with our specifications. We review our list of qualified suppliers from time to time and we remove any supplier from the list, who provides us with sub-standard raw materials or who no longer meets our prescribed requirements.

### **MARKETING**

We place an emphasis on developing our brand image through our completed environmental maintenance and construction management projects. Our customers, existing or potential, are able to assess our project quality by visiting our completed projects.

Our marketing department is also responsible for liaising and maintaining our relationship with customers as well as other marketing activities. Complaints received from our customers are handled by our marketing department. We have designated in-house staff to monitor notices, news and information in the media in connection with tenders relating to environmental maintenance and construction management projects. We also actively market our sale of gneiss and strive to build relationships with existing and potential customers. We principally source clients by recurring of existing clients and referrals from other third parties.

### **Seasonality**

Save for more greening services are delivered by our Group in the summer time than in the winter time, our Directors consider that there is no material seasonal pattern of the demand for our services provided.

### **COMPETITION**

According to the Ipsos Report, the environmental maintenance industry in Lianyungang is highly fragmented with the top five environmental maintenance operators, in aggregate, accounting for approximately 20.3% of the market in terms of total revenue in Lianyungang in 2016. Our Group ranked third with our segment revenue for the provision of environmental maintenance services representing a market share of approximately 5.4% of the environmental maintenance industry in Lianyungang compared with the total revenue of other environmental maintenance operators in 2016. Such statistics are the latest data which can be obtained by us. Environmental maintenance operators compete with one another in respect of qualifications, capital adequacy and track record.



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According to the Ipsos Report, the construction management industry in Lianyungang is highly competitive with the top five construction management operators, in aggregate, accounting for approximately 58.8% of the market in terms of total project value in Lianyungang in 2016. Our Group ranked first with a market share of approximately 19.5% of the construction management industry in Lianyungang in terms of project value in 2016. Construction management operators compete with each other in respect of qualifications, relationship with the municipal government and track record.

According to the Ipsos Report, the supply of gneiss, a construction material, market is relatively concentrated with the top five gneiss supply companies, in aggregate, contributed to approximately 75.7% of the market in terms of revenue in 2016. Our Group ranked first with a market share of approximately 42.3% of the gneiss supply industry in Lianyungang in terms of revenue in 2016. Gneiss supply companies compete with one another in respect of advantageous geographical location, continual and sufficient supply of gneiss and after-sales service such as dealing with quality problems and loading.

### **RELIANCE ON LIANYUNGANG MUNICIPAL GOVERNMENT AND ITS RELATED ENTITIES**

Due to the nature of our Group's business, we have entered into various transactions with Lianyungang Municipal Government and its related entities, namely (i) NH Development and its subsidiaries, being Jiangsu Xinhaike, Gaoke Investment and Zhongtong Keyun (together, the "**NH Development Group**"); (ii) LET Development Zone Management Committee; (iii) LET Development Zone Planning and Construction Bureau; and (iv) Lianyungang High Tech Industry Development Zone.

#### **Reliance on NH Development as our sole supplier for gneiss**

NH Development, a state-owned company, is wholly-owned by Lianyungang Municipal Government (江蘇省連雲港市人民政府) and administered and regulated by LET Development Zone Management Committee. NH Development has been our Group's sole supplier for gneiss and our Group's largest supplier for each of the three years ended 31 December 2014, 2015 and 2016. Substantially all of such gneiss supplied were used in our supply of construction material (gneiss) business.

Our Group entered into NH Development Supply Agreement with NH Development, pursuant to which NH Development shall supply gneiss to the Group exclusively during the contractual term from 1 January 2016 to 31 December 2018. During the Track Record Period, the total purchase of gneiss from NH Development accounted for approximately RMB38.6 million (or representing approximately 35.5%), RMB52.8 million (or representing approximately 41.6%) and RMB75.1 million (or representing approximately 43.3%) of the Group's total costs of sales for the three years ended 31 December 2014, 2015 and 2016.

In relation to our supply of construction material (gneiss) business, our Directors are of the view such reliance on Lianyungang Municipal Government and its related entities are inevitable as

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according to the Ipsos Report, other than the quarry operated by NH Development, there were nine gneiss quarries in operation in Lianyungang which were either directly owned by Lianyungang Municipal Government or indirectly owned by enterprises related to Lianyungang Municipal Government as at the Latest Practicable Date.

However, our Directors are of the view of that our Group's reliance on NH Development as the sole supplier of gneiss is not an extreme case since:

- (i) we have entered into the NH Development Supply Agreement with NH Development pursuant to which NH Development agreed to supply gneiss exclusively to the Group for a term of three years ending on 31 December 2018 and we have an option to renew;
- (ii) pursuant to the NH Development Supply Agreement, we are free to source gneiss from other gneiss quarries;
- (iii) considering the sales network of our senior management team, our large purchase quantity and our Group's settlement term being pre-payment which gives NH Development confidence to our Group's credit, our Directors believe that NH Development would continue to sell gneiss to us; and
- (iv) given the mutual and complimentary relationship between our Group and NH Development explained above, we are capable to maintain such relationship with NH Development.

### **Reliance on LET Development Zone Management Committee and LET Development Zone Planning and Construction Bureau as major customers of our environmental maintenance business**

According to the Ipsos Report, the environmental maintenance industry is an indispensable and irreplaceable industry, and that the government is usually the main customer. Our Directors are thus of the view that environmental maintenance of public space is one of the important public services driven by Lianyungang Municipal Government in Lianyungang and that deriving a majority of the revenue for the provision of environmental maintenance services from government and government related entities are inevitable. Since our Group commenced our business in Lianyungang, it is a natural course of business that our revenue for the provision of environmental maintenance services were predominately derived from Lianyungang Municipal Government and its related entities. During the three years ended 31 December 2014, 2015 and 2016, revenue in the amount of approximately RMB81.1 million, RMB85.5 million and RMB91.0 million, respectively, representing approximately 100.0%, 100.0% and 99.6% of the total revenue of our environmental maintenance business for the same years, were derived from Lianyungang Municipal Government and its related entities, namely LET Development Zone Management Committee, LET Development Zone Planning and Construction Bureau and Lianyungang High Tech Industry Development Zone Management Committee.

LET Development Zone Management Committee, an authorised governmental body and is responsible for administering the LET Development Zone, was our largest customer for the two years ended 31 December 2014 and 2015 attributable to the provision of environmental maintenance

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management services to them pursuant to the two contracts for the provision of environmental maintenance management services awarded by them through public tendering. From 2016, LET Development Zone Planning and Construction Bureau, an authorized governmental body, has been delegated with the responsibility to administer environmental maintenance services management in LET Development Zone in place of LET Development Zone Management Committee. Thereafter, we have successfully obtained the projects for the provision of environmental maintenance management services in LET Development Zone for the term from 11 January 2016 to 10 January 2019 through public tendering and entered into two contracts with LET Development Zone Planning and Construction Bureau. Thus, LET Development Zone Planning and Construction Bureau, became our second largest customer for the year ended 31 December 2016.

During the Track Record Period, we have expanded our environmental maintenance services to other places in Lianyungang outside the LET Development Zone and were awarded two contracts by Lianyungang High Tech Industry Development Zone Management Committee through public tender. Lianyungang High Tech Industry Development Zone Management Committee is an authorised governmental body and is responsible for administering the Lianyungang High Tech Industry Development Zone.

All of the environmental maintenance were obtained through a competitive public tendering process during the Track Record Period after competing with other independent bidders.

### **Reliance on NH Development Group and Chuanglian Investment as customers of our construction project management business**

Our construction project management services involve our undertakings of BT and PPP projects of infrastructure and public facilities starting in May 2015. According to the Ipsos Report, the Lianyungang Municipal Government is the main customer initiating construction project management projects in Lianyungang. According to Ipsos Report, all of the construction project management projects in Lianyungang were public in nature and were issued by Lianyungang Municipal Government and its related entities for the years ended 31 December 2014, 2015 and 2016. Our Directors are thus of the view that the reliance on Lianyungang Municipal Government and its related entities in deriving revenue of our construction project management business is inevitable. During the Track Record Period and up to the Latest Practicable Date, all of our BT and PPP projects were awarded by NH Development Group and Chuanglian Investment through public tender.

During the Track Record Period, we provided construction project management services to NH Development Group and Chuanglian Investment, both wholly-owned by Lianyungang Municipal Government. For the three years ended 31 December 2014, 2015 and 2016, we derived an aggregate revenue of nil, approximately RMB29.1 million and RMB128.7 million from NH Development Group and Chuanglian Investment, representing all of our Group's revenue from construction project management services for the same years.

All of the BT and PPP projects were obtained through a competitive public tendering process during the Track Record Period after competing with other independent bidders. We did not win every single tender made and whether we were able to obtain the projects depends on, among other things, our Group's qualifications, experience, credibility, reputation, and the tender price.

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Our Directors believe that we compete with our competitors principally on qualifications, established relationship with the government, capital adequacy and good track record; and our business model enables our Group to sustain our market position and give us a competitive edge over our competitors. For further details, please refer to the section headed “Industry overview” in this prospectus.

### ENVIRONMENTAL PROTECTION AND WORK SAFETY

#### Environmental protection

As we engage third party subcontractors for all of our BT and PPP projects and some of our municipal construction projects, pursuant to the terms of the service contract with our subcontractors, our subcontractors are required to comply the relevant PRC laws and regulations relating to environmental protection. In addition, our engineering department also oversees the environmental protection management and conducts inspection and supervision of the implementation of the environmental protection measures by our subcontractors.

For projects we did not engage subcontractors, our Group has adopted various environmental protection measures, including using environmentally friendly detergents or chemicals, installing covers on waste collecting vehicles, noise control measures and construction dust control measures at the construction site, to ensure our compliance with the relevant PRC laws and regulations relating to environmental protection.

We believe that our business operation does not generate hazardous materials that would have a significant adverse effect on the environment.

Our Directors have confirmed that during the Track Record Period and up to the Latest Practicable Date, we did not receive any notice of non-compliance with environmental laws and regulations nor has any relevant governmental authority imposed any penalty on us.

#### Work place safety

Our occupational health and safety management system in respect of greening, environmental sanitation and municipal construction is accredited with GB/T 28001-2011/OHSAS 18001:2007 standards. The certificate in respect of our occupational health and safety management system was jointly issued by The International Certification Network and China Quality Mark Certification Group (方圓標誌認證集團) on 22 December 2015 and remains effective until 21 December 2018.

We have developed and implemented various safety policies to monitor and record employee occupational health and safety. We strive to minimise work-related accidents and injuries. We require our employees to conduct annual body check to ensure that they are physically fit for work. Vocational training is also provided to the employees on a regular basis.

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As we engage third party subcontractors for all of our BT and PPP projects and some of our environmental maintenance municipal construction projects, pursuant to the terms of the service contract with our subcontractors, our subcontractors are required to comply the relevant PRC laws and regulations relating to work place safety. Moreover, our engineering department is responsible for the overall development and implementation of our safety policy and the project manager has on-site responsibility to monitor the implementation at our project sites. In the event of an accident, the project manager will initiate the emergency plan and seek external rescue if needed. The project manager will report the incident to the deputy general manager of our Company and complete the accident report. Investigation of the accident will be conducted to find out the underlying cause, to establish accountability and to identify improvement measures.

We have implemented measures to control entry into construction sites by external parties. We have project managers stationed at project sites to monitor the compliance of our safety manuals and internal policies at the construction site.

Our Directors have confirmed that, during the Track Record Period and up to the Latest Practicable Date, we have complied with the PRC workplace safety regulatory requirements in all material respects. During the Track Record Period and up to the Latest Practicable Date, we have not been subject to any material penalties associated with any material violation of any PRC workplace regulatory requirements and have not had any material claim against us as a result of any accident.

### EMPLOYEES

As at the Latest Practicable Date, we had 44 employees (excluding our Directors) in total whereas 40 of our employees are based in the PRC and four are based in Hong Kong. The following table sets out the number of employees by function as at the Latest Practicable Date:

<b>Function</b>	<b>Number of employees</b>
Operation	26
Finance and accounting	11
Management, human resources and other administration	<u>7</u>
<b>Total</b>	<u><u>44</u></u>

During the Track Record Period, we mainly recruit employees through internet advertisement, television advertisement and outdoor media such as advertisement banner outside commercial building. Our staff costs were approximately RMB1.8 million, RMB8.4 million and RMB10.8 million for the three years ended 31 December 2014, 2015 and 2016, respectively. We sign individual employment agreements with each of our employees, covering provisions on, amongst other things, responsibilities, salaries, benefits, training, workplace safety and hygiene, confidentiality obligations relating to trade secrets and grounds for termination in accordance with relevant laws and regulations. We generally recruit talented employees based on education background and relevant working experiences.

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We believe we maintain a good working relationship with our employees. During the Track Record Period, we have not experienced any significant labour disputes which have had or are likely to have a material adverse impact on our business, financial conditions and results of operations.

### Training

In order to maintain the quality, knowledge and skills of our employees, we provide various training opportunities to our employees, which include on-the-job training, technical training, professional and management training. During the Track Record Period, our employees attended various training courses and seminars, including Tax Planning under The New PRC Law on Imposition and Management of Taxation (新稅收徵管法下的納稅籌劃) and Use of Kingdee Software Contract Management (金蝶軟件合同管理模塊應用).

### Remuneration

The remuneration payable to our employees includes salaries, benefits and discretionary bonuses. We conduct periodic performance reviews for our employees and determine their remuneration based on factors including qualifications, contributions, years of experience and performance.

For our employees in Hong Kong, we operate a defined contribution mandatory provident fund retirement benefits scheme under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong).

For our employees in the PRC, in accordance with applicable PRC laws and regulations, we have made contributions to social security insurance and housing provident funds for all our qualified employees. For the three years ended 31 December 2014, 2015 and 2016, the total amount of social security insurance and housing provident fund contributed by our Group was approximately RMB0.2 million, RMB1.0 million and RMB1.8 million respectively. During the Track Record Period, we have not fully complied with the laws and regulations in respect of social security insurance contributions and housing provident fund contributions. For further details of the non-compliance matter, please refer to the section headed “Business — Compliance Matters” in this prospectus. As confirmed by our PRC Legal Advisers, as at the Latest Practicable Date, we had complied with all applicable social security insurance and housing provident fund obligations applicable to us under the PRC laws and regulations.

### PROPERTIES

We occupy certain properties in the PRC and Hong Kong in connection with our business operations. These properties are used for non-property activities as defined under Rule 8.01(2) of the GEM Listing Rules. As at the Latest Practicable Date, we leased one property in the PRC and licensed one property in Hong Kong in connection with our business operations, and none of these properties had a carrying value of 15% or more of our consolidated assets. Pursuant to Section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with the

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requirements of Section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to Paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in properties.

### Leased Property

The following table sets out the details of the property we leased as our office in the PRC as at the Latest Practicable Date:

Address	Use	Term	Gross floor area	Rental per annum (RMB)	Tenant	Landlord
Rooms 601-627, New Headline Mansion, No. 601, Huaguoshan Avenue, LET Development Zone, Lianyungang, Jiangsu, PRC <sup>(Note)</sup>	Office	Three years (21 August 2016 to 20 August 2019)	1,532 sq.m.	459,600	Yuanyun Industrial	NH Development

*Note:* The landlord of the leased property, NH Development, is our substantial shareholder. Please refer to the section headed “Connected Transactions — Exempt Continuing Connected Transactions — Lease of Office Premise” in this prospectus for details.

For the leased property in the PRC, we have registered the relevant lease agreement with Lianyungang Housing Guarantee And Real Estate Management Bureau\* (連雲港市住房保障和房產管理局) in accordance with relevant PRC laws and regulations.

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### Licensed Property

The following table sets out the details of the property we licensed from an Independent Third Party as our office in Hong Kong as at the Latest Practicable Date:

Address	Use	License term	Estimated net floor area	License fee per month (HK\$)	Licensee
27/F, World Wide House, 19 Des Voeux Road, Central, Hong Kong	Office	6 months (from 1 May 2017 to 31 October 2017)	30 sq.m.	60,000	New Headline (Hong Kong)

### INVENTORY

Due to the nature of our business, it is our general strategy not to keep any inventory of raw materials for our business operation. For projects we engaged subcontractors, our subcontractors are responsible for procuring substantially all of the raw materials required. For projects which we did not engage subcontractors, we are responsible for the procurement of raw materials. Such raw material will not be recorded as our inventories and we will use them immediately at the project site upon delivery by the suppliers.

For our supply of gneiss, we generally inform our supplier, NH Development, of the quantity of gneiss required for each month, which shall be determined by actual demand.

### MAJOR ASSETS

#### Vehicles

As at 31 December 2016, our vehicle fleet comprises around 13 vehicles of different types, including lorry, road sweeper, refuse compaction vehicle, sprinkler truck and vehicles for logistical purposes. We care about our vehicles fleet's performance and safety, where we have replaced vehicles that did not meet our safety and performance standards. Safety and environmental friendliness are the two major factors we consider when purchasing vehicles. As at 31 December 2016, our vehicles generally have an estimated useful life of 5 to 7 years.

#### Production equipment and machinery

We use a wide range of production equipment and machinery in our business operations, in particular in our environmental maintenance and construction management business. Such production equipment and machinery include pesticide sprayer, hedge trimmer, brush cutter and miscellaneous types of tools and equipment. As at 31 December 2016, our major production equipment and machinery generally have an estimated useful life of 5 to 10 years.



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### Equipment, machinery and vehicle maintenance

To ensure proper maintenance of our production equipment, machinery and vehicles, our engineering department is responsible for conducting check-ups from time to time and ordering prompt repair or replacement when required. Repair of production equipment and machinery are usually done by their respective supplier or distributor in accordance with warranty policy. Repair of vehicles are usually done by the vehicle's distributor or a third party vehicle service centre. For the three years ended 31 December 2014, 2015 and 2016, the repair and maintenance costs were nil, approximately RMB8,000 and RMB2,900, respectively. As at 31 December 2016, the carrying amount of our vehicles, production equipment and machinery amounted to approximately RMB3.0 million.

### INTELLECTUAL PROPERTY

As at the Latest Practicable Date, our Group has one registered trademark in Hong Kong and we have applied for the registration of one trademark in the PRC. We are also the registered owner of four domain names, namely "www.newheadline.com.cn", "www.newheadline.com.hk", "www.newheadline.hk" and "www.newheadline.com". Please refer to the section headed "Statutory and General Information — Further information about our Business of the Company — Intellectual Property Rights" in Appendix IV to this prospectus for further details of our intellectual property rights.

As at the Latest Practicable Date, to the best knowledge, information and belief of our Directors having made all reasonable enquiries, we are not engaged in or threatened with any dispute or claims for infringement of any intellectual property rights, whether as claimant or as a defendant.

### AWARD AND RECOGNITION

We have obtained the following significant award and recognition:-

<b>Year awarded</b>	<b>Description of award/ recognition</b>	<b>Date of grant</b>	<b>Awarding organisation/ institution</b>
2015	Enterprise of Observing Contracts and Valuing Credit (守合同重信用企業)	4 November 2015	Industry and Commerce Administration Bureau of Lianyungang (連雲港市工商局)

### INSURANCE

We maintain third parties' liability insurance for all of our vehicles in accordance with applicable PRC laws and regulation. Save for our vehicles, we do not maintain insurance coverage on our others properties, machinery, equipment, third party liability or against personal injuries that may occur during the operation of our business.

In accordance with applicable PRC laws and regulations, construction contractors as employers are required to purchase insurance for their construction workers. As we engage third-party subcontractors to carry out construction works for all of our BT and PPP projects and some of our

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municipal construction projects, we currently do not maintain such insurance ourselves. We typically require the subcontractors of our construction management projects and our labour service subcontractors to purchase insurance for our projects under construction. We believe that the practice of our Group is consistent with the customary industry standard adopted by other urban project management operators in Lianyungang. However, we may not have sufficient financial resources to cover such losses, damages and liabilities that may arise in our business operations. For details, please refer to the section headed “Risk Factors — Risks related to our business — We do not have insurance to cover damages to all risks related to our business operations” in this prospectus.

### RESEARCH AND DEVELOPMENT

During the Track Record Period and up to the Latest Practicable Date, our Group had not engaged in any research and development activities nor incurred any research and development expenses.

### RISK MANAGEMENT POLICIES

We recognise that risk management is critical to the success of our business. Key operational risks that we face include changes in the PRC political and economic conditions, changes in the PRC policy environment, quality of our subcontractors, project management and cash flow management and competition from other urban environmental and construction management operators. Please refer to the section headed “Risk Factors” in this prospectus for a discussion of various risks and uncertainties we face.

In addition, we also face various financial risks. In particular, we are exposed to foreign exchange, cash flow and fair value interest rate, credit and liquidity risks that arise in the ordinary course of our business. Please refer to the section headed “Financial Information — Market risks” in this prospectus for a discussion of these market risks.

In order to meet these challenges, we have established the following measures and procedures to manage our risks:

- We monitor the attainment and renewal of the licences, permits, certificates and qualifications necessary for our business operations and ensure that all relevant licences, permits, certificates and qualifications are renewed prior to their respective expiration dates.
- We have implemented various quality control measures and inspection over our subcontractors. For further details, please refer to the paragraph headed “Quality control” in this section.

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- Our senior management is responsible for the risk monitoring of our Group and for the supervision of different aspect of our business operations on a daily basis as well as the supervision and approval of any material business decision of our Group. We have established detailed procedures and policies setting out clear reporting lines and responsibilities with a view to facilitate efficient communications among different departments.
- We closely monitor our liquidity position to ensure we have sufficient funds to meet obligations when they become due. In order to timely monitor operating cash flow and working capital sufficiency, we have adopted various internal control measures which include: (i) preparing our overall budget on a yearly basis and performing variance analysis on quarterly basis; (ii) monitoring our liquidity position and ratio on a monthly basis and closely monitoring the maturities of our assets and liabilities in an effort to ensure we have sufficient funds to meet obligations when they become due; (iii) closely monitoring our banking facilities to ensure we have obtained sufficient banking facilities to support our business operation; and (iv) considering to diversify our source of financing by seeking other possible long-term financing opportunities, such as bond and equity issuing upon Listing.
- We will provide continuous on-job training to our employees in order to enhance their knowledge of our corporate culture, with a view to maintain integrity and reliability to manage our operational and market risks.
- Our Board shall formulate and incorporate new risk management measures into our internal control procedures when appropriate.

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

In light of our significant reliance of Lianyungang Municipal Government and related entities, we have had in place anti-bribery and anti-corruption policy and procedures in order to maintain the integrity of our Group's business and operations, which include the following:

- we have in place a specific anti-bribery and anti-corruption policy that set out, among other things, impermissible behaviours for our employees;
- employees trainings on anti-bribery and anti-corruption and compliance are conducted as part of the staff induction training and at least annually to provide update. These training programs aim to enhance regulation compliance awareness among our staff and summarize the risk points where corruption is likely to occur in our industry;

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- all employees are required to sign acknowledgement of understanding of our anti-bribery and anti-corruption policy to ensure the integrity of their conduct;
- there are procedures for employees to report suspected incidents of bribery and corrupt practices to the Board such as complaints hotlines and mailboxes, in order to handle complaints in a timely manner;
- our Board meets every quarter to discuss general compliance matters of our Group, including compliance with anti-corruption laws and regulations as well as internal policies and other internal control matters. We evaluate the risks of bribery, inappropriate financial reporting, misuse of corporate funds and improper expenses and revise our internal policies and rules as appropriate;
- we have implemented internal control policies to prevent misuse of corporate funds and improper transactions, including bribing public officials with gifts, extravagant dinners, entertainments, or other benefits. Such internal control policies include expense reimbursement policy where all staff's expense reimbursement have to be proved by proper supporting documents reviewed by our finance department and subsequently approved by our chief executive officer. In addition to the procedures mentioned, expense reimbursement in relation to entertainment, which refers to food or drink provided for consumption on the occasion and other entertainment provided as the same time, are under particular scrutiny where prior approval as to the nature and amount involved have to be obtained in order for such entertainment expenses to be reimbursed. Our staff is also prohibited to receive any monetary benefits, discounts, special offers or gift in the course of his/her employment as may have influenced his/her proper discharge of his/her duties. Proper book keeping procedures as well as segregation of duties of authorization, review, approval and documentation of each transaction are also in place to prevent our staff from misusing corporate funds and carrying out improper transactions. We will take disciplinary actions against any employees who violate these anti-bribery policies, including termination of employment, and will terminate the relevant agreements with any business partners who we find to have violated these policies. During the Track Record Period and up to the Latest Practicable Date, we did not encounter any violation of our anti-corruption policies by our employees and business partners;
- we have formulated comprehensive policies on management of expenses incurred in the course of business. Our finance department is responsible for examining receipts and handling all expense reimbursements. Our chief financial officer will review monthly financial reports in order to detect for irregularities. Any exceptional expenses have to be explained and properly documented;
- we will engage a PRC law firm to advise us on and keep us abreast with PRC laws and regulations, including those relating to anti-bribery and anti-corruption;

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- Amongst the members of the Audit Committee, Mr. Chan So Kuen (陳素權), being the chairman of the Audit Committee and an independent non-executive Director, has experience in reviewing anti-bribery and anti-corruption policy and overseeing the compliance status of such policy in a listed company when he served as an independent non-executive director and the chairman of the audit committee of Link Holdings Limited (華星控股有限公司) (stock code: 8237). Mr. Chan has been an independent non-executive director of Link Holdings Limited (華星控股有限公司) since October 2014. Ms. Xiao Xia (肖俠), being another member of the Audit Committee and an independent non-executive Director of the Company, is a Professor of The School of Business of Huaihai Institute of Technology (淮海工學院商學院) and has been engaged to conduct independent audit on the union fees of The Lianyungang Federation of Trade Unions (連雲港市總工會) from a compliance and anti-corruption perspective between 2004 and 2010. Since 2009, Ms. Xiao has also been engaged to conduct compliance evaluation and anti-bribery review on the certain special project fund of the finance bureau of the Lianyungang Government. For further information of Mr. Chan and Ms. Xiao's and their previous experience, please refer to the section headed "Directors and Senior Management — Board of Directors — Independent non-executive Directors" in this prospectus.

During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any order or penalty, and no action or investigations has been taken by the governmental authorities, in relation to bribery or corruption. After making enquiries of the management of our Group regarding our internal control system, having considered that our Group has never experienced any investigations or actions taken by any authorities, and having reviewed the anti-bribery and anti-corruption policy and procedures, the Sole Sponsor concurs with our Directors' view that our internal control system is adequate and effective to enable us to comply with the relevant anti-bribery laws and regulations in the PRC.

### CORPORATE GOVERNANCE

Our Board is responsible for reviewing and approving our strategic development, devising our risk management strategies and operational plans as well as appointing our senior management. Our Board has three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee. For further details of their composition and duties, please refer to the section headed "Directors and Senior Management — Board Committees" in this prospectus.

### MAJOR QUALIFICATIONS AND LICENCES

Our Directors and our PRC Legal Advisers confirmed that we have obtained and currently maintain all necessary qualifications, permits, licences and approvals required for our business operations in the PRC.

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We currently hold the following major licences and qualifications in the PRC:

Licence/ qualification	Issue authority	Holder	Expiry date	Authorised scope of activities
Grade Three enterprise qualification certificate in urban landscape construction (城市園林綠化企業三級資質證書)	Lianyungang Urban-Rural Construction Bureau (連雲港市城鄉建設局)	New Headline Municipal Landscaping	December 2018	— Undertake maintenance and management projects in greenery of any scale and of any type
				— Undertake landscape projects in relation to comprehensive parks, community parks, theme parks and gardens, with an individual contract value not exceeding RMB5.0 million
				— Undertake land levelling, cultivation, decoration and installation of facilities and fittings such as flower bed, garden pathway, water system, fountains, rockeries, sculptures, square paving, connected embankment, landscape pedestrian bridge (with a single span less than 10 metres) and dock
				— Engage in cultivation, production and management of plants, flowers, potted plants and lawn
Grade Three general contracting qualification certificate in municipal and public construction (市政公用工程施工總承包三級資質證書)	Lianyungang Urban-Rural Construction Bureau (連雲港市城鄉建設局)	New Headline Municipal Landscaping	February 2021	— Urban road engineering (express way not included); urban bridge engineering with a single span less than 25 meters;

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Licence/ qualification	Issue authority	Holder	Expiry date	Authorised scope of activities
				<ul style="list-style-type: none"> <li>— Water supply plant with the limit of 80,000 tons per day; sewage disposal work with the limit of 60,000 tons per day; pump station for water supply, sewage disposal and rainfall with the limit of 100,000 tons per day; water supply pipeline with diameter less than 1 meter; sewer pipeline and middle waterway with diameter less than 1.5 meter;</li> </ul>
				<ul style="list-style-type: none"> <li>— Medium or low pressure gas pipeline with the size less than 2 square centimetres or weight less than 2 kilograms; regulator station; heating engineering supplying power for area less than 500,000 square meters;</li> </ul>
				<ul style="list-style-type: none"> <li>— Urban solid waste disposal project with the individual contract price less than RMB25.0 million;</li> </ul>
				<ul style="list-style-type: none"> <li>— Underground transportation engineering with the individual contract price less than RMB20.0 million (railway transportation engineering not included);</li> </ul>
				<ul style="list-style-type: none"> <li>— City square and ground parking lot covered by rigid material with area less than 5,000 square meters; and</li> </ul>
				<ul style="list-style-type: none"> <li>— Comprehensive municipal project with an individual contract value less than RMB25.0 million.</li> </ul>

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Licence/ qualification	Issue authority	Holder	Expiry date	Authorised scope of activities
Service Licence of Cleaning, Collection and Transportation of Urban Living Garbage (城市生活垃圾經營性清掃、收集、運輸服務許可證)	Lianyungang Urban Management Bureau (連雲港市管理局)	New Headline Municipal Landscaping	January 2019	Undertake the cleaning, collection and transportation of urban living garbage
Work Safety Permit (安全生產許可證)	Jiangsu Provincial Department of Housing and Urban-Rural Development (江蘇省住房和城鄉建設廳)	New Headline Municipal Landscaping	October 2019	—

If we fail to maintain our qualifications upon expiry, our project progress may be delayed, which could have material adverse effect on our business and results of operations. For details, please refer to the section headed “Risk Factors — If our industry qualifications or business licences are downgraded, cancelled, suspended or fail to be renewed, our business, financial position and results of operations may be materially and adversely affected” in this prospectus. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, none of our qualifications, licences or permits were downgraded, cancelled, suspended or failed to be renewed. As advised by our PRC Legal Adviser, there are no legal impediments to the renewal of the relevant licence and qualifications so long as we meet the applicable requirements and conditions and adhere to the procedures set forth in the relevant laws and regulations.

### LEGAL PROCEEDINGS

During the Track Record Period and up to the Latest Practicable Date, none of our Company or any of our subsidiaries have been involved in any litigation or arbitration of material importance that would have a material adverse effect on our business, financial position or results of operations, and to the best knowledge of our Directors, we are not aware of any pending or threatened litigation, arbitration or claim of material importance against us or any of our subsidiaries, which could have a material adverse effect on our Group’s business, financial position or results of operations.



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### COMPLIANCE MATTERS

Our Directors and our PRC Legal Advisers confirmed that, save as disclosed below, during the Track Record Period and up to the Latest Practicable Date, we had complied in all material aspects with all relevant and applicable PRC laws and regulations.

We set out below the material non-compliance matter relating to our Group:

Non-compliance incident	(i) Reason(s) for the non-compliance; and (ii) responsible person involved	Legal consequences, potential maximum penalties and other financial liabilities	Rectification actions taken and current status
<p>Yuanyun Industrial and New Headline Municipal Landscaping (the “Defaulting Companies”) failed to make adequate social security insurance and housing provident fund contributions for their employees as required by relevant PRC laws and regulations. We estimated the total underpayment of social insurance and housing provident fund contributions for the three years ended 31 December 2014, 2015 and 2016 were RMB258,769.72 RMB137,865.59 and nil, respectively.</p>	<p>(i) Lack of understanding of the relevant PRC laws and regulations in relation to the adequate social security insurance and housing provident fund contributions on the part in relation to employees’ overtime payment and disbursement which are not stipulated in the labour contract.</p> <p>(ii) Relevant human resource staff.</p>	<p>Our PRC Legal Advisers advised that if we did not pay the relevant social security insurance within the prescribed time limits required by the relevant authorities, a daily late payment at the rate of 0.2% of the outstanding amount will be imposed before July 2011 and/or a fine of one to three times the outstanding amount with a daily late payment at the rate of 0.05% of the outstanding amount from the due date will be imposed from July 2011 onwards. Our PRC Legal Advisers further advised that the housing provident fund management centre shall order the company that is overdue in the payment and deposit of, or underpays the housing provident fund to make the payment and deposit within a prescribed time limit, failing which the housing provident fund management centre may ask the court to take enforcement measures against such company to collect the outstanding housing provident fund.</p> <p>During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any order or penalty and no action has been taken by the governmental authorities in relation to social security insurance or housing provident fund nor we are aware of any employees’ complaints or demands for payment of previously unpaid social security insurance or housing provident fund.</p> <p>Each of the Defaulting Companies received written confirmations from the relevant regulatory authorities that they do not have any records of outstanding payments of social security insurance and housing provident fund in relation to social security insurance or housing provident fund during the Track Record Period.</p>	<p>We will continue to communicate with our employees with regard to their contributions required to be made by the relevant laws and regulations in the PRC and to make full contribution to the social insurance scheme and housing provident funds in accordance with the standards of implementation by relevant regulatory authorities. Further, we have adopted internal procedures to ensure that we comply with the relevant laws and regulations in relation to social security insurance and housing provident fund contributions.</p> <p>Internal policy and procedure has been established to implement internal control measures including (i) designating experienced human resources staff for each PRC operating subsidiary to handle matters in relation to social security insurance and housing provident fund contributions according to the calculation method security set out in the policy and procedure; and (ii) such calculation will then be reviewed by the human resources supervisor at the group level. The account department will also keep a proper record of the contributions paid. Training sessions to managerial personnel were conducted to update our employees of such requirement, relevant policy and procedure including but not limited to the calculation of contribution.</p>

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Non-compliance incident	(i) Reason(s) for the non-compliance; and (ii) responsible person involved	Legal consequences, potential maximum penalties and other financial liabilities	Rectification actions taken and current status
		<p>Our PRC Legal Advisers is of the view that (i) those relevant regulatory authorities are competent authorities to issue the above confirmations; and (ii) based on such confirmations, the likelihood that the Defaulting Companies will be required to pay the outstanding payments and any penalties by such authorities thereto is very remote.</p> <p>In view of our PRC Legal Advisers' advice, we did not make any provision for the outstanding social security insurance and housing provident fund contributions or the potential penalties during the Track Record Period in our financial statements.</p>	<p>Our Controlling Shareholders have given an indemnity to each members of our Group against, among others, all claims, actions, losses, damages, costs or expenses suffered or incurred by any of the members of our Group in connection with the social insurance and housing provident fund contributions required to be made by the relevant laws and regulations in the PRC, which any member of our Group has failed to make in accordance with such laws and regulations from their respective date of establishment to the Listing Date.</p> <p>Our Directors consider that such non-compliance would not have a material operational or financial impact on us.</p>

### INTERNAL CONTROL MEASURES

In order to avoid recurrence of non-compliance in the future and to ensure the ongoing compliance with the relevant regulatory requirements after Listing, we have adopted or implemented the following measures to strengthen our control environment at both working and monitoring level:

- (1) We have established the Audit Committee which comprises three independent non-executive Directors, to oversee the internal control procedures and accounting and financial reporting matters of our Group. The Audit Committee has also adopted its terms of references which set out clearly its duties and obligations for ensuring compliances with the relevant regulatory requirements. In particular, the Audit Committee is empowered under its terms of reference to discuss the implementation of internal control measures with our management and review any arrangement which may arise concerns about possible improprieties in financial reporting, internal control or other matters.
- (2) Our Directors have attended trainings conducted by our Company's Hong Kong legal advisers, Li & Partners, on the ongoing obligations, duties and responsibilities of directors of publicly listed companies under the Companies Ordinance and the GEM Listing Rules.
- (3) We have engaged an external PRC legal adviser to provide advice to the Board and members of our senior management on an on-going basis in respect of all relevant PRC laws and regulations, including changes thereto from time to time, which may affect our business operations in the PRC.

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- (4) We have appointed Guotai Junan Capital Limited as our compliance adviser to advise our Group on compliance matters in accordance with Rule 6A.19 of the GEM Listing Rules.
- (5) We will further implement various training programmes, with the support of our external PRC legal advisers, to update our employees on the relevant PRC laws and regulations and will conduct regular compliance training for our employees to enhance their understanding of the prevailing laws and regulatory regime applicable to our Group.
- (6) In order to further enhance the effectiveness of our internal control system and to ensure our compliance with all relevant laws and regulations going forward, we have also formulated a new internal control policy whereby our management should conduct research and seek professional advice from external legal advisers and/or professional consultants regarding the requirements under the relevant rules and regulations in relation to any plans for new business operations. A report with results of such research and a summary of advice should be tabled on the Board meeting for discussion and approval prior to commencement of such new business operation.

### **Views of our Directors and our Sole Sponsor**

In light of the foregoing, our Directors are of the view, which our Sole Sponsor concurs, that the internal control measures adopted by us can strengthen our internal control framework, and therefore, are adequate and effective to significantly reduce our risk of future non-compliance with the relevant legal and regulatory requirements. Our Directors are also of the view that the non-compliance incident would not affect the suitability of our Directors in discharging their duties as required under Rules 5.01, 5.02 and 5.07 of the GEM Listing Rules and the suitability of our Company for listing under Rule 11.06 of the GEM Listing Rules. Our Group further undertakes that we will not commit similar non-compliance incidents relating to all aspects of our business operations of our Group under the applicable laws and regulations.

Save as disclosed, our Directors were not aware of any historical and material non-compliance incidents relating to the business operations of our Group under the applicable laws and regulations during the Track Record Period and up to the Latest Practicable Date.

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### OVERVIEW

Immediately after completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares which may be allotted and issued upon any exercise of the Over-allotment Option or options which have been or may be granted under the Share Option Scheme), Glorious Prosperity, Keen Smart and Best Talent Asia will hold approximately 24.75%, 22.50% and 14.25% of the total issued share capital of the Company respectively. Each of Glorious Prosperity, Keen Smart and Best Talent Asia is held as to 100% by Mr. Wei. As such, Mr. Wei, Glorious Prosperity, Keen Smart and Best Talent Asia will continue to control more than 30% of the issued share capital of the Company and will be our Controlling Shareholders after the Capitalisation Issue and the Global Offering.

Glorious Prosperity, Keen Smart and Best Talent Asia are investment holding companies. Mr. Wei is an ordinary resident in the PRC and our non-executive Director and chairman. For details of the background of Mr. Wei, please refer to the section headed “Directors and Senior Management” in this prospectus.

Save for his interests in our Group, Mr. Wei, as our Controlling Shareholder, and/or his close associates, individually or together, are currently holding interests directly or indirectly in other entities which are engaged in business not in competition with our principal businesses. The major other businesses owned directly or indirectly by Mr. Wei and his respective close associates include, among others, investment consultancy and management services, business consultancy services, financial leasing and pawning.

Mr. Wei was the director of Shanghai Rongyan Investment Management Co., Ltd.\* (上海榮延投資管理有限公司), a company incorporated in the PRC. According to Mr. Wei, it was voluntarily dissolved in accordance with the PRC laws on 28 September 2012. Mr. Wei was also the director and the legal representative of Jiangsu Guosheng Guarantee Co., Ltd.\* (江蘇國晟擔保有限公司), a company incorporated in the PRC. According to Mr. Wei, it was voluntarily dissolved in accordance with the PRC laws on 9 December 2013.

Ms. Xie is the spouse of Mr. Wei. Ms. Xie was the legal representative, director and shareholder of Shanghai Min Rui Steel Market Operation and Management Co. Ltd.\* (上海閩瑞鋼材市場經營管理有限公司) and person-in-charge of Shanghai Canhong Gangtie Co. Ltd. First Branch Company\* (上海燦宏鋼鐵有限公司第一分公司), which were incorporated in the PRC. According to Ms. Xie, as such companies were planned to discontinue and their operation had been ceased, such companies had not conducted the annual inspection and therefore their business licenses were revoked on 28 December 2006 and 6 February 2006, respectively. Ms. Xie was the supervisor and shareholder of Shanghai Shen Yu Building Materials Trading Co. Ltd.\* (上海申瑜建材貿易有限公司), a company incorporated in the PRC. According to Ms. Xie, as such company was planned to discontinue and its operation had been ceased, such company had not conducted the annual inspection and therefore its business license was revoked on 10 June 2005.

Ms. Xie was the director of Shanghai Hengsheng Financing Guarantee Co., Ltd.\* (上海恆盛融資擔保有限公司), a company incorporated in the PRC. According to Ms. Xie, it was voluntarily

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dissolved in accordance with the PRC laws in 13 February 2017. Ms. Xie was also the chairlady of Jiangsu Guosheng Guarantee Co., Ltd.\* (江蘇國晟擔保有限公司), a company incorporated in the PRC. According to Ms. Xie, it was voluntarily dissolved in accordance with the PRC laws on 9 December 2013.

Ms. Zhang De Lan was the supervisor of Lianyungang Lehuo City Construction and Development Co., Ltd.\* (連雲港樂活城建設開發有限公司), a company incorporated in the PRC. According to Ms. Zhang De Lan, it was voluntarily dissolved in accordance with the PRC laws on 29 January 2013.

Save as disclosed above, there are no other PRC incorporated entities which the Directors served as directors before their dissolution as required to be disclosed under GEM Listing Rules 17.50 (2)(1).

As we are principally engaged in construction management services, environmental maintenance services and supply of construction material (gneiss) and none of the business owned by the Controlling Shareholders and their close associates outside our Group is involved in such businesses, our Directors are of the view that there are clear delineation between the principal business of our Company and those of the above companies owned by our Controlling Shareholders and their close associates.

Save as disclosed in this prospectus, none of the Controlling Shareholders, Directors and their respective close associates have any interests in any business which directly or indirectly competes or is likely to compete with our principal business, which would require disclosure under Rule 11.04 of the GEM Listing Rules.

### DEED OF NON-COMPETITION

To ensure that competition will not exist in the future, our Controlling Shareholders have entered into Deed of Non-Competition with the Company to the effect that they will not, and will procure their close associate(s) (other than our Group) not to compete, either directly or indirectly, with our principal business and grant to our Group the option for new business opportunity, the option for acquisitions and pre-emptive rights.

#### Non-competition

We entered into the Deed of Non-Competition with the Controlling Shareholders on 26 June 2017, under which the Controlling Shareholders agreed not to, and to procure their close associate(s) (other than our Group) not to compete, either directly or indirectly, with our principal business and granted to our Group the option for new business opportunities, option for acquisitions and pre-emptive rights.

The Controlling Shareholders have further irrevocably undertaken in the Deed of Non-Competition that, during the term of the Deed of Non-Competition, he will not, and will also procure their close associate(s) (other than our Group) not to, alone or with any other entity, in any form, directly or indirectly, engage in, participate in, assist or support a third party to engage in or

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participate in any business that competes, or is likely to compete, directly or indirectly with our principal business. The foregoing restrictions are subject to the fact that the Company may waive certain new business opportunities pursuant to the terms and conditions under the Deed of Non-Competition.

The foregoing restrictions do not apply to (1) the purchase by the Controlling Shareholders or their close associate(s) (as appropriate) for investment purpose of not more than 10% equity interest in other listed companies whose business competes or is likely to compete with our principal business; or (2) the holding by the Controlling Shareholders or their close associate(s) of not more than 10% equity interest in other companies whose business competes or is likely to compete with our principal business, as a result of a debt restructuring of such companies (collectively referred to as “**Investment Companies**” for scenarios (1) and (2)). For the avoidance of doubt, the exceptions above do not apply to such Investment Companies which the Controlling Shareholders or their close associate(s) are able to control their respective board of directors notwithstanding the fact that not more than 10% of the equity interests of such Investment Companies are being held by the Controlling Shareholders or their close associate(s).

### **Options for New Business Opportunities**

The Controlling Shareholders have undertaken in the Deed of Non-Competition that, during the term of the Deed of Non-Competition, if the Controlling Shareholders and/or their close associate(s) (other than our Group) become aware of a business opportunity which competes, or may compete, directly or indirectly with our principal business, the Controlling Shareholders will notify us in writing immediately and provide to us all information which is reasonably necessary for us to consider whether or not to engage in such business opportunity (“**Offer Notice**”). The Controlling Shareholders is also obliged to use their best efforts to procure that such opportunity is first offered to us on terms that are fair and reasonable. We are entitled to decide whether or not to take up such business opportunity within 30 business days from receiving the Offer Notice (subject to our request to extend the notice period of 30 business days), subject to compliance with the applicable requirements under the GEM Listing Rules.

The Controlling Shareholders will use their best efforts to procure their close associate(s) (other than our Group) to offer to us an option to acquire any new business opportunity which competes, or is likely to compete, directly or indirectly with our principal business according to the terms of the Deed of Non-Competition.

If we decide not to take up the new business opportunity for any reason or do not respond to the Controlling Shareholders and/or their close associate(s) within 30 business days from receiving the Offer Notice (subject to our request to extend the notice period of 30 business days), we should be deemed to have decided not to take up such new business opportunity, and the Controlling Shareholders and/or their close associates may operate such new business opportunity on its own.

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### Option for Acquisitions

In relation to any new business opportunity of the Controlling Shareholders referred to in the Deed of Non-Competition, which has been offered to, but has not been taken up by, the Company and has been retained by the Controlling Shareholders or any of their close associate(s) (other than our Group), which competes, or may lead to competition, directly or indirectly with our principal business, the Controlling Shareholders have undertaken to grant us the option, which is exercisable at any time during the term of the Deed of Non-Competition, subject to applicable laws and regulations, to purchase at one or more times any equity interest, assets or other interests which form part or all of the new business as described above, or to operate the new business as described above by way of, including but not limited to, management outsourcing, lease or subcontracting. However, if a third party has the pre-emptive right, in accordance with applicable laws and regulations and/or a prior legally binding document (including but not limited to articles of association and shareholders' agreement), our option for acquisitions shall be subject to such third party rights. In this case, the Controlling Shareholders will use their best efforts to procure the third party to waive its pre-emptive right.

The Controlling Shareholders shall procure their close associate(s) (other than our Group) to comply with the option granted to us by the Controlling Shareholders above. The consideration shall be determined following negotiation between the parties under the fair and reasonable principle based on the valuation conducted by an Independent Third Party professional valuer (selected by both the Controlling Shareholders and us) and the mechanism and procedure provided by applicable laws and regulations.

### Pre-emptive Right

The Controlling Shareholders have undertaken that, during the term of the Deed of Non-Competition, if it intends to transfer, sell, lease, license or otherwise permit to use, to a third party any new business opportunity of the Controlling Shareholders referred to in the Deed of Non-Competition, which has been offered to, but has not been taken up by, the Company and has been retained by the Controlling Shareholders or any of their close associate(s) (other than our Group), which competes, or may lead to competition, directly or indirectly with our principal business, the Controlling Shareholders or any of their close associate(s) shall notify us by written notice ("**Selling Notice**") in advance. The Selling Notice shall attach the terms of the transfer, sale, lease or license and any information which may be reasonably required by the Company. We shall reply to the Controlling Shareholders and/or their close associate(s) within 30 business days after receiving the Selling Notice. The Controlling Shareholders and/or their close associate(s) (other than our Group) have undertaken that until it receives the reply from us, it shall not notify any third party of the intention to transfer, sell, lease or license the business. If the Company decides not to exercise its pre-emptive right or if the Company does not reply within the agreed time period, or if the Company does not accept the terms as set out in the Selling Notice and issues to the Controlling Shareholders a written notice within the agreed time period stating acceptable conditions which, however, are not acceptable to the Controlling Shareholders or any of their close associate(s) following negotiation between the parties under the fair and reasonable principle, the Controlling Shareholders or any of their close associate(s) is entitled to transfer the business to a third party pursuant to the terms stipulated in the Selling Notice.



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The Controlling Shareholders shall procure their close associate(s) (other than our Group) to comply with the above pre-emptive right.

### **Decision-making as to whether to take up the options or pre-emptive right**

Our independent non-executive Directors will be responsible for reviewing, considering and deciding whether or not to exercise the option for new business opportunity or the option for acquisitions or our pre-emptive right. In assessing whether or not to exercise such option(s) or pre-emptive right, the independent non-executive Directors will consider a range of factors including any feasibility study, counterparty risk, estimated profitability, our business and the legal, regulatory and contractual landscape and form their views based on the best interest of the Shareholders and the Company as a whole. Where necessary, our independent non-executive Directors will consider to engage an independent valuer to conduct evaluation. Our independent non-executive Directors are also entitled to engage a financial adviser, at the cost of the Company in connection with exercise of option for the business opportunity.

### **The Controlling Shareholders' Further Undertakings**

The Controlling Shareholders have further undertaken that:

- (i) he will provide all information necessary for our independent non-executive Directors to review the Controlling Shareholders', and their close associate(s)' compliance with and enforcement of the Deed of Non-Competition;
- (ii) he consents to our disclosure of the decision made by the independent non-executive Directors in relation to the compliance with and enforcement of the Deed of Non-Competition in our annual report, or by way of announcement; and
- (iii) he will make a declaration to the Company and our independent non-executive Directors annually regarding its compliance with the Deed of Non-Competition for our disclosure in our annual report.

The Deed of Non-Competition will become effective upon Listing and remain in full force and be terminated upon the earlier of:

- (i) the date when the Controlling Shareholders and their close associate(s), directly and/or indirectly in aggregate hold less than 30% of our total issued share capital; or
- (ii) the date on which our Shares cease to be listed on the Stock Exchange (except for temporary suspension of trading of the Shares).

The Controlling Shareholders undertakes to our Company that he would, during the term of the relevant Deed of Non-Competition indemnify and keep indemnified our Company and our Group against any loss suffered by our Company or our Group (as relevant) arising out of any breach of their undertaking under the relevant Deed of Non-Competition.



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## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

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### CORPORATE GOVERNANCE MEASURES

The following corporate governance measures are expected to be adopted by the Company.

- (a) our Directors will comply with our Articles of Association which require the interested Director not to vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or other proposal in which he or any of their close associates is materially interested;
- (b) our independent non-executive Directors will, on an annual basis, review the compliance and enforcement of the Deed of Non-Competition by our Controlling Shareholders. Our Controlling Shareholders have undertaken that he will and will procure their close associates to provide all information reasonably required by our independent non-executive Directors to assist them in the assessment. The Company will disclose the review in our annual report or by way of announcement to the public. Our Controlling Shareholders have also undertaken that he will make an annual declaration on the compliance with the Deed of Non-Competition and other connected transaction agreements in our annual report;
- (c) our independent non-executive Directors will also review, on an annual basis, all decisions made in relation to any new business opportunities offered during the year. The Company will disclose such decisions and basis for them in our annual report or by way of announcement to the public;
- (d) the Company will appoint a compliance adviser who shall provide it with professional advice and guidance, in respect of compliance with the GEM Listing Rules and applicable laws; and
- (e) any transaction (if any) between (or proposed to be made between) the Company and connected persons will be required to comply with Chapter 20 of the GEM Listing Rules, including, where applicable, the announcement, reporting, annual review and independent shareholders' approval requirements and with those conditions imposed by the Stock Exchange for the granting of waiver from strict compliance with the relevant requirements under the GEM Listing Rules.

### INDEPENDENCE OF MANAGEMENT, FINANCIAL AND OPERATION

Having considered the following factors, our Directors are satisfied that the Company will be able to be operationally and financially independent from our Controlling Shareholders and their close associates (other than the Company):

#### **Non-competition**

As mentioned above in this section, none of our Controlling Shareholders or their close associates has any interest in a business, apart from the business of our Group, which competes or is likely to compete, either directly or indirectly, with the Company's business. In addition, our Controlling Shareholders have executed the Deed of Non-Competition in favour of us. For details, please refer to the paragraph "Deed of Non-Competition" in this section.

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## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

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### Management Independence

Our Board comprises three executive Directors, one non-executive Director and three independent non-executive Directors.

Given that each of Glorious Prosperity, Keen Smart and Best Talent Asia has no business operation other than its shareholding interests in the Company, the Directors do not consider that there is any issue in relation to the management independence arising from the overlapping of director (being Mr. Wei) between the Company and Glorious Prosperity, Keen Smart and Best Talent Asia.

In the event the Controlling Shareholders becomes interested in certain business outside the Company, we believe that our Directors and members of the senior management are able to perform their roles in the Company independently and that our Group is capable of managing our business independently from the Controlling Shareholders for the following reasons:

- (a) each Director is aware of his fiduciary duties as a Director of the Company which requires, among other things, that he/her acts for the benefit and in the best interests of the Company and that he/she does not allow any conflict between his/her duties as a Director and his/her personal interest;
- (b) the decision-making mechanism of the Board as set out in the Articles of Association includes provisions to avoid conflicts of interest by providing, among other things, that in the event of conflicts of interest, such as consideration of resolutions in relation to transactions with the Controlling Shareholders, the relevant Directors who are connected with the Controlling Shareholders will abstain from voting and will not be counted towards the quorum of the relevant meetings. Furthermore, when considering connected transactions, only our independent non-executive Directors will review the relevant transactions;
- (c) our Board comprises seven Directors and three of them are independent non-executive Directors who represent not less than one-third of the members of the Board; the composition of our Board provides a balance between the number of interested and independent non-executive Directors with a view to promoting the interests of the Company and our Shareholders as a whole. This is also in line with the requirement as set out in the GEM Listing Rules.

Based on the above, our Directors believe that the Company is capable of maintaining management independence from the Controlling Shareholders.

### Financial Independence

Our Group has an independent financial system and makes financial decisions according to its own business needs. During the Track Record Period, we financed our operations through a combination of borrowings from banks, cash generated from our operations and capital contributions from our Shareholders. As at 31 December 2016, our Group had certain banking facilities that were guaranteed by our substantial shareholder. Please refer to the section headed “Financial Information

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## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

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— Banking Facilities” of this prospectus for further details. Such guarantees will be released upon Listing and will be replaced by corporate guarantees from our Company. During the Track Record Period, our Group had certain amounts due from/to our Controlling Shareholders and/or companies controlled by our Controlling Shareholders. Please refer to note 29 in the Accountant’s Report in Appendix I to this prospectus for further details. Our Directors confirm that all the loans or guarantees provided by the Controlling Shareholders and/or substantial shareholder to our Group and non-traded balance with related parties will be settled/released before Listing. Our Directors also confirm that we will not rely on our Controlling Shareholders and our substantial shareholders for financing after the Global Offering as we expect that our working capital will be funded by our operating income, bank borrowings and net proceeds from the Global Offering.

In view of the above, the Directors consider that we are capable of carrying on our business independently of, and do not place undue reliance on the Controlling Shareholders.

### **Operational Independence**

Currently, our Group engages in our business independently, with the independent right to make operational decisions and implement such decisions. Our Group has an independent work force to carry out our operation. Although during the Track Record Period, there have been certain transactions between us and the related parties, details of which are set out in note 29 in the Accountant’s Report in Appendix I to this prospectus, our Directors have confirmed that these related party transactions, if trade-related, were conducted on fair and reasonable normal commercial terms. Save as disclosed in the section headed “Connected Transactions” below, none of the historical related party transactions with the connected persons as defined in the GEM Listing Rules are expected to continue after the Listing.

Having considered that (i) we have established our own organisational structure comprising individual departments and business and administrative units, each with specific areas of responsibilities and (ii) our Group does not share our operational resources, such as marketing, sale and general administration resources with our Controlling Shareholders and/or their close associates and (iii) the Controlling Shareholders have no interest in any of the top five customers or suppliers, our Directors consider that our Group can operate independently from our Controlling Shareholders from the operational perspective.

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## CONNECTED TRANSACTIONS

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The following connected transactions have been, and will be, carried out by our Group in the ordinary and usual course of business, on either normal commercial terms or terms not less favourable to our Company than those available from the Independent Third Parties, and are expected to continue following the Listing.

### CONNECTED PERSONS

#### 1. NH Development

NH Development is primarily responsible for the management of the state-owned assets as authorised by Lianyungang Municipal Government and acts as the vehicle of Lianyungang Municipal Government for financing government-invested welfare projects in LET Development Zone. As at the Latest Practicable Date, NH Development is owned as to 100% by Lianyungang Municipal Government (江蘇省連雲港市人民政府).

NH Development is one of our substantial shareholders and hence is considered as connected person of our Group under Chapter 20 of the GEM Listing Rules.

#### 2. Jiangsu Xinhaik

Jiangsu Xinhaik mainly engages in the business of, amongst other things, state-owned asset management, public infrastructure, construction and property development. As at the Latest Practicable Date, Jiangsu Xinhaik is owned as to 51% by NH Development, one of our substantial shareholders and 49% by Lianyungang Municipal Government. Jiangsu Xinhaik is a subsidiary of NH Development. Therefore, it is the associate of NH Development and hence considered as a connected person of our Group under Chapter 20 of the GEM Listing Rules.

#### 3. NH Property Services

NH Property Services mainly engages in the business of, amongst other things, property management services. As at the Latest Practicable Date, NH Property Services is owned as to 100% by NH Development. Therefore, it is the associate of NH Development and hence considered as a connected person of our Group under Chapter 20 of the GEM Listing Rules.

#### 4. Gaoke Investment

Gaoke Investment mainly engages in the business of, amongst other things, property development. As at the Latest Practicable Date, Gaoke Investment is owned as to 80.76% by NH Development, one of our substantial shareholders, 0.82% by an Independent Third Party and the remaining 18.42% by another Independent Third Party. Gaoke Investment is a subsidiary of NH Development. Therefore, it is the associate of NH Development and hence considered as a connected person of our Group under Chapter 20 of the GEM Listing Rules.

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## CONNECTED TRANSACTIONS

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### 5. Zhongtong Keyun

Zhongtong Keyun mainly engages in the business of, amongst other things, construction and property development. As at the Latest Practicable Date, Zhongtong Keyun is owned as to 82.5% by NH Development, one of our substantial shareholders and 17.5% by an Independent Third Party. Zhongtong Keyun is a subsidiary of NH Development. Therefore, it is the associate of NH Development and hence considered as a connected person of our Group under Chapter 20 of the GEM Listing Rules.

Accordingly, the following transactions between each of NH Development, Jiangsu Xinhaikē, NH Property Services, Gaoke Investment and Zhongtong Keyun on the one hand, and our Group, on the other hand, will constitute connected transactions for our Group under Chapter 20 of the GEM Listing Rules.

### EXEMPT CONTINUING CONNECTED TRANSACTIONS

Upon the Listing, the transactions set forth below will constitute exempt continuing connected transaction of the Company for the purpose of Chapter 20 of the GEM Listing Rules:

#### 1. Lease of Office Premise

##### Background

We leased certain units in New Headline Mansion from NH Development for use as office premises during the Track Record Period. On 20 August 2016, we entered into a lease agreement with NH Development for a term starting from 21 August 2016 and ending on 20 August 2019 for a total gross floor area of approximately 1,532 sq.m., situated at Rooms 601-627, New Headline Mansion, No.601 Huaguoshan Avenue, LET Development Zone, Lianyungang, Jiangsu, PRC.

We shall pay to NH Development an annual rental in the sum of RMB459,600 and also be responsible for the building management charges of RMB6 per sq.m. per month (equivalent to RMB110,304 per year) and other utilities outgoings in proportion to the leased area payable to the building management company, NH Property Services.

The lease with NH Development is on normal commercial terms and the annual rental payable was determined with reference to the prevailing market rates of similar properties in the locality. Jones Lang LaSalle Corporate Appraisal and Advisory Limited, a firm of professional valuers independent of our Group has reviewed the annual rental payable and has confirmed that it is fair, reasonable and is consistent with the prevailing market rates of similar properties in the locality.

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## CONNECTED TRANSACTIONS

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### **GEM Listing Rules implications**

As each of the applicable percentage ratios (other than the profits ratio) for such transaction is expected to be less than 5% and the total consideration is expected to be less than HK\$3,000,000, the transaction under the lease with NH Development constitutes de minimis continuing connected transaction under Chapter 20 of the GEM Listing Rules after the Global Offering, and will be fully exempted from reporting, annual review, announcement, circular and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

### **2. Staff catering services from NH Property Services**

#### **Background**

During the Track Record Period, we procured catering services from the restaurant in New Headline Mansion operated by NH Property Services where the relevant charges on dining for our staff and guests would be settled once a month. The procurement of the catering services is on normal commercial terms. For the three years ended 31 December 2016, the expense for procurement of the catering services from NH Property Services amounted to approximately nil, RMB404,000 and RMB584,000, respectively.

### **GEM Listing Rules implications**

As each of the applicable percentage ratios (other than the profits ratio) for such transaction is expected to be less than 5% and the total consideration is expected to be less than HK\$3,000,000, the procurement of catering services from NH Property Services constitutes de minimis continuing connected transaction under Chapter 20 of the GEM Listing Rules after the Global Offering, and will be fully exempted from reporting, annual review, announcement, circular and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

### **3. Provision of pipeline maintenance work services**

As part of our business of provision of municipal construction management services, we provided pipeline maintenance work services to NH Development during the Track Record Period. For the three years ended 31 December 2016, the revenue recognised from our provision of pipeline maintenance work services to NH Development amounted to approximately nil, nil and RMB88,000, respectively. On 15 May 2016, we entered into a service agreement with NH Development where we agreed to provide pipeline maintenance work services to NH Development for a term of two years starting from 15 May 2016 and ending on 14 May 2018. Our Directors contemplated that the total transaction amount during the term of the agreement shall not exceed RMB300,000. The provision of pipeline maintenance work services to NH Development is on normal commercial terms.

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## CONNECTED TRANSACTIONS

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### **GEM Listing Rules implications**

As each of the applicable percentage ratios for such transaction is expected to be less than 5% and the total consideration is expected to be less than HK\$3,000,000, the provision of pipeline maintenance work services to NH Development constitutes de minimis continuing connected transaction under Chapter 20 of the GEM Listing Rules after the Global Offering, and will be fully exempted from reporting, annual review, announcement, circular and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

Our Group will comply with the relevant requirements under Chapter 20 of the GEM Listing Rule should there be any material change to the terms thereof or if we enter into any other connected transaction in relation thereto after Listing.

### **NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

Upon the Listing, the transactions set forth below will constitute non-exempt continuing connected transactions for our Company under Chapter 20 of the GEM Listing Rules:

*Continuing connected transactions subject to reporting, annual review and announcement requirements but exempt from circular and independent Shareholders' approval requirements*

#### **1. Municipal construction contracts**

During the Track Record Period, we have entered into certain municipal construction contracts with Jiangsu Xinhaik, Gaoke Investment and Zhongtong Keyun. All the construction works of the above contracts were completed as at the Latest Practicable Date. Except one municipal construction contract with Zhongtong Keyun and one municipal construction contract with Gaoke Investment, all of the payments to our Group for the municipal construction contracts are either settled in full or expected to be settled in full prior to the Listing. The details of the two municipal construction contracts are provided below.

##### **(a) Zhongtong Keyun Landscaping and Greening Contract**

On 26 November 2015, our subsidiary, New Headline Municipal Landscaping entered into a municipal construction contract with Zhongtong Keyun, with a total contract value of approximately RMB4,854,000, in respect of the landscaping and greening work in the junction of Huaguoshan Avenue and Huanghai Avenue in LET Development Zone.

The construction commenced in March 2016 and was completed in October 2016. We are entitled to a final contract sum which comprises the Settlement Audit Sum and 8% of such Settlement Audit Sum. Based on the construction works completed, we expect that the final contract sum will not be more than RMB5,400,000.

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## CONNECTED TRANSACTIONS

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### (b) Gaoke Investment Landscaping and Greening Contract

On 29 February 2016, our subsidiary, New Headline Municipal Landscaping entered into a municipal construction agreement with Gaoke Investment, with an initial contract value of approximately RMB3,916,000, in respect of the landscaping and greening work in the east of Jinqiao Road, west of Longqiao Road and south of Yingtai Road in LET Development Zone.

The construction commenced in March 2016 and was completed in December 2016. We are entitled to a final contract sum which will be the Settlement Audit Sum. As more landscaping and greening works were conducted in addition to the original scope of work as agreed between Gaoke Investment and our Group, based on the construction works completed, we expect that the final contract sum will exceed the initial contract value but will not be more than RMB6,000,000. The difference between the expected final contract sum and the proposed annual cap was mainly attributable to the payment already received from Gaoke Investment.

#### Reasons for the transactions

Taking into account that the Group has already provided municipal construction services to Jiangsu Xinhaikē, Gaoke Investment and Zhongtong Keyun in the past and that the Group also principally engaged in the provision of municipal construction services as part of our environmental and construction management services in Lianyungang, our Directors consider that it is in our Group's interests to continue our relationship with Jiangsu Xinhaikē, Gaoke Investment and Zhongtong Keyun and to continue to receive the payments under the Zhongtong Keyun Landscaping and Greening Contract and Gaoke Investment Landscaping and Greening Contract after the Listing.

#### Historical Transaction Amount

As at 31 December 2016, the Group has received approximately RMB1,500,000 and nil respectively as payments under the Gaoke Investment Landscaping and Greening Contract and the Zhongtong Keyun Landscaping and Greening Contract.

The revenue recognised from the municipal construction contracts with Jiangsu Xinhaikē amounted to approximately nil, nil and RMB532,000 for the three years ended 31 December 2016, respectively. The municipal construction contracts with Jiangsu Xinhaikē are completed and the payments to our Group under the same are expected to be settled in full prior to the Listing.

For the three years ended 31 December 2016, the revenue recognised from the municipal construction contracts with Gaoke Investment amounted to approximately nil, nil and RMB5,072,000, respectively. Among the revenue of RMB5,072,000 recognised for the year ended 31 December 2016, approximately RMB4,790,000 was attributable to the Gaoke Investment Landscaping and Greening Contract. The remaining balance of RMB282,000 was attributable to the other municipal construction contracts with Gaoke Investment, the construction works of which are completed and the payments to our Group under the same have been settled in full as at the Latest Practicable Date.

For the three years ended 31 December 2016, the revenue recognised from the municipal construction contracts with Zhongtong Keyun amounted to approximately nil, nil and RMB4,242,000,



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## CONNECTED TRANSACTIONS

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respectively. Among the revenue of RMB4,242,000 recognised for the year ended 31 December 2016, approximately RMB3,897,000 was attributable to the Zhongtong Keyun Landscaping and Greening Contract. The remaining balance of RMB345,000 was attributable to the other municipal construction contracts with Zhongtong Keyun, the construction works of which are completed and the payments to our Group under the same have been settled in full as at the Latest Practicable Date.

### Pricing Policy

We obtained the Gaoke Investment Landscaping and Greening Contract through open tender. In preparing the tender submission or quotation, we normally take into account a number of factors including but not limited to the prevailing market price and market trends, our budget and our cost and potential increase in cost during contract term. Details of our tender submission or quotation document are reviewed and endorsed by our management before being submitted in order to ensure that it is fair and reasonable and in line with market practices, and that the terms are no less favourable to our Group than terms available to or from Independent Third Parties and in the interests of our Group and Shareholders as a whole. For further details on our pricing policy and preparation of tenders or quotations, please refer to the sections headed “Business — Our Business Model of the Provision of Environmental Maintenance and Construction Management Services — Project identification” and “Business — Our Business Model of the Provision of Environmental Maintenance and Construction Management Services — Preparation of tender submission or quotation document” of this prospectus.

The total contract value payable by Zhongtong Keyun to our Group under the Zhongtong Keyun Landscaping and Greening Contract was determined after arm’s length negotiation between Zhongtong Keyun and our Group. In order to ensure that the total contract value we received for our provision of municipal construction services under the Zhongtong Keyun Landscaping and Greening Contract are fair and reasonable and in line with market practices, we also took into account a number of factors including but not limited to the prevailing market price and market trends, our budget and our cost and potential increase in cost during contract term, and refer to the total contract value of our other similar municipal construction projects.

### Annual Caps

The annual cap amounts of the estimated total project value to be payable to our Group under the Gaoke Investment Landscaping and Greening Contract and the Zhongtong Keyun Landscaping and Greening Contract for the three years ending 31 December 2017, 2018 and 2019 are as follows:

	<b>Proposed Annual Cap</b>		
	<b>for the years ending 31 December</b>		
	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Gaoke Investment Landscaping and Greening Contract	2,000	0	3,000
Zhongtong Keyun Landscaping and Greening Contract	4,000	1,400	0

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## CONNECTED TRANSACTIONS

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### **Basis of annual caps**

As the construction works under Gaoke Investment Landscaping and Greening Contract and the Zhongtong Keyun Landscaping and Greening Contract have been completed, the annual caps are based on the estimated total project value payable by Gaoke Investment and Zhongtong Keyun respectively to our Group for the three years ending 31 December 2019 with reference to the payment terms under the contracts. The Company will continue to closely review the utilised amount of the annual cap under the Gaoke Investment Landscaping and Greening Contract and the Zhongtong Keyun Landscaping and Greening Contract. If the utilised amounts are expected to exceed the above annual caps after the Listing for each of the year ending 31 December 2017, 2018 and 2019 and/or the payments are expected to extend (such as due to delay in payments by Gaoke Investment and/or Zhongtong Keyun) after the year ending 31 December 2019, the Company will comply with the relevant requirements under Chapter 20 of the GEM Listing Rules to revise the annual caps in a timely manner. For further details on our internal control measures on complying with the proposed annual caps and relevant requirements under the GEM Listing Rules, please refer to the paragraph titled “Internal Control Measures for Municipal Construction Contracts and Projects of Construction Projects Management on Complying with the Proposed Annual Caps and Requirements Under the GEM Listing Rules” in this section of the prospectus.

As municipal construction contracts from Jiangsu Xinhaikē, Gaoke Investment and Zhongtong Keyun are entered into on one-off project basis, our Group cannot determine other municipal construction contracts to be entered into with Jiangsu Xinhaikē, Gaoke Investment and/or Zhongtong Keyun other than the Gaoke Investment Landscaping and Greening Contract and the Zhongtong Keyun Landscaping and Greening Contract for the three years ending 31 December 2017, 2018 and 2019. Our Group will comply with the relevant requirements, including the reporting, annual review, announcement, circular and independent Shareholders’ approval requirement, under Chapter 20 of the GEM Listing Rules should the Group enter into further municipal construction contracts with connected persons, including Jiangsu Xinhaikē, Gaoke Investment and/or Zhongtong Keyun, in the future after the Listing.

### **GEM Listing Rules implications**

The proposed annual cap amounts of the transactions under the Gaoke Investment Landscaping and Greening Contract and the Zhongtong Keyun Landscaping and Greening Contract for the three years ending 31 December 2017, 2018 and 2019 are approximately RMB2,000,000, nil and RMB3,000,000 and RMB4,000,000, RMB1,400,000 and nil respectively, and all of the applicable percentage ratios under Chapter 20 of the GEM Listing Rules, where applicable, in respect of the Gaoke Investment Landscaping and Greening Contract and the Zhongtong Keyun Landscaping and Greening Contract are, on an annual basis, expected to be less than 5% but the total consideration is expected to be not less than HK\$3,000,000, each of the Gaoke Investment Landscaping and Greening Contract and the Zhongtong Keyun Landscaping and Greening Contract constitutes a continuing connected transaction after the Global Offering, and will be subject to the reporting, annual review and announcement requirements but exempted from circular and independent Shareholders’ approval requirements under Chapter 20 of the GEM Listing Rules.

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## CONNECTED TRANSACTIONS

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*Continuing connected transactions subject to reporting, annual review, announcement, circular and independent Shareholders' approval requirements*

### 1. Xinhaik Project Contracts

During the Track Record Period and up to the Latest Practicable Date, our Group has entered into various construction project management contracts with Jiangsu Xinhaik for our BT and PPP projects (collectively the “**Xinhaik Project Contracts**”) and details of the contracts are provided below. In respect of our BT and PPP projects, we generally receive payment from our customers after completion of the relevant projects. When a project is completed, we shall submit to our customers a report detailing the actual volume of works done. Our customer conducts a final inspection of the construction work to determine the settlement audit sum of the project (the “**Settlement Audit Sum**”). Such process of final inspection and determination of the Settlement Audit Sum generally takes approximately six months. The Settlement Audit Sum is determined by applying the Unit Price to the actual volume of the construction work done or raw materials used. The final contract sum (“**Final Contract Sum**”, as defined in the section headed “Business — Our Business Model of the Provision of Environmental Maintenance and Construction Management Services — Contract Signing — Principal contract terms — (c) Payment terms”) will be paid to us by instalments over an agreed period of time after the completion of the construction of the relevant projects subject to adjustment to be made after the determination of the Settlement Audit Sum and upon issuance of an invoice. For details of the business model of our BT and PPP projects, please refer to the sections headed “Business — Provision of construction management services” and “Business — Our Business Model of the Provision of Environmental Maintenance and Construction Management Services” of this prospectus.

As disclosed in the section headed “Business — Our Business Model of the Provision of Environmental Maintenance and Construction Management Services — Project implementation and management — Subcontracting”, in respect of our BT and PPP projects, as part of our provision of project management services and project financing services, we engage, pay and monitor subcontractors to carry out all the construction work, on behalf of our customers. As part of our expansion plan, our subsidiary, New Headline Municipal Landscaping is engaged as one of the subcontractors to provide municipal construction services for our BT and PPP projects to the extent that it is qualified to do so.

### Background

#### (a) Jinqiao Road and Dapu Road Reconstruction BT Project Contract

On 20 May 2015, we entered into a construction and paving project contract with Jiangsu Xinhaik, with an initial project value of RMB82,910,000, in respect of the construction and paving work of Jinqiao Road (Dapu Road to Chiyue Road) and Dapu Road (State Road 310 to Linhong Avenue) in LET Development Zone.

The construction commenced in August 2015 and completed in December 2015. We are entitled to the Final Contract Sum which comprises the Settlement Audit Sum and 8% of such Settlement Audit Sum.

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## CONNECTED TRANSACTIONS

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**(b) Eastern Avenue Reconstruction BT Project Contract**

On 28 June 2015, we entered into a construction and paving project contract with Jiangsu Xinhaikē, with an initial project value of RMB43,543,000, in respect of the construction and paving work of Eastern Avenue (Xinguang Road to Ping Shan Road) in LET Development Zone.

The construction commenced in October 2015 and completed in April 2016. We are entitled to the Final Contract Sum which comprises the Settlement Audit Sum and 8% of such Settlement Audit Sum.

**(c) Houzui Three Road New Construction BT Project Contract**

On 11 June 2015, we entered into a construction and paving project contract with Jiangsu Xinhaikē, with an initial project value of RMB205,387,000, in respect of the construction and paving work of Jinqiao Road (Chiyue Road to Changwei Road), Fotang Road (Dapu Road to Huaguoshan Avenue) and Xianfeng Road (Houzui Industrial and Commercial Bureau to Huaguoshan Avenue) in LET Development Zone.

The construction commenced in October 2015 and is expected to be completed in December 2017. We are entitled to the Final Contract sum which comprises the Settlement Audit Sum and 10% of such Settlement Audit Sum.

The construction of Houzui Three Road New Construction BT Project Contract is divided into three phases, of which the first and second phases were completed in January 2017 and the third phase is expected to be completed in December 2017. The Final Contract Sum is payable to the Group in three instalments after the completion of each phase of the project, while each instalment may be made by Jiangsu Xinhaikē to the Group in one or more payments within the agreed period. The number of receipts of payment may thus be more than the number of instalments. Payments of instalments from different phases may coincide with each other.

**(d) LET Development Zone Theme Park Greening and Construction BT Project Contract**

On 27 July 2015, we entered into a landscaping, greening and construction project agreement with Jiangsu Xinhaikē, with an initial project value of RMB118,438,000, in respect of the landscaping, greening and construction work of the theme park in LET Development Zone.

The project works commenced in October 2015 and are expected to be completed in August 2017. We will be entitled to the Final Contract Sum which comprises the Settlement Audit Sum and 10% of such Settlement Audit Sum.

**(e) Dapu Road PPP Project Contract**

On 10 March 2016, we, through our subsidiary Puyuan Construction Management, entered into a construction project contract with Jiangsu Xinhaikē, with an initial project value of RMB297,000,000, in respect of the construction and landscaping work of infrastructure in Dapu Road in LET Development Zone.

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## CONNECTED TRANSACTIONS

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The construction commenced in May 2016 and is expected to be completed in June 2018. We will be entitled to the Final Contract Sum which comprises the Settlement Audit Sum and 10% of such Settlement Audit Sum.

The construction of Dapu Road PPP Project Contract is divided into two phases, of which the first phase was completed in December 2016 and the second phase is expected to be completed in June 2018. The Final Contract Sum is payable to the Group in three instalments after the completion of each phase of the project, while each instalment may be made by Jiangsu Xinhaikē to the Group in one or more payments within the agreed period. The number of receipts of payment may thus be more than the number of instalments. Payments of instalments from different phases may coincide with each other.

From 14 March 2017 to 1 April 2017, our subsidiary Puyuan Construction Management, entered into two subcontracting contracts with New Headline Municipal Landscaping, our subsidiary, with a total contract value of approximately RMB7,393,000, in respect of the engagement of New Headline Municipal Landscaping as subcontractor to carry out certain greening, landscaping, road restoration and lighting enhancement works in Dapu Road in LET Development Zone under the Dapu Road PPP Project.

### **(f) LET Development Zone Infrastructure (Partial) PPP Project Contract**

On 23 January 2017, we entered into a construction project contract with Jiangsu Xinhaikē, with an initial project value of RMB220,000,000, in respect of the construction and paving work of 14 roads and the greening landscaping work of eight infrastructure in LET Development Zone.

The construction commenced in March 2017 and is to be completed in February 2018. We will be entitled to the Final Contract Sum which comprises the Settlement Audit Sum and 10% of such Settlement Audit Sum.

From 10 March 2017 to 24 March 2017, our subsidiary Puyuan Construction Management, entered into six subcontracting contract with New Headline Municipal Landscaping, our subsidiary, with a total contract value of approximately RMB42,259,000, in respect of the engagement of New Headline Municipal Landscaping as subcontractor to carry out certain greening, landscaping and road construction works in LET Development Zone under the LET Development Zone Infrastructure (Partial) PPP Project.

In addition to the subcontracting contracts disclosed above, it is possible that New Headline Municipal Landscaping will be engaged as subcontractor to carry out further works under the Xinhaikē Project Contracts. However, the Final Contract Sum (as may be paid by Jiangsu Xinhaikē) would not be affected, whether the subcontractors are Independent Third Parties or our subsidiary, New Headline Municipal Landscaping.

### **Reasons for the transactions**

Taking into account that the Group is principally engaged in the provision of construction management services in Lianyungang and Jiangsu Xinhaikē is a state-owned enterprise owned by the

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## CONNECTED TRANSACTIONS

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Lianyungang Municipal Government with one of its main functions to outsource development and construction projects within the LET Development Zone by holding public tendering, our Directors consider that it is in our Group's interests to continue our relationship with Jiangsu Xinhaikē and to continue to provide and complete construction management services under the Xinhaikē Project Contracts after the Listing.

### Historical Transaction Amount

The amounts billed for the Xinhaikē Project Contracts during the Track Record Period are as follows:

	<b>For the year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<i>Amounts billed</i>			
Jinqiao Road and Dapu Road Reconstruction BT Project Contract	—	—	49,164
Eastern Avenue Reconstruction BT Project Contract	—	—	23,418
Houzui Three Road New Construction BT Project Contract	—	—	—
LET Development Zone Theme Park Greening and Construction BT Project Contract	—	—	—
Dapu Road PPP Project Contract	—	—	—
LET Development Zone Infrastructure (Partial) PPP Project Contract	—	—	—
<b>Total</b>	<u>—</u>	<u>—</u>	<u>72,582</u>

The above amounts represent the amounts billed for our services rendered to Jiangsu Xinhaikē for our provision of project management services and project financing services and subcontracting fees paid on behalf of Jiangsu Xinhaikē.

Except Jinqiao Road and Dapu Road Reconstruction BT Project and Eastern Avenue Reconstruction BT Project, the Settlement Audit Sum of which amounted to approximately RMB76,769,000 and RMB42,681,000 respectively, the process of final inspection and determination of the Settlement Audit Sum for the other BT and PPP projects under the Xinhaikē Project Contracts has not completed and the Final Contract Sum will be determined subject to the Settlement Audit Sum.

### Pricing Policy

We obtained the Xinhaikē Project Contracts through open tender. In preparing the tender submission or quotation, we normally take into account a number of factors including but not limited

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## CONNECTED TRANSACTIONS

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to the prevailing market price and market trends, our budget and our cost and potential increase in cost during contract term. Details of our initial offer is reviewed and endorsed by our management before being submitted in order to ensure that it is fair and reasonable and in line with market practices, and that the terms are no less favourable to our Group than terms available to or from Independent Third Parties and in the interests of our Group and Shareholders as a whole. For further details on our pricing policy and preparation of tenders or quotations, please refer to the sections headed “Business — Our Business Model of the Provision of Environmental Maintenance and Construction Management Services — Project identification” and “Business — Our Business Model of the Provision of Environmental Maintenance and Construction Management Services — Preparation of tender submission or quotation document” of this prospectus.

### Annual Caps

The annual cap amounts (being the amounts expected to be billed) under the Xinhaik Project Contracts for the three years ending 31 December 2017, 2018 and 2019 are as follows:

	<b>Proposed Annual Cap for the years ending 31 December</b>		
	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Xinhaik Project Contracts	158,000	211,000	278,000

### Basis of annual caps

The annual cap is determined by reference to (i) the anticipated progress of the construction work; (ii) the estimated Final Contract Sum with reference to the initial project value under the Xinhaik Project Contracts; and (iii) the payment schedule between our Group and Jiangsu Xinhaik. The breakdown of the annual cap amounts under the Xinhaik Project Contracts are as follows:

	<b>Years ending 31 December</b>		
	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Jinqiao Road and Dapu Road Reconstruction BT Project Contract	8,873	24,873	—
Eastern Avenue Reconstruction BT Project Contract	8,849	14,338	—
Houzui Three Road New Construction BT Project Contract	45,402	65,492	57,632
LET Development Zone Theme Park Greening and Construction BT Project Contract	—	48,049	36,037
Dapu Road PPP Project Contract	94,810	57,929	96,260
LET Development Zone Infrastructure (Partial) PPP Project Contract	—	—	88,000
<b>Total</b>	<u>157,934</u>	<u>210,681</u>	<u>277,929</u>



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## CONNECTED TRANSACTIONS

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The Company will continue to closely review the utilised amount of the annual cap under the Xinhaike Project Contracts. If the utilised amount are expected to be exceeded after the Listing for each of the year ending 31 December 2017, 2018 and 2019, and/or the projects or payments of the Xinhaike Project Contracts are expected to be extended or delayed after the year ending 31 December 2019, the Company will comply with the relevant requirements under Chapter 20 of the GEM Listing Rules to revise the annual caps for the years ending 31 December 2017, 2018 and 2019 and/or obtain further annual caps for the years after 2019 accordingly in a timely manner. For further details on our internal control measures on complying with the proposed annual caps and relevant requirements under the GEM Listing Rules, please refer to the paragraph titled “Internal Control Measures for Municipal Construction Contracts and Projects of Construction Projects Management on Complying with the Proposed Annual Caps and Requirements Under the GEM Listing Rules” in this section of the prospectus.

As construction project management contracts from Jiangsu Xinhaike are obtained through public tendering, our Group cannot determine other construction project management contracts to be entered into with Jiangsu Xinhaike other than the Xinhaike Project Contracts for the three years ending 31 December 2017, 2018 and 2019. Our Group will comply with the relevant requirements including the reporting, annual review, announcement, circular and independent Shareholders’ requirement, under Chapter 20 of the GEM Listing Rules should the Group obtain further construction project management contracts from Jiangsu Xinhaike in the future after the Listing.

### **GEM Listing Rules implications**

The proposed annual cap amounts of the transactions under the Xinhaike Project Contracts for the three years ending 31 December 2017, 2018 and 2019 are approximately RMB158,000,000, RMB211,000,000 and RMB278,000,000, respectively, and at least one of the applicable percentage ratio under Chapter 20 of the GEM Listing Rules, where applicable, in respect of the Xinhaike Project Contracts is, on an annual basis, expected to be more than 5%, it constitutes a continuing connected transaction after the Global Offering, and will be subject to the reporting, annual review, announcement, circular and independent Shareholders’ approval requirements under Chapter 20 of the GEM Listing Rules.

## **2. NH Development Supply Agreement**

### **Background**

On 25 December 2015, we, as purchaser, have entered into the NH Development Supply Agreement with NH Development, as supplier, for a term of three years effective from 1 January 2016 to 31 December 2018, pursuant to which NH Development agreed to supply gneiss to our Group exclusively at a fixed unit price for the two years ended 31 December 2016 and 2017 (which is agreed pursuant to a supplemental agreement dated 26 December 2016) and the price for the year ended 31 December 2018 will be further agreed by the parties with reference to the gneiss output from the mine and the actual market condition.



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## CONNECTED TRANSACTIONS

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For further details of the terms of the NH Development Supply Agreement, please refer to the sections headed “Business — Our Business Model of the Supply of Construction Material (Gneiss) — Procurement” of this prospectus.

### Reasons for the transaction

During the Track Record Period, NH Development has been providing a stable supply of gneiss. Our Directors consider that entering into NH Development Supply Agreement would allow the Group to maintain a stable supply of gneiss in the vicinity for our sales and fulfil our customers’ need. Further, the Directors consider it is in our Group’s interests to continue our business relationship with NH Development and procure gneiss from NH Development upon the Listing.

### Pricing Policy

The terms under the NH Development Supply Agreement were determined after arm’s length negotiation between NH Development and our Group with reference to the prevailing market rates of gneiss of similar quality from other suppliers. In order to ensure that our purchases of gneiss from NH Development are fair and reasonable and in line with market practice, we will make regular contacts with independent suppliers to keep ourselves abreast of the market conditions. Further, before we agree to the price of procurement of gneiss with NH Development each year, we will also obtain the pricing information from comparable gneiss that may be available in the vicinity from other independent suppliers in order to determine whether viable alternatives of supply of gneiss can be obtained in a timely manner and at the most competitive price.

### Historical transaction value

Our Group has been purchasing gneiss from NH Development since 2014. For the three years ended 31 December 2016, the aggregate transaction amount of purchase (VAT exclusive) by our Group from NH Development for the supply of gneiss were approximately RMB38,559,000, RMB52,772,000 and RMB75,096,000, respectively.

### Annual caps

The annual cap amounts of the purchase price of gneiss to be paid by our Group to NH Development under the NH Development Supply Agreement for the three years ending 31 December 2017, 2018 and 2019 are as follows:

	<b>Proposed Annual Cap for the years ending 31 December</b>		
	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<i>(RMB’000)</i>	<i>(RMB’000)</i>	<i>(RMB’000)</i>
Total purchase of gneiss (VAT exclusive)	80,000	85,000	90,000

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## CONNECTED TRANSACTIONS

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### **Basis of annual caps**

The above annual caps were mainly determined with reference to the expected increase of approximately 5.9% in the sales value of gneiss in Lianyungang from 2017 to 2020 according to the Ipsos Report.

### **GEM Listing Rules implications**

The proposed annual cap amounts of the transactions under the NH Development Supply Agreement for the three years ending 31 December 2017, 2018 and 2019 are approximately RMB80,000,000, RMB85,000,000 and RMB90,000,000 respectively, and the applicable percentage ratio (other than the profits ratio) under Chapter 20 of the GEM Listing Rules in respect of the NH Development Supply Agreement is, on an annual basis, more than 5%, it constitutes a continuing connected transaction after the Global Offering, and will be subject to the reporting, annual review, announcement, circular and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

### **INTERNAL CONTROL MEASURES FOR MUNICIPAL CONSTRUCTION CONTRACTS AND PROJECTS OF CONSTRUCTION PROJECTS MANAGEMENT ON COMPLYING WITH THE PROPOSED ANNUAL CAPS AND REQUIREMENTS UNDER THE GEM LISTING RULES**

In order to ensure continuous compliance with the proposed annual caps and the relevant requirements under Chapter 20 of the GEM Listing Rules for municipal construction contracts and construction management project contracts, the Company has adopted the internal control measures below:

1. For existing continuing connected transactions, project team of the Group will regularly communicate and update the project status with the head of the finance department and the head of the finance department and management of the Group will continually monitor and review the utilised amount of the annual cap and assess whether the utilised amount of annual caps incurred during the year is likely to exceed the proposed annual cap as granted in the waiver or approved by the independent Shareholders (as the case may be). If the utilised amount of the annual cap reached 65% of the proposed annual caps and the proposed annual caps are expected to be exceeded before the end of the financial year, or in case of delay in progress of the construction work and the proposed annual caps for the current and/or the coming financial year(s) are likely to exceed, the relevant personnel from the finance department will notify the chief executive officer of the Group immediately so that the Company is able to undertake the relevant procedure to comply with the relevant requirements under Chapter 20 of the GEM Listing Rules to revise the annual caps accordingly in a timely manner. Further, the independent non-executive Directors will review the continuing connected transactions of the Company on a quarterly basis, and the auditors of the Company will review the terms and annual caps of the continuing connected transactions contemplated under the relevant contracts on annual basis.
2. After the Listing, for potential projects which will constitute continuing connected transactions, once the tender notice has been published, if the Company has the intention to participate in the tender, before submitting the tender documents, the Company will assess the relevant requirements under Chapter 20 of the GEM Listing Rules and will also

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## CONNECTED TRANSACTIONS

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observe the guidance set out in “Frequently Asked Questions Series 20 No. 11” published by the Stock Exchange on aggregation of transactions when calculating the applicable percentage ratios under Chapter 20 of the GEM Listing Rules. If required under Chapter 20 of the GEM Listing Rules, the Company will convene a board meeting to approve the submission of tender document and publish the relevant announcements, circulars, other required documents timely and obtain independent Shareholders’ approval regarding such transactions and the corresponding annual caps which will be calculated with reference to the estimated project value, the estimated completion date and the payment terms as set out in the tender notice. Further, if the period for the relevant continuing connected transaction is expected to exceed three years, the Company will comply with the relevant requirements under Rule 20.50 of the GEM Listing Rules. If the independent Shareholders’ approval (if required) cannot be obtained, the Company will not participate in the tender and as we have not submitted the tender documents, as advised by the PRC Legal Advisers, there will not be any legal consequence against us in such circumstances. If the independent Shareholders’ approval (if required) is obtained and the Company has participated in the tendering subsequently, the Company will make the relevant announcements regarding the tender results if necessary.

3. The Company will provide training to the Directors and the relevant personnel on the above internal control policies and on the relevant requirements in relation to continuing connected transactions under Chapter 20 of the GEM Listing Rules so as to strengthen their awareness on the compliance requirements and will periodically conduct the aforesaid training to ensure that all the above parties maintain their awareness on compliance requirements concerning continuing connected transactions.

After making enquiries of the management of our Group regarding our internal control system and having considered the above, the Sole Sponsor concurs with our Directors’ view that the internal controls are effective and sufficient for the Group to comply with proposed annual caps and the relevant requirements under Chapter 20 of the GEM Listing Rules.

### APPLICATION FOR WAIVERS

As the non-exempt continuing connected transactions will continue after the Listing on a recurring basis, the Directors consider that strict compliance with the requirements under the GEM Listing Rules would be burdensome and would add unnecessary administrative costs to the Company each time when such transaction arises. The transactions under the Gaoke Investment Landscaping and Greening Contract and the Zhongtong Keyun Landscaping and Greening Contract are subject to the reporting, annual review and announcement requirements; and the transactions under the Xinhaik Project Contracts and the NH Development Supply Agreement are subject to reporting, annual review, announcement and/or independent Shareholders’ approval requirements under Chapter 20 of the GEM Listing Rules, and the Company has applied for a waiver from compliance with the applicable requirements under Rule 20.103 of the GEM Listing Rules and the Stock Exchange has agreed to grant a waiver from strict compliance with the announcement and/or independent Shareholders’ approval requirements under the GEM Listing Rules subject to the aggregate value of the non-exempt continuing connected transactions for each financial year not exceeding the relevant annual cap amount as stated above. We will continue to comply with the relevant requirements of reporting, annual review, announcement and/or independent Shareholders’ approval as required under Chapter 20 of the GEM Listing Rules.

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## **CONNECTED TRANSACTIONS**

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### **CONFIRMATION FROM DIRECTORS**

The Directors (including the independent non-executive Directors) confirm that the above connected transactions have been and will be entered into in or incidental to the ordinary and usual course of the business of our Group and are based on normal commercial terms that are fair and reasonable and in the interest of the Company and our Shareholders as a whole, and that the annual caps (where applicable) for the above connected transactions are fair and reasonable and in the interests of the Company and our Shareholders as a whole.

### **CONFIRMATION FROM THE SOLE SPONSOR**

The Sole Sponsor considers that the above connected transactions have been and will be entered into in or incidental to the ordinary and usual course of business of our Group and is based on normal commercial terms that are fair and reasonable and in the interest of the Company and the Shareholders as a whole, and that the annual caps (where applicable) for the above connected transactions connected transactions are fair and reasonable and in the interests of the Company and Shareholders as a whole.

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## DIRECTORS AND SENIOR MANAGEMENT

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### BOARD OF DIRECTORS

The Board consists of seven Directors, including three executive Directors, one non-executive Director and three independent non-executive Directors. The functions and duties of the Board include but are not limited to: convening Shareholders' general meetings and reporting the Board's work at the Shareholders' general meetings; implementing the resolutions passed at the Shareholders' general meetings; determining our business plans and investment plans; preparing annual budget proposals and final accounts proposals; preparing plans for profit distribution and recovery of losses; preparing plans for the increase or decrease in registered capital; and exercising other power, functions and duties as conferred by the Articles of Association. Each of our Directors has entered into a service contract with our Group.

The following table sets forth certain information of our Directors.

Name	Age	Position	Date of appointment <sup>(1)</sup>	Date of joining the Group	Roles and responsibilities	Relationships with other Directors and senior management
Ms. Xie Birui (謝碧蕊)	45	Executive Director	13 June 2014	20 November 2013	Responsible for corporate strategic planning and overall business development, management of our Company and decision making	Spouse of Mr. Wei
Ms. Zhang Delan (張德蘭)	36	Executive Director and chief executive officer	15 December 2014	20 November 2013	Responsible for formulating and implementing our corporate strategies, overseeing our overall business development and implementing operation plans and participating in the day-to-day management of our business operations	None
Mr. Su Haishan (蘇海山)	32	Executive Director and marketing director	11 February 2016	1 January 2014	Responsible for establishing marketing and business development strategy and managing our Group's marketing team	None

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## DIRECTORS AND SENIOR MANAGEMENT

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Name	Age	Position	Date of appointment <sup>(1)</sup>	Date of joining the Group	Roles and responsibilities	Relationships with other Directors and senior management
Mr. Wei Hua (韋鐸)	52	Chairman and non-executive Director	11 February 2016	11 February 2016	Responsible for monitoring and supervising the general management and operations of the Group; and strategic development of the business of our Group	Spouse of Ms. Xie
Mr. Chan So Kuen (陳素權)	37	Independent non-executive Director	26 June 2017	26 June 2017	Performing the role as independent non-executive director, chairman of the audit committee and a member of the remuneration committee and the nomination committee	None
Ms. Xiao Xia (肖俠)	46	Independent non-executive Director	26 June 2017	26 June 2017	Performing the role as independent non-executive director, chairman of the remuneration committee and a member of the audit committee and the nomination committee	None
Mr. Chen Fangzheng (陳方正)	70	Independent non-executive Director	26 June 2017	26 June 2017	Performing the role as independent non-executive director, chairman of the nomination committee and a member of the audit committee and the remuneration committee	None

*Note:*

- (1) For the purpose of ascertaining the appointment date of each of our Directors, reference is made to the date of first appointment as a Director of the Company.

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## DIRECTORS AND SENIOR MANAGEMENT

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### Executive Directors

**Ms. Xie Birui** (謝碧蕊), aged 45, joined our Group as senior management of Yuanyun Industrial on 20 November 2013, being the date of incorporation of Yuanyun Industrial, and has been involved in the day-to-day management of the Company since then. She was appointed as a Director of the Company on 13 June 2014 and she was re-designated as executive Director on 19 July 2016. Ms. Xie is primarily responsible for corporate strategic planning and overall business development, management of our Company and decision making. Ms. Xie is the spouse of Mr. Wei. Ms. Xie is one of the directors of three of our subsidiaries.

Ms. Xie has around 15 years of experience in business management. Her major working experience is set out as below:

Period	Name of employer(s)	Principal business of the previous employers	Position	Duties and responsibilities
June 2001 to June 2003	Shanghai Bihai Materials Co., Ltd.* (上海碧海物資有限公司)	Sales of metal and raw materials	General manager	Responsible for day-to-day management of the company
July 2003 to December 2012	Shanghai Canhong Gangtie Co., Ltd.* (上海燦宏鋼鐵有限公司)	Sales of steel and metals	General manager	Responsible for day-to-day management of the company
January 2009 to December 2015	Shanghai Guochen Industrial Group Co., Ltd.* (上海國琛實業集團有限公司)	Industrial investment	Chairlady of the board	Responsible for corporate strategic planning and overall business development

Ms. Xie had substantial construction material (steel) trading and financing experience during her role as the general manager of Shanghai Canhong Gangtie Co., Ltd.\* (上海燦宏鋼鐵有限公司) and Shanghai Bihai Materials Co., Ltd. (上海碧海物資有限公司). Her clients mainly came from various cities in China, and most of them were engaged in construction related industries. She was also the president of the Shanghai Chamber of Commerce of Fujian Province Ningde City Jiaocheng District (福建省寧德市蕉城區上海商會, the “**Chamber**”), where she further developed experience, knowledge and network in trading of construction materials, including stone trading, by working with members of the Chamber who engage in business relating to construction and construction materials like metals and stones.

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## DIRECTORS AND SENIOR MANAGEMENT

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Ms. Xie was the legal representative, director and shareholder of Shanghai Min Rui Steel Market Operation and Management Co. Ltd.\* (上海閩瑞鋼材市場經營管理有限公司) and person-in-charge of Shanghai Canhong Gangtie Co. Ltd. First Branch Company\* (上海燦宏鋼鐵有限公司第一分公司), which were incorporated in the PRC. According to Ms. Xie, as such companies were planned to discontinue and their operation had been ceased, such companies had not conducted the annual inspection and therefore their business licenses were revoked on 28 December 2006 and 6 February 2006, respectively.

Ms. Xie was the supervisor and shareholder of Shanghai Shen Yu Building Materials Trading Co. Ltd.\* (上海申瑜建材貿易有限公司), a company incorporated in the PRC. According to Ms. Xie, as such company was planned to discontinue and its operation had been ceased, such company had not conducted the annual inspection and therefore its business license was revoked on 10 June 2005.

Ms. Xie graduated from Naval University of Engineering\* (海軍工程大學) in the PRC with a bachelor's degree in economics and management in June 2005.

**Ms. Zhang Delan (張德蘭)**, aged 36, joined our Group as the general manager on 20 November 2013, being the date of incorporation of the Yuanyun Industrial, and has been involved in the day-to-day management of our Group since then. She was also appointed as a Director of our Company on 15 December 2014 and as the chief executive officer of our Company on 31 December 2014 and she was re-designated as executive Director of the Company on 19 July 2016. She is primarily responsible for formulating and implementing our corporate strategies, overseeing our overall business development and implementing operation plans and participating in the day-to-day management of our business operations. Ms. Zhang is one of the directors of six of our subsidiaries.



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## DIRECTORS AND SENIOR MANAGEMENT

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Ms. Zhang has around 12 years of experience in public administration in Lianyungang. Her major working experience is set out as below:

Period	Name of employer(s)	Principal business activity of the previous employers	Position	Duties and responsibilities
July 2002 to April 2004	LETDZ Center of Entrepreneurship* (連雲港經濟技術開發區創業中心)	Entrepreneurship and business fostering	Officer	Responsible for secretarial matters and corporate service
April 2004 to December 2006	LETDZ Office of Party and Government Affairs* (連雲港經濟技術開發區管理委員會辦公室)	Government office	Officer	Responsible for administrative matters
December 2006 to December 2013	NH Development	Management of state-owned assets and financing of government-invested welfare projects in LET Development Zone	Deputy general manager	Responsible for day-to-day management of the company

Ms. Zhang had substantial project management and financing experience during her tenure in NH Development. She participated in various projects of NH Development, which range from water resource maintenance, transportation network and facility construction, to land development, urban redevelopment and private-placement-note (PPN) project and the project value of these projects ranges from approximately RMB105 million to RMB1 billion. In projects where she assumed the role of project manager, she was primarily responsible for the coordination of projects which she oversaw and managed the implementation and financing of such projects. In other projects where she was the finance manager, she was mainly responsible for the management of financial resources of these projects and management of the financial risks NH Development was exposed to.

Ms. Zhang graduated from Huaihai Institute of Technology (淮海工學院) in the PRC with a bachelor's degree in management engineering in July 2002. She obtained her master's degree in public administration in December 2008 from the Nanjing University (南京大學) in the PRC. Ms. Zhang obtained the Certificate of Accounting Professional issued by the Ministry of Finance of the PRC in March 2010. Ms. Zhang also obtained the Certificate of Secretary of the Board of Directors (擬上市公司董事會秘書資格培訓教育) issued by the Shanghai Stock Exchange in August 2010.

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## DIRECTORS AND SENIOR MANAGEMENT

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**Mr. Su Haishan** (蘇海山), aged 32, was appointed as Director of our Company on 11 February 2016 (he was re-designated as executive Director on 19 July 2016). He joined our Group as the general deputy director on 1 January 2014. Mr. Su was re-designated as deputy marketing director on 19 August 2014 and was promoted to marketing director on 1 July 2016 where he is primarily responsible for establishing marketing and business development strategy and managing our Group's marketing team. Mr. Su is one of the directors of two of our subsidiaries. His major working experience is set out as below:

<b>Period</b>	<b>Name of employer(s)</b>	<b>Principal business activity of the previous employers</b>	<b>Position</b>	<b>Duties and responsibilities</b>
July 2007 to November 2010	Lianyungang Ajinomoto Ruyi Foods Co., Ltd.* (連雲港味之素如意食品有限公司)	Food supply	Technology department director	Responsible for coordinating the import of new technologies from the headquarter and management matters
December 2010 to December 2012	Guonong Bio-fertilizer Lianyungang Limited Liability Company* (國農生物肥料連雲港有限責任公司)	Development and manufacture of biotechnical products	Company branch deputy manager	Responsible for management matter of the company branch
August 2013 to December 2013	NH Development	Management of state-owned assets and financing of government-invested welfare projects in LET Development Zone	Administrative department director	Responsible for administrative matters

Mr. Su had substantial experience in project management, especially on environmental maintenance, during his role as the company branch deputy manager of Guonong Bio-fertilizer Lianyungang Limited Liability Company\* (國農生物肥料連雲港有限責任公司). He was involved in a soil and environment improvement project where he was primarily responsible for the overall management and implementation of the project, including conducting physical and chemical analysis of soil, designing soil compaction schedule and implementing microbial treatment and the preparation of project report. As the responsible person, he was also involved in the establishment of the branch company in Xinjiang, where he was responsible for the marketing matters and expansion of sales network in Xinjiang.

Further, during his role as the administrative department director of NH Development, he participated in the arrangement of various infrastructure projects of NH Development, where he was primarily responsible for liaising with relevant governmental bodies, clients and contractors on the implementation of projects, as well as with banks and financial institutions regarding project financing.

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## DIRECTORS AND SENIOR MANAGEMENT

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Mr. Su graduated from Nanjing Agricultural University (南京農業大學) in the PRC with a bachelor's degree in food science and engineering in June 2007.

### Non-executive Director

**Mr. Wei Hua (韋鐸)**, aged 52, joined our Group and was appointed as the chairman of the Board and non-executive Director on 11 February 2016. He is primarily responsible for attending meetings of our Board to perform duties as a Board member, but not participating in the day-to-day management of our business operations. Mr. Wei is the spouse of Ms. Xie and our Controlling Shareholder. For details, please refer to the section “Relationship with the Controlling Shareholders” of this prospectus.

Prior to joining our Group, Mr. Wei served in the Fujian Province Ningde City Government (福建省寧德市政府) from August 1983 to March 2009, where he served in various positions including, officer, manager and department head of different departments responsible for administrative matters in the local government. His major working experience is set out as below:

Period	Name of employer(s)	Principal business of the previous employers	Position	Duties and responsibilities
August 1983 to March 2009	Fujian Province Ningde City Government (福建省寧德市政府)	Government office	Officer, manager, department head	Responsible for administrative matters
April 2009 to June 2010	Shanghai Changlv Asset Management Limited Company* (上海長綠資產管理有限公司)	Industrial investment and investment management	General Manager	Responsible for day-to-day management of the company
June 2010 to August 2011	Shanghai Changlv Asset Management Limited Company* (上海長綠資產管理有限公司)	Industrial investment and investment management	Chairman of the board	Responsible for corporate strategic planning and overall business development
January 2010 to December 2013	Shanxi Zhangyuan Touzi Danbao Co., Ltd.* (陝西漳源投資擔保有限公司)	Financial guarantee	Deputy general manager	Responsible for day-to-day management of the company

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## DIRECTORS AND SENIOR MANAGEMENT

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Period	Name of employer(s)	Principal business of the previous employers	Position	Duties and responsibilities
May 2010 to present	Shanghai Pidi Business Management Consultancy Service Group* (上海辟地企業管理諮詢服務部)	Business management consultancy service	Chairman of the board	Responsible for corporate strategic planning and overall business development

Mr. Wei had substantial experience in the finance industry, especially in asset and investment management. He has been the general manager and chairman of Shanghai Changlv Asset Management Limited Company\* (上海長綠資產管理有限公司), where he was primarily involved in providing consultancy services to clients on their investments in various assets and equity interests. Further, he was the deputy general manager of the financial guarantee company Shanxi Zhangyuan Touzi Danbao Co., Ltd.\* (陝西漳源投資擔保有限公司), where he primarily engaged in provision of financial guarantee to clients of different industries in different cities of China. He was also the chairman of Shanghai Pidi Business Management Consultancy Service Group\* (上海辟地企業管理諮詢服務部), where he was primarily involved in providing business management consultancy services to his clients.

Mr. Wei obtained a bachelor's degree in economics and management from Party School of the Central Committee of C.P.C (中共中央黨校) in December 2000 and a postgraduate qualification in political economy in January 2004 from Party School of Fujian Provincial Committee of C.P.C, Fujian Institute of Administration (中共福建省委黨校福建行政學院, formerly known as Party School of Fujian Provincial Committee of C.P.C. (中共福建省委黨校)) in the PRC.

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## DIRECTORS AND SENIOR MANAGEMENT

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### Independent non-executive Directors

**Mr. Chan So Kuen (陳素權)**, aged 37, was appointed as an independent non-executive Director on 26 June 2017. He is primarily responsible for attending meetings of our Board to perform duties as a Board member, but not participating in the day-to-day management of our business operations. Mr. Chan has over 15 years of experience in accounting, auditing, corporate governance and capital market. His major working experience is set out as below:

<b>Period</b>	<b>Name of employer(s)</b>	<b>Principal business activity of the previous employers</b>	<b>Position</b>	<b>Duties and responsibilities</b>
June 2001 to October 2003	Shinewing (HK) CPA Limited (信永中和(香港)會計師事務所有限公司) (formerly known as Ho and Ho & Company (何錫麟會計師事務所))	Accountancy firm	Audit clerk	Responsible for project audit
January 2004 to July 2009	KPMG (畢馬威會計事務所)	Accountancy firm	Audit manager	Responsible for project audit
November 2009 to October 2012	China Great Wall Electric Holdings Limited (中國長城電氣控股有限公司)	Manufacture and sales of electrical equipment	Chief financial officer and company secretary	Responsible for strategic planning, internal control and financial and accounting activities
February 2014 to present	Huazhang Technology Holding Limited (華章科技控股有限公司) (Stock Code: 1673.hk)	Research and development, manufacture and sales of industry automation systems and sludge treatment products	Chief financial officer and company secretary	Responsible for internal control and overseeing financial and accounting activities
October 2014 to present	Link Holdings Limited (華星控股有限公司) (Stock Code: 8237.hk)	Hotel business	Independent non-executive Director	Providing independent judgment on the issues of strategy, performance, resources and standard of conduct

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## DIRECTORS AND SENIOR MANAGEMENT

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<b>Period</b>	<b>Name of employer(s)</b>	<b>Principal business activity of the previous employers</b>	<b>Position</b>	<b>Duties and responsibilities</b>
January 2015 to present	Yangzhou Guangling District Taihe Rural Micro-Finance Company Limited (揚州市廣陵區泰和農村小額貸款股份有限公司) (Stock Code: 8252.hk)	Microfinance business	Independent non-executive Director	Providing independent judgement on the issues of strategy, performance, resources and standard of conduct

Mr. Chan graduated from the Hong Kong Polytechnic University with a bachelor's degree in arts majoring in accountancy in November 2001. He was admitted as a certified public accountant of the Hong Kong Institute of Certified Public Accountants since April 2005. Mr. Chan also obtained the Independent Director qualification as awarded by the Shenzhen Stock Exchange in June 2017.

**Ms. Xiao Xia (肖俠)**, aged 46, was appointed as an independent non-executive Director on 26 June 2017. She is responsible for attending meetings of our Board to perform duties as a Board member, but not participating in the day-to-day management of our business operations. Ms. Xiao has over 23 years in accounting-related disciplines. Her major working experience is set out as below:

<b>Period</b>	<b>Name of employer(s)</b>	<b>Principal business activity of the previous employers</b>	<b>Position</b>	<b>Duties and responsibilities</b>
July 1992 to August 1998	Lianyungang Xinpu District Yihua Seal Making Centre * (連雲港市新浦區市藝華印章刻制中心)	Manufacture and sales of atomic seal	Accounting clerk	Responsible for accounting and auditing matters
September 1998 to July 2003	The School of Business of Huaihai Institute of Technology (淮海工學院商學院)	Tertiary education	Lecturer	Responsible for teaching
August 2004 to July 2012	The School of Business of Huaihai Institute of Technology (淮海工學院商學院)	Tertiary education	Associate professor	Responsible for teaching and research
August 2012 to present	The School of Business of Huaihai Institute of Technology (淮海工學院商學院)	Tertiary education	Professor	Responsible for teaching and research

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## DIRECTORS AND SENIOR MANAGEMENT

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<b>Period</b>	<b>Name of employer(s)</b>	<b>Principal business activity of the previous employers</b>	<b>Position</b>	<b>Duties and responsibilities</b>
September 2015 to present	Financial Management Research Centre of the School of Business of Huaihai Institute of Technology (淮海工學院商學院財務管理研究所)	Tertiary education and academic research	President, Professor	Responsible for leading of the financial market research team and teaching
August 2016 to present	Jiangsu Sunrain Solar Energy Co., Ltd.* (日出東方太陽能股份有限公司) (Stock code: SHA: 603366)	Manufacture and sales of solar energy products	Independent director	Responsible for providing independent judgment on the issues of strategy, performance, resources and standard of conduct

Ms. Xiao graduated from Huaihai Institute of Technology (淮海工學院) with a bachelor's degree in industrial enterprise management in July 1992. She graduated from Tianjin Institute of Finance & Economics (天津財經學院) (currently known as Tianjin University of Finance & Economics (天津財經大學)) with a master's degree in accountancy in June 2004. She had commenced a doctoral degree in management science and construction in China University of Mining and Technology (中國礦業大學) since September 2010.

**Mr. Chen Fangzheng** (陳方正), aged 70, was appointed as an independent non-executive Director on 26 June 2017. He is primarily responsible for attending meetings of our Board to perform duties as a Board member, but not participating in the day-to-day management of our business operations. His major working experience is set out as below:

<b>Period</b>	<b>Name of employer(s)</b>	<b>Principal business activity of the previous employers</b>	<b>Position</b>	<b>Duties and responsibilities</b>
October 1996 to October 2011	The School of Economic Management of Tongji University (同濟大學)	Tertiary education	Professor, tutor for doctoral students	Responsible for teaching and research

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## DIRECTORS AND SENIOR MANAGEMENT

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<b>Period</b>	<b>Name of employer(s)</b>	<b>Principal business activity of the previous employers</b>	<b>Position</b>	<b>Duties and responsibilities</b>
December 2008 to February 2015	Sinopec Yizheng Chemical Fibre Company Limited (中國石化儀徵化纖股份有限公司) (Stock Code: 1033.hk) (currently known as Sinopec Oilfield Service Corporation (中石化石油工程技術服務股份有限公司))	Provision, drilling & expiration of oil, natural gas and other mineral prospecting; provision of general contracting, design and construction services	Independent non-executive director	Responsible for providing independent judgment on the issues of strategy, performance, resources and standard of conduct
August 2013 to June 2016	Angang Steel Co., Ltd. (鞍鋼股份有限公司) (Stock Code: 0347.hk)	Production and sale of steel products	Independent non-executive director	Responsible for providing independent judgment on the issues of strategy, performance, resources and standard of conduct
February 2015 to present	Tianan Insurance Company Ltd.* (天安財產保險股份有限公司)	Insurance	Independent director	Responsible for providing independent judgment on the issues of strategy, performance, resources and standard of conduct
August 2015 to present	China Railway Construction Real Estate Group Co., Ltd. (中國鐵建房地產集團有限公司)	Real estate construction and development	External director	Responsible for providing independent judgment on the issues of strategy, performance, resources and standard of conduct



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## DIRECTORS AND SENIOR MANAGEMENT

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Mr. Chen graduated from Hefei University of Technology (合肥工業大學) majoring in precision instrument (精密儀器) in July 1969.

Save as disclosed, each of our Directors has not been a director of any other publicly listed company during the three years preceding the date of this prospectus.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of the Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rules 17.50(2)(h) to (v) of the GEM Listing Rules as at the Latest Practicable Date.

### SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management of our business. The following table sets forth certain information of the members of the senior management of our Company.

Name	Age	Position	Date of Appointment	Date of Joining the Group	Responsibilities	Relationships with other Directors and senior management
Ms. Ho Nga Yee (何雅儀)	53	Chief Financial Officer	1 February 2015	1 January 2015	Responsible for audit, accounting and financial management matters and dealing with various matters of the Board and company secretarial matters	None
		Company Secretary	19 July 2016			

**Ms. Ho Nga Yee (何雅儀)**, aged 53, joined our Group as financial adviser on 1 January 2015 and was appointed as our chief financial officer on 1 February 2015. Ms. Ho has nearly 30 years of experience in accounting and finance.

Her major working experience is set out as below:

Period	Name of employer(s)	Principal business activity of the previous employers	Position	Duties and responsibilities
July 1985 to August 1993	Coopers & Lybrand	Accountancy firm	Supervisor (audit division)	Responsible for project audit
September 1993 to September 2000	Lenovo Group Limited	Information technology	Deputy general manager (group finance department)	Responsible for overseeing financial and accounting activities

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## DIRECTORS AND SENIOR MANAGEMENT

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Period	Name of employer(s)	Principal business activity of the previous employers	Position	Duties and responsibilities
October 2000 to November 2012	The Style Merchants Limited	Information technology and subsequently changed to fashion retail (Stock code: SIN:N37, delisted on 17 February 2012)	Chief financial officer	Responsible for overseeing financial and accounting activities
December 2012 to January 2015	Financial Services China (Hong Kong) Limited	Financial services	Chief financial officer	Responsible for overseeing financial and accounting activities

Ms. Ho has also been our company secretary since 19 July 2016.

Ms. Ho has been an associate of the Hong Kong Institute of Certified Public Accountants since February 1993, an associate of the Chartered Association of Certified Accountants since July 1992, an associate of the Hong Kong Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries since November 1988.

Ms. Ho obtained her professional diploma in company secretaryship and administration in November 1985 from the Hong Kong Polytechnic and a bachelor of arts in accountancy in November 1996 from the Hong Kong Polytechnic University. She then obtained her master's degree in business management in November 2000 from the Hong Kong University of Science and Technology.

Our senior management has not been a director of any other publicly listed company during the three years preceding the date of this prospectus.

None of the Directors and senior management of the Group currently holds any position in Lianyungang Municipal Government or its associates (including, without limitation, NH Development).

### COMPANY SECRETARY

Ms. Ho Nga Yee (何雅儀) is the company secretary of the Company. Her biographical details are set out in the section headed “Directors and Senior Management — Senior Management” in this prospectus.

### COMPLIANCE OFFICER

Ms. Zhang Delan (張德蘭) is the compliance officer of our Company. Her biographical details are set out in the section headed “Directors and Senior Management — Executive Directors” in this prospectus.

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## DIRECTORS AND SENIOR MANAGEMENT

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### BOARD COMMITTEES

#### Audit committee

Our Company has established an audit committee on 26 June 2017 with its written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules and paragraph C.3 of the Corporate Governance Code and Corporate Governance Report set out in Appendix 15 to the GEM Listing Rules. The primary duties of the audit committee are to review and supervise our financial reporting process, risk management and internal control systems, nominate and monitor external auditors and to provide advice and comments to the Board.

Our audit committee consists of three members, being Mr. Chan So Kuen, Ms. Xiao Xia and Mr. Chen Fangzheng. Mr. Chan So Kuen currently serves as the chairman of our audit committee.

#### Remuneration committee

Our Company has established a remuneration committee on 26 June 2017 with its written terms of reference in compliance with Rule 5.34 of the GEM Listing Rules and paragraph B.1 of the Corporate Governance Code and Corporate Governance Report set out in Appendix 15 to the GEM Listing Rules. The primary duties of the remuneration committee are to evaluate the performance and make recommendations on the remuneration of our senior management and to recommend members of the Board.

Our remuneration committee consists of three members, being Mr. Chan So Kuen, Ms. Xiao Xia and Mr. Chen Fangzheng. Ms. Xiao Xia currently serves as the chairman of our remuneration committee.

#### Nomination committee

Our Company has established a nomination committee on 26 June 2017 with its written terms of reference in compliance with paragraph A.5 of the Corporate Government Code and Corporate Governance Report set out in Appendix 15 to the GEM Listing Rules. The primary duties of the nomination committee are to make recommendations to our Board regarding candidates to fill vacancies on our Board and/or in senior management.

Our nomination committee consists of three members, being Mr. Chan So Kuen, Ms. Xiao Xia and Mr. Chen Fangzheng. Mr. Chen Fangzheng currently serves as the chairman of our nomination committee.

### REMUNERATION POLICY

Our Directors and senior management receive compensation in the form of fees, salaries, allowances, discretionary bonus, pension-defined contribution plans and other benefits in kind with reference to those paid by comparable companies, time commitment and the performance of our Company. Our Company also reimburses our Directors and senior management for expenses which are necessarily and reasonably incurred for the provision of services to our Company or executing their

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## DIRECTORS AND SENIOR MANAGEMENT

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functions in relation to the operations of our Company. We regularly review and determine the remuneration and compensation packages (including incentive plans) of the Directors and senior management, by reference to, among other things, market level of remuneration and compensation paid by comparable companies, the respective responsibilities of our Directors and senior management and the performance of our Company.

We have also conditionally adopted a Share Option Scheme and Share Award Plan, the details of which are summarised in the section headed “Statutory and General Information” in Appendix IV to the prospectus.

### COMPENSATION OF THE DIRECTORS AND SENIOR MANAGEMENT

For the three years ended 31 December 2016, the aggregate amount of fees, salaries, allowances, discretionary bonus, contributions to defined contribution scheme and other benefits in kind (if applicable) paid or payable by our Company to our Directors were approximately RMB0.8 million, RMB1.4 million and RMB1.5 million, respectively. Our Directors’ remuneration is determined with reference to salaries paid by comparable companies, their experience, their responsibilities and their performance.

For the three years ended 31 December 2016, the aggregate amount of fees, salaries, allowances, discretionary bonus, contributions to defined contribution scheme and other benefits in kind (if applicable) paid or payable by our Company to our senior management were approximately nil, RMB0.8 million and RMB1.1 million, respectively. Our senior management’s remuneration is determined with reference to salaries paid by comparable companies, their experience, their responsibilities and their performance.

The fees, salaries, allowances, discretionary bonus, contributions to defined contribution scheme and other benefits in kind (if applicable) paid or payable by our Company to the top five highest paid individuals (including Directors) for the three years ended 31 December 2016, were approximately RMB1.4 million, RMB3.0 million and RMB3.6 million, respectively.

During the Track Record Period, no remuneration was paid by our Company to, or receivable by, our Directors, or the five highest-paid individuals as an inducement to join or upon joining the Company. No compensation was paid by us to, or receivable by, our Directors, past Directors or the five highest-paid individuals for each of the Track Record Period for the loss of any office in connection with the management of the affairs of any subsidiary of our Company.

None of our Directors had waived any remuneration during the Track Record Period. Save as disclosed above, no other payments have been paid, or are payable, by our Company or any of our subsidiaries to our Directors or the five highest-paid individuals during the Track Record Period.

It is estimated that under the arrangements currently in force, the aggregate amount of compensation (including salaries, benefits in kind but excluding discretionary bonuses) payable to our Directors for the year ending 31 December 2017, will be approximately RMB2.3 million.

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## DIRECTORS AND SENIOR MANAGEMENT

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Additional information on Directors' remuneration during the Track Record Period as well as information on the highest paid individuals is set forth in note 10 of the Accountant's Report in Appendix I to this prospectus.

### COMPLIANCE ADVISER

Our Company has appointed Guotai Junan Capital Limited as our compliance adviser upon Listing pursuant to Rule 6A.19 of the GEM Listing Rules. Pursuant to Rule 6A.23 of the GEM Listing Rules, the compliance adviser will advise our Company in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated including but not limited to share issues and share repurchases;
- where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities, developments or results of operation of our Group deviate from any forecast, estimate, or other information in this prospectus; and
- where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares or any other matters under Rule 17.11 of the GEM Listing Rules.

The term of the appointment will commence on the Listing Date and is expected to end on the date on which we comply with Rule 18.03 of the GEM Listing Rules in respect of our financial results for the second full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

### CORPORATE GOVERNANCE CODE

Our Group is committed to achieving high standards of corporate governance with a view to safeguarding the interests of our Shareholders. To accomplish this, our Group intends to comply with the code set out in the Corporate Governance Code in Appendix 15 to the GEM Listing Rules after the Listing.

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## SUBSTANTIAL SHAREHOLDERS

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### SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, each of the following persons will, immediately following completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares that may be issued upon the exercise of the Over-allotment Option or options which have been or may be granted under the Share Option Scheme), have an interest or short position in the Shares or underlying Shares which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Shareholders	Capacity/Nature of interest	Number and class of securities <sup>(1)</sup>	Approximate percentage of interest in the Company
Glorious Prosperity <sup>(2)</sup>	Beneficial owner	198,000,000 Shares (L)	24.75%
Keen Smart <sup>(3)</sup>	Beneficial owner	180,000,000 Shares (L)	22.50%
Best Talent Asia <sup>(4)</sup>	Beneficial owner	114,000,000 Shares (L)	14.25%
HK Zhiyuan <sup>(5)</sup>	Beneficial owner	108,000,000 Shares (L)	13.50%
NH Development <sup>(5)</sup>	Interest of controlled corporation	108,000,000 Shares (L)	13.50%
Lianyungang Municipal Government <sup>(5)</sup> (江蘇省連 雲港市人民政府)	Interest of controlled corporation	108,000,000 Shares (L)	13.50%
Mr. Wei <sup>(2)(3)(4)(6)</sup>	Interest of controlled corporation	492,000,000 Shares (L)	61.50%
Ms. Xie <sup>(6)</sup>	Interest of spouse	492,000,000 Shares (L)	61.50%

*Notes:*

- (1) The letter “L” denotes a person’s long position (as defined under Part XV of the SFO) in the Shares.
- (2) Glorious Prosperity is held as to 100% by Mr. Wei. Therefore, Mr. Wei is deemed to be interested in the Shares which Glorious Prosperity is interested in by virtue of the SFO.
- (3) Keen Smart is held as to 100% by Mr. Wei. Therefore, Mr. Wei is deemed to be interested in the Shares which Keen Smart is interested in by virtue of the SFO.
- (4) Best Talent Asia is held as to 100% by Mr. Wei. Therefore, Mr. Wei is deemed to be interested in the Shares which Best Talent Asia is interested in by virtue of the SFO.

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## SUBSTANTIAL SHAREHOLDERS

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- (5) The disclosed interest represents the interest in HK Zhiyuan held as to 100% by NH Development, which is in turn held as to 100% by Lianyungang Municipal Government (江蘇省連雲港市人民政府). By virtue of the SFO, NH Development is deemed to be interested in the Shares which HK Zhiyuan is interested in and Lianyungang Municipal Government (江蘇省連雲港市人民政府) is deemed to be interested in the Shares which NH Development is interested in.
- (6) Ms. Xie is the spouse of Mr. Wei. By virtue of the SFO, Ms. Xie is deemed to be interested in the Shares which Mr. Wei is interested in by virtue of the SFO.

Save as disclosed herein, our Directors are not aware of any person who will, immediately following the Capitalisation Issue and the Global Offering (without taking into account any Shares that may be issued pursuant to the exercise of the Over-allotment Option or options which have been or may be granted under the Share Option Scheme), have an interest or short position in Shares or underlying Shares, which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

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## SHARE CAPITAL

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### AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued Share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately before and after completion of the Global Offering.

<i>Authorised share capital:</i>	(Nominal Value)
	US\$
10,000,000,000 Shares	100,000,000
<i>Issued share capital</i>	
10,000 Shares in issue as at the date of this prospectus	100
<i>Shares to be issued</i>	
599,990,000 Shares to be issued pursuant to the Capitalisation Issue	5,999,900
200,000,000 Shares to be issued pursuant to the Global Offering	2,000,000
30,000,000 Shares to be issued on full exercise of the Over-allotment Option	300,000
<i>Total issued Share capital on completion of the Global Offering (prior to the exercise of the Over-allotment Option):</i>	
800,000,000 Shares	8,000,000
<i>Total issued Share capital on completion of the Global Offering (after the exercise of the Over-allotment Option):</i>	
830,000,000 Shares	8,300,000

### ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional.

The table takes no account of Shares which may be allotted and issued upon the exercise of any options which have been or may be granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by our Company pursuant to the Issuing Mandate given to our Directors to allot and issue or repurchase Shares as described below.

### RANKING

The Shares will rank *pari passu* in all respects with all other existing Shares in issue as mentioned in this prospectus, and in particular, will be entitled to all dividends and other distributions hereafter declared, paid or made on the Shares after the date of this prospectus save for entitlements under the Capitalisation Issue.



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## SHARE CAPITAL

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### **PUBLIC FLOAT REQUIREMENTS**

Rule 11.23(7) and (9) of the GEM Listing Rules requires there to be an open market in the securities for which listing is sought and for a sufficient public float of an issuer's listed securities to be maintained. This normally means that (i) at least 25% of the issuer's total number of issued shares must at all times be held by the public; and (ii) where an issuer has one class of securities or more apart from the class of securities for which listing is sought, the total securities of the issuer held by the public (on all regulated market(s) including the Stock Exchange) at the time of listing must be at least 25% of the issuer's total number of issued shares. However, the class of securities for which listing is sought must not be less than 15% of the issuer's total number of issued shares and must have an expected market capitalisation at the time of listing of not less than HK\$30 million.

Based on the information in the above table, the Company will meet the public float requirement under the GEM Listing Rules after the completion of the Capitalisation Issue and the Global Offering. We will make appropriate disclosure of our public float and confirm the sufficiency of our public float in successive annual reports after Listing.

### **SHARE OPTION SCHEME**

Our Company has conditionally adopted the Share Option Scheme on 26 June 2017. Under the Share Option Scheme, the eligible participants of the scheme, including directors, full-time employees of and advisers and consultants to our Company or our subsidiaries may be granted options which entitle them to subscribe for Shares, when aggregated with options granted under any other scheme, representing initially not more than 10% of the Shares in issue on the Listing Date. Further details of the rules of the Share Option Scheme are set out in the section headed "Other Information — 12. Share Option Scheme" in Appendix IV to this Prospectus.

### **SHARE AWARD PLAN**

Our Company has conditionally adopted the Share Award Plan on 26 June 2017 in which the eligible participants of the plan may be granted awards of Shares.

The purpose of the Share Award Plan is to recognise and reward the contribution the eligible participants of the plan to the growth and development of our Group, to give incentives thereto in order to retain them for the continual operation and development of our Group and to attract suitable personnel for further development of our Group through an award of Shares.

Please refer to the section headed "Other Information — 13. Share Award Plan" in Appendix IV to this prospectus for a summary of the principal terms of the Share Award Plan.

As at the Latest Practicable Date, no awards have been granted or agreed to be granted under the Share Award Plan, and the Share Award Plan Trustee for the administration of the Shares and other trust fund under the Share Award Plan has not yet been appointed.

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## SHARE CAPITAL

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### GENERAL MANDATE TO ISSUE SHARES

The Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with the total number of issued Shares not exceeding the sum of (a) 20% of the total number of issued Shares of the Company as enlarged by the Capitalisation Issue and the Global Offering (but excluding any Shares which may be issued pursuant to the Over-allotment Option); and (b) the total number of Shares of the Company which may be repurchased by the Company under the Repurchase Mandate.

The Directors may, in addition to the Shares which they are authorized to issue under the Issuing Mandate, allot, issue and deal in the Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of subscription rights attaching to any warrants or convertible securities of the Company, scrip dividends or similar arrangements or the exercise of options granted under the Share Option Scheme. The total number of Shares which the Directors are authorized to allot and issue under this Issuing Mandate will not be reduced by the allotment and issue of such Shares.

This Issuing Mandate will expire:

- (i) at the conclusion of the Company's next annual general meeting; or
- (ii) upon the expiry of the period within which the Company is required by any applicable law or the Memorandum and Articles of Association to hold its next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of the Shareholders in general meeting;

whichever occurs first.

For more details of the Issuing Mandate, please see the section headed "Further Information about the Company — 3. Resolutions in Writing of the Shareholders passed on 26 June 2017" in Appendix IV to this prospectus.

### REPURCHASE MANDATE

Our Directors have been granted a general unconditional mandate to exercise all of the powers of our Company to repurchase Shares with not more than 10% of the total number of issued Shares of our Company, as enlarged by the Capitalisation Issue and the Global Offering (but excluding any Shares of the Company which may be issued pursuant to the Over-allotment Option).

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## SHARE CAPITAL

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This Repurchase Mandate relates only to repurchases made on the Stock Exchange or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and the requirements of the GEM Listing Rules. Further information required by the Stock Exchange to be included in this prospectus regarding the repurchase of Shares is set out in the section headed “Further Information about the Company — 5. Securities repurchase mandate” in Appendix IV to this prospectus.

This Repurchase Mandate will expire:

- (i) at the conclusion of our Company’s next annual general meeting; or
- (ii) upon the expiry of the period within which our Company is required by any applicable law or the Memorandum and Articles of Association to hold its next annual general meeting or any applicable law of the Cayman Islands; or
- (iii) when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting;

whichever occurs first.

For further information about this Repurchase Mandate, please see the section headed “Further Information about the Company — 3. Resolutions in Writing of the Shareholders passed on 26 June 2017” in Appendix IV to this prospectus.

### **CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED**

As a matter of the Companies Law, an exempted company is not required by law to hold any general meetings or class meetings. The holding of general meeting or class meeting is prescribed for under the articles of association of a company. Accordingly, the Company will hold general meetings as prescribed for under the Memorandum of Association and the Articles of Association, a summary of which is set out in Appendix III to this prospectus.

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*You should read the following discussion and analysis of our Group's results of operations and financial position together with our consolidated financial statements as at and for each of the years ended 31 December 2014, 2015, and 2016, including the notes thereto, included in the Accountant's Report in Appendix I to this prospectus. The Accountant's Report has been prepared in accordance with HKFRSs.*

*This following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include those discussed below and elsewhere in this prospectus, particularly in the section headed "Risk Factors".*

### OVERVIEW

Our Group principally engaged in the provision of environmental and construction management services, namely, (1) environmental maintenance services; (2) construction management services; and (3) supply of gneiss, a construction material, in Lianyungang. We commenced our urban environmental and construction management business in November 2013. Our principal businesses are as follows:

*(1) Provision of environmental maintenance services:* We provide two types of environmental maintenance services, namely, greening and environmental sanitation. Our greening services cover the provision of (a) landscape greening services; (b) horticultural maintenance services; (c) supply of plant products; and (d) pest management services, to a wide range of premises and venues in the urban areas, including recreational venues, commercial premises and public facilities. Our provision of environmental sanitation services include sanitation and maintenance work in various commercial and public areas.

*(2) Provision of construction management services:* We provide two types of construction management services, namely construction project management and municipal construction. Our construction project management services involve our undertakings of BT and PPP projects of infrastructure and public facilities starting in May 2015. BT and PPP are construction project management and financing models under which we are responsible to provide project management services and pay subcontracting fees for our customers. During the Track Record Period and up to the Latest Practicable Date, the BT and PPP projects undertaken by us are construction of infrastructure and public facilities in which our customers are either local government or state-invested enterprises.

Our municipal construction services involve our undertakings of municipal public work projects which include landscape construction work, road construction work, earthwork engineering and repair, public facilities construction and maintenance work, which we started to provide after the Acquisition of New Headline Municipal Landscaping in January 2015.

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*(3) Supply of construction material (gneiss):* We also sell gneiss, a construction material, to our customers while our major customers were private sector customers, such as property developers and construction contractors. During the Track Record Period, all of our gneiss were sourced from NH Development, one of our substantial shareholders, pursuant to the NH Development Supply Agreement.

Our total revenue was approximately RMB127.2 million, RMB207.2 million and RMB374.9 million for the three years ended 31 December 2014, 2015 and 2016, respectively. Our profit for the year was approximately RMB8.3 million, RMB46.4 million and RMB120.1 million for the same years, respectively.

### **BASIS OF PREPARATION OF FINANCIAL INFORMATION**

The financial information set out in the Accountant's Report in Appendix I to this prospectus is prepared in accordance with the HKFRSs and under the historical cost convention for all the years presented. Our management exercises its judgement in applying our Group's accounting policies to the preparation of our Group's financial information in conformity with HKFRSs which involves the use of certain critical accounting estimates.

### **KEY FACTORS AFFECTING OUR GROUP'S RESULTS OF OPERATIONS**

Our business, financial position and results of operations are affected by a number of factors, many of which are beyond our control. Some of the key factors include the following:

#### **Economic development and urbanisation in the PRC**

We believe that the general economic conditions in the PRC have affected and may continue to affect our business and results of operations. Economic growth and rapid urbanisation have been the key drivers behind the increasing market demand for environmental and construction management services in the PRC. The overall economic growth in the PRC and the rate of urbanisation will continue to be affected by a number of macroeconomic factors, including changes in the global economy, total fixed assets investment level and growth in the public facilities, which will in turn affect our financial condition. Moreover, a significant portion of our revenue during the Track Record Period was generated from a number of major municipal public work projects. Our business therefore also depends to a certain extent on the level of investment in the public sector. Any macro-economic downturn or substantial reduction in government expenditure in the public sector would have a material adverse effect on our business, results of operations and cash flows.

#### **Government policies and regulations in the environmental and construction management industry in the PRC**

Policies and regulations have been, and will continue to be, the main means of the PRC government to exert its influence on the environmental and construction management industry, which will have a direct impact on our business and results of operations. Over the past few years, the PRC government has promulgated a series of policies and regulations to ensure a healthy and orderly development of environmental and construction management industry. In 2015, the PRC Government

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further promulgated the *Advice on Developing 13th Five-year Plan for National Economic and Social Development* 《中共中央關於制定國民經濟和社會發展第十三個五年規劃的建議》, aims at enhancing infrastructure construction while maintaining rapid economic growth in the PRC. The National *New Urbanisation Planning (2014-2020)* 《國家新型城鎮化規劃 (2014-2020)》 released in 2014, targets at increasing urbanisation in China to a target rate of 60% by the end of 2020 and building a safe and efficient network of public facilities in the PRC. We expect that the government policies and regulations in the PRC in relation to the development of the environmental maintenance and construction management industry in the urban areas will exert continuous impact on our business and results of operations.

### Competition

According to the Ipsos Report, we operate in a growing industry in which our competitors include a number of companies that provide services similar to ours. Our provision of environmental and construction management services operates on a project-by-project basis. We consider that our Group's ability to compete for and secure sizeable and profitable projects is one of the main contributors to our success. We compete with our competitors in different aspects, which includes price and service quality that could in turn affect the number of projects awarded to us and project profitability. We generally obtain our projects by tendering, and there is no assurance that we will be able to secure the projects we tendered for. In the event that our Group is unable to be awarded a sufficient number of projects, our revenue and financial performance for the relevant year may be materially and adversely affected.

The level of competition also impacts our ability to price our services at a desired level so as to achieve our targeted profitability. The proposed tender prices or fee quotations for such projects are based on our estimated project costs plus a mark-up margin. While it is our objective to charge a reasonable price to maximise Shareholders' value, offering an uncompetitive tender price or fee quotation higher than our competitors may render our tender or quotation unsuccessful. Failure to price our tenders or fee quotations accurately or failure to strike a balance between pricing our projects competitively and maintaining an adequate profit margin will affect our financial performance and results of operations. As such, market competition has had, and is expected to continue to have, a significant impact on our business and financial performance.

### Revenue recognition and operating cashflow in relation to our BT and PPP projects

Our Group provides project management services and project financing services to our customers through making payments to our subcontractors involved in our BT and PPP projects. We will generally be paid upon completion in which we will not receive any progress payment during the construction phase. According to our Group's accounting policy for revenue recognition, we recognise revenue (i) as management services income for our provision of project management services for the period by applying the percentage of completion method, measured by reference to the actual services performed in the corresponding period according to the progress report prepared and submitted by us to our customer, which is to be reviewed and confirmed by our engineering department, the relevant customer and the relevant supervisor (if appointed); and (ii) as interest income for our provision of financing services on a time-proportion basis over the term of the BT and PPP project.

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Our BT and PPP projects may take months or years to complete and the number of BT and PPP projects we undertake during a specific accounting period may be limited due to the substantial amount of capital required to fund and pay construction costs on behalf of our customers. Also, we may not always be able to match cash inflows from our construction project management and financing service income which will generally be incurred by instalments after the completion of these projects over an agreed period of time with our cash outflows for our financing of these projects during their construction phase.

Furthermore, delays in construction, regulatory approval and weather conditions can adversely affect the timetable and progress of our BT and PPP projects, which will in turn affect our revenue recognition and operating cash flow. The results of operations therefore may vary significantly from period to period, depending on project progress and may lead to fluctuations in revenue recognised from period to period. Moreover, interim results may not be indicative of our annual results.

Please refer to the section headed “Risk Factors — We face risks associated with undertaking BT and PPP projects” in this prospectus and “Critical Accounting Estimates and Assumptions — Revenue and cost recognition in respect of construction project management service contracts” in this section for more details.

### **Subcontracting fees and cost of inventories**

The main components of our cost of sales are subcontracting fees and cost of inventories. Our subcontracting fees represents fees paid to our subcontractors which provide labour, materials and works in relation to our provision of environmental maintenance services and municipal construction services. In respect of our construction project management services, since we are only responsible to provide project management services and pay subcontracting fee for our customers, we do not incur any subcontracting fees for any of these projects; such subcontracting fees are paid by us on behalf of our customers. As a result, the subcontracting fees incurred for BT and PPP projects did not contribute to the cost of sales and the subcontracting fees received by our Group for the provision of certain municipal construction services to our Group’s BT and PPP projects are recognised as income for the municipal construction segment of our Group. Our subcontracting fees accounted for approximately 59.6%, 50.4%, and 48.3% of our total cost of sales for the three years ended 31 December 2014, 2015 and 2016, respectively. Our cost of inventories represents the cost of gneiss purchased for our supply of gneiss, and accounted for approximately 35.5%, 41.6%, and 43.1% of our costs of sales for the same periods, respectively. Our ability to control and manage our subcontracting fees and cost of inventories will enhance our profitability. There is no assurance that the subcontractors will be able to continue providing services to our Group at fees acceptable to us or our relationship with them could be maintained in the future. Besides, our cost of inventories may fluctuate subject to the annual review of the unit price of gneiss, as stipulated under the NH Development Supply Agreement. In the event that (i) any of our subcontractors are unable to provide the required services to our Group; or (ii) where the costs of our subcontractors providing the required services or our cost of inventories increase substantially, our Group’s business, results of operations, profitability and liquidity may be adversely affected.

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### CRITICAL ACCOUNTING POLICIES

Our accounting policies are important for an understanding of our financial condition and results of operations. We have identified certain accounting policies and accounting estimates and judgements that are significant to the preparation of our financial information. We set out below those accounting policies and accounting estimates and judgements that we believe are most important for preparing our financial information. For details of our Group's accounting policies, please refer to Appendix I to this prospectus.

#### Consolidation

Our subsidiaries are consolidated from the date on which our Group has control over them and are deconsolidated from the date such control ceases.

Business combinations are accounted for by applying the acquisition method. The consideration transferred for the acquisition of a subsidiary is measured at the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by us. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

Intra-group transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

#### Revenue Recognition

Our revenue is primarily derived from the provision of environmental maintenance and construction management services in Lianyungang. Revenue is recognised when the revenue can be reliably measured and when it is probable future economic benefits will flow to us and when specific criteria have been met for each of our Group's activities as follows:

- *Sales from supply of construction material (gneiss):* Revenue generated from our supply of construction material (gneiss) is recognised on the transfer of risks and rewards of ownership when construction material (gneiss) are delivered to our customers and the title has passed.
- *Services income:* Revenue generated from our environmental maintenance services and municipal construction contracts is recognised when the relevant services are rendered.
- *Management services income and interest income:* Our Group undertakes certain BT and PPP projects, which consist of provision of project management services and project financing services to our customers through payments to subcontractors on behalf of our customers.



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Although our Group participates in managing and financing public infrastructure constructions under our BT and PPP projects, HK (IFRIC) Interpretation 12 “Service Concession Arrangements” (IFRIC 12) does not apply to our BT and PPP projects since:

- Our Group does not operate the infrastructures upon their completion of construction and retain any interests or rights in the operation of the infrastructures;
- There is no operation and management services to be provided by the Group upon the end of the construction of BT and PPP projects; and
- The infrastructure will be transferred to the customers upon its completion of its construction under the BT and PPP contracts.

The revenue recognition for both BT and PPP projects is the same and the amount of revenue recognised is based on the fair values of the respective services which are determined as follows:

- (i) we generate management services income for our provision of project management services, which is recognised by reference to the percentage of completion method on the basis of actual services provided as a proportion of the total services to be provided over the service duration of BT and PPP projects. The actual services provided are referenced to the project progress report confirmed jointly by the customer and by an independent construction supervisor.
- (ii) we also generate interest income for our provision of our financing services in relation to paying subcontracting fee for our customers, which is recognised on a time-proportion basis over the duration of BT and PPP projects using the effective interest method by reference to the outstanding subcontractors fees paid on behalf of the customer at applicable market interest rate.

The fair values of the project management service income and interest income are determined based on the respective current market price of these services when rendered separately. Residual value method is applied to determine the fair value of the project management services income by deducting the fair values of the interest income element from the total consideration of the BT or PPP project. The market interest rate of borrowings on similar lending terms and conditions is applied to determine fair value of the interest income element.

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### Property, plant and equipment and depreciation

Property, plant and equipment are stated at historical cost which includes expenditure directly attributable to their acquisition less depreciation. Depreciation is calculated by allocating their costs to their residual values over their estimated useful lives using the straight-line method. Estimated useful lives are summarised as follows:

Furniture, fixtures and equipment	3 to 5 years
Production equipment	5 to 10 years
Motor vehicles	5 to 7 years

At the end of each reporting period, the assets' residual values and useful lives are reviewed, and adjusted if appropriate.

We will immediately write down the carrying amount of an asset to its recoverable amount if its value exceeds its estimated recoverable amount.

### Financial Assets

Our Group classifies its financial assets as loans and receivables which are non-derivative financial assets with fixed or determinable payments. Loans and receivables comprise of trade and other receivables due from customers for our services performed, amount due from a shareholder and cash and cash equivalents under current assets. Any such amounts are classified as non-current assets if they are settled or expected to be settled beyond 12 months after the end of the reporting period. They are initially recognised at their fair values and are subsequently measured at amortised costs using effective interest method, less provision for impairment.

Impairment losses are incurred only if there is objective evidence due to the occurrence of one or more events having an impact on the estimated future cash flows of our assets that can be reliably estimated and are measured as the difference between the assets' carrying amounts and their present value of estimated future cash flows. After the recognition of an impairment loss, it may be subsequently reversed when the decrease in such loss can be related objectively to an event.

Offsetting of financial assets and liabilities are allowed when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

### Trade payables

Trade payables are recognised initially at fair value when our inventories are acquired and services are rendered to us. They are subsequently measured at amortised cost using the effective interest method. Trade payables are classified as current liabilities unless their payments are due beyond one year. Otherwise, they are presented as non-current liabilities.

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### **Provisions**

Provisions are recognised when our Group has a present legal or constructive obligation as a result of past events and where it is probable that a resources outflow will be required to settle the obligation; and the amount has been reliably estimated. They are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

### **Income tax and deferred tax**

Our income tax consists of current and deferred tax and is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or in equity directly. It is also recognised in other comprehensive income or in equity directly, respectively.

Current income tax charge is calculated based on the enacted tax laws or substantively at the end of each reporting period in Hong Kong and the PRC where our Group operates and generates taxable income.

Our deferred income tax liabilities are provided on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts by using the liability method except for the temporary difference which will not reverse in the foreseeable future and the timing of such reversal is controlled by the Group.

### **CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

Our Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources, in the application of our accounting policies. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period. Our Directors believe there were no material differences between our estimates and actual results over the Track Record Period. The underlying assumptions had not changed over the Track Record Period and are unlikely to change in the future.

### **Revenue and cost recognition in respect of construction project management service contracts**

Significant judgement of the Group is required in the estimation of the total services to be performed and the service duration of BT and PPP contracts, which could be varied by a number of factors, including but not limited to customer's request to change the work scope and work performance of subcontractor that are beyond the Group's control. If there are any variations in contact work or claims and incentive payments, these will be included as services performed to the extent that they have been agreed with the customer. The Group regularly reviews and revises the estimated services to be performed and service duration as the BT and PPP project progresses.

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Since BT and PPP projects are multiple-element arrangements with project management service element and financing service element, the Group applies the residual value method to determine the fair value of the respective elements. It adopts the percentage of completion method to recognise the revenue relating to the provision of project management services.

### Income tax

Our Group is subject to income tax in both Hong Kong and the PRC. Significant judgement is required in determining the provision for such income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain. Our Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Differences between the final tax outcome and the amounts that were initially recorded will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

### Impairment of trade and other receivables

Our Group's management determines the provision for impairment of trade and other receivables based on our assessment of the creditworthiness of our customers and the current market condition. Our provision policy based on an ongoing assessment where our management will reassess the provision at the end of each reporting period.

Our credit risk on trade receivables mainly arises from customers in relation to our provision of environmental maintenance services, municipal construction contracts and construction project management projects. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including evaluation of the customers' reputation, credit profile, historical performance and relationship with our Group.

## SUMMARY OF RESULTS OF OPERATIONS

The following table sets forth the results of operations of our Group during the Track Record Period, which are derived from our consolidated statements of comprehensive income as set out in the Accountant's Report in Appendix I to this prospectus.

	Year ended 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	127,228	207,233	374,863
Cost of sales	<u>(108,515)</u>	<u>(126,857)</u>	<u>(173,597)</u>
<b>Gross profit</b>	18,713	80,376	201,266
Other income and other losses, net	1,202	467	1,879
Selling and distribution expenses	(1,148)	(4,368)	(8,279)

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	<b>Year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
General and administrative expenses	<u>(6,475)</u>	<u>(13,316)</u>	<u>(25,782)</u>
<b>Operating profit</b>	12,292	63,159	169,084
Finance income	35	230	269
Finance cost	<u>(53)</u>	<u>(13)</u>	<u>(160)</u>
Finance (cost)/income, net	<u>(18)</u>	<u>217</u>	<u>109</u>
<b>Profit before income tax</b>	12,274	63,376	169,193
Income tax expense	<u>(3,945)</u>	<u>(16,992)</u>	<u>(49,119)</u>
<b>Profit for the year</b>	<u>8,329</u>	<u>46,384</u>	<u>120,074</u>
<b>Other comprehensive (loss)/income:</b>			
<i>Item that will not be reclassified to profit or loss:</i>			
Exchange differences on translation of the Company	375	2,224	1,711
<i>Item that may be subsequently reclassified to profit or loss:</i>			
Exchange differences on translation of subsidiaries	<u>(1,113)</u>	<u>(2,400)</u>	<u>(2,414)</u>
	<u>(738)</u>	<u>(176)</u>	<u>(703)</u>
<b>Total comprehensive income attributable to:</b>			
— Owners of the Company	7,591	46,208	114,402
— Non-controlling interests	<u>—</u>	<u>—</u>	<u>4,969</u>
	<u>7,591</u>	<u>46,208</u>	<u>119,371</u>

### DESCRIPTION OF SELECTED COMPONENTS OF OUR CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

#### Revenue

Our Group's revenue was principally generated from the provision of environmental and construction management services, namely, (1) environmental maintenance services; (2) construction management services; and (3) supply of construction material (gneiss) in Lianyungang. Our customers are mainly government, state-invested enterprises and private sector customers such as property developers and construction contractors. During the Track Record Period, we principally operated in Lianyungang. Our total revenue amounted to approximately RMB127.2 million, RMB207.2 million,

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and RMB374.9 million for the three years ended 31 December 2014, 2015 and 2016, respectively. During the Track Record Period, our revenue increased primarily as a result of (i) the commencement of our provision of construction management services starting in 2015 and the increase in such services for the year ended 31 December 2016; and (ii) an increase in revenue from our supply of gneiss for each of the two years ended 31 December 2015 and 2016.

The following table sets forth a breakdown of the major components of our Group's revenue by segments and the component as a percentage of total revenue during the Track Record Period:

	<b>Year ended 31 December</b>					
	<b>2014</b>		<b>2015</b>		<b>2016</b>	
	<i>RMB'000</i>	<i>%RMB'000</i>	<i>RMB'000</i>	<i>%RMB'000</i>	<i>RMB'000</i>	<i>%</i>
Environmental Maintenance	81,054	63.7	85,511	41.3	91,303	24.4
Construction Management	—	—	42,648	20.5	169,209	45.1
<i>Construction Project Management</i>	—	—	29,086	14.0	128,730	34.3
<i>Municipal Construction</i>	—	—	13,562	6.5	40,479	10.8
Supply of Construction Material (gneiss)	<u>46,174</u>	<u>36.3</u>	<u>79,074</u>	<u>38.2</u>	<u>114,351</u>	<u>30.5</u>
<b>Total</b>	<u><u>127,228</u></u>	<u><u>100.0</u></u>	<u><u>207,233</u></u>	<u><u>100.0</u></u>	<u><u>374,863</u></u>	<u><u>100.0</u></u>

The table below sets forth selected data relating to our revenue generated from our BT and PPP projects during the Track Record Period. Our Group recognises management services income and interest income by providing project management services and project financing services to our customers through making payments to our subcontractors on behalf of our customer for BT and PPP projects.

	<b>Year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Management services income generated from BT and PPP projects	—	28,865	127,418
Interest income generated from BT and PPP projects	<u>—</u>	<u>221</u>	<u>1,312</u>
	<u><u>—</u></u>	<u><u>29,086</u></u>	<u><u>128,730</u></u>

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Our revenue derived from the provision of environmental maintenance services increased by approximately RMB4.5 million or 5.5% from approximately RMB81.1 million for the year ended 31 December 2014 to approximately RMB85.5 million for the year ended 31 December 2015, and further increased by approximately RMB5.8 million or 6.8% to approximately RMB91.3 million for the year ended 31 December 2016.

We began to provide construction management services in 2015. We provide two types of construction management services, namely construction project management and municipal construction. We derived management services income and interest income for our provision of project management services and project financing services in respect of our BT and PPP projects. Our revenue derived from construction project management services amounted to approximately RMB29.1 million for the year ended 31 December 2015 and increased by approximately RMB99.6 million or 342.6% to approximately RMB128.7 million for the year ended 31 December 2016.

Our revenue derived from municipal construction services was approximately RMB13.6 million for the year ended 31 December 2015, and increased by approximately RMB26.9 million or 198.5% to RMB40.5 million for the year ended 31 December 2016.

Our revenue derived from supply of construction material (gneiss) increased by approximately RMB32.9 million or 71.3% from approximately RMB46.2 million for the year ended 31 December 2014 to approximately RMB79.1 million for the year ended 31 December 2015, and further increased by approximately RMB35.3 million or 44.6% to approximately RMB114.4 million for the year ended 31 December 2016.

### Cost of sales

Our cost of sales was approximately RMB108.5 million, RMB126.9 million and RMB173.6 million for the three years ended 31 December 2014, 2015 and 2016, respectively. The following table sets forth a breakdown of our cost of sales by segments during the Track Record Period:

	Year ended 31 December					
	2014		2015		2016	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Environmental Maintenance	69,204	63.8	60,932	48.0	64,282	37.0
Construction Management	—	—	12,663	10.0	34,264	19.8
<i>Construction Project</i>						
<i>Management</i>	—	—	978	0.8	441	0.3
<i>Municipal Construction</i>	—	—	11,685	9.2	33,823	19.5
Supply of Construction						
Material (gneiss)	<u>39,311</u>	<u>36.2</u>	<u>53,262</u>	<u>42.0</u>	<u>75,051</u>	<u>43.2</u>
<b>Total</b>	<u><u>108,515</u></u>	<u><u>100.0</u></u>	<u><u>126,857</u></u>	<u><u>100.0</u></u>	<u><u>173,597</u></u>	<u><u>100.0</u></u>

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Our cost of sales mainly consisted of subcontracting fees and cost of inventories during the Track Record Period. The following table sets forth a breakdown of the major components of our Group's cost of sales by nature and their respective percentage of total cost of sales during the Track Record Period:

	<b>Year ended 31 December</b>					
	<b>2014</b>		<b>2015</b>		<b>2016</b>	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Subcontracting fees	64,660	59.6	63,968	50.4	83,771	48.3
Cost of inventories	38,559	35.5	52,772	41.6	74,824	43.1
Materials and consumables	—	—	1,990	1.6	10,817	6.2
Business tax and surcharges	5,296	4.9	7,795	6.1	2,255	1.3
Others	—	—	332	0.3	1,930	1.1
	<u>108,515</u>	<u>100.0</u>	<u>126,857</u>	<u>100.0</u>	<u>173,597</u>	<u>100.0</u>

Subcontracting fees represented fees paid to our subcontractors which provide labour and works in relation to our provision of environmental maintenance services and municipal construction services. Accordingly, our subcontracting fees may vary depending on the level of labour, materials and works used in the projects. During the Track Record Period, our subcontracting fees represented approximately 59.6%, 50.4% and 48.3% of our total cost of sales for the three years ended 31 December 2014, 2015 and 2016, respectively.

Cost of inventories represented the cost of gneiss purchased for our supply of construction material (gneiss). Our cost of inventories represented approximately 35.5%, 41.6% and 43.1% of our total cost of sales for the three years ended 31 December 2014, 2015 and 2016, respectively.

Materials and consumables represented costs of plants, saplings and other materials procured by our group for the provision of environmental maintenance services and municipal construction management services. During the Track Record Period, our materials and consumables represented approximately nil, 1.6% and 6.2% of our total cost of sales for the three years ended 31 December 2014, 2015 and 2016.

Business tax and surcharges mainly represented business taxes and tax charges including urban maintenance and construction tax and education surcharges borne by our Group in conducting our business activities. Because of the PRC tax reform effective since May 2016, we had no longer incurred business tax but was instead subject to VAT and the tax charges had been recorded in our general and administrative expenses accordingly. As a result, our business tax and surcharges decreased in 2016 despite of the growth in our revenue. Please refer to the section headed "Regulatory Overview — c) Business Tax" for details.

The increase in cost of sales was generally in line with the increase in our revenue during the Track Record Period.



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For illustrative purpose only, the following sensitivity analysis illustrates the impact of hypothetical fluctuations in our subcontracting fees and cost of inventories on our profit before tax during the Track Record Period, assuming all other variables remained constant. For prudence sake, our Group adopted a hypothetical fluctuation of 5% and 10%, with reference to the changes in the subcontracting fees and cost of inventories for the periods indicated, in performing the sensitivity analysis below:

<b>Hypothetical fluctuations of our subcontracting fees</b>	<b>+/- 5%</b>	<b>+/- 10%</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Changes in profit before tax		
For the year ended 31 December 2014	-/+ 3,233	-/+ 6,466
For the year ended 31 December 2015	-/+ 3,198	-/+ 6,397
For the year ended 31 December 2016	-/+ 4,189	-/+ 8,377
<b>Hypothetical fluctuations of our cost of inventories</b>	<b>+/- 5%</b>	<b>+/- 10%</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Changes in profit before tax		
For the year ended 31 December 2014	-/+ 1,928	-/+ 3,856
For the year ended 31 December 2015	-/+ 2,639	-/+ 5,277
For the year ended 31 December 2016	-/+ 3,741	-/+ 7,482

### Gross Profit

Our Group's gross profit increased by approximately RMB61.7 million or 329.5% from approximately RMB18.7 million for the year ended 31 December 2014 to approximately RMB80.4 million for the year ended 31 December 2015, and further increased by approximately RMB120.9 million or 150.4% to approximately RMB201.3 million for the year ended 31 December 2016. Our Group's gross profit margin increased from approximately 14.7% for the year ended 31 December 2014 to approximately 38.8% for the year ended 31 December 2015, and further increased to approximately 53.7% for the year ended 31 December 2016.

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The following table sets out the gross profit and gross profit margin by segments:

	Year ended 31 December					
	2014		2015		2016	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Environmental Maintenance	11,850	14.6	24,579	28.7	27,021	29.6
Construction Management	—	—	29,985	70.3	134,945	79.8
<i>Construction Project Management</i>	—	—	28,108	96.6	128,289	99.7
<i>Municipal Construction</i>	—	—	1,877	13.8	6,656	16.4
Supply of Construction Materials (gneiss)	<u>6,863</u>	<u>14.9</u>	<u>25,812</u>	<u>32.6</u>	<u>39,300</u>	<u>34.4</u>
Overall gross profit margin	<u>18,713</u>	<u>14.7</u>	<u>80,376</u>	<u>38.8</u>	<u>201,266</u>	<u>53.7</u>

Our gross profit and gross profit margin increased during the Track Record Period. The increase in our gross profit was mainly due to (i) our provision of construction management services starting in 2015; and (ii) the increase in the sale of gneiss. Our gross profit margin improved during the Track Record Period mainly due to (i) the contribution from our construction project management business segment which has a relatively higher gross profit margin among all of our business segments; and (ii) increase in gross profit margin for our supply of gneiss. The cost of sales for our construction project management comprises business tax and surcharges.

### Other income, net

Our net amount of other income principally consisted of (i) interest income; (ii) net foreign exchange gains; (iii) government subsidy; and (iv) others. It amounted to approximately RMB1.2 million, RMB0.5 million and RMB1.9 million for the three years ended 31 December 2014, 2015 and 2016, respectively.

### Selling and distribution expenses

Selling and distribution expenses primarily consisted of employee benefit expenses for our operational and marketing employees, marketing expenses and promotional expenses incurred in soliciting new customers.

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The following table sets forth a breakdown of the major components of our Group's selling and distribution expenses and the component as a percentage of total selling and distribution expenses during the Track Record Period:

	<b>Year ended 31 December</b>					
	<b>2014</b>		<b>2015</b>		<b>2016</b>	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Employee benefit expenses	416	36.2	3,565	81.6	4,667	56.4
Others	<u>732</u>	<u>63.8</u>	<u>803</u>	<u>18.4</u>	<u>3,612</u>	<u>43.6</u>
<b>Total</b>	<u><u>1,148</u></u>	<u><u>100.0</u></u>	<u><u>4,368</u></u>	<u><u>100.0</u></u>	<u><u>8,279</u></u>	<u><u>100.0</u></u>

Our selling and distribution expenses amounted to approximately RMB1.1 million, RMB4.4 million and RMB8.3 million for the three years ended 31 December 2014, 2015 and 2016, respectively. During the Track Record Period, our selling and distribution expenses increased primarily due to the increase in our employee benefit expenses as a result of (i) the increase in the number of operational and marketing employees to handle and support our provision of construction management services starting in 2015 and its expansion in 2016; and (ii) our acquisition of New Headline Municipal Landscaping brought in more employees to our Group and the increase in the professional fees incurred for projects under construction management services as a result of their expansions. As a percentage of total revenue, our selling and distribution expenses represented approximately 0.9%, 2.1% and 2.2% for the three years ended 31 December 2014, 2015 and 2016, respectively.

### **General and administrative expenses**

General and administrative expenses principally consisted of staff costs and welfare for our administrative employees, legal and professional fees, listing expenses and other office expenses.

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The following table sets forth a breakdown of the major components of our Group's general and administrative expenses and the component as a percentage of total general and administrative expenses during the Track Record Period:

	<b>Year ended 31 December</b>					
	<b>2014</b>		<b>2015</b>		<b>2016</b>	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Staff costs and welfare	1,414	21.8	4,825	36.2	6,144	23.8
Rent and rates	281	4.3	638	4.8	917	3.6
Depreciation	33	0.5	73	0.5	109	0.4
Auditors' remuneration	786	12.1	1,026	7.7	1,286	5.0
Legal and professional fees	1,700	26.3	260	2.0	1,438	5.6
Listing expenses	—	—	3,983	29.9	10,843	42.1
Travelling expenses	392	6.1	356	2.7	746	2.9
Entertainment	294	4.5	324	2.4	474	1.8
Others	<u>1,575</u>	<u>24.4</u>	<u>1,831</u>	<u>13.8</u>	<u>3,825</u>	<u>14.8</u>
<b>Total</b>	<u><u>6,475</u></u>	<u><u>100.0</u></u>	<u><u>13,316</u></u>	<u><u>100.0</u></u>	<u><u>25,782</u></u>	<u><u>100.0</u></u>

Our general and administrative expenses amounted to approximately RMB6.5 million, RMB13.3 million and RMB25.8 million for the three years ended 31 December 2014, 2015 and 2016, respectively. During the Track Record Period, our general and administrative expenses increased primarily due to the listing expenses incurred, the increase in staff costs and welfare as a result of (i) the increase in the number of administrative employees to handle and support our operational development; and (ii) our Acquisition of New Headline Municipal brought in more employees to our Group; and the increase in sundry expenses and tax charges recorded starting in May 2016 as a result of the PRC tax reform. As a percentage of total revenue, our general and administrative expenses represented approximately 5.1%, 6.4% and 6.9% for the three years ended 31 December 2014, 2015 and 2016, respectively.

### **Finance cost and finance income, net**

Our net finance cost primarily consisted of interest expense on a borrowing from an independent third party in 2014, being partially offset by our bank interest income; whereas our net finance income mainly represented bank interest income offset by the interest expenses on bank borrowings incurred in 2015 and 2016. Our net finance cost amounted to approximately RMB18,000 for the year ended 31 December 2014 and our net finance income amounted to approximately RMB0.2 million and RMB0.1 million for the two years ended 31 December 2015 and 2016, respectively.

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### Income tax expenses

We are subject to taxation on entity basis on profit arising in or derived from the PRC and Hong Kong where our subsidiaries are domiciled and operate. During the Track Record Period, Hong Kong profits tax was provided at 16.5% on the taxable profit for the year, while PRC corporate income tax was provided on the taxable profit for the year at the rate of 25%. In addition, pursuant to the Notice on Further Regulation of the Collection of Enterprise Income Tax of Construction Enterprises (Lian Di Shui Fa No.201436) (《連雲港市地方稅務局、連雲港市國家稅務局關於進一步規範建築業企業所得稅徵收管理的通知》(連地稅發201436號)) promulgated by Lianyungang Municipal Office of State Administration of Taxation\* (連雲港市國家稅務局) and the Lianyungang Municipal Bureau of Local Taxation\* (連雲港市地方稅務局) and confirmed by the Liangyungang Municipal Bureau of Local Taxation\* (連雲港市地方稅務局), the taxable profits of New Headline Municipal Landscaping was calculated based on 8% of its revenue (the “Deemed Profit Basis”). Our income tax expenses principally consisted of current and deferred income tax expenses derived from our profit generated from our business operation in the PRC during the Track Record Period. In addition, withholding tax is levied on profit distribution of our PRC subsidiaries upon declaration or remittance at an applicable rate of 10%. For the three years ended 31 December 2014, 2015 and 2016, our income tax expenses were approximately RMB3.9 million, RMB17.0 million and RMB49.1 million, respectively, and our effective tax rates were at 32.1%, 26.8% and 29.0%, respectively.

Other than the PRC and Hong Kong, our Group did not operate in other tax jurisdictions and hence was not subject to any other income tax during the Track Record Period. As of the Latest Practicable Date and during the Track Record Period, we have paid or provided for all relevant taxes that our Group was subject to. We are not aware of any disputes/unresolved tax issues with any tax authorities.

### PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

#### Year ended 31 December 2016 compared to year ended 31 December 2015

##### *Revenue*

Our total revenue increased by approximately RMB167.6 million or 80.9% from approximately RMB207.2 million for the year ended 31 December 2015 to approximately RMB374.9 million for the year ended 31 December 2016. The increase in our revenue was attributable to the following reasons:

(i) *Environmental maintenance services*

Our revenue derived from environmental maintenance services increased by approximately RMB5.8 million or 6.8% from approximately RMB85.5 million for the year ended 31 December 2015 to approximately RMB91.3 million for the year ended 31 December 2016. Such increase was mainly due to an increase in the amount of environmental maintenance services performed by us as a result of the enlarged areas we serviced commencing in 2016 as stipulated in the contracts (being items 8 and 9 as set out in the paragraph headed “Business — Environmental Maintenance and Construction Management Projects — Environmental Maintenance and Construction Management Projects”).

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### (ii) *Construction management services*

Our revenue derived from construction management services increased by approximately RMB126.6 million or 296.8% from RMB42.6 million for the year ended 31 December 2015 to approximately RMB169.2 million for the year ended 31 December 2016. Such increase was mainly due to our commencement of undertaking construction project management services starting in May 2015, the increase in the number and scale of projects undertaken as a result of our expansion in such services and our undertaking of municipal construction services in respect of our BT and PPP project in 2016.

### (iii) *Supply of construction material (gneiss)*

Our revenue from supply of construction material (gneiss) increased by approximately RMB35.3 million or 44.6% from approximately RMB79.1 million for the year ended 31 December 2015 to approximately RMB114.4 million for the year ended 31 December 2016. Such increase was primarily due to the increase in the quantity of gneiss sold as a result of the growing demand for gneiss from the construction industry in Lianyungang in 2016.

### *Cost of sales*

Our cost of sales increased by approximately RMB46.7 million or 36.8% from approximately RMB126.9 million for the year ended 31 December 2015 to approximately RMB173.6 million for the year ended 31 December 2016. Such increase was primarily due to (i) an increase in the cost of inventories, which was in turn driven by the increase in demand for gneiss as a construction material; and (ii) an increase in subcontracting fees as a result of our expansion in the provision of municipal construction services starting in 2016, partially offset by the decrease in the business tax and surcharges as we no longer incurred business tax as a result of the PRC tax reform effective since May 2016.

### *Gross profit and gross profit margin*

As a result of the foregoing, our gross profit increased by approximately RMB120.9 million or 150.4% from approximately RMB80.4 million for the year ended 31 December 2015 to approximately RMB201.3 million for the year ended 31 December 2016. The overall gross profit margin increased from approximately 38.8% for the year ended 31 December 2015 to approximately 53.7% for the year ended 31 December 2016.

### *Gross profit margin of environmental maintenance services*

The gross profit margin of environmental maintenance services remained relatively stable at approximately 28.7% and 29.6% for the years ended 31 December 2015 and 2016, respectively.

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### *Gross profit margin of construction management services*

The gross profit margin of construction management services increased from approximately 70.3% for the year ended 31 December 2015 to approximately 79.8% for the year ended 31 December 2016. It was primarily due to our commencement of undertaking construction project management services starting in May 2015. Our construction project management service had a relatively higher gross profit margin. This was because we did not incur any of the subcontracting fees in respect of our construction project management services as we are only responsible to provide project management services and pay subcontracting fee for our customers. The subcontracting fees incurred for constructions which we managed were paid by us on behalf of our customers. The slight increase in gross profit margin of construction project management services from approximately 96.6% for the year ended 31 December 2015 to approximately 99.7 % for the year ended 31 December 2016 was primarily due to the fact that our Group no longer incurred business tax pursuant to the PRC tax reform effective since May 2016.

The increase in gross profit margin of municipal construction services from approximately 13.8% for the year ended 31 December 2015 to approximately 16.4% for the year ended 31 December 2016 was mainly because we undertook a higher proportion of works in our municipal construction projects with our own team instead of outsourcing in 2016, resulting in increase in gross profit margin.

### *Gross profit margin of supply of construction material (gneiss)*

The gross profit margin of supply of construction material (gneiss) remained relatively stable, which was approximately 34.4% for the year ended 31 December 2016 as compared to 32.6% for the year ended 31 December 2015.

### *Other income and other losses, net*

Our net amount of other income increased by approximately RMB1.4 million or 302.4% from approximately RMB0.5 million for the year ended 31 December 2015 to approximately RMB1.9 million for the year ended 31 December 2016 primarily due to the recovery of an account receivable relating to New Headline Municipal Landscaping before its acquisition and government subsidies.

### *Selling and distribution expenses*

Our selling and distribution expenses increased by approximately RMB3.9 million or 89.5% from approximately RMB4.4 million for the year ended 31 December 2015 to approximately RMB8.3 million for the year ended 31 December 2016. The increase was primarily due to the increase in our employee benefit expenses as a result of the increase in the number of operational and marketing employees to handle and support our undertaking of construction project management services starting in May 2015 and the increase in professional fees incurred for our projects under construction management services as a result of their expansions.

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### *General and administrative expenses*

Our general and administrative expenses increased by approximately RMB12.5 million or 93.6% from approximately RMB13.3 million for the year ended 31 December 2015 to approximately RMB25.8 million for the year ended 31 December 2016. The increase was primarily due to (i) the listing expenses incurred, (ii) increase in staff costs and welfare as a result of the increase in the number of administrative employees to handle and support our operational development; and (iii) the increase in others primarily due to tax charges recorded beginning in May 2016 to the PRC tax reform.

### *Profit before tax*

As a result of the foregoing, our profit before tax increased by approximately RMB105.8 million or 167.0% from approximately RMB63.4 million for the year ended 31 December 2015 to approximately RMB169.2 million for the year ended 31 December 2016.

### *Income tax expenses*

Our income tax expenses increased by approximately RMB32.1 million or 189.1% from approximately RMB17.0 million for the year ended 31 December 2015 to approximately RMB49.1 million for the year ended 31 December 2016. The increase was generally in line with the increase in profit before tax. The effective tax rate increased from approximately 26.8% for the year ended 31 December 2015 to approximately 29.0% for the year ended 31 December 2016 primarily due to the net effect of the increase in (i) listing expenses not deductible for income tax purposes and (ii) the deferred taxation charged on the undistributed earnings of our PRC subsidiaries in 2016; partially offset by the effect of income tax expenses of New Headline Municipal Landscaping charged on the Deemed Profit Basis as approved by the local tax bureau.

### *Profit for the period and net profit margin*

As a result of the foregoing, our profit for the year increased by approximately RMB73.7 million or 158.9% from approximately RMB46.4 million for the year ended 31 December 2015 to approximately RMB120.1 million for the year ended 31 December 2016. Our net profit margin also increased from approximately 22.4% for the year ended 31 December 2015 to approximately 32.0% for the year ended 31 December 2016. The increase in profit for the year and net profit margin was primarily due to our expansion of the provision of construction project management services in 2016.



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### Year ended 31 December 2015 compared to year ended 31 December 2014

#### *Revenue*

Our total revenue increased by approximately RMB80.0 million or 62.9% from approximately RMB127.2 million for the year ended 31 December 2014 to approximately RMB207.2 million for the year ended 31 December 2015. The increase in our revenue was attributable to the following reasons:

(i) *Environmental maintenance services*

Our revenue from the provision of environmental maintenance services increased by approximately RMB4.5 million or 5.5% from approximately RMB81.1 million for the year ended 31 December 2014 to approximately RMB85.5 million for the year ended 31 December 2015. Such increase was primarily due to the full year of environmental maintenance service we provided in 2015, whereas we only commenced our provision of such services from mid-January 2014.

(ii) *Construction management services*

Our revenue from the provision of construction management services increased by approximately RMB42.6 million or 100% from nil for the year ended 31 December 2014 to approximately RMB42.6 million for the year ended 31 December 2015. Such increase was primarily due to (i) our undertaking of municipal construction projects as a result of our Acquisition of New Headline Municipal Landscaping in January 2015; and (ii) our undertaking of construction project management services starting in May 2015.

(iii) *Supply of construction material (gneiss)*

Our revenue from supply of construction material (gneiss) increased by approximately RMB32.9 million or 71.3% from approximately RMB46.2 million for the year ended 31 December 2014 to approximately RMB79.1 million for the year ended 31 December 2015. Such increase was primarily due to an increase in both the quantity and our average selling price of gneiss sold which was in turn driven by the increase in demand for gneiss as a construction material during the Track Record Period.

#### *Cost of sales*

Our cost of sales increased by approximately RMB18.3 million or 16.9% from approximately RMB108.5 million for the year ended 31 December 2014 to approximately RMB126.9 million for the year ended 31 December 2015. Such increase was primarily due to (i) an increase in the cost of inventories which was driven by the increase in the sale of gneiss; and (ii) an increase in the subcontracting fees we paid to our subcontractors in respect of our provision of municipal construction services starting in 2015.

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### *Gross profit and gross profit margin*

As a result of the foregoing, our gross profit increased by approximately RMB61.7 million or 329.5% from approximately RMB18.7 million for the year ended 31 December 2014 to approximately RMB80.4 million for the year ended 31 December 2015.

### *Gross profit margin of environmental maintenance services*

The increase in gross profit margin of environmental maintenance services from approximately 14.6% for the year ended 31 December 2014 to approximately 28.7% for the year ended 31 December 2015 was primarily due to the decrease in the amount of subcontracting works performed by the subcontractors as part of such subcontracting works were undertaken by New Headline Municipal Landscaping before the Acquisition. Our Acquisition has therefore reduced the amount of subcontracting fees paid by us and thus improved our gross profit margin.

### *Gross profit margin of construction management services*

For the year ended 31 December 2015, our gross profit margins for construction project management services and municipal construction services were 96.6% and 13.8%, respectively. In respect of our construction project management services, we derived management services income and interest income from our BT projects under which we are responsible to provide project management services and pay subcontracting fee for our customers. All costs in relation to these BT projects were financed by us. These costs will generally be received by us by instalments over an agreed period of time after the completion of construction of such projects, subject to adjustment to be made after the determination of the Settlement Audit Sum and upon issuance of an invoice.

### *Gross profit margin of supply of construction material (gneiss)*

The increase in gross profit margin of supply of construction material (gneiss) from approximately 14.9% in 2014 to approximately 32.6% in 2015 was primarily due to an increase in our average selling price in response to the growing demand for gneiss as a construction material from the road construction and urban construction in Lianyungang.

### *Other income and other losses, net*

Our net amount of other income decreased by approximately RMB0.7 million or 61.1% from approximately RMB1.2 million for the year ended 31 December 2014 to approximately RMB0.5 million for the year ended 31 December 2015 primarily due to interest income derived from a loan made to a related party in 2014 which had been fully settled in the same year.

### *Selling and distribution expenses*

Our selling and distribution expenses increased by approximately RMB3.2 million or 280.5% from approximately RMB1.1 million for the year ended 31 December 2014 to approximately RMB4.4 million for the year ended 31 December 2015. The increase was primarily due to an increase in our

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employee benefit expenses as a result of (i) the increase in the number of our operational and marketing employees to handle and support our provision of construction management services starting in 2015; and (ii) our Acquisition of New Headline Municipal Landscaping brought in more employees to our Group.

### *General and administrative expenses*

Our general and administrative expenses increased by approximately RMB6.8 million or 105.7% from approximately RMB6.5 million for the year ended 31 December 2014 to approximately RMB13.3 million for the year ended 31 December 2015. The increase was primarily due to the listing expenses incurred, and an increase in staff costs and welfare as a result of the (i) increase in the number of administrative employees to handle and support our operational development; and (ii) our Acquisition of New Headline Municipal Landscaping brought in more employees to our Group.

### *Profit before tax*

As a result of the foregoing, our profit before tax increased by approximately RMB51.1 million or 416.3% from approximately RMB12.3 million for the year ended 31 December 2014 to approximately RMB63.4 million for the year ended 31 December 2015.

### *Income tax expenses*

Our income tax expenses increased by approximately RMB13.0 million or 330.7% from approximately RMB3.9 million for the year ended 31 December 2014 to approximately RMB17.0 million for the year ended 31 December 2015. The increase was generally in line with the increase in profit before tax. The effective tax rate decreased from approximately 32.1% for the year ended 31 December 2014 to approximately 26.8% for the year ended 31 December 2015, primarily due to the net effect of the income tax expenses of our newly acquired subsidiary, New Headline Municipal Landscaping, was calculated based on the Deemed Profit Basis as approved by the local tax bureau, which is offset by (i) the increase in listing expenses not deductible for income tax purposes; and (ii) the deferred taxation charged on the undistributed earnings of our PRC subsidiaries in 2015.

### *Profit for the year and net profit margin*

As a result of the foregoing, our profit for the year increased by approximately RMB38.1 million or 456.9% from approximately RMB8.3 million for the year ended 31 December 2014 to approximately RMB46.4 million for the year ended 31 December 2015. Our net profit margin also increased from approximately 6.5% for the year ended 31 December 2014 to approximately 22.4% for the year ended 31 December 2015. The increase in profit for the year and net profit margin was primarily due to the increase in our gross profit as a result of the rapid development of our business operations and our commencement of the provision of construction management services starting in 2015.

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### LIQUIDITY AND CAPITAL STRUCTURE

#### Overview

During the Track Record Period, our sources of cash were primarily generated from operations. Our primary use of cash was mainly for financing our business operations, working capital requirements, and capital expenditures on plant and equipment. Going forward, we expect these sources of cash to continue to be our principal source of liquidity, except for (i) net proceeds from the Global Offering which will be used according to our use of proceeds plan as detailed in the section headed “Future plans and use of proceeds” in this prospectus; and (ii) proceeds from the banking facilities for which we plan to utilise for our BT and PPP projects.

We manage liquidity primarily by monitoring the maturities of our assets and liabilities in an effort to ensure that we have sufficient funds to meet obligations as they become due.

The following table sets out a summary of our Group’s consolidated statements of cash flow for the periods indicated.

	Year ended 31 December		
	2014	2015	2016
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Net cash generated from/(used in) operating activities	74,138	(292)	14,226
Net cash (used in)/generated from investing activities	(9,746)	1,793	(815)
Net cash (used in)/generated from financing activities	(919)	(791)	16,579
Cash and cash equivalents at the beginning of year	<u>14,800</u>	<u>78,273</u>	<u>78,983</u>
Cash and cash equivalents at the end of year	<u>78,273</u>	<u>78,983</u>	<u>108,973</u>

#### Operating activities

During the Track Record Period, we derived our cash inflow from operating activities principally from the receipt of revenue generated from our provision of environmental maintenance services, construction management services and supply of construction material (gneiss). Our cash outflow used in operating activities was principally for payment of subcontracting fees, purchases of raw materials and inventories, administrative expenses and income tax expenses. The changes in our cash flow from operating activities also reflects the effects of movements in accrued contract revenue and accrued contract cost. As a result, our cash flows from operating activities can be significantly affected by factors such as the timing of collections from customers and payments to subcontractors and suppliers in the normal course of business.

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For the year ended 31 December 2016, our net cash generated from operating activities was approximately RMB14.2 million, mainly due to the profit before income tax of approximately RMB 169.2 million generated for the period, in addition to the increase in trade and other payables of approximately RMB 23.0 million as a result of the increase in accrued contract cost incurred for our municipal construction services, accrual of listing expenses and VAT payable as a result of the PRC tax reform, which was partially offset by (i) an increase in trade receivables other receivable, and prepayment of approximately RMB169.0 million, mainly due to the increase in accrued contract revenue and trade receivables as a result of the increase in the amount of work performed under our construction management business segment; and (ii) payment of income tax expenses of approximately RMB9.5 million.

For the year ended 31 December 2015, our net cash used in operating activities was approximately RMB0.3 million, mainly due to the profit before income tax of approximately RMB63.4 million generated during the year, which was partially offset by (i) an increase in trade receivables, other receivable, and prepayment of approximately RMB46.8 million, mainly as a result of the increase in accrued contract revenue and trade receivables due to revenue generated from our commencement of the provision of construction management services starting in 2015; (ii) a decrease in trade and other payables of approximately RMB9.6 million as a result of the settlement of our trade payables; and (iii) payment of income tax expenses of approximately RMB7.7 million.

For the year ended 31 December 2014, our net cash generated from operating activities was approximately RMB74.1 million, mainly due to profit before income tax of approximately RMB12.3 million generated during the year, in addition to (i) a decrease in trade receivables, other receivables and prepayment of approximately RMB18.5 million, mainly as a result of the utilisation of prepayment for our purchase of gneiss; (ii) an increase in trade and other payables of approximately RMB46.1 million, mainly as a result of the increase in (a) advances received from customers for the purchases of our construction material (gneiss) and (b) trade payables and accrued contract cost incurred from our provision of environmental maintenance services; which was partially offset by payment of income tax expenses of approximately RMB2.0 million.

### **Investing activities**

During the Track Record Period, both our cash inflow and outflow used in investing activities primarily relates to the Acquisition and capital expenditure.

For the year ended 31 December 2016, our net cash used in investing activities was approximately RMB0.8 million, primarily due to the cash outflow from purchases of property, plant and equipment for our operation of approximately RMB1.2 million, partially offset by the proceeds from disposal of motor vehicles of approximately RMB0.1 million and interest received in the amount of approximately RMB0.3 million.

For the year ended 31 December 2015, our net cash generated from investing activities was approximately RMB1.8 million, primarily due to the net of cash acquired of approximately RMB2.7 million as a result of the Acquisition, partially offset by the cash outflow for purchases of property, plant and equipment of approximately RMB1.1 million to support our operation.

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For the year ended 31 December 2014, our net cash used in investing activities was approximately RMB9.7 million, mainly as a result of the payment for the deposit of RMB10.0 million for the acquisition of New Headline Municipal Landscaping.

### **Financing activities**

During the Track Record Period, our cash outflow from financing activities primarily consists of repayment of shareholders' loan, other borrowings and payment of listing expenses. Our cash inflow from financing activities primarily consists of capital contributions from a shareholder and bank borrowing.

For the year ended 31 December 2016, our net cash generated from financing activities was approximately RMB16.6 million, primarily due to proceeds from bank borrowing of approximately RMB19.5 million for our operation and capital injection from non-controlling interests in the amount of approximately RMB4.5 million in respect of the two project management companies, namely Puyuan Construction Management and Chengyun Construction Management, partially offset by an increase in restricted bank deposits of approximately RMB2.5 million, the repayments of bank borrowings of RMB3.0 million and payment of listing expenses of approximately RMB1.8 million.

For the year ended 31 December 2015, our net cash used in financing activities was approximately RMB0.8 million, primarily due to the net effect of the bank borrowings and loan provided by a shareholder and repaid during the year in addition to the payment of listing expenses of approximately RMB0.8 million.

For the year ended 31 December 2014, our net cash used in financing activities was approximately RMB0.9 million, primarily due to (i) repayment of other borrowings of approximately RMB0.9 million, and (ii) net effect of loan provided by a shareholder and repaid in the same period.

### **DESCRIPTION OF OTHER KEY COMPONENTS OF OUR CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

#### **Property, plant and equipment**

Our property, plant and equipment mainly consisted of production equipment, furniture, fixtures and equipment and motor vehicles. As at 31 December 2014, 2015 and 2016, the net book values of our Group's property, plant and equipment were approximately RMB0.5 million, RMB2.5 million and RMB3.0 million, respectively. The increase in our property, plant and equipment was mainly due to the addition of (i) production equipment as a result of the acquisition of a subsidiary and (ii) furniture, fixtures and equipment and production equipment to cater the growth in operations. during the Track Record Period.

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### **Accrued contract revenue**

Our non-current accrued contract revenue represented balances to be billed for our services rendered to customers for our provision of project management services and project financing services and subcontracting fees paid on behalf of our customers and retention money which are receivable beyond one year as at the end dates of the respective years. For details of our accrued contract revenue, please refer to the sub-section headed “Trade receivables, other receivables and prepayments” in this section for further details.

### **Goodwill**

Our goodwill arose as a result of our acquisition of New Headline Municipal Landscaping in 2015, being the excess of the consideration for the Acquisition over the fair value of the identifiable net assets of our subsidiary acquired on the date of the acquisition. On 7 January 2015, the Group acquired 100% equity interest in New Headline Municipal Landscaping at a consideration of approximately RMB31.3 million which then became our wholly-owned subsidiary. As at 31 December 2015 and 2016, the carrying amount of our goodwill remained at approximately RMB1.0 million.

### **Prepayment**

Our non-current prepayment of non-current assets represented the prepaid deposit for our acquisition of 100% equity interest in New Headline Municipal Landscaping in 2014. Our prepayment amounted to approximately RMB10.0 million as at 31 December 2014, and remained nil as at 31 December 2015 and 2016. The decrease was due to the completion of the Acquisition in 2015.

### **Trade receivables, other receivables and prepayments**

Our trade receivables, other receivables and prepayments principally comprised of amount of trade receivables, accrued contract revenues and prepayments. As at 31 December 2014, 2015 and 2016, our trade receivables, other receivables and prepayments were approximately RMB6.6 million, RMB64.0 million and RMB204.7 million, respectively.

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The following table sets forth the breakdown of our trade receivables, other receivables and prepayments as at the dates indicated:

	As at 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables			
Related party	—	968	926
Third parties	<u>—</u>	<u>2,623</u>	<u>13,029</u>
	—	3,591	13,955
	-----	-----	-----
Accrued contract revenue			
Related parties	—	40,655	131,126
Third parties	<u>6,348</u>	<u>17,068</u>	<u>54,385</u>
	6,348	57,723	185,511
	-----	-----	-----
Other receivables			
Related parties	—	—	2,018
Third parties	<u>101</u>	<u>2</u>	<u>187</u>
	101	2	2,205
	-----	-----	-----
Prepayments			
Related parties	—	229	280
Third parties	<u>104</u>	<u>1,358</u>	<u>160</u>
	104	1,587	440
Prepayments for listing expenses	<u>—</u>	<u>1,126</u>	<u>2,627</u>
Total other receivables and prepayments	<u>205</u>	<u>2,715</u>	<u>5,272</u>
	<u>6,553</u>	<u>64,029</u>	<u>204,738</u>



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### *Trade receivables*

Our trade receivables were generated from our provision of environmental maintenance services and construction management services. Our trade receivables were approximately nil, RMB3.6 million and RMB14.0 million as at 31 December 2014, 2015, and 2016, respectively. The increase in our trade receivables from nil as at 31 December 2014 to approximately RMB3.6 million as at 31 December 2015 primarily due to our commencement of the provision of construction management services starting in 2015. The trade receivables further increased to RMB14.0 million as at 31 December 2016, mainly due to our financial account conclusion for the environmental maintenance services and municipal construction services rendered and issuance of formal invoice in respect of these services towards the year end in 2016. The trade receivables were nil as at 31 December 2014 because the amount for our provision of environmental maintenance services to be billed was recorded as accrued contract revenue. Please refer to the section headed “Accrued contract revenue” for details of accrued contract revenue. Our trade receivables due from related party were non-interest bearing and no credit period has been granted. During the Track Record Period, no credit period was granted to our customers. Our trade receivables were normally settled by our customers within approximately 30 days upon our issuance of invoice.

Our senior management regularly reviews the recoverability of our overdue balances and when appropriate, provides for impairment of these trade receivables. The policy for the provision for impairment loss is based on our management’s ongoing assessment of the recoverability and the aged analysis of the outstanding receivables. A considerable amount of judgement is required in assessing the ultimate realisation of those receivables, including the creditworthiness and the past collection history of each customer. As at 31 December 2014, 2015 and 2016, trade receivables of approximately nil, RMB3.6 million and RMB14.0 million were past due but not impaired, respectively. We had no provisions for impairment of trade receivables as at the end dates of the respective years.

The following table sets forth an ageing analysis of trade receivables, based on invoice date, as at the dates indicated:

	<b>As at 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Trade receivables:</b>			
1-90 days	—	1,086	11,521
91-180 days	—	1,640	540
181-365 days	—	865	1,887
Over 365 days	—	—	7
	<u>—</u>	<u>—</u>	<u>7</u>
<b>Total</b>	<u>—</u>	<u>3,591</u>	<u>13,955</u>

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The following table sets forth our trade receivables turnover days for the periods indicated:

	Year ended 31 December		
	2014	2015	2016
<b>Trade receivables turnover days<sup>(note)</sup></b>	—	3	9

*Note:* We calculate trade receivables turnover days by dividing average trade receivables by revenue and multiplied 365 days for each of the two years ended 31 December 2014 and 2015 and 366 days for the year ended 31 December 2016. Average trade receivables is calculated by dividing by two the sum of trade receivables at the beginning of the period and trade receivables at the end of the period.

The trade receivables turnover days increased from nil for the year ended 31 December 2014 to approximately 3 days for the year ended 31 December 2015, primarily due to our undertaking of construction management services starting in 2015. The trade receivables turnover days increased slightly to approximately 9 days for the year ended 31 December 2016, primarily due to the increase in the transfer of our accrued contract revenue to trade receivable as higher amounts of our accrued contract revenue were billed toward the year end. As at 30 April 2017, approximately RMB10.4 million, representing approximately 74.6% of our trade receivable balances as at 31 December 2016 had been settled.

In order to improve the collection of our trade receivables, we have implemented the following credit control policy and measures:

- We continuously assess the creditability of our major customers through monitoring and assessing their size, financial conditions, growth prospects, financing ability, debt repayment ability and other relevant factors in order to minimise our credit risk.
- We endeavour to include provisions in each of the contracts for our projects with respect to payment method, payment means, payment date, liability for breach and other related terms that we agree with the relevant customers.
- For some of our major projects, we appoint specific personnel who are responsible for monitoring and collecting the trade receivables for such projects and we may evaluate and reward such personnel based on their ability to collect the relevant trade receivables.
- We continuously monitor the balance of our trade receivables and if any of our customers fails to timely pay our trade receivables when due, we will first communicate with such customer to determine the reason for non-payment. Based on the reasons and circumstances, we will endeavour to reach a new arrangement with the customer on the payment means and schedule that are satisfactory to us. If we fail to reach such agreement with the customer, we may escalate the dispute to the relevant government authority and arbitration institution in order to facilitate the collection of our trade receivables.

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In particular, we have implemented the following measures to assess and monitor the credibility and financial conditions of our major customers who are municipal government and government related organisations:

- Before we engage in a new project with customers who are municipal government and government related organisations, we assess and examine such customers' credibility and their financial conditions based on their revenue, past payment and indebtedness records, debt repayment ability and relevant local market conditions in order to determine whether to undertake such project.
- We continuously monitor and review public announcements released by municipal government and government related organisations who are our major customers in order to determine whether there is any material event that may affect such customers' financial conditions and credibility. We also maintain an ongoing communication channel with such customers in order to better understand and assess their ongoing financial conditions and credibility.

As at the Latest Practicable Date, we were not aware of any material deterioration in credit quality of our major customers.

### *Accrued contract revenue*

Our accrued contract revenue represented the balances to be billed for the services rendered to customers for our provision of environmental maintenance services and construction management services as at the end dates of the respective years.

In respect of our environmental maintenance services and municipal construction services, the balances of the accrued contract revenue will be transferred to trade receivables upon (i) the final inspection of the amount of services rendered or the construction work to determine the Settlement Audit Sum by our customers; (ii) the determination of the Settlement Audit Sum; and (iii) our issuance of formal payment invoices to the customers, as at the end dates of the respective years and periods.

In respect of our construction project management services, the balances of the accrued contract revenue, generally being management services income, interest income, and subcontracting fees paid on behalf of our customers, will be transferred to trade receivables upon (i) completion of construction work; and (ii) the issuance of formal payment invoice to our customers, as at the end dates of the respective years. As stipulated in the payment terms of the BT and PPP contracts, the Final Contract Sum of our BT and PPP projects to be received by us will generally be paid in instalments over an agreed period (more than one year) of time after completion of construction of each project, subject to adjustment to be made after the determination of the Settlement Audit Sum. The payment pattern for BT and PPP projects are generally the same. The non-current portion of our accrued contract revenue represents management services income, interest income, and subcontracting fees paid on behalf of our customers to be received beyond one year for our undertaking of BT and PPP projects as at the end dates of the respective years. Such non-current portion also includes the retention money for the BT and PPP projects to be withheld for the warranty period, generally more than one year after the completion of construction work.

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The non-current portion of our accrued contract revenue was nil, approximately RMB9.8 million and RMB41.7 million as at 31 December 2014, 2015 and 2016, respectively; whereas the current portion of our accrued contract revenue were approximately RMB6.3 million, RMB57.7 million and RMB185.5 million as at 31 December 2014, 2015 and 2016, respectively. Our non-current portion of our accrued contract revenue increased from nil as at 31 December 2014 to approximately RMB9.8 million as at 31 December 2015; whereas the current portion increased from approximately RMB6.3 million as at 31 December 2014 to approximately RMB57.7 million as at 31 December 2015. These increases were primarily attributable to our commencement of the provision of construction management services in 2015. As at 31 December 2016, both non-current and current portions of our accrued revenue increased to approximately RMB41.7 million and RMB185.5 million, respectively, mainly due to the increase in our project management services and financing services rendered in respect of construction project management services in 2016, pending to the financial account conclusion and be billed.

As at 30 April 2017, approximately RMB166.7 million, representing approximately 73.4% of our accrued contract revenue balances as at 31 December 2016 had been subsequently transferred to trade receivables and approximately RMB164.6 million, representing approximately 98.8% of the subsequently transferred trade receivables balances had been settled.

### *Other receivables and prepayments*

Our other receivables and prepayments principally consisted of listing expenses prepayment and deposits made in the ordinary course of business. As at 31 December 2014, 2015 and 2016, our other receivables and prepayments were approximately RMB0.2 million, RMB2.7 million and RMB5.3 million, respectively. The increase in other receivables and prepayments from approximately RMB0.2 million as at 31 December 2014 to RMB2.7 million as at 31 December 2015 was mainly as a result of listing expenses prepayment and tender deposits for potential projects made near the end of 2015. It then further increased to RMB5.3 million as at 31 December 2016, mainly due to (i) the amount due from Jiangsu Xinhaike for its investment in Puyuan Construction Management; and (ii) the increase in prepayment of listing expenses, partially offset by the return of fore-mentioned tender deposits after the completion of tendering processes.

### **Amount due from a shareholder**

The amount represented the consideration for the share subscription of our Company outstanding from our shareholder, HK Zhiyuan and was unsecured, interest free and repayable on demand. The amount decreased from approximately RMB7.2 million as at 31 December 2014 to nil as at 31 December 2015 and remained nil as at 31 December 2016 as it was fully settled in 2015.

### **Trade and other payables**

Our trade and other payables comprised mainly trade payables to our subcontractors, accrued contract costs and deposits from our customers. As at 31 December 2014, 2015 and 2016, our trade and other payables were approximately RMB46.1 million, RMB50.0 million and RMB73.4 million, respectively.

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The following table sets forth the breakdown of our trade and other payables as at the dates indicated:

	<b>As at 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables			
Related parties	9,002	—	3,118
Third parties	<u>—</u>	<u>14,313</u>	<u>18,600</u>
	9,002	14,313	21,718
	-----	-----	-----
Accrued contract cost			
Related parties	1,671	4,799	—
Third parties	<u>15,920</u>	<u>9,676</u>	<u>26,343</u>
	17,591	14,475	26,343
	-----	-----	-----
Other payables and accruals	1,967	2,624	6,108
Accruals for listing expenses	—	1,193	5,003
Deposits from customers	13,081	14,144	4,532
Value added tax payable	3,640	700	8,351
Other taxes payable	<u>848</u>	<u>2,581</u>	<u>1,300</u>
	<u>46,129</u>	<u>50,030</u>	<u>73,355</u>

### *Trade payables*

Our trade payables mainly represented amounts payable to our subcontractors for their provision of cleaning, greening and construction work to our projects in respect of our environmental maintenance services and municipal construction management services. As at 31 December 2014, 2015 and 2016, our trade payables were approximately RMB9.0 million, RMB14.3 million and RMB21.7 million, respectively. The trade payables increased from RMB9.0 million as at 31 December 2014 to RMB14.3 million as at 31 December 2015, and further increased to RMB21.7 million as at 31 December 2016, mainly due to (i) our financial account conclusion for the environmental maintenance services and municipal construction services rendered by our subcontractors and their issuance of formal invoice in respect of these services in the respective period ends and (ii) our purchase of gneiss billed by our suppliers near year end in 2016. For details of accrued contract cost, please refer to the sub-section headed “Accrued contract cost”.

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During the Track Record Period, no credit period was granted by our supplier and subcontractors. Our trade payables were normally settled within approximately 30 days upon the issuance of invoice by our supplier and subcontractors.

The following table sets forth an aging analysis of trade payables, based on invoice date, as at the dates indicated:

	<b>As at 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Trade payables:</b>			
1-30 days	9,002	4,415	10,695
31-60 days	—	4,266	4,868
61-90 days	—	4,648	5,383
91-180 days	—	—	189
181-365 days	—	984	513
Over 365 days	<u>—</u>	<u>—</u>	<u>70</u>
<b>Total</b>	<u><u>9,002</u></u>	<u><u>14,313</u></u>	<u><u>21,718</u></u>

The following table sets forth our trade payables turnover days for the periods indicated:

	<b>As at 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Trade payables turnover days<sup>(Note)</sup></b>	15	34	38

*Note:* We calculate trade payables turnover days by dividing average trade payables by cost of sales and multiplied 365 days for each of the two years ended 31 December 2014 and 2015 and 366 days for the year ended 31 December 2016. Average trade payables is calculated by dividing by two the sum of trade payables at the beginning of the period and trade payables at the end of the period.

The trade payables turnover days increased from 15 days for the year ended 31 December 2014 to 34 days for the year ended 31 December 2015 was primarily due to the increase in the transfer of our accrued contract costs to trade payables as higher amounts of accrued contracts were billed by our suppliers near the year end. The turnover days increased slightly to approximately 38 days for the year ended 31 December 2016, primarily due to the increase in the transfer of our accrued contract costs to trade payables as a result of higher amounts of (i) our accrued contract costs financially concluded and billed by the subcontractors and (ii) purchase of gneiss billed by our suppliers near the year end in 2016. As at 30 April 2017, approximately RMB20.8 million, which represents approximately 96.0% of the trade payable balances as at the year ended 31 December 2016 had been settled.

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### *Accrued contract cost*

Our accrued contract cost represented balances to be billed by (i) our subcontractors for their services rendered for our environmental maintenance services, and municipal construction services and (ii) our supplier of gneiss. These balance will be transferred to trade payables upon (i) our final inspection of the construction work to determine the amount of services provided by the subcontractors and our conclusion with our suppliers of gneiss for the amount of gneiss purchased and (ii) their issuance of formal payment invoices to us. As at 31 December 2014, 2015 and 2016, our accrued contract cost were approximately RMB17.6 million and RMB14.5 million and RMB26.3 million, respectively. Our accrued contract cost decreased from approximately RMB17.6 million as at 31 December 2014 to approximately RMB14.5 million as at 31 December 2015 since there was a higher amount of subcontracting fees that were pending to their financial account conclusions and be billed by our subcontractors near the end of the year ended 31 December 2014. The increase of our accrued contract cost from approximately RMB14.5 million as at 31 December 2015 to approximately RMB26.3 million as at 31 December 2016 was primarily due to the increase in the services rendered by our subcontractors for our expansion in municipal construction services in 2016 which were pending to be the financial conclusion and be billed.

### *Our deposits from customers*

Our deposits from customers represented advances received from customers for their purchases of gneiss. Our deposits from customers were approximately RMB13.1 million, RMB14.1 million and RMB4.5 million as at 31 December 2014, 2015 and 2016, respectively. The increase in the amount from approximately RMB13.1 million as at 31 December 2014 to approximately RMB14.1 million as at 31 December 2015 was in line with our growth in our sales of construction material (gneiss). The amount decreased to RMB4.5 million as at 31 December 2016 since some of the purchase orders for gneiss had already been executed near the year end 2016.

### *Other payables and accruals*

Our other payables and accruals mainly comprised accrued employee salaries, accrued audit fees and welfare payables and others. As at 31 December 2014, 2015 and 2016, other payables and accruals amounted to approximately RMB2.0 million, RMB2.6 million and RMB6.1 million, respectively. Our other payables and accruals increased from RMB2.0 million as at 31 December 2014 to approximately RMB2.6 million was primarily due to the increase in the number of employees employed by us to handle and support our business growth in the provision of construction management services. As at 31 December 2016, it further increased to RMB6.1 million primarily due to the increase in (i) the continuing increase in the number of our employees to cater for our operation expansion; (ii) the increase in professional fees incurred for our projects under construction management services; and (iii) the increase in audit fees and relevant expenses.

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### **Loan from a shareholder**

The amount represented loan from a shareholder, Ms. Xie, for our working capital and was unsecured, interest-free and had no fixed repayment term. The amount decreased from approximately RMB7.2 million as at 31 December 2014 to nil as at 31 December 2015 and 2016 as it was fully settled in 2015.

### **Deferred income tax liabilities**

Our deferred income tax liabilities principally arose from the withholding tax on the distribution of our undistributed earnings of our PRC subsidiaries as intended by our Company in the near future and the deferred income of our construction management projects as a result of timing difference between our accounting base which was based on the percentage of completion method for accounting purpose and our tax base used in the computation of taxable profit.

Our deferred income tax liabilities were approximately nil, RMB9.2 million and RMB44.7 million as at 31 December 2014, 31 December 2015 and 31 December 2016, respectively. The increase in our deferred income tax liabilities during the Track Record Period was in line with the growth in our provision of construction management services.

### **NET CURRENT ASSETS**

Our Group recorded net current assets of approximately RMB36.8 million, RMB89.3 million and RMB218.3 million as at 31 December 2014, 2015 and 2016.



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The following table sets forth a breakdown of our current assets, current liabilities and net current assets as at the dates indicated:

	As at 31 December			As at
	2014	2015	2016	30 April
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>
<b>CURRENT ASSETS</b>				
Trade receivables, other receivables and prepayments	6,553	64,029	204,738	143,792
Amount due from a shareholder	7,217	—	—	—
Cash and cash equivalents	78,273	78,983	108,973	208,485
Restricted bank deposits	<u>—</u>	<u>—</u>	<u>2,530</u>	<u>5,383</u>
<b>Total current assets</b>	<b><u>92,043</u></b>	<b><u>143,012</u></b>	<b><u>316,241</u></b>	<b><u>357,660</u></b>
<b>CURRENT LIABILITIES</b>				
Trade and other payables	46,129	50,030	73,355	79,003
Amount due to a director	8	—	—	—
Amount due to a related company	25	—	—	—
Loan from a shareholder	7,217	—	—	—
Bank borrowings	—	—	16,817	28,162
Income tax payable	<u>1,907</u>	<u>3,658</u>	<u>7,808</u>	<u>2,698</u>
<b>Total current liabilities</b>	<b><u>55,286</u></b>	<b><u>53,688</u></b>	<b><u>97,980</u></b>	<b><u>109,863</u></b>
<b>NET CURRENT ASSETS</b>	<b><u>36,757</u></b>	<b><u>89,324</u></b>	<b><u>218,261</u></b>	<b><u>247,797</u></b>

Our Group recorded net current assets of approximately RMB36.8 million, RMB89.3 million and RMB218.3 million as at 31 December 2014, 2015 and 2016. The increase in net current assets from approximately RMB36.8 million as at 31 December 2014 to approximately RMB89.3 million as at 31 December 2015 was primarily due to an increase in accrued contract revenue from the provision of construction management services starting in 2015. The increase in net current assets from approximately RMB89.3 million as at 31 December 2015 to approximately RMB218.3 million as at 31 December 2016 was primarily due to the increase in accrued contract revenue as a result of increased in construction project management services and cash and cash equivalent generated from our operation provided during the period, partially offset by the increase in accrued contract costs from the provision of municipal construction work by our subcontractors to cope with our increase in municipal construction services. The increase in net current assets from approximately RMB218.3 million as at 31 December 2016 to approximately RMB247.8 million as at 30 April 2017 was primarily

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due to an increase in cash and cash equivalents mainly as a result of the settlement of trade receivables as at 31 December 2016 and cash inflows generated from our operation during the period, partially offset by the increase in trade and other payables mainly as a result of the increase in advances received from customers for their purchases of gneiss near the period end.

### BANKING FACILITIES

During the Track Record Period, our Group has entered into separate loan agreements with various PRC commercial banks pursuant to which we were granted separate banking facilities. As at 30 April 2017, our Group has obtained a total banking facilities of approximately RMB735.0 million from six different banks which are subject to renewal of which approximately RMB706.8 million were undrawn. Among our total banking facilities, approximately RMB305.0 million were secured by corporate guarantees provided by our Company, approximately RMB80.0 million were secured by corporate guarantee provided by Yuanyun Industrial, approximately RMB100.0 million were secured by corporate guarantee provided by NH Development, approximately RMB210.0 million were jointly secured by corporate guarantee provided by Yuanyun Industrial and NH Development and approximately RMB40.0 million were secured by corporate guarantee provided by New Headline Municipal Landscaping. All corporate guarantees executed by NH Development will be released and transferred to our Company upon Listing.

### INDEBTEDNESS AND CONTINGENCIES

#### Borrowings

We have financed our operations primarily through cash flows generated from operations during the Track Record Period. As at 31 December 2014, 2015 and 2016, our borrowings mainly consisted of amount due to a director, amount due to a related company, loan from a shareholder and bank borrowings. The table below sets out our borrowings as of the dates indicated.

	As at 31 December			As at
	2014	2015	2016	30 April
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>
Amount due to a director	8	—	—	—
Amount due to a related company	25	—	—	—
Loan from a shareholder	7,217	—	—	—
Bank borrowings (secured)	<u>—</u>	<u>—</u>	<u>16,817</u>	<u>28,162</u>
	<u>7,250</u>	<u>—</u>	<u>16,817</u>	<u>28,162</u>

## FINANCIAL INFORMATION

The following table sets out the amounts of our bank borrowings in the following currencies as at the dates indicated.

	As at 31 December			As at
	2014	2015	2016	30 April
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>
HK\$	—	—	6,917	11,262
RMB	—	—	9,900	16,900
	—	—	16,817	28,162

The following table sets out the effective interest rates for our bank borrowings as at the dates indicated.

	As at 31 December			As at
	2014	2015	2016	30 April
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>
Bank borrowings denominated in:				
HK\$	—	—	2.0%	2.4%
RMB	—	—	5.0%	5.1%

The following table sets out the maturity profiles of our borrowings as at the dates indicated:

	As at 31 December			As at
	2014	2015	2016	30 April
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>
Amounts of borrowings that are repayable:				
On demand	7,250	—	—	—
Within one year	—	—	16,817	28,162
	7,250	—	16,817	28,162

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## FINANCIAL INFORMATION

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As at 31 December 2014, 2015 and 2016, our borrowings amounted to approximately RMB7.3 million, nil and RMB16.8 million, respectively. Except for the bank borrowings, our other borrowings were unsecured, interest free and repayable on demand.

Our bank borrowings were incurred for the use of our working capital. As at 31 December 2016, our bank borrowing of approximately RMB9.9 million was secured by corporate guarantee provided by New Headline Municipal Landscaping while another borrowing of approximately RMB6.9 million was secured by corporate guarantee provided by NH Development.

During the Track Record Period, we entered into separate loan agreements with various PRC commercial banks pursuant to which we were granted separate banking facilities. As at 31 December 2016, the undrawn banking facilities were approximately RMB430.1 million, of which approximately RMB170.1 million were expiring within one year and approximately RMB260.0 million were expiring more than one year. As at 31 December 2016 the facilities of approximately RMB170.1 million expiring within one year were annual facilities subject to review at various dates during the year ending 31 December 2017.

Our Directors confirmed that we had not experienced difficulties in meeting obligations during the Track Record Period and we do not have bank borrowings or facilities subject to the fulfilment of covenants relating to financial ratio requirements or any other material covenants which would adversely affect our Group's ability to undertake additional debt or equity financings.

Our Directors confirmed that there is no material change in our indebtedness position since 30 April 2017.

Saved as disclosed above, we did not have outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptance (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other contingent liabilities as at 30 April 2017, being the latest practicable date for our indebtedness statement.

### **Contingent liabilities**

As at 30 April 2017, being the latest practicable date for the purpose of the indebtedness statement, our Group did not have any material contingent liabilities that will have a material adverse effect on our financial position, liquidity or results of operations.

### **Disclaimers**

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, our Group did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding as at the Latest Practicable Date.

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## FINANCIAL INFORMATION

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### CAPITAL EXPENDITURE

#### Capital expenditure for the Track Record Period

The following tables sets out our capital expenditures as at the dates indicated:

	Year ended 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Furniture and fixtures and equipment	179	180	298
Production equipment	—	943	552
Motor vehicles	<u>384</u>	<u>—</u>	<u>377</u>
	<u>563</u>	<u>1,123</u>	<u>1,227</u>

The capital expenditure of approximately RMB0.6 million, RMB1.1 million, RMB1.2 million for the three years ended 31 December 2016, respectively was mainly incurred for general office upgrade and to cope with the expansion of our business operations, in particular our commencement of the provision of construction management services starting in 2015.

#### Planned capital expenditure

Our Group do not have any plans on any significant capital expenditure as at the Latest Practicable Date.

### COMMITMENTS AND CONTRACTUAL OBLIGATIONS

#### Capital commitment

Our Group did not have any material capital commitments as at 31 December 2014, 2015 and 2016.

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## FINANCIAL INFORMATION

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### Operating lease commitment

*The Group as lessee:*

As at 31 December 2014, 2015 and 2016, our Group had commitments for future aggregate minimum lease payments under non-cancellable operating leases which fall due as follow:

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
No later than 1 year	238	404	559
Later than 1 year and no later than 5 years	<u>3</u>	<u>31</u>	<u>752</u>
	<u>241</u>	<u>435</u>	<u>1,311</u>

### OFF-BALANCE SHEET ARRANGEMENT

As at the Latest Practicable Date, we had not entered into any off-balance sheet arrangement.

### LISTING EXPENSES

Our estimated listing expenses primarily consist of underwriting commissions in addition to professional fees paid to the Sole Sponsor, legal advisers and the reporting accountant for their services rendered in relation to the Global Offering. Assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$1.55 per Share, being the mid-point of our indicative price range for the Global Offering stated in this prospectus, the total listing expenses will be HK\$46.3 million (equivalent to RMB41.6 million), of which approximately HK\$16.7 million (equivalent to RMB15.0 million) is directly attributable to the Global Offering and is expected to be capitalised after the Global Offering. The remaining amount of approximately HK\$29.6 million (equivalent to RMB26.6 million) is chargeable to the Company's consolidated statements of comprehensive income, of which nil, approximately HK\$4.4 million and HK\$12.1 million (equivalent to nil, approximately RMB4.0 million and RMB10.8 million, respectively) were charged to the Company's consolidated statements of comprehensive income for the three years ended 31 December 2014, 2015 and 2016, respectively, and approximately HK\$13.1 million (equivalent to RMB11.8 million) is expected to be charged to the Company's consolidated statement of comprehensive income for the year ending 31 December 2017. The estimated listing expenses are subject to adjustments based on the actual amount incurred or to be incurred.

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## FINANCIAL INFORMATION

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### WORKING CAPITAL

Our Directors are of the opinion that, taking into account (i) the estimated net proceeds available to our Group from the Global Offering; (ii) the available banking facilities, cash and cash equivalents as at the Latest Practicable Date; and (iii) the expected cash flows to be generated from our Group's operations, our Group has sufficient working capital for its present requirements for at least 12 months from the date of this prospectus.

Working capital is critical to our financial performance and we must maintain sufficient liquidity and financial flexibility to continue our daily operations. Our current assets primarily consist of cash and cash equivalents, trade receivables, other receivables and prepayments. Our current liabilities primarily consist of trade and other payables. We manage our working capital by closely monitoring the levels of our trade payables and other payables and as well as cash and cash equivalents, and trade receivables, other receivables and prepayments. Our cash position consists primarily of cash and cash equivalents.

### KEY FINANCIAL RATIOS

The following table sets forth the key financial ratios of our Group during the Track Record Period:

	<i>Notes</i>	<b>Year ended 31 December</b>		
		<b>2014</b>	<b>2015</b>	<b>2016</b>
Return on equity (%)	1	17.6	49.6	55.4
Return on total assets (%)	2	8.1	29.7	33.2
Interest coverage (times)	3	232.6	4,876.1	1,058.5

	<i>Notes</i>	<b>As at 31 December</b>		
		<b>2014</b>	<b>2015</b>	<b>2016</b>
Current ratio (times)	4	1.7	2.7	3.2
Gearing ratio (%)	5	15.4	N/A	7.7
Debt to equity ratio (%)	6	N/A	N/A	N/A

*Notes:*

- (1) For the three years ended 31 December 2016, return on equity is calculated based on our profit for the year attributable to owners of our Company divided by the total equity attributable to owners of the Company at the end of the respective year and multiplying the resulting value by 100%.
- (2) For the three years ended 31 December 2016, return on total assets is calculated based on our profit for the year divided by the total assets at the end of the respective year and multiplying the resulting value by 100%.

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## FINANCIAL INFORMATION

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- (3) For the three years ended 31 December 2016, interest coverage ratio is calculated by dividing profit before interest and tax by finance costs for the respective year.
- (4) Current ratios as at 31 December 2014, 2015 and 2016 were calculated based on our total current assets as at the respective dates divided by our total current liabilities as at the same dates.
- (5) Gearing ratios as at 31 December 2014, 2015 and 2016 were calculated based on our total debts as at the respective dates divided by total equity as at the same dates and multiplying the resulting value by 100%. Total debt includes payables incurred not in the ordinary course of business (being amount due to a director, amount due to a related party, loan from a shareholder and bank borrowings).
- (6) Debt to equity ratio as at 31 December 2014, 2015 and 2016 were calculated based on our net total debts as at the respective dates divided by total equity as at the same dates and multiplying the resulting value by 100%. Net total debt is our total debt net of cash and cash equivalents.

### **Return on equity**

Our return on equity ratio was 17.6%, 49.6% and 55.4% for the three years ended 31 December 2016, respectively. Our return on equity ratio increased from 17.6% for the year ended 31 December 2014 to 49.6% for the year ended 31 December 2015. The increase in return on equity ratio for the year ended 31 December 2015 was mainly due to the increase in revenue derived from construction management for the year ended 31 December 2015.

Our return on equity ratio for the year ended 31 December 2016 further increased to 55.4%. The increase in return on equity ratio for the year ended 31 December 2016 was mainly due to an increase in revenue derived from construction management for the year ended 31 December 2016.

### **Return on total assets**

Our return on total assets ratio was 8.1%, 29.7% and 33.2% for the three years ended 31 December 2016, respectively. Our return on total assets ratio increased from 8.1% for the year ended 31 December 2014 to 29.7% for the year ended 31 December 2015. The increase in return on total assets ratio for the year ended 31 December 2015 was mainly due to an increase in revenue derived from construction management for the year ended 31 December 2015,

Our return on total assets ratio for the year ended 31 December 2016 further increased to 33.2%. The increase in return on total assets for the year ended 31 December 2016 was mainly due to an increase in revenue derived from construction management for the year ended 31 December 2016. The effect was partially offset by an increase in accrued contract revenue.



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### Interest coverage

Our interest coverage ratio was 232.6 times, 4,876.1 times and 1,058.5 times for the three years ended 31 December 2016, respectively.

The significant increase in interest coverage for the year ended 31 December 2015 was primarily due to increase in profit for the year attributable to owners of our Company for the year ended 31 December 2015, while the interest expenses decreased by approximately 75.5% for the year ended 31 December 2015.

The decrease in interest coverage ratio for the year ended 31 December 2016 was primarily due to the increase in bank borrowings for the use of our general working capital by approximately RMB16.8 million.

### Current ratio

Our current ratio was 1.7 times, 2.7 times and 3.2 times as at 31 December 2014, 2015 and 2016, respectively.

Our current ratio increased from 1.7 times as at 31 December 2014 to 2.7 times as at 31 December 2015. The increase in current ratio as at 31 December 2015 was primarily due to (i) the increase in accrued revenue mainly relating to the new operating segments of provision of construction management services and municipal construction; and (ii) repayment of loan from a shareholder during the year.

The increase in current ratio as at 31 December 2016 to 3.2 was primarily due to the increase in trade receivables, other receivables and prepayments. The effect was partially offset by an increase in trade and other payables and bank borrowings.

### Gearing ratio

Our gearing ratio was 15.4%, nil and 7.7% as at 31 December 2014, 2015 and 2016, respectively.

The decrease in gearing ratio as at 31 December 2015 was primarily due to the repayment of loan from a shareholder and the Group did not have any outstanding debts as at 31 December 2015.

The increase in gearing ratio as at 31 December 2016 was primarily due to the increase in bank borrowings of approximately RMB16.8 million for general working capital.

### Debt to equity ratio

Net cash position was noted for our Group as at 31 December 2014, 2015 and 2016, hence debt to equity ratio was not applicable.

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## FINANCIAL INFORMATION

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### MARKET RISKS

During the Track Record Period, we were exposed to various types of market risks as in the ordinary course of our business as follows. The management of our Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. For more details, please refer to Appendix I to this prospectus.

#### Foreign exchange risk

During the Track Period, our Group operated in the PRC and Hong Kong. Foreign currency transactions or balances other than the respective functional currencies of each of the group companies are not significant. The Group does not expose to significant foreign exchange risk.

#### Cash flow and fair value interest rate risk

During the Track Period, as we had no significant interest-bearing assets or liabilities, our income and operating cash flows are substantially independent of changes in market interest rates.

#### Credit risk

Our credit risk mainly arises from default of the counterparty in the performance of their obligations. The maximum exposure is carrying amount of each financial asset, which includes cash and cash equivalents, amount due from a shareholder and trade and other receivables as at 31 December 2014, 2015 and 2016. Bank balances and cash are deposited with reliable and high-credit-quality financial institutions.

Our supply of construction material (gneiss) are usually in cash or by advance deposits, hence, the Group subjects to minimal exposure of credit risks.

In relation to our revenue with respect to the BT projects, our Group provides (i) project management service; and (ii) financing service to our customer through making payments to our subcontractors during the construction phase on behalf of our customer. We generally receive the first instalment of the contract consideration from our customer half year from completion of the construction of the relevant project and the last instalment generally ranged from one to three years after completion of construction of the relevant project. Such arrangement may expose the Group to substantial credit risk. Our management reviews the credit quality of our customer periodically to reduce credit risk.

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## FINANCIAL INFORMATION

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In addition, given our BT and PPP projects during the Track Record Period were predominantly awarded by Jiangsu Xinhaike, we face concentration of credit risk. We adopted credit risk management procedures which include the following:

- conduct background check for potential customers analysing their financial ability and credit risk;
- establish different credit management policies against customer of different credit risks. For customers with higher credit risks, the management would consider to require such customer to provide additional guarantee and or to pledge their trade receivables;
- our finance department would regularly monitor the trade receivables and adjust the credit risk of every customer accordingly;
- in respect of bidding BT and PPP projects from government-related authorities, we adopted the following measures:
  - we would preferentially consider to bid projects from government authorities or their related entities in districts which the government has favourable support policy, for example in economic zone, economic development zone or high and new technology development zone; and
  - we would evaluate the credit risk of our potential customers by reviewing relevant information, including their credit ratings, corporate annual reports and GDP growth of the relevant districts in order to assess their financially capability.

Based on our internal record, Jiangsu Xinhaike has good credit history with our Group as demonstrated by previous payment history. As at 31 December 2016, Jiangsu Xinhaike has fulfilled all its payment obligations as scheduled.

Our Group has policies in place to ensure sales are made to our customers with appropriate credit terms in respect of our other revenue streams. Our management performs periodic credit check and assessment on the recoverability of trade receivables and other receivables.

### **Liquidity risk**

Prudent liquidity risk management includes managing the profile of funding sources, maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities.

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## FINANCIAL INFORMATION

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The table below analyses our financial liabilities into relevant maturity groupings based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	<b>Group</b>		<b>Company</b>	
	<b>Less than</b>		<b>Less than</b>	
	<b>1 year</b>	<b>Total</b>	<b>1 year</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>As at 31 December 2014</b>				
Trade payables and other payables	28,396	28,396	—	—
Loan from a shareholder	7,217	7,217	7,217	7,217
Amount due to a director	8	8	—	—
Amount due to a related company	25	25	—	—
Amount due to a subsidiary	—	—	624	624
	<u>35,646</u>	<u>35,646</u>	<u>7,841</u>	<u>7,841</u>
<b>As at 31 December 2015</b>				
Trade payables and other payables	31,078	31,078	617	617
Amount due to a subsidiary	—	—	4,392	4,392
	<u>31,078</u>	<u>31,078</u>	<u>5,009</u>	<u>5,009</u>
<b>As at 31 December 2016</b>				
Trade payables and other payables	58,202	58,202	4,372	4,372
Amount due to a subsidiary	—	—	6,828	6,828
Bank borrowings	17,130	17,130	6,935	6,935
	<u>75,332</u>	<u>75,332</u>	<u>18,135</u>	<u>18,135</u>

Our Group's approach to manage liquidity risk is to ensure that we will always have sufficient liquidity to meet our liabilities when due. In particular, we fund the capital commitment for our BT and PPP projects by our internal generated funds; and bank borrowings. We have adopted the liquidity risk management procedures which include: (i) conducting and compiling financial feasibility study and cashflow forecast before engaging in public tendering of new project; (ii) conducting weekly cashflow analysis for the following six weeks to assess the future cash position and to identify potential cash shortage; (iii) conducting monthly review on the budgeted and actual financial position; and (iv) compiling budgeting proposal annually. These liquidity risk management procedures are monitored by our chief executive officer and chief financial officer.

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## FINANCIAL INFORMATION

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### RELATED PARTY TRANSACTIONS

With respect to the related party transactions set forth in the Accountant's Report in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms or such terms that were no less favourable to our Group than those available to Independent Third Parties and were fair and reasonable and in the interest of our Shareholders as a whole.

Our Directors have further confirmed that these related party transactions would not distort our results of operations during the Track Record Period or make our historical results not reflective of our expectations for our future performance.

### DIVIDEND

During the Track Record Period, we did not declare nor pay any dividend.

We currently do not have any plans to distribute regular dividends immediately after the Listing, although this is subject to change. Our Board may declare dividends in the future after taking into account our operations, earnings, financial condition, cash requirements and availability and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Companies Law, including the approval of our Shareholders. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board.

We cannot assure you that we will be able to distribute dividends in any year. The declaration and payment of dividends may also be limited by legal restrictions and by loan or other agreements that our Company and our subsidiaries have entered into or may enter into in the future.

### DISTRIBUTABLE RESERVES

As at 31 December 2016, we have share premium amounted to approximately RMB39.7 million. Such share premium is available for distribution to our Shareholders under the Cayman Companies Law.

### EFFECT ON OUR FINANCIAL PERFORMANCE DUE TO LISTING EXPENSES

Our financial performance for the year ended 31 December 2016 may be materially and adversely affected by the listing expenses. Our profit for the year for the year ending 31 December 2017 may show a decline as compared to our financial performance for the year ended 31 December 2016.

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## FINANCIAL INFORMATION

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### UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative statement of the unaudited pro forma of adjusted net tangible assets of our Group which has been prepared in accordance with Rule 7.31 of the GEM Listing Rules for the purpose of illustrating the effect of Global Offering as if it had taken place on 31 December 2016 and based on our net tangible assets attributable to owners of our Company as at 31 December 2016 as shown in the Accountant's Report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

The unaudited pro forma adjusted net tangible assets of our Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of our Group after the completion of the Global Offering.

	<b>Audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 December 2016</b>	<b>Estimated net proceeds from the Global Offering</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of the Company as at 31 December 2016</b>	<b>Unaudited pro forma adjusted net tangible assets per Share</b>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB</i>	<i>HK\$</i>
	<i>(Note 1)</i>	<i>(Note 2)</i>		<i>(Note 3)</i>	<i>(Note 4)</i>
Based on the Offer Price of HK\$1.40 per Share	<u>206,861</u>	<u>225,677</u>	<u>432,538</u>	<u>0.54</u>	<u>0.60</u>
Based on the Offer Price of HK\$1.70 per Share	<u>206,861</u>	<u>277,673</u>	<u>484,534</u>	<u>0.61</u>	<u>0.68</u>

*Notes:*

- (1) The audited consolidated net tangible assets attributable to the owners of the Company as at 31 December 2016 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to the owners of the Company as at 31 December 2016 of approximately RMB207,837,000 less goodwill of approximately RMB976,000 as at 31 December 2016.
- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$1.40 per Share and HK\$1.70 per Share, being low and high end of the indicative Offer Price range, after deduction of the underwriting fees and other related expenses (excluding approximately listing expenses of RMB3,983,000 and RMB10,843,000 which have been accounted for in the consolidated statements of comprehensive income for two years ended 31 December 2016, respectively).
- (3) The unaudited pro forma net tangible assets per Shares is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 800,000,000 Shares were in issue assuming that the Global Offering and the

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## FINANCIAL INFORMATION

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Capitalisation Issue have been completed on 31 December 2016 but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option and may be allocated and issued or repurchased by the Company pursuant to the Issuing Mandate given to our Directors to issue or repurchase Shares as described in the section headed “Share Capital” in this prospectus.

- (4) For the purpose of the unaudited pro forma statement of adjusted net tangible assets, the translation of HK\$ into RMB was at rate of HK\$1.00 to RMB0.8981.
- (5) No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2016.

### DISCLOSURE UNDER THE GEM LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

### ACQUISITION OF NEW HEADLINE MUNICIPAL LANDSCAPING

#### Financial Impact

On 7 January 2015, we acquired New Headline Municipal Landscaping from Changsheng Industrial. For details, please refer to the subsection headed “History and Corporate Structure” in this prospectus. By virtue of such acquisition, we obtained our Grade Three enterprise qualification in urban landscape construction and Grade Three general contracting qualification in municipal and public construction. Our Grade Three enterprise qualification in urban landscape construction allows us to undertake maintenance management projects in greenery of all types and scales. Our Grade Three general contracting qualification in municipal and public construction entitles us to undertake various municipal and public construction project. We believe that our dual industry qualifications give us a competitive advantage in our ability to undertake different types of greening and construction management projects.

Since our acquisition of New Headline Municipal Landscaping on 7 January 2015, New Headline Municipal Landscaping has generated revenue of approximately RMB33.6 million and profit for the period of RMB10.3 million for the period between 7 January 2015 and 31 December 2015. Upon the accounting consolidation of our Group, its revenue and profit for the year contribution to the group were approximately RMB13.6 million and RMB1.6 million, respectively, accounted for approximately 6.5% of our revenue and 3.5% of our profit for the year ended 31 December 2015.

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## FINANCIAL INFORMATION

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### Pre-Acquisition Financial Information

The following table sets forth the income statement of New Headline Municipal Landscaping for the period between 1 January 2014 and 6 January 2015.

	<b>Year ended</b> <b>31 December 2014</b>	<b>Six days ended</b> <b>6 January 2015</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	32,366	—
Cost of sales	<u>(18,576)</u>	<u>—</u>
<b>Gross profit</b>	13,790	—
General and administrative expenses	<u>(4,104)</u>	<u>(11)</u>
<b>Operating profit/(loss)</b>	9,686	(11)
Finance income	<u>73</u>	<u>—</u>
<b>Profit/(loss) before income tax</b>	9,759	(11)
Income tax expense	<u>(112)</u>	<u>—</u>
<b>Profit/(loss) for the year/period</b>	9,647	(11)
Other comprehensive income	<u>—</u>	<u>—</u>
<b>Total comprehensive income/(loss) for the year/period attributable to owners of New Headline Municipal Landscaping</b>	<u><u>9,647</u></u>	<u><u>(11)</u></u>

### RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

Save as disclosed in the paragraph headed “Listing expenses” in this section, our Directors have confirmed that after performing all the due diligence work which our Directors consider appropriate, there has been no material adverse change in the financial or trading positions or prospects of our Group since 31 December 2016, being the date to which our Group’s latest audited financial statements were made up, and there has been no event since 31 December 2016 which would materially affect the information shown in the Accountant’s Report, the text of which is set out in Appendix I to this prospectus.



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## FUTURE PLANS AND USE OF PROCEEDS

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### BUSINESS OBJECTIVE

Our business objective is to become a leading urban project management operator in Lianyungang, Jiangsu Province, China. To pursue this end, we have developed a business strategy with the following components: (i) further strengthen our business in Lianyungang; (ii) continue to attract and retain talented personnel to further develop our project management capabilities; (iii) continue to develop our information management system to improve our work efficiency and service quality; and (iv) further promote our brand and increase market penetration. Please refer to the section headed “Business — Our Strategies” for further details of our business strategies.

### IMPLEMENTATION PLANS

In pursuance of the business objective set forth above, the implementation plans of our Group are set forth below for each of the six-month period until 31 December 2019. Investors should note that the following implementation plans are formulated on the bases and assumptions referred to in the paragraph headed “Bases and assumptions” in this section. These bases and assumptions are inherently subject to many uncertainties and unpredictable factors, in particular the risk factors set forth in the section headed “Risk Factors” in this prospectus. There is no assurance that our business objectives will be achieved or our business plans will be implemented according to the estimated time frame or at all.

#### For the period from the Latest Practicable Date to 30 June 2017

##### *Business strategies*

Further strengthen our business in Lianyungang

Continue to attract and retain talented personnel to further develop our project management capabilities

Continue to develop our information management system to improve our work efficiency and service quality

Further promote our brand and increase market penetration

##### *Implementation activities*

- Finance and manage our existing BT and PPP projects.
- Prepare for and participate in the tendering for potential environmental maintenance, BT and PPP projects.

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## FUTURE PLANS AND USE OF PROCEEDS

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### For the six months ending 31 December 2017

#### *Business strategies*

Further strengthen our business in Lianyungang

Continue to attract and retain talented personnel to further develop our project management capabilities

Continue to develop our information management system to improve our work efficiency and service quality

Further promote our brand and increase market penetration

#### *Implementation activities*

- Finance and manage our existing BT and PPP projects.
- Prepare for and participate in the tendering for potential environmental maintenance, BT and PPP projects.
- Recruit additional staff including marketing staff, engineers and site managers.
- Provide technical training to our staff and assist them to obtain relevant professional qualification certificates.
- Provide enhanced work safety trainings.
- Maintain and upgrade new office administrative IT system
- Maintain and upgrading Company's website
- Place advertisement signs at train station
- Conduct community activities promoting greening and environmental protection (e.g. pests control, greening promotion and knowledge sharing sessions)

### For the six months ending 30 June 2018

#### *Business strategies*

Further strengthen our business in Lianyungang

Continue to attract and retain talented personnel to further develop our project management capabilities

Continue to develop our information management system to improve our work efficiency and service quality

#### *Implementation activities*

- Recruit additional staff including marketing staff, engineers and site managers.
- Provide technical training to our staff and assist them to obtain relevant professional qualification certificates.
- Provide enhanced work safety trainings.
- Maintain and upgrade new office administrative IT system

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## FUTURE PLANS AND USE OF PROCEEDS

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Further promote our brand and increase market penetration

- Place advertisement on television and newspapers, and on sign boards on highways in Lianyungang and nearby areas
- Conduct community activities promoting greening and environmental protection (e.g. pests control, greening promotion and knowledge sharing sessions)

### **For the six months ending 31 December 2018**

#### *Business strategies*

#### *Implementation activities*

Further strengthen our business in Lianyungang

Continue to attract and retain talented personnel to further develop our project management capabilities

Continue to develop our information management system to improve our work efficiency and service quality

Further promote our brand and increase market penetration

- Recruit additional staff including marketing staff, engineers and site managers.
- Provide technical training to our staff and assist them to obtain relevant professional qualification certificates.
- Provide enhanced work safety trainings.
- Maintain and upgrade new office IT system
- Conduct community activities promoting greening and environmental protection (e.g. pests control, greening promotion and knowledge sharing sessions)

### **For the six months ending 30 June 2019**

#### *Business strategies*

#### *Implementation activities*

Further strengthen our business in Lianyungang

Continue to attract and retain talented personnel to further develop our project management capabilities

Continue to develop our information management system to improve our work efficiency and service quality

- Recruit additional staff including marketing staff, engineers and site managers.
- Provide technical training to our staff and assist them to obtain relevant professional qualification certificates.
- Provide enhanced work safety trainings.
- Maintain and upgrade new office IT system

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## FUTURE PLANS AND USE OF PROCEEDS

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Further promote our brand and increase market penetration

- Place advertisement on television and newspapers, and on sign boards on highways in Lianyungang and nearby areas
- Conduct community activities promoting greening and environmental protection (e.g. pests control, greening promotion and knowledge sharing sessions)

**For the six months ending 31 December 2019**

### *Business strategies*

### *Implementation activities*

Further strengthen our business in Lianyungang

Continue to attract and retain talented personnel to further develop our project management capabilities

- Recruit additional staff including marketing staff, engineers and site managers.
- Provide technical training to our staff and assist them to obtain relevant professional qualification certificates.
- Provide enhanced work safety trainings.

Continue to develop our information management system to improve our work efficiency and service quality

- Maintain and upgrade new office IT system

### **BASES AND ASSUMPTIONS**

Potential investors should note that the attainability of our business objective depends on a number of assumptions, in particular:

- there will be no material changes in the existing political, legal, fiscal, foreign trade or economic conditions in Hong Kong and the PRC;
- there will be no material changes in the bases or rates of taxation in Hong Kong and the PRC;
- there will be no material changes in legislation or regulations in Hong Kong, the PRC or elsewhere which may materially affect our business;
- the Global Offering will be completed in accordance with and as described in “Structure and Conditions of the Global Offering” in this prospectus;
- there will be no significant changes in the interest rates or the foreign currency exchange rates from those currently prevailing;
- we will retain key personnel in our management team;

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## FUTURE PLANS AND USE OF PROCEEDS

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- there will be no significant changes in our business relationships with our existing major customers and suppliers;
- there will be no material changes in the funding required for each of the scheduled achievements as outlined under the paragraph headed “Implementation Plans” in this section;
- we will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which our future plans relate; and
- we are not materially and adversely affected by any risk factor set out in “Risk Factors” in this prospectus.

### REASONS FOR THE GLOBAL OFFERING AND USE OF PROCEEDS

Our Directors believe that the Global Offering of the Shares on GEM will enhance our profile and the net proceeds from the Global Offering will strengthen our financial position and will enable us to pursue our business objective set out in this section.

The net proceeds from the Global Offering, after deducting underwriting fees and commission and other estimated expenses in connection with the Global Offering, are estimated to amount to approximately HK\$263.7 million (assuming an Offer Price of HK\$1.55 per Share, being the mid-point of the indicative Offer Price range and assuming the Over-allotment Option is not exercised).

We intend to use the proceeds for the following purposes:

- approximately HK\$237.3 million (approximately 90.0% of the net proceeds) will be used to further strengthen our business in Lianyungang by financing our existing BT and PPP projects;
- approximately HK\$0.9 million (approximately 0.3% of the net proceeds) will be used to further develop our project management capabilities by recruiting and retaining talented personnel including marketing staff, engineers and site managers;
- approximately HK\$1.1 million (approximately 0.4% of the net proceeds) will be used to develop our information management system to improve our work efficiency and service quality by purchasing suitable information technology systems;
- approximately HK\$3.3 million (approximately 1.3% of the net proceeds) will be used to promote our brand and increase market penetration; and
- the remaining amount of approximately HK\$21.1 million (approximately 8.0% of the net proceeds) will be used to provide funding for our working capital and other general corporate purposes.

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## FUTURE PLANS AND USE OF PROCEEDS

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We presently intend to carry out the following business strategies by applying net proceeds as follows:

	From the Listing Date to 31 December 2017 (HK\$ '000)	Six months ending 30 June 2018 (HK\$ '000)	Six months ending 31 December 2018 (HK\$ '000)	Six months ending 30 June 2019 (HK\$ '000)	Since 1 July 2019 (HK\$ '000)	Total (HK\$ '000)	Approximate % of net proceeds
Further strengthen our business in Lianyungang by participating in BT and PPP projects <sup>(Note)</sup>	209,477	27,798	—	—	—	237,275	90.0
Continue to attract and retain talented personnel to further develop our project management capabilities	111	111	200	223	223	868	0.3
Continue to develop our information management system to improve our work efficiency and service quality	541	271	106	111	106	1,135	0.4
Further promote our brand and increase market penetration	1,118	626	626	682	288	3,340	1.3
<b>Total</b>	<b>211,247</b>	<b>28,806</b>	<b>932</b>	<b>1,016</b>	<b>617</b>	<b>242,618</b>	<b>92.0</b>

*Note: For details of the breakdown of the use of net proceeds from the Global Offering for each of our BT and PPP projects as at the Latest Practicable Date, please refer to the section headed “Business — Estimated Financing Commitment for our Projects of Construction Project Management” in this prospectus.*

In the event that the Offer Price (assuming the Over-allotment Option is not exercised) is set at the high-end or the low-end of the proposed Offer Price range, the net proceeds from the Global Offering will increase or decrease by approximately HK\$28.9 million to, high-end of approximately HK\$292.6 million and low-end of approximately HK\$234.8 million, after deducting related expenses, respectively. We intend to use the net proceeds based on the percentages disclosed above, regardless of whether the Shares are priced at the high-end or low-end of the proposed Offer Price.

If the Over-allotment Option is exercised in full, the estimated net proceeds from the Global Offering will increase by (i) approximately HK\$40.5 million (assuming that the final Offer Price is set at the lowest of the indicative Offer Price range), (ii) approximately HK\$44.9 million (assuming that the final Offer Price is set at the mid-point of the indicative Offer Price range), and (iii) approximately HK\$49.2 million (assuming that the final Offer Price is set at the highest of the indicative Offer Price range) respectively. We intend to apply the additional net proceeds from the exercise of the Over-allotment Option in the same proportions as disclosed above.

To the extent that the net proceeds from the Global Offering are not immediately required for the above purposes, it is the present intention of our Directors that these proceeds will be placed on short-term interest-bearing deposits with licensed banks and/or financial institutions in Hong Kong or the PRC.

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## **FUTURE PLANS AND USE OF PROCEEDS**

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Should we decide to re-allocate the intended use of proceeds to other business plans and/or new projects to a material extent and/or there is to be any material modification to the use of proceeds as described above, we will make appropriate announcement(s) in due course.

### **OFFER SHARES ARE FULLY UNDERWRITTEN**

This prospectus is published solely in connection with the Hong Kong Public Offer which forms part of the Global Offering. For applicants under the Hong Kong Public Offer, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offer.

The Listing is sponsored by the Sole Sponsor. The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and the International Placing is expected to be fully underwritten by the International Underwriters pursuant to the International Underwriting Agreement and are subject to our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) agreeing on the Offer Price. The Global Offering is managed by the Sole Global Coordinator.

If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before 5:00 p.m. on the Price Determination Date, the Global Offering will not proceed. For information about the Underwriters and the underwriting arrangements, please refer to the section headed “Underwriting” in this prospectus.

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## UNDERWRITING

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### SOLE GLOBAL COORDINATOR

Guotai Junan Securities (Hong Kong) Limited

### HONG KONG UNDERWRITERS

#### *Joint Bookrunners and Joint Lead Managers*

Guotai Junan Securities (Hong Kong) Limited

Gransing Securities Co., Limited

SPDB International Capital Limited

#### *Co-lead manager*

Founder Securities (Hong Kong) Limited

#### *Co-manager*

Great Roc Capital Securities Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### **Hong Kong Public Offer**

#### *Hong Kong Underwriting Agreement*

The Hong Kong Underwriting Agreement was entered into on 29 June 2017. Pursuant to the Hong Kong Underwriting Agreement, our Company is initially offering 20,000,000 Hong Kong Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to (i) the Stock Exchange granting listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus on the Stock Exchange; and (ii) certain other conditions set out in the Hong Kong Underwriting Agreement (including, among others, the Sole Global Coordinator (for itself and on behalf of the Underwriters and our Company agreeing on the Offer Price), the Hong Kong Underwriters have agreed, severally but not jointly, to subscribe for, or procure subscribers to subscribe for, their respective applicable proportions of the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offer on the terms and subject to the conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement. The Hong Kong Offer Shares are fully underwritten pursuant to the Hong Kong Underwriting Agreement.



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## UNDERWRITING

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The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated.

### *Grounds for termination of the Hong Kong Underwriting Agreement*

If any of the events set out below shall occur at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date, the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) shall be entitled by notice (orally or in writing) given to our Company to terminate the Hong Kong Underwriting Agreement with immediate effect:

- (a) there shall develop, occur or come into force:
  - (i) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in the PRC, Hong Kong, the Republic of Seychelles, the BVI, the Cayman Islands or any other jurisdiction(s) relevant to our Company and our subsidiaries or any other similar event which in the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) has or is likely to have a material adverse effect on the business or financial conditions or prospects of our Group or which may be expected to adversely affect the business or financial condition or prospects of our Group in a material way; or
  - (ii) any change (whether or not permanent) in national, regional, international, financial, military, industrial or economic conditions or prospects, stock market, fiscal or political conditions, regulatory or market conditions and matters and/or disasters in the PRC, Hong Kong, the Republic of Seychelles, the BVI, the Cayman Islands or any other jurisdiction(s) relevant to our Company and our subsidiaries or any other similar event which in the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) has or is likely to have a material adverse effect on the business or financial conditions or prospects of our Group or which may be expected to adversely affect the business or financial condition or prospects of our Group in a material way; or
  - (iii) without prejudice to sub-paragraph (i) of paragraph above, the imposition of any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or
  - (iv) any event, or series of events, beyond the control of the Hong Kong Underwriters (including, without limitation, acts of government, strikes, lockout, fire, explosion, flooding, civil commotion, acts of war or acts of God or accident) when in the sole and reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) would or might have a material adverse effect on any member of our Group or its present or prospective shareholders in their capacity as such; or

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## UNDERWRITING

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- (v) any change or development occurs involving a prospective change in taxation or in exchange control in the PRC, Hong Kong, the Republic of Seychelles, the BVI, the Cayman Islands or any other jurisdiction(s) to which any member of our Group is subject or the implementation of any exchange controls which in the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) would or might have a material adverse effect on any member of our Group or its present or prospective shareholders in their capacity as such in a material way; or
- (vi) any litigation or claim of material importance to the business, financial or operations of our Group being threatened or instituted against any member of our Group, its substantial shareholders or any executive Directors; or
- (vii) the imposition of economic sanctions, in whatever form, directly or indirectly, in the PRC, Hong Kong, the Republic of Seychelles, the BVI, the Cayman Islands or any other jurisdiction(s) relevant to our Company and our subsidiaries; or
- (viii) any governmental or regulatory commission, board, body, authority or agency, or any stock exchange, self-regulatory organisation or other non-government regulatory authority, or any court, tribunal or arbitrator, whether national, central, federal, provincial, state, regional, municipal, local, domestic or foreign, or a political body or organisation in any relevant jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any member of our Group or Director; or
- (ix) order or petition for the winding up of any member of our Group or any composition or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group; or
- (x) any such event, which, individually, or in the aggregate, in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), (i) has or may have a material adverse effect on the success of the Global Offering, or the level of applications under the Hong Kong Public Offer or the level of interest under the International Placing; or (ii) has or will or may have a material adverse effect on the assets, liabilities, business, prospects, trading or financial position of our Group as a whole; or (iii) makes it inadvisable or impracticable to proceed with the Global Offering; or (iv) has or will or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

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## UNDERWRITING

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- (b) there comes to the notice of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) any matter or event showing any of the representations and warranties contained in the Hong Kong Underwriting Agreement to be untrue or inaccurate or, if repeated immediately after the occurrence thereof, would be untrue or inaccurate in any material respect considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in its reasonable opinion to be material or showing any of the obligations or undertakings expressed to be assumed by or imposed on our Company or the warrantors under the Hong Kong Underwriting Agreement not to have been complied with in any respect considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in its reasonable opinion to be material; or
- (c) there comes to the notice of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) any breach on the part of our Company or any of the warrantors of any provisions of the Hong Kong Underwriting Agreement or the International Underwriting Agreement in any respect which is considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in its reasonable opinion to be material; or
- (d) any statement contained in this prospectus, notices, advertisements, announcements, application proof prospectus, post hearing information pack, the submissions, documents or information provided to the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), the Stock Exchange, the legal adviser to the Sole Global Coordinator and the Underwriters and any other parties involved in the Global Offering which in the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) has become or been discovered to be untrue, incorrect, incomplete or misleading in any material respect; or
- (e) matters have arisen or have been discovered which would, if this prospectus, notices, advertisements, announcements, application proof prospectus, post hearing information pack was to be issued at that time, constitute, in the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) a material omission of such information; or
- (f) there is any adverse change or prospective adverse change in the business or in the financial or trading position or prospects of our Group which in the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) is material; or
- (g) the approval of the Stock Exchange of the listing of, and permission to deal in, the Shares in issue and to be issued under the Global Offering and the Shares to be issued pursuant to the Capitalisation Issue is refused or not granted, other than subject to customary conditions, on or before 8:00 a.m. (Hong Kong time) on the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

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## UNDERWRITING

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- (h) any expert, who has given opinion or advice which are contained in this prospectus, has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, opinions or advices and references to its name included in the form and context in which it respectively appears prior to the issue of this prospectus; or
- (i) our Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or
- (j) there comes to the notice of the Sole Global Coordinator or any of the Underwriters any information, matter or event which in the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters):
  - (i) is inconsistent in any material respect with any information contained in the Director's Declaration, Undertaking and Acknowledgement (Form A) given by any Directors pursuant to the Global Offering; or
  - (ii) would cast any serious doubt on the integrity or reputation of any Director or the reputation of our Group.

### **Undertakings to the Stock Exchange**

#### ***Undertaking by our Company***

Pursuant to Rule 17.29 of the GEM Listing Rules, we have undertaken to the Stock Exchange that except pursuant to the Global Offering (including the Over-allotment Option), no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of our Shares or our securities will be completed within six months from the Listing Date), except in certain circumstances prescribed by Rule 17.29 of the GEM Listing Rules.

#### ***Undertaking by our Controlling Shareholders***

Pursuant to Rule 13.16A(1) of the GEM Listing Rules, each of the Controlling Shareholders undertakes to the Stock Exchange and to our Company that except pursuant to the Global Offering (including the Over-allotment Option), they will not at any time:

- (a) during the period commencing on the date by reference to which disclosure of his/her/its interests in our Company is made in this prospectus and ending on the date falling six months from the Listing Date (the "**First Six-month Period**"), he/she/it shall not dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities of our Company in respect of which he/she/it is shown by this prospectus to be the beneficial owners; or

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## UNDERWRITING

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- (b) in the six-month period commencing on the expiry of the First Six-month Period set out in paragraph (a) above (the “**Second Six-month Period**”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities mentioned in paragraph (a) if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/she/it would cease to be a controlling shareholder of our Company for the purposes of the GEM Listing Rules.

Pursuant to Rule 13.19 of the GEM Listing Rules, each of our Controlling Shareholders has further undertaken to the Stock Exchange and to our Company that within the period commencing on the date by reference to which disclosure of his/her/its shareholdings is made in this prospectus and to the date which is 12 months from the Listing Date, they will:

- (a) when they pledge or charge any securities of our Company or interests therein beneficially owned by them in favour of any authorised institution pursuant to (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), immediately inform our Company of such pledge or charge together with the number of securities so pledged or charged; and
- (b) when they receive indications, either verbal or written, from the pledgee or chargee that any of the securities of our Company pledged or charged will be disposed of, immediately inform our Company of such indications.

### **Undertakings pursuant to the Hong Kong Underwriting Agreement**

Each of the Controlling Shareholders, jointly and severally, has given an undertaking to each of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, save for any lending of Shares by Keen Smart pursuant to the Stock Borrowing Agreement, without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the GEM Listing Rules, none of the Controlling Shareholders will, and will procure that none of its close associates will:

- (i) during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “**First Six Month Period**”), (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable) (the foregoing restriction is expressly agreed to include the Controlling Shareholders from engaging in any hedging or other transactions which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of any Shares even if such

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## UNDERWRITING

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Shares would be disposed of by someone other than the Controlling Shareholders, respectively. Such prohibited hedging or other transactions would include without limitation any put or call option with respect to any Shares or with respect to any security that includes, relates to or derives any significant part of its value from such Shares); or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (c) enter into any transaction with the same economic effect as any transaction specified in (a) or (b) above, or (d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above, in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such other members of our Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period); and

- (ii) he, she or it will not, and will procure that none of his, her or its associates or the companies controlled by him, her or it or any of their associates will, during the period of six months commencing on the date on which the First Six Month Period expires and including, the date that is six months after the end of the First Six Month Period (the “**Second Six Month Period**”), enter into any of the transactions specified in (a), (b) or (c) under paragraph (i) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, he, she or it will cease to be a “controlling shareholder” (as the term is defined in the GEM Listing Rules) of our Company or cease to hold, directly or indirectly, a controlling interest of over 30% or such lower amount as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer, in any of the companies controlled by him, her or it and/or any of his, her or its close associate which owns such Shares or interests as aforesaid; and
  
- (iii) until the expiry of the Second Six Month Period, in the event that he, she or it enters into any of the transactions specified in (a), (b) or (c) under paragraph (i) above or offers to or agrees to or announces any intention to effect any such transaction, he, she or it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

Except for the offer and sale of the Offer Shares pursuant to the Global Offering (including pursuant to the Over-allotment Option) and the issue and allotment of Shares pursuant to the Capitalisation Issue as disclosed in this prospectus, during the First Six Month Period, our Company undertakes to each of the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor and the Hong Kong Underwriters not to, and to procure each member of our Group

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## UNDERWRITING

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not to, without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the GEM Listing Rules:

- (i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any shares or other securities of such other members of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other members of our Group, as applicable); or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any shares or other securities of such other members of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such members of our Group, as applicable); or
- (iii) enter into any transaction with the same economic effect as any transaction specified in paragraphs (i) or (ii) above; or
- (iv) offer to or agree to or announce any intention to effect any transaction specified in paragraphs (i), (ii) or (iii) above,

in each case, whether any of the transactions specified in paragraphs (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such members of our Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period). In the event that, during the Second Six Month Period, our Company enters into any of the transactions specified in paragraphs (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company. Each of our Company, our Controlling Shareholders and executive Directors undertakes to each of the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor and the Hong Kong Underwriters to procure our Company to comply with the undertakings in this paragraph.



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## UNDERWRITING

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Each of our Company, our Controlling Shareholders and executive Directors undertakes to and covenants with the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that save with the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), no company in our Group will during the First Six Month Period purchase any securities of our Company.

Without prejudice to the above, each of our Controlling Shareholders undertakes and covenants with our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that:

- (i) save with the prior written consent from the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and such consent shall not be unreasonably withheld and to the extent as allowed under the GEM Listing Rules, during the period commencing on the date by reference to which disclosure of the shareholding of our Controlling Shareholders is made in this prospectus and ending on the date which is 12 months from the Listing Date, he, she or it shall not and shall procure that none of his, her or its close associates shall pledge or charge or create any other rights or encumbrances in any Shares or any interest therein owned by him, her or it or any of their close associates or in which he, she or it or any of their close associates is, directly or indirectly, interested immediately following completion of the Global Offering (or any other Shares or securities of or interest in our Company arising or deriving therefrom as a result of capitalisation issue or scrip dividend or otherwise) or any share or interest in any company controlled by him, her or it or any of their close associates which is the beneficial owner (directly or indirectly) of such Shares or interest therein as aforesaid (or any other shares or securities of or interest in the company arising or deriving therefrom as a result of capitalisation issue or scrip dividend or otherwise); and
- (ii) in the event that consent is given by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), when he, she or it or any of their close associates shall pledge, charge or create any encumbrance or other right or any of the Shares or interests referred to in (i) above, he, she or it shall give prior written notice of not less than two business days to the Stock Exchange, our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) giving details of the number of Shares, shares in the company which is the beneficial owner of such Shares, or the interests as aforesaid, the identities of the pledgee or person (the “**Mortgagee**”) in favour of whom the pledge, charge, encumbrance or interest is created and further if he, she or it or any of their close associates is aware of or receives indications or notice, either verbal or written, from the Mortgagee that the Mortgagee will dispose of or transfer any of the Shares or interests referred to in (i) above, he, she or it will immediately notify the Stock Exchange, our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in writing of such indications and provide details of such disposal or transfer to the Stock Exchange, our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) as they may require.



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## UNDERWRITING

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Our Company undertakes and covenants with the Sole Sponsor, the Sole Global Coordinator (for and on behalf of the Hong Kong Underwriters), the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that our Company shall forthwith inform the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and the Stock Exchange in writing immediately after our Company has been informed of the matters referred to in paragraph (ii) above and our Company shall, if so required by the Stock Exchange or the GEM Listing Rules, disclose such matters by way of an announcement and shall comply with all requirements of the Stock Exchange.

### **Commissions and expenses**

According to the Hong King Underwriting Agreement, the Hong Kong Underwriters will receive an underwriting commission of 3.5% of the aggregate Offer Price payable for the Hong Kong Offer Shares. The Sole Global Coordinator may also be entitled to a discretionary incentive bonus at our Company's sole and absolute discretion. For unsubscribed Hong Kong Offer Shares reallocated to the International Placing, if any, our Company will pay an underwriting commission at the rate applicable to the International Placing and such commission will be paid to the Sole Global Coordinator and the relevant International Underwriters or their affiliates.

In consideration of the Sole Sponsor's services in sponsoring the Global Offering, the Sole Sponsor will receive a financial advisory fee. Such underwriting commission and financial advisory fee, together with the Stock Exchange listing fee, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees, printing and other expenses relating to the Global Offering which are currently estimated to be approximately HK\$46.3 million in aggregate (assuming an Offer Price of HK\$1.55 per Offer Share (being the midpoint of the indicative Offer Price of HK\$1.40 to HK\$1.70 per Offer Share)), are to be borne by us, without taking into account the commissions and expenses relating to the exercise of Over-allotment Option.

### **The International Placing**

In connection with the International Placing, it is expected that our Company and the International Underwriters will enter into the International Underwriting Agreement. Under the International Underwriting Agreement, our Company will offer our International Placing Shares for subscription and purchase by professional, institutional and other investors at the Offer Price payable in full on subscription and purchase in Hong Kong dollars, on and subject to the terms and conditions set out in the International Underwriting Agreement and the placing documents. It is expected that the International Underwriters will agree to severally underwrite for our International Placing Shares.

### **SOLE GLOBAL COORDINATOR'S AND UNDERWRITERS' INTEREST IN OUR COMPANY**

Save for the interests and obligations under the Underwriting Agreements, none of the Sole Global Coordinator or the Hong Kong Underwriters is interested legally or beneficially in the shares of any of our Group's members or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any members of our Group.

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## UNDERWRITING

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### SOLE SPONSOR'S INTEREST IN OUR COMPANY

Save for (i) the advisory and documentation fees to be paid to the Sole Sponsor in connection with the Global Offering; (ii) the financial advisory fee to be paid to the Sole Sponsor as our Company's compliance adviser pursuant to the requirements under Rules 6A.19 of the GEM Listing Rules; and (iii) their interests and obligations under the Underwriting Agreements, neither the Sole Sponsor nor any of its close associates has or may have, as a result of the Global Offering, any interest in any class of securities in our Company or any of its subsidiaries (including options or rights to subscribe for such securities).

No director or employee of the Sole Sponsor who is involved in providing advice to our Company has or may have, as a result of the Global Offering, any interest in any class of securities of our Company or any of its subsidiaries (including options or rights to subscribe for such securities that may be subscribed for or purchased by any such director or employee pursuant to the Global Offering). No director or employee of the Sole Sponsor has a directorship in the Company or any of its subsidiaries.

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 6A.07 of the GEM Listing Rules.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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### DETERMINATION OF THE OFFER PRICE

The Offer Price is expected to be fixed by the Price Determination Agreement to be entered into between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on or before the Price Determination Date, when the market demand for the Offer Shares will be ascertained. The Price Determination Date is currently expected to be on Thursday, 6 July 2017, and in any event, not later than 5:00 p.m. on Thursday, 6 July 2017.

**Prospective investors should be aware that the Offer Price to be determined on or before the Price Determination Date may be, but not expected to be, lower than indicative Offer Price range as stated in this prospectus.** The Offer Price will not be more than HK\$1.70 per Offer Share and is expected to be not less than HK\$1.40 per Offer Share. The Offer Price will fall within the Offer Price range as stated in this prospectus unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offer.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, where it considers appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during a book-building process, and with the consent of our Company, reduce the indicative Offer Price range below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offer. In such a case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offer, cause there to be published on the Company's website at [www.newheadline.com.hk](http://www.newheadline.com.hk) and the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) notice of reduction in the indicative Offer Price range. Upon issue of such a notice, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon with our Company, will be fixed within such revised Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Global Offering statistics as currently set out in the section headed "Summary" in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any notice being published in South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) of a reduction in the indicative Offer Price range as stated in this prospectus on or before the morning of the last day for lodging applications under the Hong Kong Public Offer, the Offer Price, if agreed upon with our Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

**If, for any reason, the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company are unable to enter into the Price Determination Agreement by the Price Determination Date, the Global Offering will not become unconditional and will not proceed and will lapse.**

Announcement of the final Offer Price, together with the level of indication of interest in the International Placing and the level of applications under the Hong Kong Public Offer and basis of allocation of the Hong Kong Offer Shares under the Hong Kong Public Offer is expected to be published on Tuesday, 18 July 2017.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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### PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$1.70 per Offer Share and is expected to be not less than HK\$1.40 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offer as set out above. Prospective investors should be aware that the Offer Price as determined on the Price Determination Date may be lower than the indicative Offer Price as stated in this prospectus.

Applicants under the Hong Kong Public Offer should pay, on application, the maximum price of HK\$1.70 per Offer Share plus brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.0027%. That means a maximum of HK\$3,434.26 is payable for every board lot of 2,000 Shares. The Application Forms have tables showing the exact amount payable for certain multiples of Hong Kong Offer Shares. If the Offer Price, as finally determined in the manner as described above, is lower than the maximum price of HK\$1.70 per Offer Share, appropriate refund payments (including the related brokerage, the Stock Exchange trading fee and the SFC transaction levy attributable to the excess application money) will be made to applicants, without interest. Further details are set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.

### CONDITIONS OF THE HONG KONG PUBLIC OFFER

Acceptance of the application for the Offer Shares pursuant to the Hong Kong Public Offer is conditional upon:

#### 1. Listing

The Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on the Stock Exchange and such approval not subsequently having been revoked prior to the commencement of dealings in the Shares.

#### 2. Underwriting Agreements

- (i) The obligations of the Underwriters under the Underwriting Agreements becoming unconditional, and not being terminated in accordance with the terms thereof; and
- (ii) the execution and delivery of the International Underwriting Agreement prior to or on the Price Determination Date.

#### 3. Price determination

The Offer Price having been determined and the execution of the Price Determination Agreement on the Price Determination Date.

If any of the conditions is not fulfilled or waived on or before the times specified above, the Global Offering will lapse and the application money will be returned to the applicants, without interest. The terms on which the application money will be returned to the applicants are set out in the paragraph headed “Refund of your monies” in the relevant Application Forms.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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In the meantime, the application money will be held in one or more separate bank accounts with the receiving banker or other bank(s) in Hong Kong, licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

### THE GLOBAL OFFERING

The Global Offering comprises the International Placing and the Hong Kong Public Offer. A total of initially 200,000,000 Offer Shares will be made available under the Global Offering. Among these Offer Shares, 180,000,000 International Placing Shares (subject to re-allocation and the Over-allotment Option), representing 90% of the Offer Shares, will initially be conditionally placed with selected professional, institutional and other investors under the International Placing. The remaining 20,000,000 Hong Kong Offer Shares (subject to re-allocation), representing 10% of the Offer Shares, will initially be offered to the public in Hong Kong under the Hong Kong Public Offer.

The Hong Kong Public Offer is open to all members of the public in Hong Kong as well as to institutional and professional investors. The Hong Kong Underwriters have severally agreed to underwrite the Hong Kong Offer Shares under the terms of the Hong Kong Underwriting Agreement. The International Underwriter will underwrite the International Placing Shares pursuant to the terms of the International Underwriting Agreement. Further details of the underwriting are set out in the section headed “Underwriting” in this prospectus.

Investors may apply for the Offer Shares under the Hong Kong Public Offer or indicate an interest for Offer Shares under the International Placing, but may not do both.

### International Placing

Our Company is expected to offer initially 180,000,000 International Placing Shares (subject to re-allocation and the Over-allotment Option) at the Offer Price under the International Placing. The number of International Placing Shares expected to be initially available for application under the International Placing represents 90% of the total number of Offer Shares being initially offered under the Global Offering. The International Placing is expected to be fully underwritten by the International Underwriters. Investors subscribing for the International Placing Shares are also required to pay the maximum Offer Price of HK\$1.70 per Share plus a brokerage of 1%, a Stock Exchange trading fee of 0.005% and a SFC transaction levy of 0.0027% of the Offer Price.

It is expected that the International Underwriters, or selling agents nominated by it, on behalf of our Company, will conditionally place the International Placing Shares at the Offer Price with selected professional, institutional and other investors. Professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Private investors applying through banks or other institutions who sought the International Placing Shares in the International Placing may also be allocated the International Placing Shares.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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Allocation of the International Placing Shares will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to acquire further Shares and/or hold or sell its Shares after the Listing. Such allocation is intended to result in a distribution of the International Placing Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our Shareholders as a whole. Investors to whom International Placing Shares are offered will be required to undertake and confirm in the Application Form that he/she has not applied for Shares under the Hong Kong Public Offer.

Our Company, our Directors, the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Underwriters) are required to take reasonable steps to identify and reject applications under the Hong Kong Public Offer from investors who receive Shares under the International Placing, and to identify and reject indications of interest in the International Placing from investors who receive Shares under the Hong Kong Public Offer.

The International Placing is expected to be subject to the conditions as stated in the paragraph headed “Conditions of the Hong Kong Public Offer” in this section.

### **Hong Kong Public Offer**

Our Company is initially offering 20,000,000 Hong Kong Offer Shares for subscription (subject to re-allocation) by the public in Hong Kong under the Hong Kong Public Offer, representing 10% of the total number of Offer Shares offered under the Global Offering. The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters. Applicants for the Hong Kong Offer Shares are required on application to pay the maximum Offer Price of HK\$1.70 per Share plus a brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.0027%.

The Hong Kong Public Offer is open to all members of the public in Hong Kong. An applicant for Shares under the Hong Kong Public Offer will be required to give an undertaking and confirmation in the Application Form submitted by him/her that he/she has not applied for nor taken up any Shares under the International Placing nor otherwise participated in the International Placing. Applicants should note that if such undertaking and/or confirmation given by an applicant is breached and/or is untrue (as the case may be), such applicant’s application under the Hong Kong Public Offer is liable to be rejected.

For allocation purposes only, the number of the Hong Kong Offer Shares will be divided equally into two pools: 10,000,000 Shares in pool A and 10,000,000 Shares in pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares in the value of HK\$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy thereon) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares in the value of more than HK\$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy) and up to the value of pool B.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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Investors should be aware that the allocation ratios for applications in the two pools, as well as the allocation ratios for applications in the same pool, are likely to be different. Where one of the pool is under-subscribed, the surplus Hong Kong Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Offer Shares from any one pool but not from both pools and can only make applications to either pool A or pool B. Any application made for more than 100% of the Hong Kong Offer Shares initially available under pool A or pool B will be rejected.

Allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offer will be based solely on the level of valid applications received under the Hong Kong Public Offer. When there is over-subscription under the Hong Kong Public Offer, allocation of the Hong Kong Offer Shares may involve balloting, which would mean that some applicants may be allotted more Hong Kong Offer Shares than others who have applied for the same number of the Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

### **BASIS OF ALLOCATION OF THE OFFER SHARES**

The allocation of the Offer Shares between the International Placing and the Hong Kong Public Offer is subject to re-allocation on the following basis:

- (a) if the number of Shares validly applied for under the Hong Kong Public Offer represents 5 times or more but less than 10 times the number of Shares initially available for subscription under the Hong Kong Public Offer, then Shares will be reallocated to the Hong Kong Public Offer from the International Placing, so that the total number of Shares available for subscription under the Hong Kong Public Offer will be increased to 60,000,000 Shares, representing 30% of the Offer Shares; and
- (b) if the number of Shares validly applied for under the Hong Kong Public Offer represents 10 times or more the number of Shares initially available for subscription under the Hong Kong Public Offer, then Shares will be reallocated to the Hong Kong Public Offer from the International Placing, so that the number of Shares available for subscription under the Hong Kong Public Offer will be increased to 100,000,000 Shares, representing 50% of the Offer Shares.

In all cases, the additional Shares reallocated to the Hong Kong Public Offer will be allocated equally between pool A and pool B and the number of Offer Shares allocated to the International Placing will be correspondingly reduced. In particular, the Hong Kong Offer will be allocated pursuant to Rule 11.23(8) of the GEM Listing Rules, which provides that not more than 50% of the Shares in public hands at the time of Listing will be owned by the three largest public shareholders.

In addition, the Sole Global Coordinator (for itself and on behalf of the Underwriters) may, in its sole discretion, allocate Offer Shares from the International Placing to the Hong Kong Public Offer to satisfy valid applications under the Hong Kong Public Offer.



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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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The Offer Shares to be offered in the Hong Kong Public Offer and the International Placing may be re-allocated as between these offerings at the discretion of the Sole Global Coordinator (for itself and on behalf of the Underwriters). If the Hong Kong Public Offer is not fully subscribed, the Sole Global Coordinator has the authority to reallocate all or any of the unsubscribed Hong Kong Offer Shares originally included in the Hong Kong Public Offer to the International Placing in such proportions as it deems appropriate.

### OVER-ALLOTMENT OPTION

In connection with the Global Offering, our Company is expected to grant to the Sole Global Coordinator the Over-allotment Option which will expire on 5 August 2017, which is the 30th day from the date of the last day of lodging application under the Hong Kong Public Offer. Pursuant to the Over-allotment Option, our Company may be required by the Sole Global Coordinator to allot and issue up to and not more than 30,000,000 additional new Shares (representing 15% of the total number of the Offer Shares initially available under the Global Offering) at the Offer Price to cover over-allocations in the International Placing. The Sole Global Coordinator may also cover such over-allocations by, among other means, purchasing Shares in the secondary market or through stock borrowing arrangements with Keen Smart or by a combination of these means or otherwise as may be permitted under the applicable laws and regulatory requirements. Any such secondary market purchases will be made in compliance with all application laws, rules and regulations. If the Over-allotment Option is exercised in full, the additional 30,000,000 new Shares will represent approximately 3.6% of our Company's enlarged issued share capital immediately after completion of the Capitalisation Issue, the Global Offering and the exercise of the Over-allotment Option in full. In the event that the Over-allotment Option is exercised, an announcement will be made.

### STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the market price of the securities below the Offer Price. In Hong Kong, the price at which stabilisation is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Sole Global Coordinator, as the stabilising manager, or its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions which stabilise or maintain the market price of the Shares at levels above those which might otherwise prevail for a limited period after the Listing Date. The number of Shares that may be over-allocated will be up to, but not more than, an aggregate of 30,000,000 additional Shares, being the number of the Shares that may be issued under the Over-allotment Option. Such stabilising actions may include over-allocating International Placing Shares and covering such over-allocations by exercising the Over-allotment Option or by making purchases in the secondary market or through stock borrowing arrangement with Keen Smart or through a combination of these means or otherwise. However, there is no obligation on the Sole Global Coordinator to do this. Such stabilisation action, if commenced, may be discontinued at any time, and is required to be brought to an end after a limited period. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements.



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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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Subject to and under the Securities and Futures (Price Stabilizing) Rules of the SFO, the Sole Global Coordinator (for itself and on behalf of the Underwriters) may take all or any of the following actions (“**primary stabilising action**”) with respect to any Shares during the stabilisation period, which should end on 5 August 2017, the 30th day after the last day for the lodging of application under the Hong Kong Public Offer:

- (1) purchase, or agree to purchase, any of the Shares;
- (2) offer or attempt to do anything as described in paragraph (1), for the sole purpose of preventing or minimising any reduction in the market price of the Shares. The Sole Global Coordinator (for itself and on behalf of the Underwriters) may also, in connection with any primary stabilising action, take all or any of the following actions:
  - (a) for the purpose of preventing or minimising any reduction in the market price of the Shares;
    - (i) allocate a greater number of Shares than the number that is initially offered under the Global Offering; or
    - (ii) sell or agree to sell Shares so as to establish a short position in them;
  - (b) pursuant to an option or other right to purchase or subscribe for Shares, purchase or subscribe for or agree to purchase or subscribe for Shares in order to close out any position established under paragraph (a);
  - (c) sell or agree to sell any Shares acquired by it in the course of the primary stabilising action in order to liquidate any position that has been established by such action; and/or
  - (d) offer or attempt to do anything as described in paragraphs (a)(ii), (b) or (c).

Investors should be aware that:

- the Sole Global Coordinator (for itself and on behalf of the Underwriters) may, in connection with the stabilising action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time period for which the Sole Global Coordinator will maintain such a long position;
- liquidation of such a long position by the Sole Global Coordinator may have an adverse impact on the market price of our Shares;
- stabilising action cannot be taken to support the price of our Shares for longer than the stabilising period which begins on the Listing Date and ends on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offer, and that after this date, when no further stabilising action may be taken, demand for our Shares, and therefore its price could fall; and

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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- the price of our Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilising action; and that stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price the investor has paid for our Shares.

Our Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of SFO will be made within seven days of the expiration of the stabilization period.

### STOCK BORROWING ARRANGEMENT

In connection with the Global Offering, the Sole Global Coordinator may over-allocate up to and not more than an aggregate of 30,000,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means. In particular, for the purpose of covering such over-allocations, the Sole Global Coordinator may borrow up to 30,000,000 Shares from Keen Smart, equivalent to the maximum number of Shares to be issued on a full exercise of the Over-allotment Option, under the Stock Borrowing Agreement. Stock borrowing arrangement is not subject to the restrictions of Rule 13.16A(1)(a) of the GEM Listing Rules provided that the requirements set forth in Rule 13.15(5)(a) of the GEM Listing Rules are complied with. The principal terms of the Stock Borrowing Agreement are:

- the stock borrowing arrangement will only be effected by the borrower for settlement of over-allocations in connection with the International Placing;
- the maximum number of Shares borrowed from Keen Smart will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option;
- the same number of Shares so borrowed must be returned to Keen Smart or its nominees on no later than three business days following the earlier of (i) the last day for exercising the Over-allotment Option; and (ii) the day on which the Over-allotment Option is exercised in full;
- the stock borrowing arrangement will be effected in compliance with all applicable GEM Listing Rules, laws and other regulatory requirements; and
- no payments will be made to Keen Smart by the Sole Global Coordinator in relation to the stock borrowing arrangement.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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### DEALING ARRANGEMENTS

Assuming the Hong Kong Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, 19 July 2017, it is expected that dealings in the Shares on the Stock Exchange will commence on Wednesday, 19 July 2017.

The Shares will be traded in board lots of 2,000 Shares each. The stock code of the Company is 8276.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Placing Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** Service Provider at [www.eipo.com.hk](http://www.eipo.com.hk); or
- electronically cause **HKSCC** Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO**, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at its discretion and on any conditions it thinks fit, including evidence of the attorney's authority.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** for the Hong Kong Offer Shares.

Unless permitted by the GEM Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- Director or chief executive officer of our Company and/or any of its subsidiaries;
- an associate (as defined in the GEM Listing Rules) of any of the above;
- a connected person (as defined in the GEM Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Placing Shares or otherwise participate in the International Placing.

### 3. APPLYING FOR HONG KONG OFFER SHARES

#### Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through [www.eipo.com.hk](http://www.eipo.com.hk).

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 30 June 2017 until 12:00 noon on Thursday, 6 July 2017 from:

- (i) any of the following offices of the Joint Bookrunners:

**Guotai Junan Securities (Hong Kong) Limited**  
27/F, Low Block, Grand Millennium Plaza  
181 Queen's Road Central  
Hong Kong

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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**Gransing Securities Co., Limited**

17/F, Hing Yip Commercial Centre,  
272-284 Des Voeux Road Central,  
Hong Kong

**SPDB International Capital Limited**

Suites 3207-3212, One Pacific Place,  
88 Queensway,  
Hong Kong

- (ii) any of the branches of the receiving bank, Industrial and Commercial Bank of China (Asia) Limited:

	<b>Branch Name</b>	<b>Address</b>
<b>Hong Kong Island</b>	Central Branch	1/F., 9 Queen's Road Central, Hong Kong
	North Point Branch	G/F, 436-438 King's Road, North Point, Hong Kong
	Causeway Bay Branch	Shop A on G/F, 1/F, Hennessy Apartments, 488 & 490 Hennessy Road, Hong Kong
<b>Kowloon</b>	Mongkok Branch	G/F, Belgian Bank Building, 721-725 Nathan Road, Mongkok, Kowloon
	Ngau Tau Kok Branch	Shop Nos. G211-214, G/F., Phase II, Amoy Plaza, 77 Ngau Tau Kok Road, Kowloon
	Hung Hom Branch	Shop 2A, G/F, Hung Hom Shopping Mall, 2-34E Tak Man Street, Hung Hom, Kowloon
<b>New Territories</b>	Tsuen Wan Castle Peak Road Branch	G/F, 423-427 Castle Peak Road, Tsuen Wan
	Shatin Branch	Shop 22J, Level 3, Shatin Centre, New Territories

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 30 June 2017 until 12:00 noon on Thursday, 6 July 2017 from:

- the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong; or
- from your stockbroker.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "ICBC (Asia) Nominee Limited — New Headline Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

- 9:00 a.m. to 5:00 p.m. — Friday, 30 June 2017
- 9:00 a.m. to 5:00 p.m. — Monday, 3 July 2017
- 9:00 a.m. to 5:00 p.m. — Tuesday, 4 July 2017
- 9:00 a.m. to 5:00 p.m. — Wednesday, 5 July 2017
- 9:00 a.m. to 12:00 noon — Thursday, 6 July 2017

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, 6 July 2017, the last application day or such later time as described in "Effect of Bad Weather on the Opening of the Applications Lists" in this section.

### 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Global Coordinator (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Company, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing nor participated in the International Placing;
- (viii) agree to disclose to our Company, our Hong Kong Share Registrar, receiving bank(s), the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/ or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned in the paragraph headed "Personal Collection" in this section to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company, the Sole Global Coordinator, the Joint Bookrunners and the Joint Lead Managers will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC; and (ii) you have due authority to sign the Application Form or give electronic application instructions on behalf of that other person as their agent.

### **Additional Instructions for Yellow Application Form**

You may refer to the **Yellow** Application Form for details.

## **5. APPLYING THROUGH WHITE FORM eIPO SERVICE**

### **General**

Individuals who meet the criteria in "Who can apply" section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### Time for Submitting Applications under the White Form eIPO

You may submit your application to the **White Form eIPO** Service Provider at [www.eipo.com.hk](http://www.eipo.com.hk). (24 hours daily, except on the last application day) from 9:00 a.m. on Friday, 30 June 2017 until 11:30 a.m. on Thursday, 6 July 2017 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, 6 July 2017 or such later time under the paragraph headed “Effects of Bad Weather on the Opening of the Applications Lists” in this section.

### No Multiple Applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

### Environmental Protection

The obvious advantage of White Form eIPO is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 for each “New Headline Holdings Limited” White Form eIPO application submitted via the website [www.eipo.com.hk](http://www.eipo.com.hk) to support the funding of “Source of Dong Jiang - Hong Kong Forest” project initiated by Friends of the Earth (HK).

## 6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

### General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If you are a CCASS Investor Participant, you may give these electronic application instructions through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<http://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input electronic application instructions for you if you go to:

**Hong Kong Securities Clearing Company Limited**  
Customer Service Center  
1/F, One & Two Exchange Square  
8 Connaught Place, Central  
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are **not a CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/ or HKSCC Nominees to transfer the details of your application to our Company, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and our Hong Kong Share Registrar.

### **Giving Electronic Application Instructions to HKSCC via CCASS**

Where you have given electronic application instructions to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (if the electronic application instructions are given for your benefit) declare that only one set of electronic application instructions has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of electronic application instructions for the other person's benefit and are duly authorised to give those instructions as their agent;
- confirm that you understand that our Company, our Directors, the Sole Global Coordinator, the Joint Bookrunners and the Joint Lead Managers will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Share Registrar, receiving bank(s), the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your electronic application instructions can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offer results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving electronic application instructions to apply for Hong Kong Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

### **Effect of Giving Electronic Application Instructions to HKSCC via CCASS**

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/ or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

### Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions for a minimum of 2,000 Hong Kong Offer Shares. Instructions for more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

### Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

- 9:00 a.m. to 8:30 p.m.<sup>(Note)</sup> — Friday, 30 June 2017
- 8:00 a.m. to 8:30 p.m.<sup>(Note)</sup> — Monday, 3 July 2017
- 8:00 a.m. to 8:30 p.m.<sup>(Note)</sup> — Tuesday, 4 July 2017
- 8:00 a.m. to 8:30 p.m.<sup>(Note)</sup> — Wednesday, 5 July 2017
- 8:00 a.m.<sup>(Note)</sup> to 12:00 noon — Thursday, 6 July 2017

*Note:* These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on Friday, 30 June 2017 until 12:00 noon on Thursday, 6 July 2017 (24 hours daily, except on the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon on Thursday, 6 July 2017, the last application day or such later time as described in the paragraph headed “Effect of Bad Weather on the Opening of the Application Lists” in this section.

### No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any electronic application instructions to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

### Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Share Registrar, the receiving bank(s), the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

### 7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CASS Internet System for submission of electronic application instructions, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for electronic application instructions before 12:00 noon on Thursday, 6 July 2017.

### 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or through **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of our Company;
- control more than half of the voting power of our Company; or
- hold more than half of the issued share capital of our Company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### 9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 2,000 Hong Kong Offer Shares. Each application or electronic application instruction in respect of more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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For further details on the Offer Price, see the section headed “Structure and Conditions of the Global Offering — Offer Price” in this prospectus.

### 10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 6 July 2017. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Thursday, 6 July 2017 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable” in this prospectus, an announcement will be made in such event.

### 11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offer and the basis of allocation of the Hong Kong Offer Shares on Tuesday, 18 July 2017 in South China Morning Post (in English) and The Hong Kong Economic Times (in Chinese), on the Company’s website at [www.newheadline.com.hk](http://www.newheadline.com.hk) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company’s website at [www.newheadline.com.hk](http://www.newheadline.com.hk) and the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 9:00 a.m. on Tuesday, 18 July 2017;
- from the designated results of allocations website at [www.iporesults.com.hk](http://www.iporesults.com.hk) with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Tuesday, 18 July 2017 to 12:00 midnight on Monday, 24 July 2017;
- by telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Tuesday, 18 July 2017 to Friday, 21 July 2017;
- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, 18 July 2017 to Thursday, 20 July 2017 at all the receiving bank’s designated branches.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/ or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure and Conditions of the Global Offering” in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer shares will not be allotted to you:

(i) **If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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(ii) **If our Company or its agents exercise their discretion to reject your application:**

Our Company, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) **If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee of the Stock Exchange notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) **If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/ or provisionally) Hong Kong Offer Shares and International Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your electronic application instructions through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Sole Global Coordinator believe that by accepting your application, it would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offer.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$1.70 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offer are not fulfilled in accordance with the section headed “Structure and Conditions of the Global Offering — Conditions of the Hong Kong Public Offer” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on or before Tuesday, 18 July 2017.

### 14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE or YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/ or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/ passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Tuesday, 18 July 2017. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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Share certificates will only become valid at 8:00 a.m. on Wednesday, 19 July 2017 provided that the Global Offering has become unconditional and the right of termination described in the section headed “Underwriting” in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

### Personal Collection

(i) *If you apply using a WHITE Application Form*

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 18 July 2017 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation’s chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Tuesday, 18 July 2017 by ordinary post and at your own risk.

(ii) *If you apply using a YELLOW Application Form*

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Tuesday, 18 July 2017, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant’s stock account as stated in your Application Form on Tuesday, 18 July 2017, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- **If you apply through a designated CCASS participant (other than a CCASS investor participant)**

For Hong Kong Public Offering shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS participant.

- **If you are applying as a CCASS investor participant**

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offer in the manner described in "Publication of Results" in this section. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 18 July 2017 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

**(iii) *If you apply through the White Form eIPO service***

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from 9:00 a.m. to 1:00 p.m. on Tuesday, 18 July 2017 or such other date as notified by our Company in the newspapers as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Tuesday, 18 July 2017 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

**(iv) *If you apply via Electronic Application Instructions to HKSCC***

*Allocation of Hong Kong Offer Shares*

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit instructions are given will be treated as an applicant.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### *Deposit of Share Certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, 18 July 2017, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offer in the manner specified in "Publication of Results" in this section on Tuesday, 18 July 2017. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 18 July 2017 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, 18 July 2017. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, 18 July 2017.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the GEM Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.



*The following is the text of a report set out on pages I-1 to I-2, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.*



羅兵咸永道

## ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF NEW HEADLINE HOLDINGS LIMITED AND GUOTAI JUNAN CAPITAL LIMITED

### Introduction

We report on the historical financial information of New Headline Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-3 to I-88, which comprises the consolidated statements of financial position as at 31 December 2014, 2015 and 2016, the company statements of financial position as at 31 December 2014, 2015 and 2016, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the year then ended (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-3 to I-88 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 30 June 2017 (the "Prospectus") in connection with the initial listing of shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

### Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

### Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

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*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong*  
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Notes 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as at 31 December 2014, 2015 and 2016 and the consolidated financial position of the Group as at 31 December 2014, 2015 and 2016 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

**Report on matters under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance****Adjustments**

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

**Dividends**

We refer to Note 27 to the Historical Financial Information which states that no dividends have been paid by New Headline Holdings Limited in respect of the Track Record Period.

**No statutory financial statements for the Company**

No statutory financial statements have been prepared for the Company since its date of incorporation.

**PricewaterhouseCoopers**  
Certified Public Accountants  
Hong Kong  
30 June 2017

## I HISTORICAL FINANCIAL INFORMATION OF THE GROUP

## Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

The Historical Financial Information in this report was prepared by the directors of the Company based on the previously issued financial statements of the Company and its subsidiaries now comprising the Group for the Track Record Period ("Historical Financial Statements"). The previously issued financial statements were audited in accordance with the relevant generally accepted auditing standards in their place of incorporation. The details of the statutory auditors of these companies are set out in Note 13 to the Historical Financial Information.

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	For the year ended 31 December		
		2014	2015	2016
		RMB'000	RMB'000	RMB'000
Revenue	5	127,228	207,233	374,863
Cost of sales	6	(108,515)	(126,857)	(173,597)
<b>Gross profit</b>		18,713	80,376	201,266
Other income, net	7	1,202	467	1,879
Selling and distribution expenses	6	(1,148)	(4,368)	(8,279)
General and administrative expenses	6	(6,475)	(13,316)	(25,782)
<b>Operating profit</b>		12,292	63,159	169,084
Finance income	8	35	230	269
Finance cost	8	(53)	(13)	(160)
Finance (cost)/income, net		(18)	217	109

## APPENDIX I

## ACCOUNTANT'S REPORT

	Note	For the year ended 31 December		
		2014	2015	2016
		RMB'000	RMB'000	RMB'000
<b>Profit before income tax</b>		12,274	63,376	169,193
Income tax expense	11	<u>(3,945)</u>	<u>(16,992)</u>	<u>(49,119)</u>
<b>Profit for the year</b>		<u>8,329</u>	<u>46,384</u>	<u>120,074</u>
<b>Profit attributable to:</b>				
— Owners of the Company		8,329	46,384	115,105
— Non-controlling interests		<u>—</u>	<u>—</u>	<u>4,969</u>
		<u>8,329</u>	<u>46,384</u>	<u>120,074</u>
<b>Other comprehensive loss:</b>				
<i>Item that will not be reclassified to profit or loss:</i>				
Exchange differences on translation of the Company		375	2,224	1,711
<i>Item that may be subsequently reclassified to profit or loss:</i>				
Exchange differences on translation of subsidiaries		<u>(1,113)</u>	<u>(2,400)</u>	<u>(2,414)</u>
		<u>(738)</u>	<u>(176)</u>	<u>(703)</u>
<b>Total comprehensive income for the year</b>		<u>7,591</u>	<u>46,208</u>	<u>119,371</u>
<b>Total comprehensive income attributable to:</b>				
— Owners of the Company		7,591	46,208	114,402
— Non-controlling interests		<u>—</u>	<u>—</u>	<u>4,969</u>
		<u>7,591</u>	<u>46,208</u>	<u>119,371</u>
Basic and diluted earnings per share for profit attributable to owners of the Company (expressed in RMB per share)	12	<u>832.9</u>	<u>4,638.4</u>	<u>11,510.5</u>

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	As at 31 December		
		2014 RMB'000	2015 RMB'000	2016 RMB'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	14	470	2,549	3,028
Accrued contract revenue	16	—	9,774	41,707
Prepayment	16	10,000	—	—
Goodwill	28	—	976	976
		<u>10,470</u>	<u>13,299</u>	<u>45,711</u>
<b>Current assets</b>				
Trade receivables, other receivables and prepayments	16	6,553	64,029	204,738
Amount due from a shareholder	29	7,217	—	—
Cash and cash equivalents	17	78,273	78,983	108,973
Restricted bank deposits	18	—	—	2,530
		<u>92,043</u>	<u>143,012</u>	<u>316,241</u>
<b>Total assets</b>		<u>102,513</u>	<u>156,311</u>	<u>361,952</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>				
Share capital	19	1	1	1
Share premium	19	39,719	39,719	39,719
Other reserves	20	723	3,720	8,080
Retained earnings	20	6,784	49,995	160,037
		<u>47,227</u>	<u>93,435</u>	<u>207,837</u>
Non-controlling interests		—	—	11,469
<b>Total equity</b>		<u>47,227</u>	<u>93,435</u>	<u>219,306</u>
<b>LIABILITIES</b>				
<b>Non-current liability</b>				
Deferred income tax liabilities	21	—	9,188	44,666
<b>Current liabilities</b>				
Trade and other payables	22	46,129	50,030	73,355
Amount due to a director	29	8	—	—
Amount due to a related company	29	25	—	—
Loan from a shareholder	29	7,217	—	—
Bank borrowings	23	—	—	16,817
Income tax payable		1,907	3,658	7,808
		<u>55,286</u>	<u>53,688</u>	<u>97,980</u>
<b>Total liabilities</b>		<u>55,286</u>	<u>62,876</u>	<u>142,646</u>
<b>Total equity and liabilities</b>		<u>102,513</u>	<u>156,311</u>	<u>361,952</u>

## STATEMENTS OF FINANCIAL POSITION

	Note	As at 31 December		
		2014 RMB'000	2015 RMB'000	2016 RMB'000
<b>ASSETS</b>				
<b>Non-current asset</b>				
Investment in a subsidiary	13	—	—	—
<b>Current assets</b>				
Prepayments	16	—	1,126	2,627
Amount due from a shareholder	29	7,217	—	—
Amount due from a subsidiary	13	40,095	42,385	44,905
Cash and cash equivalents	17	48	50	94
		<u>47,360</u>	<u>43,561</u>	<u>47,626</u>
<b>Total assets</b>		<u><u>47,360</u></u>	<u><u>43,561</u></u>	<u><u>47,626</u></u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>				
Share capital	19	1	1	1
Share premium	19	39,719	39,719	39,719
Exchange reserve	20	375	2,599	4,310
Accumulated losses	20	(576)	(3,767)	(14,724)
		<u>39,519</u>	<u>38,552</u>	<u>29,306</u>
<b>Total equity</b>		<u><u>39,519</u></u>	<u><u>38,552</u></u>	<u><u>29,306</u></u>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accruals	22	—	617	4,575
Loan from a shareholder	29	7,217	—	—
Amount due to a subsidiary	13	624	4,392	6,828
Bank borrowing	23	—	—	6,917
		<u>7,841</u>	<u>5,009</u>	<u>18,320</u>
<b>Total liabilities</b>		<u><u>7,841</u></u>	<u><u>5,009</u></u>	<u><u>18,320</u></u>
<b>Total equity and liabilities</b>		<u><u>47,360</u></u>	<u><u>43,561</u></u>	<u><u>47,626</u></u>

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company				Sub-total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000 (note 19)	Share premium RMB'000 (note 19)	Other reserves RMB'000 (note 20)	(Accumulated losses)/ retained earnings RMB'000 (note 20)			
<b>For the year ended 31 December 2014</b>							
<b>Balance as at 1 January 2014</b>	—	—	516	(600)	(84)	—	(84)
<b>Comprehensive income</b>							
Profit for the year	—	—	—	8,329	8,329	—	8,329
<b>Other comprehensive loss</b>							
Currency translation differences	—	—	(738)	—	(738)	—	(738)
<b>Total comprehensive (loss)/income for the year</b>	—	—	(738)	8,329	7,591	—	7,591
<b>Transaction with owners</b>							
Issuance of shares	1	39,719	—	—	39,720	—	39,720
Appropriation to statutory reserve	—	—	945	(945)	—	—	—
<b>Total transaction with owners</b>	1	39,719	945	(945)	39,720	—	39,720
<b>Balance as at 31 December 2014</b>	<u>1</u>	<u>39,719</u>	<u>723</u>	<u>6,784</u>	<u>47,227</u>	<u>—</u>	<u>47,227</u>
<b>For the year ended 31 December 2015</b>							
<b>Balance as at 1 January 2015</b>	1	39,719	723	6,784	47,227	—	47,227
<b>Comprehensive income</b>							
Profit for the year	—	—	—	46,384	46,384	—	46,384
<b>Other comprehensive loss</b>							
Currency translation differences	—	—	(176)	—	(176)	—	(176)
<b>Total comprehensive (loss)/income for the year</b>	—	—	(176)	46,384	46,208	—	46,208
<b>Transaction with owners</b>							
Appropriation to statutory reserve	—	—	3,173	(3,173)	—	—	—
<b>Total transaction with owners</b>	—	—	3,173	(3,173)	—	—	—
<b>Balance as at 31 December 2015</b>	<u>1</u>	<u>39,719</u>	<u>3,720</u>	<u>49,995</u>	<u>93,435</u>	<u>—</u>	<u>93,435</u>

	<u>Attributable to owners of the Company</u>					Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Sub-total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note 19)	(note 19)	(note 20)	(note 20)			
<b>For the year ended 31 December 2016</b>							
<b>Balance as at 1 January 2016</b>	1	39,719	3,720	49,995	93,435	—	93,435
<b>Comprehensive income</b>							
Profit for the year	—	—	—	115,105	115,105	4,969	120,074
<b>Other comprehensive loss</b>							
Currency translation differences	—	—	(703)	—	(703)	—	(703)
<b>Total comprehensive (loss)/income for the year</b>	—	—	(703)	115,105	114,402	4,969	119,371
<b>Transaction with owners</b>							
Appropriation to statutory reserve	—	—	5,063	(5,063)	—	—	—
Capital contribution by non-controlling interests	—	—	—	—	—	6,500	6,500
<b>Total transaction with owners</b>	—	—	5,063	(5,063)	—	6,500	6,500
<b>Balance as at 31 December 2016</b>	<u>1</u>	<u>39,719</u>	<u>8,080</u>	<u>160,037</u>	<u>207,837</u>	<u>11,469</u>	<u>219,306</u>



## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	For the year ended 31 December		
		2014 RMB'000	2015 RMB'000	2016 RMB'000
<b>Cash flows from operating activities</b>				
Net cash generated from operations	25	76,177	7,392	23,717
Income tax paid		<u>(2,039)</u>	<u>(7,684)</u>	<u>(9,491)</u>
Net cash generated from/(used in) operating activities		<u>74,138</u>	<u>(292)</u>	<u>14,226</u>
<b>Cash flows from investing activities</b>				
Prepayment for acquisition of a subsidiary	28	(10,000)	—	—
Acquisition of a subsidiary, net of cash acquired	28	—	2,686	—
Purchase of property, plant and equipment		(563)	(1,123)	(1,227)
Proceeds from disposal of property, plant and equipment	25	10	—	143
Loan to a related party	29(b)	(30,000)	—	—
Repayment of loan to a related party	29(b)	30,000	—	—
Interest received		<u>807</u>	<u>230</u>	<u>269</u>
Net cash (used in)/generated from investing activities		<u>(9,746)</u>	<u>1,793</u>	<u>(815)</u>
<b>Cash flows from financing activities</b>				
Proceeds from loan from a shareholder		642	—	—
Repayment of amount due from a shareholder		—	7,217	—
Repayment of loan from a shareholder		(642)	(7,217)	—
Repayments of bank and other borrowings		(866)	(6,000)	(3,000)
Proceeds from bank borrowings		—	6,000	19,527
Increase in restricted bank deposits		—	—	(2,530)
Capital injection from non-controlling interests		—	—	4,500
Interest paid		(53)	(13)	(160)
Listing expenses paid		<u>—</u>	<u>(778)</u>	<u>(1,758)</u>
Net cash (used in)/generated from financing activities		<u>(919)</u>	<u>(791)</u>	<u>16,579</u>
<b>Net increase in cash and cash equivalents</b>		<b>63,473</b>	<b>710</b>	<b>29,990</b>
Cash and cash equivalents at beginning of year		<u>14,800</u>	<u>78,273</u>	<u>78,983</u>
<b>Cash and cash equivalents at end of year</b>	17	<u><u>78,273</u></u>	<u><u>78,983</u></u>	<u><u>108,973</u></u>

Non-cash transaction:

On 31 December 2014, 99 shares of the Company were issued at a consideration of HK\$50,000,000 (equivalent to approximately RMB39,720,000), of which HK\$41,000,000 for issuance of 81 shares to certain companies owned by a then shareholder and her spouse was settled by way of offsetting against a loan of HK\$50,000,000 from the then shareholder (note 29(b)(iii)) and HK\$9,000,000 (note 29(b)(ii)) for issuance of 18 shares to another new shareholder, HK Zhiyuan Group Limited, which is ultimately controlled by Lianyungang Municipal Government, which was settled through amount due from a shareholder (note 19).

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION****1 GENERAL INFORMATION**

The Company was incorporated in the Cayman Islands on 30 October 2013 as an exempted company with limited liability under the Companies Law (2013 Revision) of the Cayman Islands. The address of the Company's registered office is P.O. Box 31119, Grand Pavilion Hibiscus Way, 802 West Bay Road, Grand Cayman KY1-1205, Cayman Islands.

The Company is an investment holding company and its subsidiaries are principally engaged in supply of construction materials, municipal construction, provision of environmental maintenance services, build-transfer ("BT") construction management services and public-private partnership ("PPP") construction management services. The ultimate holding companies of the Company are Best Talent Asia Limited ("Best Talent Asia"), Glorious Prosperity Limited ("Glorious Prosperity") and Keen Smart Group Limited ("Keen Smart") which are incorporated in the Republic of Seychelles (the "Seychelles"), the Seychelles and British Virgin Islands ("BVI"), respectively. The ultimate controlling shareholder of the Group is Mr. Wei Hua ("Mr. Wei") who is the sole shareholder of Best Talent Asia, Glorious Prosperity and Keen Smart.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**2.1 Basis of preparation**

The principal accounting policies applied in the preparation of the Historical Financial Information which are in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA are set out below. The Historical Financial Information has been prepared under the historical cost convention.

The preparation of Historical Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in note 4.

The following are new standards, amendments to standards and interpretations that have been issued, but are not effective for the Track Record Period and have not been early adopted by the Group:

		<b>Effective for annual periods beginning on or after</b>
HKAS 7 (Amendments)	Disclosure Initiative	1 January 2017
HKAS 12 (Amendments)	Recognition of Deferred tax	1 January 2017
HKAS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions	1 January 2018
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts	1 January 2018
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 15 (Amendments)	Clarifications to HKFRS 15 Revenue from Contracts with Customers	1 January 2018
HKFRS 16	Leases	1 January 2019
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle	1 January 2017 or 1 January 2018, as appropriate
HK (IFRIC) Int-22	Foreign Currency Transactions and Advance Consideration	1 January 2018

The Group has already commenced an assessment of the impact of these new or revised standards, interpretation and amendments, certain of which are relevant to the Group's operation. According to the assessment made by the directors of the Company, except as described below, the directors of the Company do not expect the application of the new and revised HKFRSs in issue but not yet effective will have significant impact on the financial performance and positions of the Group.

HKFRS 9, "Financial Instruments" replaces the whole of HKAS 39. HKFRS 9 has three financial asset classification categories for investments in debt instruments: amortized cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. For financial liabilities there are two classification categories: amortized cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the

liability's own credit risk are recognized in OCI, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognized in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss. HKFRS 9 introduces a new model for the recognition of impairment losses — the expected credit losses (ECL) model, which constitutes a change from the incurred loss model in HKAS 39. HKFRS 9 contains a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. The new rules mean that on initial recognition of a non-credit impaired financial asset carried at amortized cost a day-1 loss equal to the 12-month ECL is recognized in profit or loss. In the case of accounts receivables this day-1 loss will be equal to their lifetime ECL. Where there is a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. HKFRS 9 applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more "rule-based" approach of HKAS 39. During the Track Record Period, all of the Group's financial assets and financial liabilities were carried at amortised costs without significant provision for impairment, based on the assessment so far, the Group considers the initial application of HKFRS 9 is not expected to result in any significant impact on the Group's financial position and results of operations.

HKFRS 15 replaces the previous revenue standards: HKAS 18 Revenue and HKAS 11 Construction Contracts, and the related Interpretations on revenue recognition. The directors of the Company has performed a preliminary assessment. Based on this assessment, it is noted that HKFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction price; (4) Allocate transaction price to performance obligations; and (5) Recognize revenue when performance obligation is satisfied. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It changes the approach of revenue recognition from 'risks and rewards' to 'transfer of control'. HKFRS 15 provides specific guidance on capitalization of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Under HKFRS 15, an entity normally recognizes revenue when a performance obligation is satisfied. Impact on the revenue recognition timing and amount may arise when multiple performance obligations are identified and satisfied. The new standard is not expected to be applied until the financial year of 2018. Effective from financial year of 2018, it is expected that the Group will recognise its revenue using relative fair value method. Based on the assessment so far, the Group considers that the initial application of HKFRS 15 will not have a significant impact on the Group's results of operations and financial position.

HKFRS 16 'Lease'. HKFRS 16 provides new provisions for the accounting treatment of leases and will require lessees to recognize certain leases on the statement of financial position. Instead, almost all leases must be recognized in the form of an asset (for the right of use) and a financial

liability (for the payment obligation). Thus each lease will be mapped in the Group's consolidated statement of financial position. Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in assets and financial liabilities in the consolidated statement of financial position. In the consolidated statement of comprehensive income, leases will be recognized in the future as depreciation of right of use assets and interest expense on lease liability and will no longer be recorded as an operating expense on a straight line basis. Therefore, during the initial period of lease term, the lease expense (asset depreciation plus interest) under the new standard is higher compared to the operating lease expense recognized under the existing standard. The new standard is not expected to be applied until the financial year 2019, which will include the adjustment of prior years. The Group is a lessee of its offices which are currently classified as operating leases. The Group's current accounting policy for such leases is set out in Note 2.17. As set out in Note 26, total operating lease commitments of the Group in respect of office premises as at 31 December 2016 amounted to approximately RMB1,311,000. The directors of the Company do not expect the adoption of HKFRS 16 would result in significant impact on the Group's result but it is expected that certain portion of these lease commitments will be required to be recognized in the consolidated statement of financial position as right-of-use assets and lease liabilities.

HK(IFRIC) Int-22 provides guidance on how to determine the date of the transaction when applying the standard on foreign currency transactions, HKAS 21. The Interpretation applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. The Interpretation provides guidance for when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made. During the Track Record Period, the Group did not enter into any significant foreign currency-denominated contracts. Based on the assessment so far, the Group considers the initial application of HK(IFRIC) Int-22 will not have a significant impact on the Group's results of operations and financial position. The Interpretation is not expected to be applied until the financial year of 2018.

## 2.2 Subsidiaries

### 2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRSs.

Acquisition-related costs are expensed as incurred. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statements of comprehensive income.

Intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

### **2.2.2 *Separate financial statements***

Investment in a subsidiary is accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### **2.3 *Segment Reporting***

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

### **2.4 *Foreign currency translation***

#### **(a) *Functional and presentation currency***

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's functional currency is Hong Kong dollars ("HK\$"). The Historical Financial Information is presented in Renminbi ("RMB"), which is the Group's presentation currency as the directors considered that RMB is the appropriate presentation currency as the Group's operation is substantially in the People's Republic of China (the "PRC").

#### **(b) *Transactions and balances***

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in consolidated statements of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statements of comprehensive income within “finance income” or “finance cost”.

(c) *Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) income and expenses for each statement of comprehensive income are translated at the average exchange rates for the month of transactions (unless the exchange rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- (iii) the share capital, the share premium and reserves are translated at the exchange rate at the date when the amount was determined (the rate at the date of transaction for an item measured in terms of the historical cost);
- (iv) all resulting exchange differences are recognised in other comprehensive income; and
- (v) goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

## 2.5 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Furniture, fixtures and equipment	3 to 5 years
Production equipment	5 to 10 years
Motor vehicles	5 to 7 years



The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.6).

Production equipment mainly includes equipment and machinery used in performing environmental maintenance work such as road sweepers, refuse compaction vehicles and sprinkles trucks.

Construction in progress represents buildings under construction, and is stated at cost less impairment losses. It will be reclassified to the relevant property, plant and equipment category upon completion and depreciation begins when the relevant assets are available for use.

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised in profit or loss.

## **2.6 Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

## 2.7 Financial assets

### (a) *Classification*

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise accrued contract revenue, trade and other receivables, amount due from a shareholder, cash and cash equivalents and restricted bank deposits in the consolidated statements of financial position (notes 2.9 and 2.10).

### (b) *Recognition and measurement*

Regular way purchases and sales of financial assets are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

### (c) *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

### (d) *Impairment of financial assets*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statements of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statements of comprehensive income.

## **2.8 Inventories**

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises invoiced cost. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

## **2.9 Trade and other receivables**

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

## **2.10 Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks with original maturities of three months or less.

## **2.11 Restricted bank deposits**

Restricted bank deposits represent deposits held by the bank in a segregated account as security for borrowings from the bank. Such restricted bank deposits will be released when the Group repays the related bank borrowings.

**2.12 Share capital**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**2.13 Trade and other payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**2.14 Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds net of transaction costs and the redemption value is recognised in the consolidated statements of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

**2.15 Current and deferred income tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statements of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

**(a) *Current income tax***

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of each reporting period in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

**(b) *Deferred income tax****Inside basis differences*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of each reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

*Outside basis differences*

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

**(c) *Offsetting***

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

**2.16 Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### 2.17 Operating leases (as lessee for operating leases)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

### 2.18 Employee benefits

#### (i) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of each reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

#### (ii) *Pension obligations*

The Group contributes to the Mandatory Provident Fund Scheme (the “MPF Scheme”). The MPF Scheme is a defined contribution retirement scheme which is available to all employees of the Group in Hong Kong.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group pays contributions on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

Pursuant to the relevant regulations of the government in the People's Republic of China ("PRC"), the Group participates in the municipal government contribution schemes whereby the Group is required to contribute to the schemes for the retirement and other benefits of eligible employees. The local municipal government of the PRC is responsible for the entire benefit obligations payable to the retired employees.

The only obligation of the Group with respect to the schemes is to pay the ongoing contributions required by the schemes. The Group's contributions to these schemes are expensed as incurred.

(iii) *Bonus plans*

The Company recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

## 2.19 Revenue and income recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) *Sales from supply of construction materials*

Revenue is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed. Sales of construction material are usually in cash or by advance deposits.

(b) *Services income*

Revenue from services income, including environmental maintenance service income and municipal public construction contract income, is recognised when the corresponding services are rendered.

(c) *Management services income and interest income generated from BT and PPP construction contracts*

The Group entered into certain BT and PPP construction contracts with its customers. The Group determines the initial contract value of each of the BT and PPP construction contracts at cost-plus basis with reference to various applicable government-prescribed pricing guidelines and other estimated costs. The Group provides project management service and financing service to customers through payments to subcontractors involved in the BT and PPP construction on behalf of customers.

When such multiple-element arrangements exist, the Group allocates the total consideration of the BT and PPP construction contract to the project management service element and the financing service element based on their relative fair values. The fair value of each element is determined based on the current market prices of each of the elements when the respective services is provided separately. The fair value of the financing service element is determined with reference to the market interest rate of borrowings at similar borrowing terms and conditions. During the years ended 31 December 2015 and 2016, the Group's revenue in relation to the financing element is recognised at effective interest rate of 6.5%. The residual value method is applied to determine the fair values of the project management service element under such multiple-element arrangement. Under the residual value method, the Group determines the fair value of the project management service element by deducting the fair value of the financing service element from the total consideration of the BT and PPP construction contract.

The revenue relating to the financing service element is recognised using effective interest method on a time-proportion basis over the duration of the BT and PPP construction contract by reference to the outstanding subcontractor fees paid on behalf of the customer at applicable market interest rate. The revenue relating to the project management service element is recognised according to the percentage of completion method on the basis of services performed to date as a proportion of the estimated total services to be performed. The services performed to date is referenced to the progress report confirmed jointly by the customers and by independent construction supervisors.

(d) *Interest income (other than interest income generated from BT and PPP construction contracts)*

Interest income is recognised using the effective interest method.

### 3 FINANCIAL RISK MANAGEMENT

#### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) *Market risk*

(i) *Foreign exchange risk*

The Group operates in the PRC and Hong Kong. Foreign currency transactions or balances other than the respective functional currencies of each of the group companies are not significant. The Group does not expose to significant foreign exchange risk.



(ii) *Cash flow and fair value interest rate risk*

The Group's interest rate risk arises from short-term borrowings. Borrowings obtained at variable rates expose the group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. During the year ended 31 December 2016, the Group's borrowings at variable rate were denominated in Hong Kong dollar. In the opinion of directors, the impact on the Group's profits from changes in interest rate for the year ended 31 December 2016 was insignificant.

(b) *Credit risk*

The Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of each financial asset, including cash and cash equivalents, restricted bank deposits, amount due from a shareholder and trade and other receivables as at 31 December 2014, 2015 and 2016.

The bank balances and cash are deposited with financial institutions for which the directors consider it has reliable and acceptable rating quality.

Sales of construction material are usually in cash or by advance deposits, hence, the Group subjects to minimal exposure of credit risks.

In connection with the revenue relating to BT and PPP construction contracts, the Group provides project management service and financing service to the customers through payments to subcontractors involved in the BT and PPP construction on behalf of the customers. The Group generally receives the first instalment of the contract consideration from the customers half year after the completion of the constructions and the last instalment generally ranged from 1 to 3 years after the completion. Such arrangement may expose the Group to substantial credit risk. As at 31 December 2015 and 2016, the Group's customers of BT and PPP construction management services are state-owned enterprises. Management reviews the credit quality of the customers periodically. In this regard, the directors of the Company consider that the credit risk in relation to the customers is low as there was no history of default.

In relation to other revenue streams, the Group has policies in place to ensure sales are made to customers with appropriate credit terms. Management performs periodic credit check and assessment on the recoverability of trade receivables from its customers as well as other receivables. The Group's exposure of credit risk arising from trade receivables are set out in note 16 to the Historical Financial Information. As at 31 December 2014, 2015 and 2016, there is no provision recognised for the trade receivables of the Group. For the trade receivables where no provision is recognised, the directors of the Company consider the credit risk is low as there was no history of default.

As at 31 December 2014, the entire balance of the trade receivables and accrued contract revenue was due from the Group's largest customer.

As at 31 December 2015, 69% and 20% of the total trade receivables and accrued contract revenue were due from the Group's largest customer and the other two largest customers respectively.

As at 31 December 2016, 68% and 21% of the total trade receivables and accrued contract revenue were due from the Group's largest customer and the other two largest customers respectively.

(c) *Liquidity risk*

Prudent liquidity risk management includes managing the profile of funding sources, maintaining sufficient cash and ensuring the availability of funding from an adequate amount of committed credit facilities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	<b>Group</b>		<b>Company</b>	
	<b>Less than 1 year</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>As at 31 December 2014</b>				
Trade payables and other payables	28,396	28,396	—	—
Loan from a shareholder	7,217	7,217	7,217	7,217
Amount due to a director	8	8	—	—
Amount due to a related company	25	25	—	—
Amount due to a subsidiary	—	—	624	624
	<u>35,646</u>	<u>35,646</u>	<u>7,841</u>	<u>7,841</u>
<b>As at 31 December 2015</b>				
Trade payables and other payables	31,078	31,078	617	617
Amount due to a subsidiary	—	—	4,392	4,392
	<u>31,078</u>	<u>31,078</u>	<u>5,009</u>	<u>5,009</u>
<b>As at 31 December 2016</b>				
Trade payables and other payables	58,202	58,202	4,372	4,372
Amount due to a subsidiary	—	—	6,828	6,828
Bank borrowings	17,130	17,130	6,935	6,935
	<u>75,332</u>	<u>75,332</u>	<u>18,135</u>	<u>18,135</u>

### 3.2 Fair value estimation

The carrying amounts of the Group's financial assets and liabilities recorded at amortised cost approximate to their fair values.

### 3.3 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the total shareholders' equity as shown in the consolidated statements of financial position. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statements of financial position) divided by total capital. Total capital is calculated as 'equity' as shown in the consolidated statements of financial position plus total borrowings.

The gearing ratios at 31 December 2014, 2015 and 2016 were as follows:

	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Total borrowings (Note 23)	—	—	16,817
Total equity	<u>47,227</u>	<u>93,435</u>	<u>219,306</u>
Total capital	<u><u>47,227</u></u>	<u><u>93,435</u></u>	<u><u>236,123</u></u>
<b>Gearing ratio</b>	0%	0%	7%

## 4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgement are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**(a) Revenue recognition of BT and PPP construction contracts**

The BT and PPP construction contracts are multiple-element arrangements with the project management service element and the financing service element. The Group applies the residual value method to determine the fair value of each of the service element. The Group adopted the percentage of completion method to recognise the revenue relating to project management service where significant judgement is required to estimate the total services to be performed and the service duration of the BT and PPP construction contracts.

The Group estimates the total services to be performed and the service duration upon entering the BT and PPP construction contracts. Total services to be performed over the duration of the service period could vary by numerous factors, including but not limited to customer's request to change the scope of work and the work performance of the subcontractors beyond the Group's control. Because of the nature of BT and PPP construction work, the date at which the BT and PPP construction contracts are entered into and the date when the services is actually performed usually fall into different accounting periods. Variations in contract work, claims and incentive payments, if any, are included as services performed to date to the extent that they have been agreed with the customer. The Group regularly reviews and revises the estimated services to be performed and the service duration as the contract progresses in determining the revenue to be recognised.

**(b) Income taxes**

The Group is subject to income tax in Hong Kong and the PRC. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

**(c) Impairment of trade and other receivables and accrued contract revenue**

The Group's management determines the provision for impairment of trade and other receivables and accrued contract revenue. This estimate is based on the credit history of its customers and the current market condition. Management will reassess the provision at the end of each reporting period.

The Group's credit risk on trade receivables and accrued contract revenue mainly arises from customers of environmental maintenance services, municipal construction contracts and BT and PPP construction contracts. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables. The assessment includes evaluation of the customers' reputation, credit profile, historical performance and relationship with the Group.

**5 REVENUE AND SEGMENT INFORMATION**

The executive directors are the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the executive directors for the purposes of allocating resources and assessing performance.

The executive directors determine the reportable segments to be supply of construction materials, provision of environmental maintenance services (which include provision of cleaning services and provision of greenery services) and construction management services (which include BT and PPP construction management services and municipal construction). They are managed separately according to their nature of business. No geographical segment analysis is presented as the majority of the assets and operation of the Group are located in the PRC, which is considered as one geographical location in an economic environment with similar risk and returns.

For provision of cleaning services and provision of greenery services, as they have similar nature of services, they are aggregated into a single reporting segment under environmental maintenance.

The executive directors assess the performance of the operating segments based on segment results which represented the gross profit of each segment. The revenue from external parties and gross profit reported to the executive directors is measured in a manner consistent with that in the consolidated statements of comprehensive income.

The segment information for the year ended 31 December 2014 is as follows:

	Supply of construction materials <i>RMB'000</i>	Environmental maintenance <i>RMB'000</i>	Construction management project management <i>RMB'000</i>	Construction management Municipal construction <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue from sale of goods	46,174	—	—	—	46,174
Revenue from services rendered	<u>—</u>	<u>81,054</u>	<u>—</u>	<u>—</u>	<u>81,054</u>
Segment revenue	46,174	81,054	—	—	127,228
Inter-segment revenue	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Revenue from external customers	46,174	81,054	—	—	127,228
Segment results	6,863	11,850	—	—	18,713
Other income, net					1,202
Selling and distribution expenses					(1,148)
General and administrative expenses					(6,475)
Finance costs, net					<u>(18)</u>
Profit before income tax					<u><u>12,274</u></u>
Segment assets	—	6,348	—	—	6,348
Unallocated					<u>96,165</u>
Total assets					<u><u>102,513</u></u>
Segment liabilities	13,261	26,412	—	—	39,673
Unallocated					<u>15,613</u>
Total liabilities					<u><u>55,286</u></u>

The segment information for the year ended 31 December 2015 is as follows:

	Supply of construction materials <i>RMB'000</i>	Environmental maintenance <i>RMB'000</i>	Construction management project management <i>RMB'000</i>	Construction management Municipal construction <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue from sales of goods	79,074	—	—	—	79,074
Revenue from services rendered	—	104,358	—	13,562	117,920
Management services income generated from BT construction contracts (note 29(b)(iv))	—	—	28,865	—	28,865
Interest income generated from BT construction contracts (note 29(b)(iv))	—	—	221	—	221
Segment revenue	79,074	104,358	29,086	13,562	226,080
Inter-segment revenue	—	(18,847)	—	—	(18,847)
Revenue from external customers	79,074	85,511	29,086	13,562	207,233
Segment results	25,812	24,579	28,108	1,877	80,376
Other income, net					467
Selling and distribution expenses					(4,368)
General and administrative expenses					(13,316)
Finance income, net					217
Profit before income tax					<u>63,376</u>
Segment assets	—	9,376	49,348	15,524	74,248
Unallocated					<u>82,063</u>
Total assets					<u>156,311</u>
Segment liabilities	18,943	16,593	7,168	8,116	50,820
Unallocated					<u>12,056</u>
Total liabilities					<u>62,876</u>

The segment information for the year ended 31 December 2016 is as follows:

	Supply of construction materials <i>RMB'000</i>	Environmental maintenance <i>RMB'000</i>	Construction management		Total <i>RMB'000</i>
			Construction project management <i>RMB'000</i>	Municipal construction <i>RMB'000</i>	
Revenue from sales of goods	114,623	—	—	—	114,623
Revenue from services rendered	—	111,941	—	40,479	152,420
Management services income generated from BT and PPP construction contracts	—	—	127,418	—	127,418
Interest income generated from BT and PPP construction contracts	—	—	1,312	—	1,312
Segment revenue	114,623	111,941	128,730	40,479	395,773
Inter-segment revenue	(272)	(20,638)	—	—	(20,910)
Revenue from external customers	114,351	91,303	128,730	40,479	374,863
Segment results	39,300	27,021	128,289	6,656	201,266
Other income, net					1,879
Selling and distribution expenses					(8,279)
General and administrative expenses					(25,782)
Finance income, net					109
Profit before income tax					<u>169,193</u>
Segment assets	—	17,917	179,282	46,172	243,371
Unallocated					<u>118,581</u>
Total assets					<u>361,952</u>
Segment liabilities	7,650	19,849	35,865	25,850	89,214
Unallocated					<u>53,432</u>
Total liabilities					<u>142,646</u>

Unallocated assets mainly included goodwill, certain property, plant and equipment, other receivables, prepayments, amount due from a shareholder, cash and cash equivalents and restricted bank deposits.



Unallocated liabilities mainly included other payables, bank borrowings, amount due to a director, amount due to a related company, loan from a shareholder, deferred tax liabilities and income tax payable.

The analysis of the Group's major customers, which a single external customer has contributed 10% or more to the Group's revenue, is as follows:

	For the year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Customer A (note 29(b)(iv))	—	29,086	115,359
Customer B	77,002	85,169	98,751
Customer C	15,911	10,243	—
Customer D	12,770	22,981	—
Customer E	—	296	44,000

During the Track Record Period, the Group's revenue is solely derived from customers in the PRC.

## 6 EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution expenses and general and administrative expenses are analysed as follows:

	For the year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Cost of inventories	38,559	52,772	74,824
Subcontracting fees	64,660	63,968	84,468
Materials and consumables	—	1,990	10,817
Legal and professional fees	1,700	290	3,126
Listing expenses	—	3,983	10,843
Auditors' remuneration	786	1,026	1,286
Consultancy fee	981	907	821
Employee benefits expenses (note 9)	1,830	8,390	10,811
Management service fee	700	—	—
Rent and rates	281	638	917
Travelling expenses	392	541	956
Entertainment	294	578	1,100
Depreciation (note 14)	66	480	551
Business tax and surcharges	5,296	7,795	4,092
Other expenses	593	1,183	3,046
	<u>116,138</u>	<u>144,541</u>	<u>207,658</u>
Total cost of sales, selling and distribution expenses and general and administrative expenses	<u>116,138</u>	<u>144,541</u>	<u>207,658</u>

## 7 OTHER INCOME, NET

	For the year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Other income			
Interest income from a related party (note (i))	772	—	—
Exchange gains, net	6	248	286
Others	424	219	1,593
Other income, net	<u>1,202</u>	<u>467</u>	<u>1,879</u>

Note:

- (i) During the year ended 31 December 2014, the Group recognised interest income from a loan to a related party. Such loan was fully repaid during the year ended 31 December 2014 (note 29 (b)).

## 8 FINANCE (COST)/INCOME, NET

	For the year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Finance income			
Bank interest income	35	230	269
Finance cost			
Interest expense on other borrowing (note (i))	(53)	—	—
Bank interest expense	—	(13)	(160)
Finance (cost)/income, net	<u>(18)</u>	<u>217</u>	<u>109</u>

Note:

- (i) During the year ended 31 December 2014, the interest expense was paid with respect to a borrowing from an independent third party amounted to HK\$1,110,000 from 18 December 2013 to 9 May 2014. Interest rate is mutually agreed between the relevant parties at 15% per annum. Such borrowing was fully settled during the year ended 31 December 2014.

**9 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)**

	For the year ended 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, wages and other allowances	1,656	7,411	8,971
Pension costs — defined contribution plans	<u>174</u>	<u>979</u>	<u>1,840</u>
	<u>1,830</u>	<u>8,390</u>	<u>10,811</u>

**10 BENEFITS AND INTERESTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS****(a) Directors' and chief executive's emoluments**

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2014:

Name	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking:					
	Fees	Salary	Bonuses	Other benefits	Employer's	Total
					contribution to a retirement benefit scheme	
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Executive directors:</b>						
Mr. Cheng Chung Suen	—	732	61	—	13	806
Ms. Xie Bi Rui ("Ms. Xie")	—	—	—	—	—	—
Ms. Zhang De Lan (note (i))	—	—	—	—	—	—
<b>Non-executive directors:</b>						
Mr. Lin Samuel Jr.	—	—	—	—	—	—
Ms. Tian Yi Hua	—	—	—	—	—	—
	<u>—</u>	<u>732</u>	<u>61</u>	<u>—</u>	<u>13</u>	<u>806</u>

For the year ended 31 December 2015:

Name	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking:					
	Fees	Salary	Bonuses	Other benefits	Employer's contribution to a retirement benefit scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Executive directors:</b>						
Mr. Cheng Chung Suen	—	357	—	—	11	368
Ms. Xie	—	—	—	—	—	—
Ms. Zhang De Lan (note (i))	—	784	172	36	59	1,051
	—	1,141	172	36	70	1,419

For the year ended 31 December 2016:

Name	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking:					
	Fees	Salary	Bonuses	Other benefits	Employer's contribution to a retirement benefit scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Executive directors:</b>						
Ms. Xie	—	—	—	—	—	—
Ms. Zhang De Lan (note (i))	—	809	222	49	87	1,167
Mr. Su Hai Shan	—	126	92	37	67	322
<b>Non-executive director:</b>						
Mr. Wei	—	—	—	—	—	—
	—	935	314	86	154	1,489

Notes:

(i) Ms. Zhang De Lan is the chief executive officer of the Company.

- (ii) The above individuals were appointed or resigned as directors on the following dates:

<b>Directors:</b>	<b>Date of appointment</b>	<b>Date of resignation</b>
Mr. Lin Samuel Jr.	30 October 2013	13 June 2014
Mr. Cheng Chung Suen	13 June 2014	1 December 2015
Ms. Tian Yi Hua	13 June 2014	15 December 2014
Ms. Xie	13 June 2014	—
Ms. Zhang De Lan	15 December 2014	—
Mr. Su Hai Shan	11 February 2016	—
Mr. Wei	11 February 2016	—
Mr. Chan So Kuen	Note (iii)	—
Ms. Xiao Xia	Note (iii)	—
Mr. Chen Fangzheng	Note (iii)	—

- (iii) Mr. Chan So Kuen, Ms. Xiao Xia and Mr. Chen Fangzheng were appointed as independent non-executive director of the Company on 26 June 2017. During the Track Record Period, the independent non-executive directors have not yet been appointed and did not receive any remuneration.

- (iv) Directors' retirement benefits and termination benefits

During the Track Record Period, none of the directors received any retirement benefits or termination benefits.

- (v) Consideration provided to third parties for making available directors' services

During the Track Record Period, the Company did not pay consideration to any third parties for making available directors' services.

- (vi) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

As at 31 December 2014, 2015 and 2016, there is no loans, quasi-loans and other dealing arrangements in favour of directors, controlled bodies corporate by and connected entities with such directors.

- (vii) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of each of the years ended 31 December 2014, 2015 and 2016, or at any time during each of the years ended 31 December 2014, 2015 and 2016.

## (b) Five highest paid individuals' emoluments

For each of the years ended 31 December 2014, 2015 and 2016, the five individuals whose emoluments were the highest in the Group include one, two and two directors whose emoluments were reflected in the analysis presented above, respectively. The emoluments paid to the remaining four individuals for the year ended 31 December 2014 and three individuals for the years ended 31 December 2015 and 2016 are as follows:

	For the year ended 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, wages and other allowances	484	1,524	1,891
Pension costs — defined contribution plans	<u>76</u>	<u>76</u>	<u>190</u>
	<u>560</u>	<u>1,600</u>	<u>2,081</u>

The emoluments fell within the following bands:

	For the year ended 31 December		
	2014	2015	2016
Nil — HK\$1,000,000	4	2	2
HK\$1,000,001 to HK\$1,500,000	<u>—</u>	<u>1</u>	<u>1</u>
	<u>4</u>	<u>3</u>	<u>3</u>

## 11 INCOME TAX EXPENSE

For the years ended 31 December 2014, 2015 and 2016, Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the year. Taxation on PRC profits has been calculated on the estimated assessable profit for the year at the rate of 25%.

	For the year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Current income tax			
Hong Kong tax	140	82	172
PRC taxation	<u>3,805</u>	<u>7,852</u>	<u>13,432</u>
	<u>3,945</u>	<u>7,934</u>	<u>13,604</u>
Deferred income tax (note 21)	—	9,058	35,515
Income tax expense	<u>3,945</u>	<u>16,992</u>	<u>49,119</u>

Reconciliation of the Group's profit before income tax to income tax expense is as follows:

	For the year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Profit before income tax	<u>12,274</u>	<u>63,376</u>	<u>169,193</u>
Income tax calculated at a taxation rate of 25%	3,069	15,844	42,298
Effect of different taxation rates in other tax jurisdictions	59	270	854
Effect of tax charged on deemed basis (Note (i))	—	(2,109)	(3,044)
Expenses not deductible for income tax	817	1,110	2,766
Deferred taxation on undistributed earnings of the PRC subsidiaries	—	1,800	6,243
Others	<u>—</u>	<u>77</u>	<u>2</u>
Income tax expense	<u>3,945</u>	<u>16,992</u>	<u>49,119</u>

*Note:*

- (i) The profit tax of a subsidiary of the Group in the PRC is calculated at the income tax rate of 25% on the deemed profit, which is determined at 8% of the total revenue of the subsidiary, as allowed by the local tax bureau.

For the years ended 31 December 2014 and 2015 and 2016, the weighted average applicable tax rate was 32%, 27% and 29%, respectively. The decrease in the weighted average applicable tax rate after 31 December 2014 is contributed by lower tax assessable profit of a subsidiary of the Group in the PRC taxed on a deemed basis.

## 12 EARNINGS PER SHARE

### (a) Basic

Basic earnings per share are calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the Track Record Period.

	<b>For the year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
Profit attributable to owners of the Company (RMB'000)	8,329	46,384	115,105
Weighted average number of ordinary shares in issue (Note)	10,000	10,000	10,000
Basic earnings per share (expressed in RMB per share)	<u>832.9</u>	<u>4,638.4</u>	<u>11,510.5</u>

*Note:* The weighted average number of shares in issue represented the ordinary shares issued on 1 January 2014, the newly issued shares of 99 (note 19) on 31 December 2014 and the further newly issued shares of 9,900 as a result of the share subdivision on 26 June 2017 (note 31).

The basic earnings per share as presented on the consolidated statements of comprehensive income have not taken into account the proposed capitalisation issue as described in Note 31 (b).

### (b) Diluted

During the Track Record Period, diluted earnings per share are the same as basic earnings per share due to the absence of dilutive potential ordinary shares.



**13 INVESTMENT IN A SUBSIDIARY AND AMOUNTS DUE FROM/(TO) SUBSIDIARIES - COMPANY**

	<b>As at 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Investment in subsidiary			
Investment, at cost:			
Unlisted shares	<u>6</u>	<u>7</u>	<u>7</u>

	<b>As at 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amounts due from/(to) subsidiaries			
New Headline Group Limited	40,095	42,385	44,905
New Headline (Hong Kong) Limited	<u>(624)</u>	<u>(4,392)</u>	<u>(6,828)</u>
	<u>39,471</u>	<u>37,993</u>	<u>38,077</u>

As at 31 December 2014, 2015 and 2016, the amounts due from/(to) subsidiaries are unsecured, interest free and repayable on demand. The carrying amounts of the amounts due from/(to) subsidiaries of the Company are denominated in HK\$.

Details of the subsidiaries of the Group are set out as follows:

Name	Date and place of incorporation/ establishment	Principal activities	Issued capital/ paid-in capital	Attributable equity interest of the Group			As of the date of this report
				As at 31 December			
				2014	2015	2016	
Directly held:							
New Headline Group Limited (Note i)	31 October 2013/ The British Virgin Islands	Investment holding	1 ordinary share of USD1	100%	100%	100%	100%
Indirectly held:							
New Headline (Hong Kong) Limited (Note ii)	7 November 2013/ Hong Kong	Provision of management service and investment holding	10 ordinary shares of HK\$5,000,000	100%	100%	100%	100%
Lianyungang Yuanyun Industrial Company Limited* 連雲港源運 實業有限公司 (Note iii)	20 November 2013/ Lianyungang, the PRC	Provision of environmental maintenance services, construction management services and supply of construction materials	HK\$50,000,000	100%	100%	100%	100%
Lianyungang New Headline Municipal Landscaping Engineering Company Limited* ("New Headline Municipal") 連雲港新 海連市政園林工程有 限公司 (Note iv)	11 October 2012/ Lianyungang, the PRC	Provision of environmental maintenance and municipal public construction services	RMB10,000,000	N/A	100%	100%	100%
Lianyungang Puyuan Construction Management Company Limited* 連 雲港浦源工程管理有 限公司 (Note v)	8 March 2016/ Lianyungang, the PRC	Provision of environmental maintenance services and construction management services	RMB45,000,000	N/A	N/A	90%	90%

Name	Date and place of incorporation/ establishment	Principal activities	Issued capital/ paid-in capital	Attributable equity interest of the Group			As of the date of this report
				As at 31 December			
				2014	2015	2016	
Lianyungang Qiyuan Construction Management Company Limited* 連 雲港啟源工程管理有 限公司 (Note v)	11 March 2016/ Lianyungang, the PRC	Provision of construction management and consultation services	RMB5,000,000	N/A	N/A	100%	100%
Lianyungang Chengyun Construction Management Company Limited* 連 雲港誠運工程管理有 限公司 (Note v)	7 April 2016/ Lianyungang, the PRC	Provision of construction management and consultation services	RMB10,000,000	N/A	N/A	80%	80%

\* The English names of the above entities represent the best efforts by the management of the Company in translating their Chinese names as they do not have official English names.

*Note i* No statutory financial statements have been issued for this subsidiary as it is not required to issue audited financial statements under the statutory requirements of its place of incorporation.

*Note ii* The statutory financial statements of this subsidiary for the years ended 31 December 2014 and 2015 were prepared under HKFRSs and audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

*Note iii* The statutory financial statements of this subsidiary for the years ended 31 December 2014, 2015 and 2016 were prepared in accordance with the generally accepted accounting standards applicable to the enterprises in the PRC (the "PRC GAAP") and audited by BDO China Shu Lun Pan Certified Public Accountants LLP.

*Note iv* No stand-alone statutory audited financial statements of this subsidiary for the year ended 31 December 2014 was issued because its financial information has been included in the consolidated financial statements of its immediate holding company, which was prepared in accordance with the PRC GAAP and audited by Jiangsu Suya Jincheng Certified Public Accountants. The statutory financial statements of this subsidiary for the years ended 31 December 2015 and 2016 were prepared in accordance with the PRC GAAP and audited by BDO China Shu Lun Pan Certified Public Accountants LLP.

*Note v* The statutory financial statements of these subsidiaries for the year ended 31 December 2016 were prepared in accordance with the PRC GAAP and audited by BDO China Shu Lun Pan Certified Public Accountants LLP.

## 14 PROPERTY, PLANT AND EQUIPMENT - GROUP

	<b>Furniture, fixtures and equipment</b>	<b>Production equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2014				
Opening net book amount	—	—	—	—
Additions	179	—	384	563
Disposals (note 25)	(27)	—	—	(27)
Depreciation (note 6)	<u>(21)</u>	<u>—</u>	<u>(45)</u>	<u>(66)</u>
Closing net book amount	<u>131</u>	<u>—</u>	<u>339</u>	<u>470</u>
At 31 December 2014				
Cost	150	—	384	534
Accumulated depreciation	<u>(19)</u>	<u>—</u>	<u>(45)</u>	<u>(64)</u>
Net book amount	<u>131</u>	<u>—</u>	<u>339</u>	<u>470</u>
At 1 January 2015				
Opening net book amount	131	—	339	470
Acquisition of a subsidiary (note 28)	1	1,326	109	1,436
Additions	180	943	—	1,123
Depreciation (note 6)	<u>(56)</u>	<u>(318)</u>	<u>(106)</u>	<u>(480)</u>
Closing net book amount	<u>256</u>	<u>1,951</u>	<u>342</u>	<u>2,549</u>
At 31 December 2015				
Cost	378	3,226	618	4,222
Accumulated depreciation	<u>(122)</u>	<u>(1,275)</u>	<u>(276)</u>	<u>(1,673)</u>
Net book amount	<u>256</u>	<u>1,951</u>	<u>342</u>	<u>2,549</u>

	<b>Furniture, fixtures and equipment</b>	<b>Production equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2016				
Opening net book amount	256	1,951	342	2,549
Additions	298	552	377	1,227
Disposals (note 25)	—	—	(197)	(197)
Depreciation (note 6)	<u>(112)</u>	<u>(321)</u>	<u>(118)</u>	<u>(551)</u>
Closing net book amount	<u>442</u>	<u>2,182</u>	<u>404</u>	<u>3,028</u>
At 31 December 2016				
Cost	676	3,779	626	5,081
Accumulated depreciation	<u>(234)</u>	<u>(1,597)</u>	<u>(222)</u>	<u>(2,053)</u>
Net book amount	<u>442</u>	<u>2,182</u>	<u>404</u>	<u>3,028</u>

Depreciation of the Group's property, plant and equipment has been recognised as follows:

	<b>For the year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost of sales	—	333	324
Selling and distribution expenses	33	74	118
General and administrative expenses	<u>33</u>	<u>73</u>	<u>109</u>
Depreciation expenses (note 6)	<u>66</u>	<u>480</u>	<u>551</u>

## 15 FINANCIAL INSTRUMENTS BY CATEGORY

## Group

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Assets as per consolidated statements of financial position			
Loans and receivables:			
Accrued contract revenue	6,348	67,497	227,218
Trade and other receivables (excluding prepayments)	101	3,593	16,160
Amount due from a shareholder	7,217	—	—
Cash and cash equivalents	78,273	78,983	108,973
Restricted bank deposits	—	—	2,530
Total	<u>91,939</u>	<u>150,073</u>	<u>354,881</u>
Liabilities as per consolidated statements of financial position			
Financial liabilities at amortised cost:			
Trade and other payables	28,396	31,078	58,202
Amount due to a director	8	—	—
Amount due to a related company	25	—	—
Loan from a shareholder	7,217	—	—
Bank borrowings	—	—	16,817
Total	<u>35,646</u>	<u>31,078</u>	<u>75,019</u>

## Company

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Assets as per statements of financial position			
Loans and receivables:			
Amount due from a shareholder	7,217	—	—
Amount due from a subsidiary	40,095	42,385	44,905
Cash and cash equivalents	<u>48</u>	<u>50</u>	<u>94</u>
Total	<u>47,360</u>	<u>42,435</u>	<u>44,999</u>
Liabilities as per statements of financial position			
Financial liabilities at amortised cost:			
Accruals	—	617	4,575
Loan from a shareholder	7,217	—	—
Amount due to a subsidiary	624	4,392	6,828
Bank borrowing	<u>—</u>	<u>—</u>	<u>6,917</u>
Total	<u>7,841</u>	<u>5,009</u>	<u>18,320</u>

## 16 TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

## Group

	As at 31 December		
	2014 RMB'000	2015 RMB'000	2016 RMB'000
<b>Current assets</b>			
Trade receivables			
Related parties (note 29(b)(ii))	—	968	926
Third parties	—	2,623	13,029
	<u>—</u>	<u>3,591</u>	<u>13,955</u>
Accrued contract revenue			
Related parties (note 29(b)(ii))	—	40,655	131,126
Third parties	6,348	17,068	54,385
	<u>6,348</u>	<u>57,723</u>	<u>185,511</u>
Other receivables			
Related parties (note 29(b)(ii))	—	—	2,018
Third parties	101	2	187
	<u>101</u>	<u>2</u>	<u>2,205</u>
Prepayments			
Related party (note 29(b)(ii))	—	229	280
Third parties	104	1,358	160
	<u>104</u>	<u>1,587</u>	<u>440</u>
Prepayments for listing expenses	—	1,126	2,627
Total other receivables and prepayments	<u>205</u>	<u>2,715</u>	<u>5,272</u>
	<u>6,553</u>	<u>64,029</u>	<u>204,738</u>
<b>Non-current assets</b>			
Accrued contract revenue	—	9,774	41,707
Prepayment (note 28)	10,000	—	—
	<u>10,000</u>	<u>9,774</u>	<u>41,707</u>
Total trade receivables, other receivables and prepayment	<u>16,553</u>	<u>73,803</u>	<u>246,445</u>



The carrying amount of the Group's trade receivables, other receivables and prepayments are denominated in the following currencies:

	<b>As at 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
HK\$	51	1,225	2,840
RMB	<u>16,502</u>	<u>72,578</u>	<u>243,605</u>
	<u>16,553</u>	<u>73,803</u>	<u>246,445</u>

The carrying amounts of trade and other receivables approximate their fair values.

As at 31 December 2015 and 2016, the Group's accrued contract revenue in relation to the financing element of the BT and PPP construction contracts is recognised at an effective interest rate of 6.5%.

Ageing analysis of trade receivables of the Group based on invoice date is as below:

	<b>As at 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
1-90 days	—	1,086	11,521
91-180 days	—	1,640	540
181-365 days	—	865	1,887
over 365 days	<u>—</u>	<u>—</u>	<u>7</u>
Total trade receivables	<u>—</u>	<u>3,591</u>	<u>13,955</u>

No credit period was granted to the Group's customers. Provision for impairment of trade receivables is made based on the estimated irrevocable amount determined where there are indicators that the receivables is impaired.

As of 31 December 2014, 2015 and 2016, trade receivables of nil, RMB3,591,000 and RMB13,955,000 were past due but not impaired, respectively. The aging analysis of these trade receivables is presented in the table above.

The maximum exposure to credit risk at the end of the reporting period is the carrying value of each class of receivables mentioned above. The Group does not hold any collateral as security.

**Company**

	<b>As at 31 December 2014 RMB'000</b>	<b>As at 31 December 2015 RMB'000</b>	<b>As at 31 December 2016 RMB'000</b>
Prepayments for listing expenses	<u>—</u>	<u>1,126</u>	<u>2,627</u>

**17 CASH AND CASH EQUIVALENTS**

	<b>Group</b>			<b>Company</b>		
	<b>As at 31 December</b>			<b>As at 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash at banks	<u>78,273</u>	<u>78,983</u>	<u>108,973</u>	<u>48</u>	<u>50</u>	<u>94</u>

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	<b>Group</b>			<b>Company</b>		
	<b>As at 31 December</b>			<b>As at 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
HK\$	2,042	1,760	391	48	50	94
RMB	<u>76,231</u>	<u>77,223</u>	<u>108,582</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>78,273</u>	<u>78,983</u>	<u>108,973</u>	<u>48</u>	<u>50</u>	<u>94</u>

The carrying amounts of cash and cash equivalents approximate their fair values.

As at 31 December 2014, 2015 and 2016, the Group had cash at banks amounting to approximately RMB78,204,000, RMB78,279,000 and RMB108,582,000, respectively, which are denominated in RMB and HK\$ and held in the PRC. These cash and bank balances are subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

**18 RESTRICTED BANK DEPOSITS**

As at 31 December 2016, bank deposits amounting to RMB2,530,000 are deposits held by the bank in a segregated account as security for borrowings from the bank (Note 23).

For the year ended 31 December 2016, the effective interest rate on restricted bank deposits was 0.3% per annum. All restricted bank deposits were kept in the bank account opened with a bank in the PRC as at 31 December 2016, where the remittance of funds is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government. The restricted bank deposits are denominated in RMB.

**19 SHARE CAPITAL AND SHARE PREMIUM — GROUP AND COMPANY**

	Number of shares	Share capital		Share premium
		US\$	RMB'000	RMB'000
Issued and fully paid:				
At 1 January 2014 (note (ii))	1	1	—	—
Issuance of shares (note (iii) and (iv))	<u>99</u>	<u>99</u>	<u>1</u>	<u>39,719</u>
At 31 December 2014, 31 December 2015 and 31 December 2016	<u>100</u>	<u>100</u>	<u>1</u>	<u>39,719</u>

*Note:*

- (i) On 30 October 2013, the Company was incorporated with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each. As at 1 January 2014, 31 December 2014 and 2015 and 31 December 2016, the authorised share capital remained the same.
- (ii) At the date of incorporation and 1 January 2014, 1 ordinary share was owned by Mr. Lin Samuel Jr., the then shareholder. On 2 May 2014, such share was transferred to Best Talent Asia, a wholly owned subsidiary of Ms. Xie, at a consideration of US\$1. Ms. Xie then became the sole ultimate shareholder of the Company and the Group.
- (iii) On 31 December 2014, 18 shares were allotted and issued to HK Zhiyuan which is wholly owned by Jiangsu New Headline Development Group Company Limited ("NH Development"), at a consideration of HK\$9,000,000 which was settled through amount due from a shareholder (note 29(b)(ii)). NH Development is controlled by the Lianyungang Municipal Government which is state-owned.
- (iv) On 31 December 2014, 18 shares were allotted and issued to Best Talent Asia at a consideration of HK\$9,500,000. On the same date, 33 and 30 shares were allotted and issued to Glorious Prosperity and Keen Smart at a consideration of HK\$16,500,000 and HK\$15,000,000, respectively. Glorious Prosperity and Keen Smart are wholly owned by Mr. Wei who is the spouse of Ms. Xie. The aggregate consideration of HK\$41,000,000 was settled by way of offset against a loan of HK\$50,000,000 from Ms. Xie (note 29(b)(iii)). On 1 February 2016, the entire shareholding of Best Talent Asia was subsequently transferred from Ms. Xie to Mr. Wei.

## 20 OTHER RESERVES AND RETAINED EARNINGS

## (a) Group

	Statutory reserve (note (i)) RMB'000	Exchange reserve RMB'000	Other reserves Total RMB'000	(Accumulated losses)/retained earnings RMB'000	Total RMB'000
<b>Balance as at 1 January 2014</b>	—	516	516	(600)	(84)
<b>Comprehensive income</b>					
Profit for the year	—	—	—	8,329	8,329
<b>Other comprehensive loss</b>					
Currency translation differences	—	(738)	(738)	—	(738)
<b>Total comprehensive income for the year</b>	—	(738)	(738)	8,329	7,591
<b>Transaction with owners</b>					
Appropriation to statutory reserve	945	—	945	(945)	—
<b>Total transaction with owners</b>	945	—	945	(945)	—
<b>Balance as at 31 December 2014</b>	<u>945</u>	<u>(222)</u>	<u>723</u>	<u>6,784</u>	<u>7,507</u>
<b>Balance as at 1 January 2015</b>	945	(222)	723	6,784	7,507
<b>Comprehensive income</b>					
Profit for the year	—	—	—	46,384	46,384
<b>Other comprehensive loss</b>					
Currency translation differences	—	(176)	(176)	—	(176)
<b>Total comprehensive income for the year</b>	—	(176)	(176)	46,384	46,208
<b>Transaction with owners</b>					
Appropriation to statutory reserve	3,173	—	3,173	(3,173)	—
<b>Total transaction with owners</b>	3,173	—	3,173	(3,173)	—
<b>Balance as at 31 December 2015</b>	<u>4,118</u>	<u>(398)</u>	<u>3,720</u>	<u>49,995</u>	<u>53,715</u>

	Statutory reserve (note (i)) RMB'000	Exchange reserve RMB'000	Other reserves Total RMB'000	Retained earnings RMB'000	Total RMB'000
<b>Balance as at 1 January 2016</b>	4,118	(398)	3,720	49,995	53,715
<b>Comprehensive income</b>					
Profit for the year	—	—	—	115,105	115,105
<b>Other comprehensive loss</b>					
Currency translation differences	<u>—</u>	<u>(703)</u>	<u>(703)</u>	<u>—</u>	<u>(703)</u>
<b>Total comprehensive income for the year</b>	—	(703)	(703)	115,105	114,402
<b>Transaction with owners</b>					
Appropriation to statutory reserves	<u>5,063</u>	<u>—</u>	<u>5,063</u>	<u>(5,063)</u>	<u>—</u>
<b>Total transaction with owners</b>	<u>5,063</u>	<u>—</u>	<u>5,063</u>	<u>(5,063)</u>	<u>—</u>
<b>Balance as at 31 December 2016</b>	<u><u>9,181</u></u>	<u><u>(1,101)</u></u>	<u><u>8,080</u></u>	<u><u>160,037</u></u>	<u><u>168,117</u></u>

*Note:*

- (i) Under the relevant PRC laws and regulations, subsidiaries in the PRC are required to allocate 10% of net profit to this reserve until such reserve reaches 50% of the respective registered capital. The statutory reserve can be utilised, upon approval by the relevant authority, to offset against accumulated losses or to increase registered capital of the subsidiaries in the PRC, provided that such fund is maintained at a minimum of 25% of its registered capital.

## (b) Company

	Exchange reserve <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
<b>For the year from 1 January 2014 to 31 December 2014</b>			
At 1 January 2014	—	—	—
Currency translation difference	375	—	375
Loss for the year	<u>—</u>	<u>(576)</u>	<u>(576)</u>
At 31 December 2014	<u>375</u>	<u>(576)</u>	<u>(201)</u>
<b>For the year from 1 January 2015 to 31 December 2015</b>			
At 1 January 2015	375	(576)	(201)
Currency translation difference	2,224	—	2,224
Loss for the year	<u>—</u>	<u>(3,191)</u>	<u>(3,191)</u>
At 31 December 2015	<u>2,599</u>	<u>(3,767)</u>	<u>(1,168)</u>
<b>For the year from 1 January 2016 to 31 December 2016</b>			
At 1 January 2016	2,599	(3,767)	(1,168)
Currency translation difference	1,711	—	1,711
Loss for the year	<u>—</u>	<u>(10,957)</u>	<u>(10,957)</u>
At 31 December 2016	<u>4,310</u>	<u>(14,724)</u>	<u>(10,414)</u>

**21 DEFERRED INCOME TAX LIABILITIES — GROUP**

The analysis of the Group's deferred income tax liabilities are as follows:

	<b>As at 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
To be recovered after more than 12 months	—	5,119	27,822
To be recovered within 12 months	<u>—</u>	<u>4,069</u>	<u>16,844</u>
Deferred income tax liabilities	<u>—</u>	<u>9,188</u>	<u>44,666</u>

The gross movement on the deferred income tax liabilities account is as follows:

	<b>Undistributed earnings of PRC subsidiaries</b>	<b>Deferred income</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2014	—	—	—
Charged to consolidated statement of comprehensive income (note 11)	<u>—</u>	<u>—</u>	<u>—</u>
At 31 December 2014	<u>—</u>	<u>—</u>	<u>—</u>
At 1 January 2015	—	—	—
Acquisition of a subsidiary (note 28)	—	130	130
Charged to consolidated statement of comprehensive income (note 11)	<u>1,800</u>	<u>7,258</u>	<u>9,058</u>
At 31 December 2015	<u>1,800</u>	<u>7,388</u>	<u>9,188</u>
At 1 January 2016	1,800	7,388	9,188
Charged to consolidated statement of comprehensive income (note 11)	<u>6,281</u>	<u>29,234</u>	<u>35,515</u>
Currency translation differences	<u>(37)</u>	<u>—</u>	<u>(37)</u>
At 31 December 2016	<u>8,044</u>	<u>36,622</u>	<u>44,666</u>

As at 31 December 2014, the Group has unrecognised deferred income tax liabilities of RMB425,000, that would otherwise be payable as withholding tax in respect of the undistributed profits of PRC subsidiaries. Unremitted earnings in this respect amounted to approximately RMB8,508,000 as at 31 December 2014.

## 22 TRADE AND OTHER PAYABLES

### Group

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Trade payables			
Related party (note 29(b)(ii))	9,002	—	3,118
Third parties	<u>—</u>	<u>14,313</u>	<u>18,600</u>
	9,002	14,313	21,718
	-----	-----	-----
Accrued contract cost			
Related parties (note 29(b)(ii))	1,671	4,799	—
Third parties	<u>15,920</u>	<u>9,676</u>	<u>26,343</u>
	17,591	14,475	26,343
	-----	-----	-----
Other payables and accruals	1,967	2,624	6,108
Accruals for listing expenses	—	1,193	5,003
Deposits from customers	13,081	14,144	4,532
Value added tax payable	3,640	700	8,351
Other taxes payable	<u>848</u>	<u>2,581</u>	<u>1,300</u>
	<u>46,129</u>	<u>50,030</u>	<u>73,355</u>



The carrying amounts of the Group's trade and other payables approximate their fair values and are denominated in the following currencies:

	As at 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
HK\$	970	1,507	7,567
RMB	<u>45,159</u>	<u>48,523</u>	<u>65,788</u>
	<u>46,129</u>	<u>50,030</u>	<u>73,355</u>

The aging analysis of the Group's trade payables based on invoice date is as follows:

	As at 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
1-30 days	9,002	4,415	10,695
31-60 days	—	4,266	4,868
61-90 days	—	4,648	5,383
91-180 days	—	—	189
181-365 days	—	984	513
over 365 days	<u>—</u>	<u>—</u>	<u>70</u>
	<u>9,002</u>	<u>14,313</u>	<u>21,718</u>

#### Company

	As at 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Accruals for listing expenses	<u>—</u>	<u>617</u>	<u>4,372</u>

## 23 BANK BORROWINGS

	Group			Company		
	As at 31 December			As at 31 December		
	2014	2015	2016	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowings						
— secured	—	—	16,817	—	—	6,917

As at 31 December 2016, bank borrowings amounting to approximately RMB6,917,000 are secured over the restricted bank deposits (note 18).

As at 31 December 2016, a bank borrowing amounting to approximately RMB6,917,000 is secured by corporate guarantee provided by NH Development. The corporate guarantee provided by NH Development will be released upon the successful listing of Shares of the Company on the Stock Exchange of Hong Kong Limited. Another bank borrowing amounting to approximately RMB9,900,000 is secured by corporate guarantee provided by New Headline Municipal.

The carrying amounts of the Group's bank borrowings are denominated in the following currencies:

	Group			Company		
	As at 31 December			As at 31 December		
	2014	2015	2016	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
HK\$	—	—	6,917	—	—	6,917
RMB	—	—	9,900	—	—	—
	—	—	16,817	—	—	6,917

The bank borrowings are repayable as follows:

	Group			Company		
	As at 31 December			As at 31 December		
	2014	2015	2016	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	—	—	16,817	—	—	6,917

The effective interest rates of the bank borrowings at the reporting dates are as follows:

	Group			Company		
	As at 31 December			As at 31 December		
	2014	2015	2016	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowings denominated in:						
HK\$	—	—	2.0%	—	—	2.0%
RMB	—	—	5.0%	—	—	—

## 24 BANKING FACILITIES

The Group has the following undrawn banking facilities:

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Expiring within one year	—	155,000	170,100
Expiring in more than one year	—	—	260,000
	—	155,000	430,100

The facilities expiring within one year are annual facilities subject to review at various dates during the year ending 31 December 2017.

As at 31 December 2015 and 2016, banking facilities amounting to RMB155,000,000 and RMB310,000,000 respectively are secured by corporate guarantee provided by NH Development. As at 31 December 2016, banking facilities of RMB90,000,000 and RMB30,100,000 are secured by corporate guarantee provided by the Company and New Headline Municipal, respectively.

## 25 CASH GENERATED FROM OPERATIONS - GROUP

	<b>For the year ended</b>		
	<b>31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit before income tax	12,274	63,376	169,193
Adjustments for:			
Interest income	(807)	(230)	(269)
Interest expense	53	13	160
Depreciation of property, plant and equipment	66	480	551
Loss on disposal of property, plant and equipment	<u>17</u>	<u>—</u>	<u>54</u>
Operating profits before working capital changes	11,603	63,639	169,689
Changes in working capital:			
Inventory	—	208	—
Trade receivables, other receivables and prepayment	18,468	(46,823)	(169,018)
Trade and other payables	46,073	(9,599)	23,046
Amount due to a director	8	(8)	—
Amount due to a related company	<u>25</u>	<u>(25)</u>	<u>—</u>
Net cash generated from operations	<u>76,177</u>	<u>7,392</u>	<u>23,717</u>

Proceeds from disposal of property, plant and equipment

	<b>For the year ended</b>		
	<b>31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net book amount (note 14)	27	—	197
Loss on disposal of property, plant and equipment	<u>(17)</u>	<u>—</u>	<u>(54)</u>
Proceeds from disposal of property, plant and equipment	<u>10</u>	<u>—</u>	<u>143</u>

**26 COMMITMENTS****(a) Capital commitments**

Except as disclosed in note 28, the Group and the Company did not have any material capital commitments as at 31 December 2014, 2015 and 2016.

**(b) Operating lease commitments — as lessee**

The Group leases various office premises under non-cancellable operating lease agreements. The lease terms are between 1-2 years. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<b>As at 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
No later than 1 year	238	404	559
Later than 1 year and no later than 5 years	<u>3</u>	<u>31</u>	<u>752</u>
	<u>241</u>	<u>435</u>	<u>1,311</u>

**27 DIVIDENDS**

No dividend has been paid or declared by the Company during each of the years ended 31 December 2014, 2015 and 2016.

**28 BUSINESS COMBINATIONS**

On 7 January 2015, the Group acquired 100% equity interest in New Headline Municipal from Lianyungang Development Area Changsheng Industrial Development Co., Ltd, a subsidiary of NH Development, a shareholder of the Company, which is ultimately controlled by Lianyungang Municipal Government, at a consideration of approximately RMB31,312,000. New Headline Municipal is principally engaged in the provision of environmental maintenance services and municipal public construction services in the PRC. Acquisition related costs of RMB113,000 have been charged to administrative expenses in the consolidated statement of comprehensive income for the year ended 31 December 2014.

The fair values of assets acquired and liabilities assumed and the consideration paid at the acquisition date are summarised in the table below:

	<i>RMB'000</i>
<b>Consideration paid as at the acquisition date</b>	
<b>Assets and liabilities</b>	
Property, plant and equipment	1,436
Inventory	208
Trade and other receivables	23,627
Cash and cash equivalents	23,998
Trade and other payables	(18,803)
Deferred income tax liabilities	<u>(130)</u>
Total identifiable net assets acquired	30,336
Goodwill (note i)	<u>976</u>
	<u>31,312</u>
Cash consideration paid (note ii)	31,312
Cash and cash equivalents acquired	<u>(23,998)</u>
Net cash outflow	<u>7,314</u>
Acquisition related costs	<u>113</u>

*Notes:*

- (i) The goodwill is attributable to the expected synergies and the assembled workforce arise after the Group's acquisition of this subsidiary. None of the goodwill recognised is expected to be deductible for income tax purposes.
- (ii) The Group prepaid RMB10,000,000 for the transaction during the year ended 31 December 2014. The Group settled the remaining part of the consideration during the year ended 31 December 2015. The revenue included in the statement of comprehensive income from 7 January 2015 to 31 December 2015 contributed by New Headline Municipal was RMB32,234,000. New Headline Municipal also contributed profit of RMB10,746,000 over the same period.

**Impairment test for goodwill**

Goodwill is allocated to the Group's CGUs related to acquisition of the subsidiary and monitored by the management at the operating segment level. The goodwill is attributable to the Municipal Construction operation.

The recoverable amount of a CGU is determined based on value-in-use calculation. For the years ended 31 December 2015 and 2016, the calculations used pre-tax cash flow projections based on financial budgets performed by management covering a five-year period using the compound annual growth rate of 4.7% and a pre-tax discount rate of 17%.

The value-in-use calculation of the CGU for the Track Record Period involved assumptions in projected compound annual growth rate and pre-tax discount rate. The basis used in determining the projected annual growth rate is the past performance of the CGU and management's expectations for the market development. Cash flows beyond the five-year period are extrapolated using the estimated growth rate of 3% which was below the long term average growth rate of the industry. The pre-tax discount rate used reflects specific risks relating to the CGU.

As at 31 December 2015 and 2016, the recoverable amount calculated based on value-in-use calculation exceeded the carrying value of the goodwill. During the years ended 31 December 2015 and 2016, there was no impairment provision for the goodwill. In the event that the CGU's business experiences a general decline during the five-year forecast period resulting in the compound annual growth rate decreased to -8.0% with all other variables held constant, the recoverable amount of the CGU would have been approximately equal to its carrying amount.

## 29 RELATED PARTY BALANCES AND TRANSACTIONS

(a) Information on related parties and their relationships with the Group are as follows:

<b>Name of related party</b>	<b>Relationship</b>
Mr. Wei	Sole shareholder of Glorious Prosperity and Keen Smart and sole shareholder of Best Talent Asia since 1 February 2016
Ms. Xie	Sole shareholder of Best Talent Asia until 1 February 2016, Director of the Company and spouse of Mr. Wei
Best Talent Asia	One of the ultimate holding companies of the Group
Glorious Prosperity	One of the ultimate holding companies of the Group
Keen Smart	One of the ultimate holding companies of the Group
Financial Services China (Hong Kong) Limited	An entity controlled by Mr. Wei
Shanghai Canhong Gangtie Co., Ltd* (上海燦宏鋼鐵有限公司)	An entity controlled by Ms. Xie
Shanghai Guoshen Industrial Group Co., Ltd* (上海國琛實業集團有限公司)	An entity controlled by Ms. Xie's close family member

Name of related party	Relationship
HK Zhiyuan Group Limited	A substantial shareholder of the Company since 31 December 2014
NH Development (江蘇新海連發展集團有限公司) <sup>(i)</sup>	The ultimate holding company of HK Zhiyuan Group Limited, which is ultimately controlled by the Lianyungang Municipal Government
Jiangsu Xinhaikē Industry and Investment Company Limited* (江蘇新海科產業投資發展有限公司) <sup>(i)</sup>	A subsidiary of NH Development
Jiangsu Xinke Pharmaceutical Investment Co., Ltd* (江蘇鑫科醫藥產業投資發展有限公司) <sup>(i)</sup>	A subsidiary of NH Development
Lianyungang Gaoke Investment Development Co., Ltd* (連雲港高科技投資發展有限公司) <sup>(i)</sup>	A subsidiary of NH Development
Lianyungang New Headline Property Services Limited* (連雲港新海連物業服務有限公司) <sup>(i)</sup>	A subsidiary of NH Development
New Headline Municipal* (連雲港新海連市政園林工程有限公司)	A subsidiary of NH Development before 7 January 2015
Zhongtong Keyun Real Estate (Lianyungang) Co., Ltd* (中通科雲置業(連雲港))	A subsidiary of NH Development

\* The English names of the above entities represent the best efforts by the management of the Company in searching from public information or in translating their Chinese names as they do not have official English names.

*Note:*

<sup>(i)</sup> NH Development, which is the ultimate holding company of HK Zhiyuan Group Limited, became one of the shareholders of the Group since 31 December 2014, upon the issuance of shares by the Company (note 19). Since 31 December 2014, NH Development and its subsidiaries became related parties of the Group.

(b) Save as disclosed elsewhere in this report, the following transactions were carried out with related parties:

(i) *Key management compensation*

The directors of the Group are considered to be the key management of the Group (note 10).



Key management includes directors and senior management of the Group. The compensation paid or payable to key management for employee services is shown below:

	For the year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Salaries and other emoluments	793	2,175	2,928
Contributions to defined contribution schemes	<u>13</u>	<u>85</u>	<u>323</u>
	<u>806</u>	<u>2,260</u>	<u>3,251</u>

(ii) *Balances with related parties*

	Group		
	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Trade receivables (note 16)			
NH Development	—	968	255
Lianyungang Gaoke Investment Development Co., Ltd	—	—	598
Jiangsu Xinhaike Industry and Investment Co., Ltd	<u>—</u>	<u>—</u>	<u>73</u>
	—	968	926
Accrued contract revenue			
Lianyungang Gaoke Investment Development Co., Ltd	—	551	3,034
Jiangsu Xinke Pharmaceutical Investment Co., Ltd	—	530	—
Jiangsu Xinhaike Industry and Investment Company Limited	—	49,348	163,802
Zhongtong Keyun Real Estate (Lianyungang) Co., Ltd	<u>—</u>	<u>—</u>	<u>4,014</u>
	—	50,429	170,850
Less: current portion (note 16)	<u>—</u>	<u>(40,655)</u>	<u>(131,126)</u>
Non-current portion	<u>—</u>	<u>9,774</u>	<u>39,724</u>



The maximum outstanding balance during the years of amount due from a shareholder was as follows:

	<b>Group and Company</b>		
	<b>As at 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
HK Zhiyuan Group Limited	<u>7,217</u>	<u>—</u>	<u>—</u>

As at 31 December 2014, the amount due from a shareholder was unsecured, non-interest bearing, repayable on demand. The carrying amount of amount due from a shareholder was denominated in HK\$.

	<b>Group</b>		
	<b>As at 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other payables			
Non-trade			
Shanghai Canhong Gangtie Co., Ltd	430	—	—
Lianyungang Gaoke Investment Development Co., Ltd	<u>270</u>	<u>—</u>	<u>—</u>
	<u>700</u>	<u>—</u>	<u>—</u>
Amount due to a related company			
Non-trade			
Financial Services China (Hong Kong) Limited	<u>25</u>	<u>—</u>	<u>—</u>
Non-trade			
Amount due to a director	<u>8</u>	<u>—</u>	<u>—</u>

Other payables, amount due to a related party and amount due to a director were unsecured, non-interest bearing and repayable on demand. The carrying amounts of other payables were denominated in RMB and the amount due to a related party and amount due to a director were denominated in HK\$.

(iii) *Loan from a shareholder*

	<b>Group and Company</b>		
	<b>As at 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Ms. Xie	<u>7,217</u>	<u>—</u>	<u>—</u>

As at 31 December 2014, the loan from a shareholder was unsecured, non-interest bearing and had no fixed repayment term. The carrying amount of the loan from a shareholder was denominated in HK\$.

(iv) *Transactions with related parties*

	<b>Group</b>		
	<b>For the year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<i>Continuing transactions</i>			
Management income generated from BT and PPP construction management services			
Jiangsu Xinhaike Industry and Investment Company Limited <sup>(1)</sup>	<u>—</u>	<u>28,865</u>	<u>113,549</u>
	<u>—</u>	<u>28,865</u>	<u>113,549</u>
Interest income generated from BT and PPP construction contracts			
Jiangsu Xinhaike Industry and Investment Company Limited <sup>(1)</sup>	<u>—</u>	<u>221</u>	<u>1,278</u>
	<u>—</u>	<u>221</u>	<u>1,278</u>

	<b>Group</b>		
	<b>For the year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue generated from municipal projects			
NH Development <sup>(8)</sup>	—	—	88
Lianyungang Gaoke Investment Development Co., Ltd. <sup>(8)</sup>	—	—	5,072
Jiangsu Xinhaikē Industry and Investment Company Limited <sup>(8)</sup>	—	—	532
Zhongtong Keyun Real Estate (Lianyungang) Co., Ltd <sup>(8)</sup>	—	—	4,242
Costs arised from purchase of goods			
NH Development <sup>(2)</sup>	—	52,772	75,096
Rental expenses			
NH Development <sup>(7)</sup>	—	231	423
Utility expenses			
NH Development <sup>(7)</sup>	—	68	130
Staff catering expenses			
Lianyungang New Headline Property Services Co., Ltd. <sup>(7)</sup>	—	404	584
<i>Discontinued transactions</i>			
Operating lease payments recharged by Financial Services China (Hong Kong) Limited <sup>(3)</sup>	39	—	—
Interest income			
Shanghai Guoshen Industrial Group Co., Ltd <sup>(5)</sup>	772	—	—
Management service fee			
Shanghai Canhong Gangtie Co., Ltd <sup>(4)</sup>	430	—	—

	<b>Company</b>		
	<b>For the year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Continuing transactions			
Listing expenses paid on behalf by			
New Headline (Hong Kong) Limited <sup>(6)</sup>	<u>—</u>	<u>3,112</u>	<u>423</u>

- (1) Management income and interest income generated from BT and PPP construction are principally charged in accordance with the four and five contracts obtained from public tendering with total estimated income amounted to RMB29,086,000 and RMB112,174,000 for the years ended 31 December 2015 and 2016, respectively.
- (2) Costs arising from purchases of goods are principally charged in accordance with the purchase price mutually negotiated between the Company and NH Development. Before NH Development became one of the ultimate shareholders of the Company (note 19), the costs arising from purchases of goods amounted to RMB38,559,000 during the year ended 31 December 2014.
- (3) Operating lease payments were recharged based on fixed amounts agreed by the parties.
- (4) Cost arising from management service fee is principally charged in accordance with respective contract.
- (5) Interest income is principally charged in accordance with the loan contract at interest rate of 7% per annum.
- (6) Listing expenses were recharged at cost by New Headline (Hong Kong) Limited.
- (7) Rental, utility and staff catering expenses are principally charged in the normal course of the Group's business with terms agreed by both parties.
- (8) Revenue generated from municipal projects are principally charged in accordance with the respective contracts.

(v) Transactions with other state-owned enterprises in the PRC

NH Development is the Company's substantial shareholder since 31 December 2014. It is controlled by the Lianyungang Municipal Government and regarded as a state-owned enterprise established in the PRC.

Government-related entity is an entity that is controlled, jointly controlled or significant influence by a government. As at 31 December 2014, 2015 and 2016, NH Development owns 18% of the issued shares of the Company. Therefore, the Group is considered as a government-related entity.

The Group operates in an economic environment predominated by state-owned enterprises in the PRC. During the years ended 31 December 2014 and 2015 and 2016, the Group had transactions with state-owned enterprises in the PRC, including, but not limited to provision of BT and PPP construction management services and supply of construction materials (note 29(b)(iv)).

The Group has established its pricing strategy and approval process for purchase and sales of products and services. Such pricing strategy approval processes are consistently applied regardless of the counterparties are state-owned entities or not. Having due regard to the substance of the relationships, the directors of the Company are of the opinion that none of these transactions are material related party transactions that require separate disclosure except for the transactions with NH Development and its subsidiaries as disclosed above.

(vi) Guarantee provided by NH Development

As at 31 December 2016, a bank borrowing is secured by corporate guarantee provided by NH Development. Details are disclosed in note 23.

### **30 CONTINGENT LIABILITIES**

The Group did not have material contingent liabilities as at 31 December 2014 and 2015 and 2016.

### **31 SUBSEQUENT EVENTS**

The following significant event took place after 31 December 2016:

- (a) On 26 June 2017, the Company was sub-divided into 100 shares of a par value of USD0.01 each. As a result of the share subdivision, the authorised share capital of the Company was USD50,000 divided into 5,000,000 shares of a par value of USD0.01 each and the existing issued shares in the issued share capital of the Company became 10,000 shares of a par value of USD0.01 each.
- (b) Pursuant to the resolutions of the shareholders passed on 26 June 2017, subject to the share premium account of the Company being credited as a result of the global offering, the directors of the Company are authorised to allot and issue a total of 599,990,000 shares credited as fully paid at par to the shareholders by way of capitalisation of USD5,999,900 standing to the credit of the share premium account of the Company. The proposed capitalisation issue has not become effective as at date of this report.

**III ADDITIONAL HISTORICAL FINANCIAL INFORMATION OF LIANYUNGANG NEW HEADLINE MUNICIPAL LANDSCAPING ENGINEERING COMPANY LIMITED FOR THE PRE-ACQUISITION PERIOD**

New Headline Municipal was acquired by the Group on 7 January 2015. The following is the historical financial information of New Headline Municipal for the year ended 31 December 2014 and the six days period ended 6 January 2015.

**(1) STATEMENTS OF COMPREHENSIVE INCOME**

	<i>Note</i>	<b>Year ended 31 December 2014 RMB'000</b>	<b>Six days ended 6 January 2015 RMB'000</b>
Revenue	(i)	32,366	—
Cost of sales	(ii)	<u>(18,576)</u>	<u>—</u>
<b>Gross profit</b>		13,790	—
General and administrative expenses	(ii)	<u>(4,104)</u>	<u>(11)</u>
<b>Operating profit/(loss)</b>		9,686	(11)
Finance income		<u>73</u>	<u>—</u>
<b>Profit /(loss) before income tax</b>		9,759	(11)
Income tax expense	(iii)	<u>(112)</u>	<u>—</u>
<b>Profit /(loss) for the year/period</b>		9,647	(11)
Other comprehensive income		<u>—</u>	<u>—</u>
<b>Total comprehensive income/(loss) for the year/period attributable to owners of New Headline Municipal</b>		<u><u>9,647</u></u>	<u><u>(11)</u></u>



## (2) STATEMENTS OF FINANCIAL POSITION

	<i>Note</i>	As at 31 December 2014 <i>RMB'000</i>	As at 6 January 2015 <i>RMB'000</i>
<b>ASSETS</b>			
<b>Non-current asset</b>			
Property, plant and equipment	(iv)	1,436	1,436
<b>Current assets</b>			
Inventory		208	208
Trade and bill receivables, other receivables and prepayments	(v)	30,434	23,627
Cash and cash equivalents	(vi)	17,321	23,998
		<u>47,963</u>	<u>47,833</u>
		<u>49,399</u>	<u>49,269</u>
<b>EQUITY</b>			
<b>Capital and reserves attributable to owner of New Headline Municipal</b>			
Share capital		10,000	10,000
Statutory reserve		2,705	2,705
Retained earnings		17,642	17,631
<b>Total equity</b>		<u>30,347</u>	<u>30,336</u>
<b>LIABILITIES</b>			
<b>Non-current liability</b>			
Deferred income tax liabilities	(vii)	130	130
<b>Current liabilities</b>			
Trade and other payables	(viii)	17,430	17,311
Income tax payable		1,492	1,492
		<u>18,922</u>	<u>18,803</u>
<b>Total liabilities</b>		<u>19,052</u>	<u>18,933</u>
<b>Total equity and liabilities</b>		<u>49,399</u>	<u>49,269</u>

## (3) STATEMENTS OF CHANGES IN EQUITY

	Share capital <i>RMB'000</i>	Statutory reserve <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Balance as at 1 January 2014</b>	10,000	1,348	18,262	29,610
<b>Comprehensive income</b>				
Profit for the year	<u>—</u>	<u>—</u>	<u>9,647</u>	<u>9,647</u>
<b>Total comprehensive income</b>	<u>—</u>	<u>—</u>	<u>9,647</u>	<u>9,647</u>
<b>Transaction with owners</b>				
Dividend (note (ix))	—	—	(8,910)	(8,910)
Appropriation to statutory reserve	<u>—</u>	<u>1,357</u>	<u>(1,357)</u>	<u>—</u>
<b>Total transaction with owners</b>	<u>—</u>	<u>1,357</u>	<u>(10,267)</u>	<u>(8,910)</u>
<b>Balance as at 31 December 2014</b>	<u>10,000</u>	<u>2,705</u>	<u>17,642</u>	<u>30,347</u>
<b>Balance as at 1 January 2015</b>	10,000	2,705	17,642	30,347
<b>Comprehensive loss</b>				
Loss for the period	<u>—</u>	<u>—</u>	<u>(11)</u>	<u>(11)</u>
<b>Total comprehensive loss</b>	<u>—</u>	<u>—</u>	<u>(11)</u>	<u>(11)</u>
<b>Balance as at 6 January 2015</b>	<u>10,000</u>	<u>2,705</u>	<u>17,631</u>	<u>30,336</u>

## (4) STATEMENTS OF CASH FLOWS

		<b>Year ended</b> <b>31 December</b>	<b>Six days</b> <b>ended</b> <b>6 January</b>
	<i>Note</i>	<b>2014</b>	<b>2015</b>
		<i>RMB'000</i>	<i>RMB'000</i>
<b>Cash flows from operating activities</b>			
Net cash generated from operations	(xii)	82	6,677
Interest received		73	—
Income tax paid		<u>(1,767)</u>	<u>—</u>
Net cash (used in)/ generated from operating activities		<u>(1,612)</u>	<u>6,677</u>
<b>Cash flows from investing activity</b>			
Purchase of property, plant and equipment		<u>(860)</u>	<u>—</u>
Net cash used in investing activity		<u>(860)</u>	<u>—</u>
<b>Net (decrease)/ increase in cash and cash equivalents</b>		(2,472)	6,677
Cash and cash equivalents at beginning of year/period		<u>19,793</u>	<u>17,321</u>
<b>Cash and cash equivalents at end of year/period</b>	(vi)	<u><u>17,321</u></u>	<u><u>23,998</u></u>

## Notes to pre-acquisition historical financial information of New Headline Municipal

## (i) Revenue

	Year ended 31 December 2014 <i>RMB'000</i>	Six days ended 6 January 2015 <i>RMB'000</i>
Revenue from services rendered		
Environmental maintenance	20,094	—
Municipal construction	<u>12,272</u>	<u>—</u>
	<u>32,366</u>	<u>—</u>

## (ii) Expenses by nature

	Year ended 31 December 2014 <i>RMB'000</i>	Six days ended 6 January 2015 <i>RMB'000</i>
Subcontracting fees	16,764	—
Employee benefits expenses	2,732	10
Travelling expenses	27	—
Entertainment	10	—
Depreciation (note (iv))	382	—
Provision for impairment of trade receivables	1,015	—
Other expenses	184	1
Business tax and surcharges	<u>1,566</u>	<u>—</u>
Total cost of sales and general and administrative expenses	<u>22,680</u>	<u>11</u>

## (iii) Income tax expense

Taxation on PRC profits has been calculated on the estimated assessable profit for January to June 2014 at the rate of 25%. Since July 2014, the profits tax is calculated at the income tax rate of 25% on the deemed profit, which is determined at 8% of the total revenue as allowed by the local tax bureau.

	<b>Year ended 31 December 2014 RMB'000</b>	<b>Six days ended 6 January 2015 RMB'000</b>
Current income tax		
PRC taxation	1,054	—
Deferred income tax (note (vii))	<u>(942)</u>	<u>—</u>
Income tax expense	<u>112</u>	<u>—</u>
	<b>Year ended 31 December 2014 RMB'000</b>	<b>Six days ended 6 January 2015 RMB'000</b>
Profit/(loss) before income tax	<u>9,759</u>	<u>(11)</u>
Tax calculated at the statutory income tax rate of 25%	2,440	(3)
Tax effects of:		
Expenses not deductible for tax purposes	1	—
Effect of tax charged on deemed basis	(2,329)	—
Others	<u>—</u>	<u>3</u>
Income tax expense	<u>112</u>	<u>—</u>

## (iv) Property, plant and equipment

	Construction in progress <i>RMB'000</i>	Furniture, fixtures & equipment <i>RMB'000</i>	Production equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2014					
Opening net book amount	2,576	13	785	160	3,534
Additions	—	—	860	—	860
Disposal (note (x))	(2,576)	—	—	—	(2,576)
Depreciation (note (ii))	—	(12)	(319)	(51)	(382)
Closing net book amount	<u>—</u>	<u>1</u>	<u>1,326</u>	<u>109</u>	<u>1,436</u>
At 31 December 2014					
Cost	—	60	2,478	459	2,997
Accumulated depreciation	—	(59)	(1,152)	(350)	(1,561)
Net book amount	<u>—</u>	<u>1</u>	<u>1,326</u>	<u>109</u>	<u>1,436</u>
At 1 January 2015					
Opening net book amount	—	1	1,326	109	1,436
Depreciation (note (ii))	—	—	—	—	—
Closing net book amount	<u>—</u>	<u>1</u>	<u>1,326</u>	<u>109</u>	<u>1,436</u>
At 6 January 2015					
Cost	—	60	2,478	459	2,997
Accumulated depreciation	—	(59)	(1,152)	(350)	(1,561)
Net book amount	<u>—</u>	<u>1</u>	<u>1,326</u>	<u>109</u>	<u>1,436</u>

Depreciation expenses of RMB246,000 and nil have been charged in “cost of sales” and RMB136,000 and nil have been charged in “general and administrative expenses” for the year ended 31 December 2014 and the six days ended 6 January 2015 respectively (note(ii)).

## (v) Trade and bill receivables, other receivables and prepayments

	As at 31 December 2014 <i>RMB'000</i>	As at 6 January 2015 <i>RMB'000</i>
Trade receivables		
Related party (note (x))	9,002	3,214
Third parties	<u>1,727</u>	<u>1,727</u>
Trade receivables, gross	10,729	4,941
Less: provision for impairment of trade receivables	<u>(1,015)</u>	<u>(1,015)</u>
Trade receivables, net	9,714	3,926
Bill receivable from a third party	<u>1,000</u>	<u>—</u>
Trade and bill receivables, net	<u>10,714</u>	<u>3,926</u>
Accrued contract revenue		
Related party (note (x))	1,491	1,491
Intermediate holding company (note (x))	2,239	2,239
Fellow subsidiaries (note (x))	1,173	1,173
Third parties	<u>14,673</u>	<u>14,654</u>
	<u>30,290</u>	<u>23,483</u>
Other receivables	28	28
Prepayment	<u>116</u>	<u>116</u>
	<u>30,434</u>	<u>23,627</u>

As at 31 December 2014 and 6 January 2015, the carrying amounts of trade and bill receivables, other receivables and prepayments are denominated in RMB, non-interest bearing and approximate their fair values.

Ageing analysis of trade and bill receivables based on invoice date is as below:

	<b>As at 31 December 2014</b>	<b>As at 6 January 2015</b>
	<i>RMB'000</i>	<i>RMB'000</i>
1-90 days	10,553	3,765
91-180 days	—	—
181-365 days	<u>161</u>	<u>161</u>
Total trade and bill receivables, net of provision	<u>10,714</u>	<u>3,926</u>

No credit period was granted to the customers. Provision for impairment of trade receivables is made based on the estimated irrevocable amount determined where there are indicators that the receivables are impaired.

As of 31 December 2014 and 6 January 2015, trade and bill receivables of RMB10,714,000 and RMB3,926,000 were past due but not impaired. The ageing analysis of these trade and bill receivables is presented in the table above.

As of 31 December 2014 and 6 January 2015, trade and bill receivables of RMB1,015,000 and RMB1,015,000 were impaired respectively.

Movements in provision for impairment to New Headline Municipal's trade receivables are as follows:

	<b>As at 31 December 2014</b>	<b>As at 6 January 2015</b>
	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year/period	—	1,015
Provision for impairment for the year/period	<u>1,015</u>	<u>—</u>
At the end of the year/period	<u>1,015</u>	<u>1,015</u>

The creation and release of provision for impairment have been included within 'general and administrative expenses'. As at 31 December 2015, provision for impairment of trade receivables of approximately RMB1,015,000 was made for certain customers that there may be risks the counterparties may not fulfil their contractual obligations based on management's review of their respective credit profiles.



The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. New Headline Municipal does not hold any collateral as security.

(vi) **Cash and cash equivalents**

	<b>As at 31 December 2014 <i>RMB'000</i></b>	<b>As at 6 January 2015 <i>RMB'000</i></b>
Cash at banks	17,321	23,998
Cash on hand	<u>—</u>	<u>—</u>
	<u>17,321</u>	<u>23,998</u>
Maximum exposure to credit risk	<u>17,321</u>	<u>23,998</u>

Cash and cash equivalents are denominated in RMB.

As at 31 December 2014 and 6 January 2015, the Group had cash at banks amounting to approximately RMB17,321,000 and RMB23,998,000 respectively, which are denominated in RMB and held in the PRC. These cash and bank balances are subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

(vii) **Deferred income tax liabilities**

The analysis of the deferred income tax liabilities are as follows:

	<b>As at 31 December 2014 <i>RMB'000</i></b>	<b>As at 6 January 2015 <i>RMB'000</i></b>
To be recovered after more than 12 months	67	67
To be recovered within 12 months	<u>63</u>	<u>63</u>
Deferred income tax liabilities	<u>130</u>	<u>130</u>

The gross movement on the deferred income tax liabilities account is as follows:

	<b>Deferred income</b> <i>RMB'000</i>
At 1 January 2014	1,072
Credited to statement of comprehensive income (note (iii))	<u>(942)</u>
At 31 December 2014	<u>130</u>
At 1 January 2015	130
Charged to statement of comprehensive income (note (iii))	<u>—</u>
At 6 January 2015	<u>130</u>

(viii) **Trade and other payables**

	<b>As at</b> <b>31 December</b> <b>2014</b> <i>RMB'000</i>	<b>As at</b> <b>6 January</b> <b>2015</b> <i>RMB'000</i>
Trade payables		
Third parties	<u>317</u>	<u>317</u>
Accrued contract cost		
Third parties	<u>10,040</u>	<u>10,040</u>
	10,357	10,357
	-----	-----
Accruals and other payables		
Immediate holding company	5,341	5,341
Third parties	<u>1,732</u>	<u>1,613</u>
	7,073	6,954
	-----	-----
	<u>17,430</u>	<u>17,311</u>

As of 31 December 2014 and 6 January 2015, the ageing analysis of the trade payables based on invoice date is as follows:

	As at 31 December 2014 <i>RMB'000</i>	As at 6 January 2015 <i>RMB'000</i>
Within 3 month	132	132
3 to 6 months	—	—
6 to 12 months	<u>185</u>	<u>185</u>
	<u>317</u>	<u>317</u>

The carrying amounts of trade and other payables approximate their fair values and are denominated in RMB.

(ix) **Dividend**

During the year ended 31 December 2014, New Headline Municipal had declared dividend of RMB8,910,000 and was settled through other payable with the immediate holding company.

(x) **Related party transactions**

During the year ended 31 December 2014 and the six days ended 6 January 2015, management is of the view that the following entities are related parties of New Headline Municipal:

Name of related party	Relationship
NH Development (江蘇新海連發展集團有限公司)	Intermediate holding company
Jiangsu Xinke Pharmaceutical Investment Co., Ltd (江蘇鑫科醫藥產業投資發展有限公司)	Fellow Subsidiary
Lianyungang Development Area Changsheng Industrial Development Co., Ltd (連雲港開發區昌盛實業發展公司)	Immediate holding company
Lianyungang Gaoke Investment Development Co., Ltd (連雲港高科投資發展有限公司)	Fellow Subsidiary
Lianyungang Yuanyun Industrial Company Limited (連雲港源運實業有限公司) <sup>(1)</sup>	Common shareholder with significant influence

The English names of the above entities represent the best efforts by the management of New Headline Municipal in searching from public information or in translating their Chinese names as they do not have official English names.

<sup>(1)</sup> NH Development become one of the ultimate shareholders of Lianyungang Yuanyun Industrial Company Limited since 31 December 2014.

(a) *Balances with related parties*

	<b>As at 31 December 2014</b>	<b>As at 6 January 2015</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables (note (v))		
Lianyungang Yuanyun Industrial Company Limited	<u>9,002</u>	<u>3,214</u>
Accrued contract revenue (note (v))		
Lianyungang Yuanyun Industrial Company Limited	1,491	1,491
NH Development	2,239	2,239
Lianyungang Gaoke Investment Development Co., Ltd	643	643
Jiangsu Xinke Pharmaceutical Investment Co., Ltd	<u>530</u>	<u>530</u>
	<u>4,903</u>	<u>4,903</u>
Other payables (note (viii))		
Lianyungang Development Area Changsheng Industrial Development Co., Ltd	<u>5,341</u>	<u>5,341</u>

As at 31 December 2014 and 6 January 2015, all balances with related parties were unsecured, non-interest bearing and repayable on demand. The balances with related parties are denominated in RMB.

(b) *Transactions with related parties*

	<b>Year ended 31 December 2014 RMB'000</b>	<b>Six days ended 6 January 2015 RMB'000</b>
Continuing transactions		
Revenue from sales of services		
NH Development <sup>(1)</sup>	1,018	—
Lianyungang Gaoke Investment Development Co., Ltd <sup>(1)</sup>	551	—
Jiangsu Xinke Pharmaceutical Investment Co., Ltd <sup>(1)</sup>	<u>530</u>	<u>—</u>
	<u>2,099</u>	<u>—</u>
Discontinued transaction		
Disposal of property, plant and equipment to immediate holding company		
Lianyungang Development Area Changsheng Industrial Development Co., Ltd <sup>(2)</sup>	<u>2,576</u>	<u>—</u>

<sup>(1)</sup> Revenue from sales of services is principally charged in accordance with respective contracts.

<sup>(2)</sup> Construction in progress was transferred to the immediate holding company at net book value at the date of transfer and was settled through current account with Lianyungang Development Area Changsheng Industrial Development Co., Ltd.

(xi) **Commitments**

New Headline Municipal did not have any material operating lease commitments and capital commitments as at 31 December 2014 and 6 January 2015.

## (xii) Cash generated from operations

	Year ended 31 December 2014 RMB'000	Six days ended 6 January 2015 RMB'000
Profit/(loss) before income tax	9,759	(11)
Adjustments for:		
Interest income	(73)	—
Depreciation of property, plant and equipment	<u>382</u>	<u>—</u>
Operating profits/(loss) before working capital changes	10,068	(11)
Changes in working capital:		
Inventory	600	—
Trade, other receivables and prepayments	7,903	6,807
Trade and other payables	<u>(18,489)</u>	<u>(119)</u>
Net cash generated from operations	<u>82</u>	<u>6,677</u>

## Non-cash transaction

The principal non-cash transaction is the declaration of dividend to its shareholder which was settled through other payables (note (viii)).

## (xiii) Financial risk factors

New Headline Municipal's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk, and liquidity risk. New Headline Municipal's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on New Headline Municipal's financial performance.

## (a) Market risk

## (i) Foreign exchange risk

New Headline Municipal operates in the PRC with most of the transactions being settled in RMB, which is the functional currency of New Headline Municipal. Hence, New Headline Municipal does not expose to significant foreign exchange risk.

(ii) *Cash flow and fair value interest rate risk*

As New Headline Municipal has no significant interest-bearing assets or liabilities, New Headline Municipal's income and operating cash flows are substantially independent of changes in market interest rates.

(b) *Credit risk*

New Headline Municipal's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of each financial asset, including cash and cash equivalents and trade and other receivables as at 31 December 2014 and 6 January 2015.

The bank balances and cash are deposited with financial institutions with reliable and acceptable rating quality.

As at 31 December 2014 and 6 January 2015, 47% and 38% of the total trade receivables was due from New Headline Municipal's largest customer respectively.

New Headline Municipal has policies in place to ensure sales are made to customers with appropriate credit terms. Management performs periodic credit check and assessment on the recoverability of trade receivables from its customers as well as other receivables. New Headline Municipal's exposure of credit risk arising from trade receivables are set out in note v. As at 31 December 2014 and 6 January 2015, the provision for trade receivables of New Headline Municipal are RMB1,015,000 and RMB1,015,000 respectively. For other trade receivables where no provision is recognised, the Group consider the credit risk in relation to the trade receivables as low as there was no history of default.

(c) *Liquidity risk*

Prudent liquidity risk management includes managing the profile of funding sources, maintaining sufficient cash and ensuring the availability of funding from an adequate amount of committed credit facilities.

The table below analyses New Headline Municipal's financial liabilities into relevant maturity groupings based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	<b>Less than 1 year RMB'000</b>	<b>Total RMB'000</b>
<b>As at 31 December 2014</b>		
Trade and other payables	<u>15,937</u>	<u>15,937</u>
	<u>15,937</u>	<u>15,937</u>
<b>As at 6 January 2015</b>		
Trade and other payables	<u>15,847</u>	<u>15,847</u>
	<u>15,847</u>	<u>15,847</u>

#### IV SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2016 and up to the date of this report. No dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2016.



## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following information does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, the reporting accountant of the Company, as set forth in Appendix I to this prospectus, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section entitled "Financial Information" in this prospectus and the "Accountant's Report" set forth in Appendix I to this prospectus.

### A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of the Group prepared in accordance with Rule 7.31 of the GEM Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Global Offering on the net tangible assets of the Group attributable to the owners of the Company as at 31 December 2016 as if the Global Offering had taken place on 31 December 2016.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at 31 December 2016 or at any future dates following the Global Offering.

	<b>Audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 December 2016</b>	<b>Estimated net proceeds from the Global Offering</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of the Company as at 31 December 2016</b>	<b>Unaudited pro forma adjusted net tangible assets per Offer Share</b>	
	<i>RMB'000</i> <i>(Note 1)</i>	<i>RMB'000</i> <i>(Note 2)</i>	<i>RMB'000</i>	<i>RMB</i> <i>(Note 3)</i>	<i>HK\$</i> <i>(Note 4)</i>
Based on the Offer Price of HK\$1.40 per Offer Share	<u>206,861</u>	<u>225,677</u>	<u>432,538</u>	<u>0.54</u>	<u>0.60</u>
Based on the Offer Price of HK\$1.70 per Offer Share	<u>206,861</u>	<u>277,673</u>	<u>484,534</u>	<u>0.61</u>	<u>0.68</u>

Notes:

- (1) The audited consolidated net tangible assets attributable to the owners of the Company as at 31 December 2016 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to the owners of the Company as at 31 December 2016 of approximately RMB207,837,000 less goodwill of approximately RMB976,000 as at 31 December 2016.

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## APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION

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- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$1.40 per Offer Share and HK\$1.70 per Offer Share, being low and high end of the indicative Offer Price range, after deduction of the underwriting fees and other related expenses (excluding approximately listing expenses of RMB3,983,000 and RMB10,843,000 which have been accounted for in the consolidated statements of comprehensive income for the two years ended 31 December 2015 and 2016, respectively).
- (3) The unaudited pro forma net tangible assets per Offer Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 800,000,000 Offer Shares were in issue assuming that the Global Offering and the Capitalisation Issue have been completed on 31 December 2016 but takes no account of any Offer Shares which may be issued upon the exercise of the Over-allotment Option and may be allocated and issued or repurchased by the Company pursuant to the Issuing Mandate given to our Directors to issue or repurchase Offer Shares as described in the section headed “Share Capital” in this prospectus.
- (4) For the purpose of the unaudited pro forma statement of adjusted net tangible assets, the translation of HK\$ into RMB was at rate of HK\$1.00 to RMB0.8981.
- (5) No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2016.

**B.    REPORT FROM THE REPORTING ACCOUNTANT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report received from the Company’s reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.*



羅兵咸永道

**INDEPENDENT REPORTING ACCOUNTANT’S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

**To the directors of New Headline Holdings Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of New Headline Holdings Limited (the “Company”) and its subsidiaries (collectively the “Group”) by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 31 December 2016, and related notes (the “Unaudited Pro Forma Financial Information”) as set out on pages II-1 to II-2 of the Company’s prospectus dated 30 June 2017, in connection with the proposed initial public offering of the shares of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed initial public offering of the shares of the Company on the Group’s financial position as at 31 December 2016 as if the proposed initial public offering of the shares of the Company had taken place at 31 December 2016. As part of this process, information about the Group’s financial position has been extracted by the directors from the Group’s financial information for the year ended 31 December 2016, on which an Accountant’s Report has been published.

**Directors’ Responsibility for the Unaudited Pro Forma Financial Information**

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“AG 7”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

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***Our Independence and Quality Control***

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountant's Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering of the shares of the Company at 31 December 2016 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the

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**APPENDIX II            UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the Listing Rules.

**PricewaterhouseCoopers**  
Certified Public Accountants  
Hong Kong, 30 June 2017

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## APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 30 October 2013 under the Cayman Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (the "Memorandum") and its Amended and Restated Articles of Association (the "Articles").

### 1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since the Company is an exempted company, that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

### 2. ARTICLES OF ASSOCIATION

The Articles were adopted on 26 June 2017. A summary of certain provisions of the Articles is set out below.

#### (a) Shares

##### (i) Classes of shares

The share capital of the Company consists of ordinary shares.

##### (ii) Variation of rights of existing shares or classes of shares

Subject to the Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Articles relating to general meetings shall *mutatis mutandis* apply to every such separate general meeting, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or, in the case of a shareholder being a corporation, by its duly authorized

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## APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

### (iii) **Alteration of capital**

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorised and subject to any conditions prescribed by law.

### (iv) **Transfer of shares**

Subject to the Cayman Companies Law and the requirements of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register. Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on

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## **APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW**

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any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

### **(v) Power of the Company to purchase its own shares**

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

### **(vi) Power of any subsidiary of the Company to own shares in the Company**

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.



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## APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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### (vii) Calls on shares and forfeiture of shares

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

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## APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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### (b) Directors

#### (i) Appointment, retirement and removal

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The period for lodgement of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the “retirement by rotation” provisions. The number of Directors shall not be less than two.

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## APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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The office of a Director shall be vacated if he:

- (aa) resign;
- (bb) dies;
- (cc) is declared to be of unsound mind and the Board resolves that his office be vacated;
- (dd) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (ee) he is prohibited from being or ceases to be a director by operation of law;
- (ff) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;
- (gg) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or
- (hh) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

**(ii) Power to allot and issue shares and warrants**

Subject to the provisions of the Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

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## APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

### (iii) **Power to dispose of the assets of the Company or any of its subsidiaries**

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

### (iv) **Borrowing powers**

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

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## APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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### (v) Remuneration

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, pro rata. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

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## **APPENDIX III    SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW**

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### **(vi) Compensation or payments for loss of office**

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

### **(vii) Loans and provision of security for loans to Directors**

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more of the Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

### **(viii) Disclosure of interest in contracts with the Company or any of its subsidiaries**

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

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## APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

- (aa) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; or
- (ee) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

### **Proceedings of the Board**

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

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## APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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### (c) Alterations to the constitutional documents and the Company's name

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

### (d) Meetings of member

#### (i) Special and ordinary resolutions

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

#### (ii) Voting rights and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.



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## APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

- (A) at least two members;
- (B) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (C) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

### (iii) **Annual general meetings**

The Company must hold an annual general meeting each year. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

### (iv) **Notices of meetings and business to be conducted**

An annual general meeting of the Company shall be called by at least 21 days' notice in writing, and any other general meeting of the Company shall be called by at least 14

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## APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Cayman Companies Law and the Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95% of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

### (v) **Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

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### (vi) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorised officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

### (e) Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Law (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting.

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Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarized financial statements to shareholders who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those shareholders that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

### (f) **Dividends and other methods of distribution**

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;
- (ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and
- (iii) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

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Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

- (aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

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No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

**(g) Inspection of corporate records**

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Companies Ordinance.

**(h) Rights of minorities in relation to fraud or oppression**

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

**(i) Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution among the members of the Company are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* among such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution among the members as such are insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

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If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

**(j) Subscription rights reserve**

Provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

### **3. CAYMAN ISLANDS COMPANY LAW**

The Company was incorporated in the Cayman Islands as an exempted company on 30 October 2013 subject to the Cayman Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

**(a) Company operations**

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

**(b) Share capital**

Under Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares

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in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (i) paying distributions or dividends to members;
- (ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (iii) any manner provided in section 37 of the Cayman Companies Law;
- (iv) writing-off the preliminary expenses of the company; and
- (v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

### **(c) Financial assistance to purchase shares of a company or its holding company**

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

### **(d) Purchase of shares and warrants by a company and its subsidiaries**

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of



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association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Cayman Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

### (e) **Dividends and distributions**

Subject to a solvency test, as prescribed in the Cayman Companies Law, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

### (f) **Protection of minorities and shareholders' suits**

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

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Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

### (g) **Disposal of assets**

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

### (h) **Accounting and auditing requirements**

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

### (i) **Exchange control**

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

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### **(j)    Taxation**

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company may obtain an undertaking from the Governor-in-Cabinet that:

- (i) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (ii) no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
  - (aa) on or in respect of the shares, debentures or other obligations of the Company;  
or
  - (bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

### **(k)    Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

### **(l)    Loans to directors**

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

### **(m)    Inspection of corporate records**

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

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### (n) Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands.

### (o) Register of Directors and officers

Pursuant to the Cayman Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 60 days of any change in such directors or officers, including a change of the name of such directors or officers.

### (p) Winding up

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

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As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

### (q) **Reconstructions**

Reconstructions and amalgamations may be approved by a majority in number representing 75% in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

### (r) **Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of

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the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

**(s) Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

### **4. GENERAL**

Appleby, the Company's legal adviser on Cayman Islands law, has sent to the Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

**FURTHER INFORMATION ABOUT THE COMPANY****1. Incorporation**

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 30 October 2013.

The Company has been registered in Hong Kong under Part 16 of the Companies Ordinance as a non-Hong Kong company on 29 July 2016 and its principal place of business in Hong Kong is at Level 27, World Wide House, 19 Des Voeux Road, Central, Hong Kong. In compliance with the requirements of the Companies Ordinance, Ms. Ho Nga Yee has been appointed as its agent for the acceptance of service of process and any notice required to be served on the Company in Hong Kong.

The Company was incorporated in the Cayman Islands and is subject to the Cayman Islands law. Its constitution comprises a memorandum of association and articles of association. A summary of certain relevant parts of its constitution and certain relevant aspects of the Companies Law is set out in Appendix III to this prospectus.

**2. Changes in Share Capital of the Company****(a) *Authorised share capital***

- (i) As at the date of incorporation of our Company on 30 October 2013, our authorized share capital was US\$50,000 divided into 50,000 shares having a par value of US\$1.00 each. On the date of incorporation, 1 Share at par US\$1.00 was allotted and issued to Mr. Lin.
- (ii) On 2 May 2014, 1 Share was transferred from Mr. Lin to Best Talent Asia for a consideration of US\$1.00.
- (iii) On 31 December 2014, 18, 33, 30 and 18 Shares were further allotted and issued to Best Talent Asia, Glorious Prosperity, Keen Smart and HK Zhiyuan for a consideration of HK\$9.5 million, HK\$16.5million, HK\$15.0 million and HK\$9.0 million, respectively. Following completion of the allotment, Best Talent Asia became the register holder of 19 Shares of the Company, Glorious Prosperity became the registered holder of 33 shares of the Company, Keen Smart became the registered holder of 30 shares of the Company and HK Zhiyuan became the registered holder of 18 Shares of the Company.
- (iv) On 26 June 2017, each issued and unissued share of a par value of US\$1.00 in the share capital of the Company was sub-divided into 100 shares of a par value of US\$0.01 each (“**Share Subdivision**”). Upon Share Subdivision, the authorized share capital of the Company was US\$50,000 divided into 5,000,000 Shares of a par value of US\$0.01 each and the existing issued Shares in the issued share capital of the Company shall become 10,000 Shares of a par value of US\$0.01 each.

- (v) On 26 June 2017, the authorized share capital of the Company was further increased to US\$100,000,000 by creation of further 9,995,000,000 Shares pursuant to a resolution passed by the Shareholders.
- (vi) Immediately following completion of the Capitalisation Issue and the Global Offering but taking no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any options which have been or may be granted under the Share Option Scheme, the authorised share capital of the Company will be US\$100,000,000 divided into 10,000,000,000 Shares, of which 800,000,000 Shares will be issued fully paid or credited as fully paid, and 9,200,000,000 Shares will remain unissued.

Other than pursuant to the exercise of the Over-allotment Option and the exercise of any options which have been or may be granted under the Share Option Scheme, there is no present intention to issue any of the authorised but unissued share capital of the Company and, without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed herein and in the paragraph headed “3. Resolutions in Writing of the Shareholders passed on 26 June 2017” of this Appendix and the section headed “History and Corporate Structure”, there has been no alteration in the share capital of the Company since its incorporation.

(b) *Founder shares*

The Company has no founder shares, management shares or deferred shares.

**3. Resolutions in Writing of the Shareholders passed on 26 June 2017**

Written resolutions were passed by the Shareholders on 26 June 2017 pursuant to which, among other matters:

- (a) the Company approved and adopted the Articles of Association with effect from the Listing Date;
- (b) subdivision of each issued and unissued share of a par value of US\$1.00 in the share capital of the Company into 100 Shares of a par value of US\$0.01 each was approved. Upon Share Subdivision, the authorized share capital of the Company shall be US\$50,000 divided into 5,000,000 Shares of a par value of US\$0.01 each and the existing issued Shares in the issued share capital of the Company shall become 10,000 Shares of a par value of US\$0.01 each;
- (c) the authorized share capital of the Company was increased from US\$50,000 divided into 5,000,000 Shares of a par value of US\$0.01 each to US\$100,000,000 divided into 10,000,000,000 Shares of a par value of US\$0.01 each by the creation of 9,995,000,000 Shares of a par value of US\$0.01 each;



- (d) conditional on (aa) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus; (bb) the Offer Price having been determined; (cc) the execution and delivery of the Underwriting Agreements on or before the date as mentioned in this prospectus; and (dd) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before the day falling 30 days after the date of this prospectus;
- (i) the Global Offering and the Over-allotment Option were approved and the Directors were authorised to allot and issue the Offer Shares pursuant to the Global Offering and such number of Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option;
- (ii) (a) the rules of the Share Option Scheme, the principal terms of which are set out in paragraph 12 of this Appendix, were approved and adopted and the Directors were authorised to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected to by the Stock Exchange, and at the Directors' absolute discretion to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options which may be granted under the Share Option Scheme and to take all such steps as may be necessary, desirable or expedient to implement the Share Option Scheme; (b) the rules of the Share Award Plan, the principal terms of which are set out in paragraph 13 of this appendix, were approved and adopted, and the Directors were authorised to take all such steps as may be necessary or desirable to implement the Share Award Plan;
- (iii) conditional on the share premium account of the Company being credited as a result of the Global Offering, the Directors were authorised to capitalise US\$5,999,900 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 599,990,000 Shares for allotment and issue to holders of Shares whose names appear on the register of members of the Company at the close of business on the date prior to the Listing Date (or as the respective member(s) may direct) in proportion (as nearly as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then existing holdings in the Company and so that the Shares to be allotted and issued pursuant to this resolution should rank *pari passu* in all respects with the then existing issued Shares and the Directors were authorised to give effect to such capitalisation;
- (iv) a general unconditional mandate was given to the Directors to exercise all powers of the Company to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for allotment of Shares in lieu of the whole or in part of any dividend in accordance with the Articles of Association, or pursuant to the exercise of any options which may be granted under the Share Option Scheme or under the Share Award Plan, or under the Global Offering or the Capitalisation Issue or upon the exercise of the Over-allotment Option, with the total number of Shares not exceeding the sum of (aa) 20% of the total number of issued

Shares of the Company immediately following completion of the Global Offering and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option, and (bb) the total number of Shares of the Company which may be purchased by the Company pursuant to the authority granted to the Directors as referred to in sub-paragraph (v) below, until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the Articles of Association, the Companies Law or any other applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to the Directors, whichever occurs first;

- (v) a general unconditional mandate (the “**Repurchase Mandate**”) was given to the Directors to exercise all powers of the Company to purchase Shares on the Stock Exchange or other stock exchange on which the securities of the Company may be listed and recognised by the SFC and the Stock Exchange for this purpose, with not more than 10% of the total number of issued Shares of the Company immediately following the completion of the Global Offering and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the Articles of Association or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to the Directors, whichever occurs first; and
- (vi) the extension of the general mandate to allot, issue and deal with Shares pursuant to paragraph (iv) above to include the total number of Shares which may be purchased or repurchased pursuant to paragraph (v) above.
- (e) the Company approved the form and substance of each of the service agreements made between our executive Directors, non-executive Directors and independent non-executive Directors with us.

#### 4. Changes in share capital of subsidiaries

The Company’s subsidiaries as at 31 December 2016 are set out under the financial statement in the Accountant’s Report as included in Appendix I to this prospectus.

Save as disclosed in the section headed “History and Corporate Structure” in this prospectus, there has not been any changes in the share capital to any of our subsidiaries within the two years preceding to the date of this prospectus.

## 5. Securities repurchase mandate

### *Restriction on Share Repurchase*

The GEM Listing Rules permits companies whose primary listing is on the GEM to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarized below:

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

#### (a) *Shareholders' approval*

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholder, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution in writing passed by the Shareholders on 26 June 2017, the Repurchase Mandate was given to the Directors authorising any repurchase by the Company of Shares on the Stock Exchange or any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of up to 10% of the total number of issued Shares of the Company immediately following completion of the Global Offering and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the Share Option Scheme such mandate to expire at the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the Articles of Association or applicable Cayman Islands law to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to the Directors, whichever occurs first.

#### (b) *Source of funds*

Repurchases must be paid out of funds legally available for the purpose in accordance with the Articles of Association and the Companies Law. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Under the Cayman Islands laws, any repurchases by the Company may be made out of profits of the Company or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if so authorised by the Articles of Association and subject to the provisions of the Companies Law, out of capital.

Any premium payable on a redemption or purchase over the par value of the Shares to be purchased must be provided for out of the profits of the Company or from sums standing to the credit of the share premium account of the Company or, if authorised by the Articles of Association and subject to the provisions of the Companies Law, out of capital.

(c) *Reasons for repurchases*

The Directors believe that it is in the best interest of the Company and the Shareholders for the Directors to have general authority from the Shareholders to enable the Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if the Directors believe that such repurchases will benefit the Company and the Shareholders.

(d) *Funding of repurchases*

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with the Articles of Association, the GEM Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of the Group as disclosed in this prospectus and taking into account the current working capital position of the Group, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Group as compared with the position disclosed in this prospectus. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Group or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Group.

The exercise in full of the Repurchase Mandate, on the basis of 800,000,000 Shares in issue immediately after the Listing, would result in up to 80,000,000 Shares being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

(e) *General*

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to the Company or its subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules, the Articles of Association and the applicable laws of the Cayman Islands.

If, as a result of a securities repurchase, a Shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. As a result, a Shareholder, a group of Shareholders acting in concert (within the meaning under the Takeovers Code), depending on the level of increase of such Shareholders' interest, could obtain or consolidate control of the Company and may become obliged under Rule 26 of the Takeovers Code to make a mandatory offer unless a whitewash waiver is obtained. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

The Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of issued Shares (or such other percentage as may be prescribed as the minimum public shareholding under the GEM Listing Rules).

No core connected person (as defined in the GEM Listing Rules) of the Company has notified the Company that he/she/it has a present intention to sell Shares to the Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

## FURTHER INFORMATION ABOUT THE BUSINESS OF THE COMPANY

### 6. Summary of Material Contracts


The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this prospectus and are or may be material:

- (a) the Deed of Indemnity;
- (b) the Deed of Non-Competition; and
- (c) the Hong Kong Underwriting Agreement.








### 7. Intellectual Property Rights

#### (a) Trademarks

As of the Latest Practicable Date, we have registered the following trademarks which, in the opinion of our Directors, are material to our business:

No.	Trademark	Place of Registration	Class(es)	Registration Number	Duration
1		HK	19,35,36,37,40,42,44	303783196	20 May 2016 to 19 May 2026

As of the Latest Practicable Date, the Group had made applications for registration of the following material trademarks:

No.	Trademark	Place of Registration	Class	Application Number	Application Date
1.		PRC	19	20072360	24 May 2016
2.		PRC	35	20072654	24 May 2016
3.		PRC	36	20072642	24 May 2016
4.		PRC	37	20072705	24 May 2016
5.		PRC	40	20072830	24 May 2016
6.		PRC	42	20072976	24 May 2016
7.		PRC	44	20073047	24 May 2016

(b) *Domain Names*

As of the Latest Practicable Date, the Group had the following material registered domain name:

Name of Registrant	Domain name	Date of registration	Expiry date
New Headline (Hong Kong)	www.newheadline.com.cn	14 November 2013	14 November 2021
New Headline (Hong Kong)	www.newheadline.com.hk	14 November 2013	14 November 2021
New Headline (Hong Kong)	www.newheadline.hk	18 May 2016	18 May 2019
New Headline (Hong Kong)	www.newheadline.com	26 December 2012	26 December 2021

Save as disclosed above, the Group was not the registered proprietor or beneficial owner of any registered trademarks, patents or other intellectual property rights and the Group was not the applicant of any trademark applications or patent applications or other applications of intellectual property rights, which are or may be material in relation to our Group's business.

**8. Connected transactions and related party transactions**

Save as disclosed in the sections headed “Business”, “Relationship with the Controlling Shareholders”, “Connected Transactions” and in note 29 in the Accountant’s Report, the text of which is set out in Appendix I to this prospectus, during the two years immediately preceding the date of this prospectus, our Company has not engaged in any other material connected transactions or related party transactions.

**FURTHER INFORMATION ABOUT DIRECTORS AND SHAREHOLDERS****9. Directors****(a) Particulars of Directors’ service contracts***Executive Directors*

The executive Directors have entered into a service contract with the Company for a term of three years commencing from the Listing Date until terminated by not less than three months’ notice in writing served by either party on the other. The executive Directors are entitled to their respective basic remuneration under such service contract set out below.

The current basic annual remuneration payable by our Group to the executive Directors is as follows:

<b>Name</b>	<b>Annual remuneration (HK\$)</b>
Ms. Xie Birui	120,000
Ms. Zhang Delan	120,000
Mr. Su Haishan	120,000

*Non-executive Director*

The non-executive Director has entered into a service contract with the Company for a term of three years commencing from the Listing Date until terminated by not less than three months’ notice in writing served by either party on the other. The non-executive Director is entitled to a basic remuneration under such service contract set out below.

The current basic annual remuneration payable by our Group to the non-executive Director is as follows:

<b>Name</b>	<b>Annual remuneration (HK\$)</b>
Mr. Wei Hua	120,000

*Independent Non-executive Directors*

Each of the independent non-executive Directors has been appointed for an initial term of three years commencing from Listing Date until terminated by either party giving not less than three months' written notice to the other expiring at the end of the initial term of their appointment or any time thereafter. The appointments are subject to the provisions of the Articles of Association with regard to vacation of office of Directors, removal and retirement by rotation of Directors. Each of the independent non-executive Directors is entitled to a director's fee of HK\$120,000 per annum. Save for directors' fees, none of the independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

Save as aforesaid, none of the Directors has or is proposed to have a service contract with our Company or any of our subsidiaries other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

**(c) Directors remuneration**

- (i) The aggregate emoluments paid or payable and benefits in kind granted by our Group to the Directors in respect of the three financial years ended 31 December 2016 were approximately RMB0.8 million, RMB1.4 million and RMB1.5 million, respectively.
- (ii) Under the arrangements currently in force, the aggregate emoluments (excluding discretionary bonus) payable by our Group to and benefits in kind receivable by the Directors (including the independent non-executive Directors in their respective capacity as Directors) for the year ending 31 December 2017 are expected to be approximately RMB2.3 million.
- (iii) None of the Directors or any past directors of any member of our Group has been paid any sum of money for each of the three financial years ended 31 December 2016 (i) as an inducement to join or upon joining our Group or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (iv) There has been no arrangement under which a Director has waived or agreed to any emoluments for each of the three financial years ended 31 December 2016.



(d) *Interests and short positions of Directors and chief executive in the shares, underlying shares or debentures of the Company and its associated corporations*

Immediately following completion of the Capitalisation Issue and the Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the options which have been or may be granted under the Share Option Scheme, the interests and short positions of the Directors and chief executive in the shares, underlying shares or debentures of the Company and our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, once the Shares are listed, will be as follows:

*The Company*

<b>Director</b>	<b>Nature of interest</b>	<b>Number and class of securities<sup>(1)</sup></b>	<b>Approximate shareholding percentage</b>
Ms. Xie	Interest of spouse <sup>(2)</sup>	492,000,000 Shares (L)	61.5%
Mr. Wei	Interest in controlled corporations <sup>(2)</sup>	492,000,000 Shares (L)	61.5%

*Notes:*

- (1) The letter “L” denotes the Directors’ long position in the Shares.
- (2) The Company will be held as to approximately 24.75%, 22.50% and 14.25% by Glorious Prosperity, Keen Smart and Best Talent Asia, respectively, immediately following the completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option and the options which have been or may be granted under the Share Option Scheme). Each of Glorious Prosperity, Keen Smart and Best Talent Asia is held as to 100% by Mr. Wei. Ms. Xie is the spouse of Mr. Wei. By virtue of the SFO, Ms. Xie is deemed to be interested in the Shares which Mr. Wei is interested in.

## 10. Substantial Shareholders

So far as is known to the Directors, immediately following completion of the Capitalisation Issue and the Global Offering (without taking account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and the options which have been or may be granted under the Share Option Scheme), the following persons (other than the Directors and chief executive) will have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly

or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of members of our Group:

### The Company

Shareholders	Capacity / Nature of interest	Number and class of securities <sup>(1)</sup>	Approximate percentage of interest in the Company
Glorious Prosperity <sup>(2)</sup>	Beneficial owner	198,000,000 Shares (L)	24.75%
Keen Smart <sup>(3)</sup>	Beneficial owner	180,000,000 Shares (L)	22.50%
Best Talent Asia <sup>(4)</sup>	Beneficial owner	114,000,000 Shares (L)	14.25%
HK Zhiyuan <sup>(5)</sup>	Beneficial owner	108,000,000 Shares (L)	13.50%
NH Development <sup>(5)</sup>	Interest of controlled corporation	108,000,000 Shares (L)	13.50%
Lianyungang Municipal Government <sup>(5)</sup>	Interest of controlled corporation	108,000,000 Shares (L)	13.50%

#### Notes:

- (1) The letter “L” denotes a person’s long position (as defined under Part XV of the SFO) in the Shares.
- (2) Glorious Prosperity is held as to 100% by Mr. Wei. Therefore, Mr. Wei is deemed to be interested in the Shares which Glorious Prosperity is interested in by virtue of the SFO.
- (3) Keen Smart is held as to 100% by Mr. Wei. Therefore, Mr. Wei is deemed to be interested in the Shares which Keen Smart is interested in by virtue of the SFO.
- (4) Best Talent Asia is held as to 100% by Mr. Wei. Therefore, Mr. Wei is deemed to be interested in the Shares which Best Talent Asia is interested in by virtue of the SFO.
- (5) The disclosed interest represents the interest in HK Zhiyuan held as to 100% by NH Development, which in turn is held as to 100% by Lianyungang Municipal Government. By virtue of the SFO, NH Development is deemed to be interested in the Shares which HK Zhiyuan is interested in and Lianyungang Municipal Government is deemed to be interested in the Shares which NH Development is interested in.

**11. Disclaimers**

Save as disclosed in this prospectus and as at the Latest Practicable Date:

- (a) and taking no account of any Shares which may be taken up or acquired under the Global Offering or upon the exercise of the Over-allotment Option and any options which have been or may be granted under the Share Option Scheme, our Directors are not aware of any other person (not being a Director or the chief executive of the Company) who will, immediately following completion of the Capitalisation Issue and the Global Offering, have interests and/or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of the share capital of the Company carrying rights to vote in all circumstances at general meetings of the Company;
- (b) none of our Directors or the chief executive of the Company has any interest or short position in the Shares, underlying Shares or debentures of the Company, our subsidiary or any of the associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange pursuant to the Rules 5.46 to 5.67 of the GEM Listing Rules, in each case once the Shares are listed;
- (c) none of our Directors nor any of the parties listed in the paragraph headed “21. Consents of Experts” of this Appendix was interested, directly or indirectly, in the promotion of, or in any assets which had been, within the two years immediately preceding the date of this Prospectus, acquired or disposed of by or leased to the Company or any of the subsidiaries of the Company, or were proposed to be acquired or disposed of by or leased to the Company or any member of the Group nor will any Director apply for the Offer Shares either in his own name or in the name of a nominee;
- (d) none of our Directors nor any of the parties listed in the paragraph headed “21. Consents of Experts” of this Appendix was materially interested in any contract or arrangement subsisting at the date of this prospectus which was significant to the business of the Group taken as a whole;
- (e) save in connection with the Underwriting Agreements, none of the experts referred to in the paragraph headed “21. Consents of Experts” of this Appendix:
  - (i) is interested legally or beneficially in any securities of any member of our Group; or
  - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and

- (f) Our Directors or their respective associates or, to the knowledge of the Directors, any Shareholders who held more than 5% of the total Shares as at the Latest Practicable Date had any interest in the five largest customers or the five largest suppliers of the Company.

## OTHER INFORMATION

### 12. Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by the written resolutions of the Shareholders passed on 26 June 2017. The terms of the Share Option Scheme are in compliance with the provisions of Chapter 23 of the GEM Listing Rules.

#### (a) *Purpose*

The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions the Eligible Participants (as defined in paragraph (b) below) have had or may have made to the Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

- (i) motivating the Eligible Participants to optimise their performance efficiency for the benefit of the Group; and
- (ii) attracting and retaining or otherwise maintaining on-going business relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

#### (b) *Who may join*

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph (f) below to the following persons (“**Eligible Participants**”):

- (i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;
- (ii) any Directors (including non-executive Directors and independent non-executive Directors) of the Company or any of its subsidiaries;
- (iii) any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries; and

(iv) such other persons who, in the sole opinion of the Board, will contribute or have contributed to the Group, the assessment criteria of which are:

(aa) contribution to the development and performance of the Group;

(bb) quality of work performed for the Group;

(cc) initiative and commitment in performing his/her duties; and

(dd) length of service or contribution to the Group.

(c) *Acceptance of an offer of options*

An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptance of the options duly signed by the grantee, together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant thereof, is received by the Company on or before the relevant acceptance date. Such payment shall in no circumstances be refundable. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

Subject to paragraphs (l), (m), (n), (o) and (p), an option shall be exercised in whole or in part and, other than where it is exercised to the full extent outstanding, shall be exercised in integral multiples of such number of Shares as shall represent one board lot for dealing in Shares on the Stock Exchange for the time being, by the grantee by giving notice in writing to the Company stating that the option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the exercise price for the Shares in respect of which the notice is given.

Within 21 days after receipt of the notice and the remittance and, where appropriate, receipt of the certificate by the auditors to the Company or the approved independent financial adviser as the case may be pursuant to paragraph (r), the Company shall allot and issue the relevant number of Shares to the grantee credited as fully paid and issue to the grantee certificates in respect of the Shares so allotted.

The exercise of any option shall be subject to the Shareholders in general meeting approving any necessary increase in the authorised share capital of the Company.

(d) *Maximum number of Shares*

The maximum number of Shares in respect of which options may be granted (including Shares in respect of which options, whether exercised or still outstanding, have already been granted) under the Share Option Scheme and under any other share option schemes of the Company must not in

aggregate exceed 10% of the total number of Shares in issue on the Listing Date, being 80,000,000 Shares (the “**Scheme Limit**”), excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company). Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the GEM Listing Rules from time to time, the Board may:

- (i) renew this limit at any time to 10% of the Shares in issue (the “**New Scheme Limit**”) as at the date of the approval by the Shareholders in general meeting; and/or
- (ii) grant options beyond the Scheme Limit to Eligible Participants specifically identified by the Board. The circular issued by the Company to the Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 23.02(2)(d) and the disclaimer required under Rule 23.02(4) of the GEM Listing Rules.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the Shares in issue from time to time (the “**Maximum Limit**”). No options shall be granted under any schemes of the Company (including the Share Option Scheme) if this will result in the Maximum Limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of the Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of the Company in accordance with paragraph (r) below whether by way of capitalisation issue, rights issue, consolidation, sub-division of shares or reduction of the share capital of the Company but in no event shall exceed the limit prescribed in this paragraph.

(e) *Maximum number of options to any one individual*

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised, outstanding options and Shares which were the subject of options which have been granted and accepted under the Share Option Scheme or any other scheme of the Company but subsequently cancelled (the “**Cancelled Shares**”) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to:

- (i) the issue of a circular by the Company containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant) the information as required under Rule 23.02(2)(d) and the disclaimer required under Rule 23.02(4) of the GEM Listing Rules; and

(ii) the approval of the Shareholders in general meeting and/or other requirements prescribed under the GEM Listing Rules from time to time with such Eligible Participant and his/her associates (as defined in the GEM Listing Rules) abstaining from voting. The numbers and terms (including the exercise price) of options to be granted to such participant must be fixed before the Shareholders' approval and the date of the Board meeting at which the Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the subscription price of the Shares. The Board shall forward to such Eligible Participant an offer document in such form as the Board may from time to time determine or, alternatively, documents accompanying the offer document which state, among other things:

(aa) the Eligible Participant's name, address and occupation;

(bb) the date on which an option is offered to an Eligible Participant which must be a date on which the Stock Exchange is open for the business of dealing in securities;

(cc) the date upon which an offer for an option must be accepted;

(dd) the date upon which an option is deemed to be granted and accepted in accordance with paragraph (c);

(ee) the number of Shares in respect of which the option is offered;

(ff) the subscription price and the manner of payment of such price for the Shares on and in consequence of the exercise of the option;

(gg) the date of the notice given by the grantee in respect of the exercise of the option; and

(hh) the method of acceptance of the option which shall, unless the Board otherwise determines, be as set out in paragraph (c).

(f) ***Price of Shares***

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of:

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;

(ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and

(iii) the nominal value of a Share.

(g) *Granting options to connected persons*

Any grant of options to a Director, chief executive or substantial shareholder (as defined in the GEM Listing Rules) of the Company or any of their respective associates (as defined in the GEM Listing Rules) is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options). If the Board proposes to grant options to a substantial shareholder or any independent non-executive Director or their respective associates (as defined in the GEM Listing Rules) which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) such person in the 12-month period up to and including the date of such grant:

- (a) representing in aggregate over 0.1% of the Shares in issue; and
- (b) having an aggregate value in excess of HK\$5 million or such other sum as may be from time to time provided under the GEM Listing Rules, based on the closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange at the date of each grant, such further grant of options will be subject to the approval of the independent non-executive Directors as referred to in this paragraph, the issue of a circular by the Company and the approval of the Shareholders in general meeting on a poll at which all core connected persons (as defined in the GEM Listing Rules) of the Company shall abstain from voting in favour, and/or such other requirements prescribed under the GEM Listing Rules from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.
- (c) The circular to be issued by the Company to the Shareholders pursuant to the above paragraph shall contain the following information:
  - (i) the details of the number and terms (including the exercise price) of the options to be granted to each selected Eligible Participant, which must be fixed before the Shareholders' meeting and the date of the Board meeting for proposing such further grant shall be taken as the date of grant for the purpose of calculating the exercise price of such options;
  - (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to the independent Shareholders as to voting;
  - (iii) the information required under Rule 23.02(2)(c) and (d) and the disclaimer required under Rule 23.02(4) of the GEM Listing Rules; and
  - (iv) the information required under Rule 2.28 of the GEM Listing Rules.



(h) *Restrictions on the times of grant of Options*

A grant of options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the GEM Listing Rules. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

- (i) the date of the Board meeting (such date to first be notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or other interim period (whether or not required under the GEM Listing Rules); and
- (ii) the deadline for the Company to publish an announcement of the results for any year, or half-year, or quarterly or other interim period (whether or not required under the GEM Listing Rules); and ending on the date of actual publication of the results announcement.

(i) *Rights are personal to grantee*

An option is personal to the grantee. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any option or attempt so to do (save that the grantee may nominate a nominee in whose name the Shares issued pursuant to the Share Option Scheme may be registered). Any breach of the foregoing shall entitle the Company to cancel any outstanding options or any part thereof granted to such grantee.

(j) *Time of exercise of option and duration of the Share Option Scheme*

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of ten years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than ten years after it has been granted. No option may be granted more than 10 years after the date of approval of the Share Option Scheme by the Shareholders of the Company (the "**Adoption Date**"). Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the Adoption Date.

(k) *Performance target*

A grantee may be required to achieve any performance targets as the Board may then specify in the grant before any options granted under the Share Option Scheme can be exercised.

(l) *Rights on ceasing employment/death*

If the grantee of an option ceases to be an Eligible Participant:

- (i) by any reason other than death, ill-health, injury, disability or termination of his/her relationship with the Company and/or any of its subsidiaries on one or more of the grounds specified in paragraph (m) below, the grantee may exercise the option up to the entitlement of the grantee as at the date of cessation (to the extent not already exercised) within a period of one month (or such longer period as the Board may determine) from such cessation which date shall be the last actual working day with the Company or the relevant subsidiary whether salary is paid in lieu of notice or not, failing which it will lapse (or such longer period as the Company may determine); or
- (ii) by reason of death, ill-health, injury or disability (all evidenced to the satisfaction of the Board) and none of the events which would be a ground for termination of his relationship with the Company and/or any of its subsidiaries under paragraph (m) has occurred, the grantee or his personal representative(s) may exercise the option within a period of 12 months (or such longer period as the Board may determine) from the date of cessation of being an Eligible Participant or death to exercise the Options in full (to the extent not already exercised).

(m) *Rights on dismissal*

If the grantee of an option ceases to be an Eligible Participant on the grounds that he has been guilty of serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his/her creditors generally, or has been convicted of any criminal offence involving his/her integrity or honesty, his/her option will lapse and not be exercisable after the date of termination of his/her employment.

(n) *Rights on takeover*

If a general offer is made to all the Shareholders (or all such Shareholders other than the offer or and/or any person controlled by the offer or and/or any person acting in concert with the offer or (as defined in the Takeovers Code)) and such offer becomes or is declared unconditional during the option period of the relevant option, the grantee of an option shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

(o) *Rights on winding-up*

In the event that a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall forthwith give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two Business Days prior to the proposed general meeting of the Company referred to above by giving notice in writing to the Company,

accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given, whereupon the Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting, allot the relevant Shares to the grantee credited as fully paid.

(p) ***Rights on compromise or arrangement between the Company and its members or creditors***

If a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of a scheme for the reconstruction of the Company or its amalgamation with any other companies pursuant to the laws of the jurisdiction in which the Company was incorporated, the Company shall give notice to all the grantees of the options on the same day as it gives notice of the meeting to its members or creditors summoning the meeting to consider such a scheme or arrangement and any grantee may by notice in writing to the Company accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given (such notice to be received by the Company no later than two business days prior to the proposed meeting), exercise the option to its full extent or to the extent specified in the notice and the Company shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise of the option credited as fully paid and register the grantee as holder thereof.

With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. If for any reason such compromise or arrangement does not become effective and is terminated or lapses, the rights of grantees to exercise their respective options shall with effect from such termination be restored in full but only upon the extent not already exercised and shall become exercisable.

(q) ***Ranking of Shares***

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank *pari passu* and shall have the same voting, dividend, transfer and other rights (including those arising on liquidation) as are attached to the other fully-paid Shares in issue on the date of exercise, save that they will not rank for any dividend or other distribution declared or recommended or resolved to be paid or made by reference to a record date falling on or before the date of exercise.

(r) ***Effect of alterations to capital***

In the event of any alteration in the capital structure of the Company whilst any option may become or remains exercisable, whether by way of capitalisation issue, rights issue, consolidation, subdivision or reduction of share capital of the Company, such corresponding alterations (if any) shall be made in the number of Shares subject to any outstanding options and/or the subscription price per Share of each outstanding option as the auditors of the Company or an independent financial adviser shall certify in writing to the Board to be in their/his opinion fair and reasonable in compliance with Rule 23.03(13) of the GEM Listing Rules and the note thereto and the supplementary guidance

attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes. The capacity of the auditors of the Company or the approved independent financial adviser, as the case may be, in this paragraph is that of experts and not arbitrators and their certificate shall, in the absence of manifest error, be final and conclusive and binding on the Company and the grantees.

Any such alterations will be made on the basis that a grantee shall have the same proportion of the equity capital of the Company (as interpreted in accordance with the supplementary guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes) for which any grantee of an option is entitled to subscribe pursuant to the options held by him before such alteration provided that no such alteration shall be made if the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

(s) ***Expiry of option***

An option shall lapse automatically and shall not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the option as may be determined by the Board;
- (ii) the expiry of any of the periods referred to in paragraphs (l), (m), (n); or
- (iii) the date upon which the scheme of arrangement of the Company referred to in paragraph (p) becomes effective;
- (iv) subject to paragraph (o), the date of commencement of the winding-up of the Company;
- (v) the date upon which the grantee ceases to be an Eligible Participant by reason of such grantee's resignation from the employment of the Company or any of its subsidiaries or the termination of his or her employment or contract on the grounds that he or she has been guilty of serious misconduct, or has committed any act of bankruptcy or is unable to pay his or her debts or has become insolvent or has made any arrangement or has compromised with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty or has been in breach of contract. A resolution of the Board to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; or
- (vi) the date upon which the Board shall exercise the Company's right to cancel the option at any time after the grantee commits a breach of paragraph (i) above or the options are cancelled in accordance with paragraph (u) below.

(t) *Alteration of the Share Option Scheme*

The Share Option Scheme may be altered in any respect by resolution of the Board except that:

- (i) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 23.03 of the GEM Listing Rules; and
- (ii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted, shall first be approved by the Shareholders in general meeting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the Share Option Scheme. The amended terms and any adjustment to be made to the exercise price of the Share Option Scheme shall still comply with Chapter 23 of the GEM Listing Rules, the supplemental guidance of 5 September 2005 and any future guidance or interpretation of the GEM Listing Rules from time to time and any change to the authority of the Board in relation to any alteration to the terms of the Share Option Scheme must be approved by the Shareholders in general meeting.

(u) *Cancellation of Options*

Any cancellation of options granted but not exercised must be approved by the grantees of the relevant options in writing. For the avoidance of doubt, such approval is not required in the event that any option is cancelled pursuant to paragraph (i).

(v) *Termination of the Share Option Scheme*

The Company may by resolution in general meeting or the Board may at any time terminate the Share Option Scheme and in such event no further option shall be offered but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(w) *Administration of the Board*

The Share Option Scheme shall be subject to the administration of the Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all parties.

**(x) *Conditions of the Share Option Scheme***

The Share Option Scheme is conditional on:

- (i) the Listing Committee granting the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of options to be granted under the Share Option Scheme;
- (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s) by the Sole Lead Manager (for itself and on behalf of the Underwriters)) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise; and
- (iii) the commencement of dealings in the Shares on the Stock Exchange.

If the conditions in paragraph (x) above are not satisfied within 12 calendar months from the Adoption Date:

- (i) the Share Option Scheme shall forthwith determine;
- (ii) any option granted or agreed to be granted pursuant to the Share Option Scheme and any offer of such a grant shall be of no effect; and
- (iii) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme or any option granted there under.

**(y) *Disclosure in annual and interim reports***

The Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the GEM Listing Rules in force from time to time.

As at the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme, being 80,000,000 Shares in total.

### 13. Share Award Plan

#### (a) *Summary of terms*

The following is a summary of the principal terms of the Share Award Plan conditionally adopted by a resolution passed by the Shareholders on 26 June 2017:

#### (i) *Purposes of the plan*

The purpose of the Share Award Plan is to recognise and reward the contribution of certain selected participants to the growth and development of our Group, to give incentives thereto in order to retain them for the continual operation and development of our Group and to attract suitable personnel for further development of our Group through an award of Shares.

#### (ii) *Who may join*

The Share Award Plan shall be subject to the administration of the Board, or such committee or such sub-committee or person(s) delegated with the power and authority by the Board to administer the Plan. The Board shall, subject to and in accordance with the rules of the Share Award Plan, be entitled to make and award of Shares to any person belonging to any of the following classes of participants:

- (aa) any employee (whether full-time or part-time, including any executive director but excluding any non-executive director, and including any person who has entered into an employment contract with us, provided that the commencement date of his tenure under the employment contract shall fall on a date before the vesting date and such employment contract shall remain valid and subsisting up to and including the vesting date, and provided further that, for the purpose of paragraph (xi) below, such person shall not be regarded as Eligible Employee if he dies before the commencement date of his tenure under the employment contract) of our Company, any of our subsidiaries or any entity (“**Invested Entity**”) in which any member of us holds an equity interest (“**Eligible Employee**”);
- (bb) any non-executive directors (including independent non-executive directors) of our Company, any of our subsidiaries or any Invested Entity;
- (cc) any supplier of goods or services to any member of us or any Invested Entity;
- (dd) any customer of any member of us or any Invested Entity;
- (ee) any person or entity that provides research, development or other technological support to any member of us or any Invested Entity;
- (ff) any shareholder of any member of us or any Invested Entity or any holder of any securities issued by any member of us or any Invested Entity;

- (gg) any advisor (professional or otherwise) or consultant to any area of business or business development of any member of us or any Invested Entity; and
- (hh) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to our development and growth;

and, for the purposes of the Share Award Plan, the award may be made to any company wholly-owned by one or more of the above participants.

The eligibility of any of the above classes of participants to an award shall be determined by the Board from time to time on the basis of the Board's opinion as to his contribution and/or future contribution to the development and growth of our Group.

(iii) *Award of Shares and pool of awarded Shares*

The Board shall notify the Share Award Plan Trustee in writing upon the making of an award to an eligible participant (the "**Selected Participant**") under the Share Award Plan. Upon the receipt of such notice, the Share Award Plan Trustee shall set aside the appropriate number of awarded Shares pending the transfer and vesting of the same to the Selected Participant out of a pool of Shares comprising the following:

- (aa) such Shares as may be (1) transferred to the Share Award Plan Trustee (or Share Award Plan SPV, if so established and subsisting and authorised by the Share Award Plan Trustee) from any person (other than our Group) by way of gift, or (2) purchased by the Share Award Plan Trustee (or Share Award Plan SPV, if so established and subsisting and authorised by the Share Award Plan Trustee) by utilising the funds received by the Share Award Plan Trustee (or via Share Award Plan SPV, if so established and subsisting) by way of gift or for nominal consideration, but subject to the limitations set out in paragraph (v) below;
- (bb) such Shares as may be subscribed or purchased by the Share Award Plan Trustee (or Share Award Plan SPV, if so established and subsisting and authorised by the Share Award Plan Trustee) by utilising the funds allocated by the Board out of our resources ("Group Contribution"), but subject to the limitations set out in paragraph (v) below;
- (cc) such Shares as may be purchased by the Share Award plan Trustee (or Share Award Plan SPV, if so established and subsisting and authorised by the Share Award Plan Trustee) by utilising any surplus gift contribution, or as the case may be, the net proceeds of the sale of the relevant nil-paid rights, options or warrants allocated to it in respect of awarded Shares as described in paragraph (ix)(bb) below; and
- (dd) such Shares which remain unvested and revert to the Share Award Plan Trustee (or via Share Award Plan SPV, if so established and subsisting) in accordance with the rules of the Share Award Plan.



The making of an award to any connected person must be approved by a majority of the independent non-executive Directors at the relevant time. Our Company will comply with the applicable provisions of Chapter 20 of the GEM Listing Rules when making awards to connected persons.

After an award is made, the Board shall notify the Selected Participant who may decline to accept such award by notifying us in writing within the prescribed period in accordance with the rules of the Share Award Plan. Unless so declined by the Selected Participant, the award shall be deemed irrevocably accepted by the Selected Participant.

(iv) *Subscription and purchase of Shares by the Share Award Plan Trustee*

(aa) The Share Award Plan Trustee (or Share Award Plan SPV, if so established and subsisting and delegated by the Share Award Plan Trustee) may purchase Shares on the Stock Exchange at the prevailing market price or off the market. In respect of off-market transactions, purchases shall not be made with any connected person, nor shall the purchase price be higher than the lower of the following: (1) the closing market price on the date of such purchase, and (2) the average closing market price for the five preceding trading days on which our Shares were traded on the Stock Exchange.

(bb) In the event that the Board considers it appropriate for the Share Award Plan Trustee to subscribe Shares by utilising the Group Contribution, the Share Award Plan Trustee shall, upon the instructions of the Board, apply to our Company for the allotment and issue of the appropriate number of new Shares at par or at such other subscription price as instructed by the Board. Prior Shareholders' approval is not required for the Directors to allot and issue new Shares under the Share Award Plan to the Share Award Plan Trustee provided that the Directors have sufficient unissued shares within the general mandate on hand, subject to the limitations set out in paragraph (v) below and any allotment and issue of Shares shall only be made after the Listing Committee of the Stock Exchange has granted the listing of and permission to deal in such Shares.

(v) *Maximum number of Shares to be subscribed and purchased*

At the beginning of each financial year of our Group, the Board shall (after having regard to all our relevant circumstances and affairs (including without limitation our business and financial performance during the preceding financial year, business plans and cashflow requirements)) determine the maximum amount of the Group Contribution to be allocated to the Share Award Plan Trustee (or via Share Award Plan SPV, if so established and subsisting and authorised by the Share Award Plan Trustee) during such financial year. Notwithstanding that there may be sufficient funds in the Group Contribution, the Board shall not instruct the Share Award Plan Trustee (or Share Award Plan SPV, if so established and subsisting and authorised by the Share Award Plan Trustee) to subscribe or purchase Shares exceeding the maximum number of Shares which could be subscribed or purchased by the Share Award Plan Trustee (or via SPV, if so established and subsisting and authorised by the Share Award Plan Trustee) as may be determined by the Board for that financial year, provided

that the maximum number of Shares which may be awarded for each financial year under the Share Award Plan shall not exceed 10% of the total number of Shares in issue at the beginning of such financial year. The Board may determine from time to time the maximum number of awarded Shares which may be provisionally awarded to any Selected Participant.

(vi) *Vesting of the awarded Shares*

Subject to the rules of the Share Award Plan, the legal and beneficial ownership of the relevant awarded Shares shall vest in the relevant Selected Participant within ten business days after the latest of:

- (aa) the date specified on the notice of the award given by the Board to the Share Award Plan Trustee (which shall not be earlier than the first business day immediately following the expiry of six months after the Listing Date); and
- (bb) where applicable, the date on which the condition(s) or performance target(s) (if any) to be attained by such Selected Participant as specified in the related notice of award have been attained and notified to the Share Award Plan Trustee by the Board in writing.

(vii) *Restrictions on the time of making awards, subscription, purchase and/or vesting*

- (aa) An award or, as the case may be, any instruction of the Board to the Share Award Plan Trustee (who will authorise Share Award Plan SPV, if so established and subsisting) to subscribe or acquire Shares may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published in accordance with the Listing Rules. In particular, during the period preceding the publication of financial results in which our Directors are prohibited from dealing in Shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by us and up to the date of publication of the relevant financial results, no award may be made.
- (bb) The Board may not make an award to any of our Directors during the periods or times in which our Directors are prohibited from dealing in Shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by us.
- (cc) During the periods referred to in paragraphs (aa) and (bb) above, no purchases and/or vesting of Shares can be effected by the Share Award Plan Trustee.
- (dd) No award shall be made during the first six months after the Listing Date.

*(viii) Voting rights of the Shares in the Shares pool*

Neither the Share Award Plan Trustee nor Share Award Plan SPV (if so established and subsisting) shall exercise the voting rights in respect of the Shares held under trust, including but not limited to the Shares provisionally awarded under the Share Award Plan and Shares in the Shares pool. The Selected Participants shall not have any right to receive any awarded Shares set aside for them and all other distributions attributable thereto unless and until the Share Award Plan Trustee (via Share Award Plan SPV, if so established and subsisting) has transferred and vested the legal and beneficial ownership of such awarded Shares to and in the Selected Participants.

*(ix) Rights on distributions and equity offers*

During the vesting period of awards,

- (aa) any dividends and other distributions (“**Other Distributions**”) declared and made in respect of any awarded shares shall be held by the Share Award Plan Trustee or Share Award Plan SPV (if so established and subsisting) for the benefit of, and shall only be payable or transferrable to, the relevant Selected Participant when such awarded shares are vested in such Selected Participant in accordance with the terms of the Share Award Plan. Without prejudice to the above, with respect to any such dividends in connection with which our Company allows its Shareholders to elect to receive Shares in lieu of cash, then in respect of any awarded shares that have not been vested in the relevant Selected Participant, the Share Award Plan Trustee (after consulting the Board) shall have the right (in its absolute discretion) to determine whether it shall elect to receive Shares in lieu of cash or cash in respect of such dividends, and any such scrip dividend or cash dividend so elected and received by the Share Award Plan Trustee (or Share Award Plan SPV, if so established and subsisting) shall be treated as and constitute Other Distributions.
- (bb) if our Company offers to Shareholders new Shares or other securities for subscription by way of rights, options or warrants and no amount is required to be payable by the Shareholders for such rights, options or warrants, the Share Award Plan Trustee (or via Share Award Plan SPV, if so established and subsisting and authorised by the Share Award Plan Trustee) shall sell any nil-paid rights, options or warrants allocated to it in respect of the awarded Shares if there is any open market for such rights, options or warrants. The net proceeds of such sale (if so sold) shall be applied to purchase Shares for the Shares pool.
- (cc) if our Company offers to the Shareholders new Shares or other securities for subscription by way of rights, options, warrants or other open or preferential offer and consideration is required to be paid, the Share Award Plan Trustee shall (or via Share Award Plan SPV, if so established and subsisting and authorised by the Share Award Plan Trustee) decline to take up, purchase and/or subscribe for such rights, options, warrants or open or preferential offer.
- (dd) in case of a general or partial offer, whether by way of takeover offer, share repurchase offer or scheme of arrangement or otherwise in like manner is made to all Shareholders (or all Shareholders other than the offeror, any persons controlled by the offeror and any

persons acting in association or concert with the offeror), and such offer becomes or is declared unconditional prior to the vesting of the awarded Shares in the relevant Selected Participants, the Board shall have the right in their absolute discretion to determine whether the Share Award Plan Trustee shall elect to accept such offer. If the offer is elected to be accepted, all proceeds paid or payable to the Share Award Plan Trustee (or Share Award Plan SPV, if so established and subsisting and authorised by the Share Award Plan Trustee) by reason of such acceptance shall be held by the Share Award Plan Trustee (via Share Award Plan SPV) for the benefit of the relevant Selected Participant and be payable to the relevant Selected Employee on the date of vesting of the awarded Shares. The Board shall be deemed to have directed the Share Award Plan Trustee not to accept such offer if no direction in writing is actually received by the Share Award Plan Trustee (or Share Award Plan SPV, if so established and subsisting and authorised by the Share Award Plan Trustee) within the prescribed period under the Share Award Plan.

(x) *Period of the Share Award Plan*

The Share Award Plan will remain in force for a period of 10 years commencing on the date on which the Share Award Plan is adopted.

(xi) *Rights on death or retirement*

(aa) In respect of a Selected Participant who is an Eligible Employee, at any time prior to the vesting date:

- (1) died; or
- (2) retired at his normal retirement date; or
- (3) retired at an earlier retirement date (with prior written agreement given by us or the Invested Entity),

all his awarded shares and the other distributions attributable thereto shall be deemed to be vested (a) on the day immediately prior to his death or retirement; or (b) on the day immediately after the six months after the Listing Date, whichever is the later.

(bb) In the event of the death of a Selected Participant who is an Eligible Employee, the Share Award Plan Trustee (or Share Award Plan SPV, if so established and subsisting) shall hold the vested awarded shares and the Other Distributions upon trust and to transfer the same to the personal representatives of the Selected Participant on and subject to the rules of the Share Award Plan. If such vested awarded shares and the Other Distributions would otherwise become *bona vacantia*, they shall be forfeited and cease to be transferrable.

(xii) *Lapse of awards*

In the event that any Selected Participant who is an Eligible Employee ceases to be an Eligible Employee by virtue of a corporate reorganisation of our Group or the Invested Entity, any award made to such Selected Participant shall forthwith lapse and be cancelled.

Save as provided in paragraph (xi)(aa) above, in the event:

- (aa) a Selected Participant who is an Eligible Employee ceases to be an Eligible Employee; or
- (bb) the subsidiary or Invested Entity by which a Selected Participant is employed as an Eligible Employee ceases to be a subsidiary of our Company (or of a member of us) or, as the case may be, that we cease to have any equity interest in that Invested Entity; or
- (cc) our Directors shall at their absolute discretion determine in respect of a Selected Participant (other than an Eligible Employee) that (a) the Selected Participant or his associate has committed any breach of any contract entered into between the Selected Participant or his associate on the one part and any member of us or any Invested Entity on the other part as our Directors may at their absolute discretion determine; or (b) the Selected Participant has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally or (c) the Selected Participant could no longer make any contribution to the growth and development of any member of us by reason of the cessation of its relations with us or by any other reason whatsoever; or
- (dd) an order for the winding-up of our Company is made or a resolution is passed for the voluntary winding-up of our Company (otherwise than for the purposes of, and followed by, an amalgamation or reconstruction in such circumstances that substantially the whole of the undertaking, assets and liabilities of our Company pass to a successor company),

the award shall automatically lapse forthwith and all the awarded Shares and other distributions attributable thereto (other than cash distributions which shall be applied to purchase shares and, upon termination of the Plan, treated and dealt with as income of the trust fund) shall become returned Shares for the purposes of the Share Award Plan.

In the event (1) a Selected Participant is found to be resident in a place where an award and/or the vesting and transfer of awarded Shares is not permitted under the laws and regulations of such place or where in the view of the Board or the Share Award Plan Trustee (as the case may be) compliance with applicable laws and regulations in such place make it necessary or expedient to exclude such person or (2) (subject to paragraph (xi)(aa)) a Selected Participant fails to return duly executed transfer documents prescribed by the Share Award Plan Trustee (or via Share Award Plan SPV, if so established and subsisting and authorized by the Share Award Plan Trustee) for the relevant awarded Shares and other distributions attributable thereto within the stipulated period, the relevant part of the award shall automatically lapse forthwith and the relevant awarded Shares and other distributions attributable thereto (other than cash distributions which shall be applied to purchase shares and, upon termination of the Plan, treated and dealt with as income of the trust fund) shall become returned Shares for the purposes of the Share Award Plan.

(xiii) *Selected Participant being a company wholly-owned by eligible participants*

If the Selected Participant is a company wholly-owned by one or more eligible participants:

- (aa) sub-paragraphs (xi) and (xii) shall apply to the Selected Participant and to the awards granted to such Selected Participant, mutatis mutandis, as if such awards had been granted to the relevant eligible participant, and such awards shall accordingly lapse or (deem to be) vest(ed) or forfeited after the event(s) referred to in sub-paragraphs (xi) and (xii) shall occur with respect to the relevant eligible participant; and
- (bb) the awards granted to the Selected Participant shall lapse and determine on the date the Selected Participant ceases to be wholly-owned by the relevant eligible participant provided that our Directors may in their absolute discretion decide that such awards or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

(xiv) *Termination of the Share Award Plan*

The Plan shall terminate on the earlier of:

- (aa) the 10th anniversary date of the adoption date; and
- (bb) such date of early termination as determined by the Board, provided that such termination shall not affect any subsisting rights of any Selected Participant.

(xv) *Rights are personal to the Selected Participants*

An award shall be personal to the Selected Participant and shall not be transferable or assignable.

(b) *Present status of the Share Award Plan*

As at the Latest Practicable Date, no awards have been granted or agreed to be granted under the Share Award Plan, and the Share Award Plan Trustee for the administration of the Shares and other trust fund under the Share Award Plan has not yet been appointed.

As the Share Award Plan does not involve the grant of options over new Shares or other new securities of our Group, the Share Award Plan is not subject to the provisions of Chapter 17 of the GEM Listing Rules.

#### 14. **Estate duty, Tax and other Indemnities**

On 26 June 2017, our Controlling Shareholders (the “**Indemnifiers**”) entered into the Deed of Indemnity with and in favour of the Company (for ourselves and for each of our subsidiaries), to

provide indemnities on a joint and several basis, in respect of, among other matters:

- (a) any liability for Hong Kong estate duty which might be incurred by any member of the Group by reason of any transfer of property (within the meaning of sections 35 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent thereof under the laws of any jurisdiction outside Hong Kong) to any member of the Group at any time on or before the Listing;
- (b) tax liabilities (including all fines, penalties, costs, charges, expenses and interests incidental or relating to taxation) which might be payable by any member of the Group in respect of any income, profits, gains, transactions, events, matters or things earned, accrued, received, entered into or occurring on or before the Listing Date, whether alone or in conjunction with any other circumstances whenever occurring and whether or not such tax liabilities are chargeable against or attributable to any other person, firm, company or corporation;
- (c) any expenses, payments, sums, outgoings, fees, demands, claims, damages, losses, costs (including but not limited to legal and other professional costs), charges, liabilities, fines, penalties in connection with any failure, delay or defects of corporate or regulatory compliance or errors, discrepancies or missing documents in the statutory records of any member of our Group under, or any breach of any provision of, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance or any other applicable laws, rules or regulations on or before the date on which the Global Offering becomes unconditional;
- (d) all claims, actions, losses, damages, costs or expenses suffered or incurred by any of the members of our Group in connection with the social insurance and housing provident fund contributions required to be made by the relevant laws and regulations in the PRC, which any member of our Group has failed to make in accordance with such laws and regulations from their respective date of establishment to the Listing Date; and
- (e) all claims, payments, suits, damages, settlements, sums, outgoings, fees, losses and any associated costs and expenses which would be incurred or suffered directly or indirectly, from or on the basis of or in connection with the legal proceedings and non-compliance matters by any member of our Group as described in the section headed “Business — Compliance Matters” in this prospectus or in connection with any other non-compliance of any member of our Group which has occurred at any time on or before the Listing Date.

The Indemnifier is under no liability under the Deed of Indemnity in respect of any taxation:

- (a) to the extent that provision or reserve has been made for such taxation in the audited accounts of any member of the Group for any accounting period up to 31 December 2016;



- (b) to the extent that such taxation or liability falling on any of the members of the Group in respect of any accounting period commencing on or after 1 January 2017 and ending on the Listing Date, where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily entered into by, any member of the Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifier, other than any such act, omission or transaction:
- (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before the Listing Date; and
  - (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before the Listing Date or pursuant to any statement of intention made in the Prospectus; or
- (c) to the extent that such taxation liabilities or claim arise or are incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the taxation authority of the PRC, or any other relevant authority (whether in Hong Kong or the PRC or any other part of the world) coming into force after the date of the Deed of Indemnity or to the extent such claim arises or is increased by an increase in rates of taxation or claim after the date of the Deed of Indemnity with retrospective effect; or
- (d) to the extent that any provision or reserve made for taxation in the audited accounts of any member of the Group up to 31 December 2016 which is finally established to be an over-provision or an excessive reserve, in which case the Indemnifier' liability (if any) in respect of taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied referred to in this paragraph to reduce the Indemnifier' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

NH Development, a substantial shareholder indirectly holding approximately 18% of our total share capital as at the Latest Practicable Date, has provided an unilateral undertaking in favour of our Group to provide indemnities in proportion to its shareholding in our Company, in respect of, among other things, any penalty and loss resulting from the historical failure to pay the housing security fund contributions in accordance with the applicable PRC laws and regulations prior to Listing Date or any tax liabilities, as well as any penalties imposed due to non-compliance matter as described in the section headed "Business — Compliance Matters" in this prospectus or in connection with any other non-compliance with any applicable laws and regulations or actual or threatened litigation of any member of our Group which has occurred at any time prior to Listing Date.



**15. Litigation**

As of the Latest Practicable Date, save as disclosed in the section headed “Business — Legal Proceedings” in this prospectus, neither the Company nor any of our subsidiaries was engaged in any litigation, arbitration or administrative proceedings of material importance and no litigation, arbitration or administrative proceedings of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries, that would have a material adverse effect on the results of operations or financial conditions of the Company.

**16. Preliminary Expenses**

Our preliminary expenses are approximately RMB30,000. All preliminary expenses and all expenses relating to the Global Offering will be borne by the Company.

**17. Promoters**

Our Company has no promoter for the purpose of the GEM Listing Rules.

**18. Agency Fees or Commissions Paid or Payable**

The commission and expenses relating to the Global Offering that are to be borne by the Company are set out in the section headed “Underwriting” in this prospectus.

**19. Sole Sponsor**

The Sole Sponsor has made an application on behalf of the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares which may be issued upon the exercise of the Over-allotment Option and any options which have been or may be granted under the Share Option Scheme on the Stock Exchange. All necessary arrangements have been made to enable the securities to be admitted into CCASS. The Sole Sponsor is independent from our Company pursuant to Rule 6A.07 of the GEM Listing Rules.

The Sole Sponsor will also receive a fee of HK\$4.8 million to act as the sponsor to our Company in connection with the Global Offering.

**20. Qualification of Experts**

The qualifications of the experts who have given opinions in this prospectus are as follows:

<b>Name</b>	<b>Qualification</b>
Guotai Junan Capital Limited	Licensed corporation to carry on type 6 (advising on corporate finance) regulated activity as defined under the SFO
PricewaterhouseCoopers	Certified public accountants

Appleby	Legal advisers to the Company as to Cayman Islands law
Jingtian & Gongcheng	PRC Legal Advisers to the Company
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Property valuer
Ipsos Limited	Independent industry consultant

## 21. Consents of Experts

Each of the experts as referred to in the paragraph headed “20. Qualification of Experts” in this Appendix has given, and has not withdrawn, their respective written consents to the issue of this Prospectus with the copies of their reports, valuation letters or opinion (as the case may be) and the references to their names or summaries of opinions included herein in the form and context in which they respectively appear.

## 22. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

## 23. Taxation of holders of Shares

### (a) *Hong Kong*

Dealings in Shares registered on the Company’s Hong Kong branch register of members will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

### (b) *The Cayman Islands*

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

### (c) *Consultation with professional advisers*

Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares or exercising any rights attaching to them. It is emphasised that none of the Company, the Directors or the other parties involved in the Global Offering can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercising any rights attaching to them.

**24. Bilingual Prospectus**

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**25. Miscellaneous**

- (a) Save as disclosed herein:
  - (i) within two years preceding the date of this prospectus:
    - (aa) no share or loan capital of our Company or of any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash; and
    - (bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and
    - (cc) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any shares in our Company or any of our subsidiaries;
  - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and
- (b) The Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2016 (being the date to which the latest combined financial statements of our Group were made up) up to the date of this prospectus.
- (c) There has not been any interruption in the business of the Group which may have or has had a significant effect on the financial position of the Group in the 24 months preceding the date of this prospectus.

**26. Others**

The English text of the prospectus shall prevail over the Chinese text.

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, amongst other documents, a copy of the **WHITE, YELLOW** and **GREEN** Application Forms, copies of the written consents referred to in the sub-paragraph headed “21. Consents of Experts” under the paragraph headed “Other Information” of Appendix IV to this prospectus, and certified copies of the material contracts referred to in the sub-paragraph headed “6. Summary of Material Contracts” under the paragraph headed “Further Information about the Business of the Company” of Appendix IV to this prospectus.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Li & Partners at 22nd Floor, World-Wide House, 19 Des Voeux Road, Central, Hong Kong, during normal business hours from 9:00 a.m. up to 5:00 p.m. up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association and the Articles of Association;
- (b) the accountant’s report from PricewaterhouseCoopers in respect of the historical financial information of the Group for each of the three years ended 31 December 2014, 2015 and 2016, the text of which is set out in Appendix I to this prospectus;
- (c) the audited consolidated financial statements of the Group for each of the three years ended 31 December 2014, 2015 and 2016;
- (d) the report on the unaudited pro forma financial information of the Group from PricewaterhouseCoopers, the text of which is set out in Appendix II to this prospectus;
- (e) the Companies Law;
- (f) the letter of advice prepared by Appleby summarising certain aspects of the Cayman Islands company law referred to in Appendix III to this prospectus;
- (g) the legal opinions prepared by Jingtian & Gongcheng in respect of the certain aspects of the Group and property interests of the Group in the PRC and summary of PRC laws and regulations relating to the Group;
- (h) the material contracts referred to in the sub-paragraph headed “6. Summary of Material Contracts” under the paragraph headed “Further Information about the Business of the Company” in Appendix IV to this prospectus;
- (i) the opinion letter relating to rental of the properties leased from connected person to the Group by Jones Lang LaSalle Corporate Appraisal and Advisory Limited;

- (j) the written consents referred to in the sub-paragraph headed “21. Consents of Experts” under the paragraph headed “Other Information” in Appendix IV to this prospectus;
- (k) the Share Option Scheme;
- (l) the Share Award Plan;
- (m) the service contracts referred to in the sub-paragraph headed “9. Directors — Particulars of Directors’ service contracts” under the paragraph headed “Further Information about Directors and Shareholders” in Appendix IV to this prospectus; and
- (n) the Ipsos Report.



新海連 NEW HEADLINE

新海連控股有限公司  
NEW HEADLINE HOLDINGS LIMITED