## OVERVIEW

We are a petroleum refinery and petrochemical equipment manufacturer based in Henan Province, the PRC, mainly offering (i) SRU and VOCs incineration equipment; (ii) catalytic cracking equipment; (iii) process burners; and (iv) heat exchangers. According to the F&S Report, we were the third largest catalytic cracking equipment manufacturer for petroleum refinery and petrochemical operations in the PRC with a market share of approximately 6.3% in terms of revenue in 2022; we were also the second largest SRU and VOCs incineration equipment manufacturer in petroleum refinery and petrochemical operations in the PRC with a market share of approximately 3.1% in terms of revenue in 2022.

Our customers mainly comprised market participants in the petroleum refinery and petrochemical industries in the PRC, which can be further classified into end-users; third-party contractors; equipment manufacturers and others. Established in 1994, we have forged and maintained strong and stable relationship with industry-renowned customers, which included subsidiaries and branches of three of the largest petroleum refinery and petrochemical groups in the PRC; and one of the largest EPC (engineering, procurement and construction) contractors in this industry in the PRC. The business relationships between our Group and our five largest customers during the Track Record Period has ranged from two to 29 years.

We are principally engaged in the manufacture and sale of petroleum refinery and petrochemical equipment. Our products are customized to meet customers' specification and requirements on a contract basis which are divided into four product categories, namely (i) SRU and VOCs incineration equipment; (ii) catalytic cracking equipment; (iii) process burners; and (iv) heat exchangers, including their related parts and components, to our downstream customers in the PRC. Our Group also provide installation services for the equipment manufactured by us and/or ancillary facilities such as electrical erection work and mechanical erection work to our customers during the Track Record Period.

The following table sets out a breakdown of revenue by business activities for the Track Record Period:

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2021 | | 2022 | | 2023 | |
| | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* |
| **Manufacturing and sale of equipment** | | | | | | |
| SRU and VOCs incineration equipment | 101,719 | 41.0 | 72,854 | 17.4 | 77,218 | 14.2 |
| Catalytic cracking equipment | 63,273 | 25.5 | 251,625 | 60.0 | 319,266 | 58.7 |
| Process burners | 29,971 | 12.1 | 45,046 | 10.8 | 114,264 | 21.0 |
| Heat exchangers | 50,832 | 20.5 | 45,767 | 10.9 | 33,381 | 6.1 |
| Subtotal | 245,795 | 99.1 | 415,292 | 99.1 | 544,129 | 100.0 |
| **Installation services** | 2,249 | 0.9 | 3,781 | 0.9 | — | — |
| Total | 248,044 | 100.0 | 419,073 | 100.0 | 544,129 | 100.0 |

We owned two production facilities in Luoyang city, Henan province, the PRC, with a total gross floor area of approximately 20,807.4 sq.m., one of which is responsible for the production of SRU and VOCs incineration equipment and catalytic cracking equipment, and the other one is responsible for the production of process burners and heat exchangers. For the year ended 31 December 2023, the utilization rate (representing the percentage of actual output over total capacity of our self-owned production facilities) of each of our two production facilities was approximately 100.9% and 70.1%, respectively. In order to capture the growing market demand for refinery and petrochemical equipment from overseas customers, we have leased a production facility with a gross floor area of 7,400 sq.m. in Taizhou City, Jiangsu Province, the PRC on 1 June 2023, which our Directors consider we can enjoy convenient transportation advantage for a production facility near the coastal ports.

Our Directors believe that our established industry knowhow and research and development capabilities contribute significantly to our success in the industry. We have been participating in the preparation and drafting of national industry codes such as the "Testing and Measurements Codes of Burner Tubular Heater in Petrochemical Industry" (石油化工管式爐用燃燒器試驗檢測程) and "Technical Specification for Burners of Tubular Heater in Petrochemical Industry" (石油化工管式爐燃燒器工程技術條件) and our research and development team is led by Mr. Shao Song, our executive Director, Mr. Zhang Xian and Mr. Jin Xuli, our senior management team, each of whom has more than 20 years of experience in the petroleum refinery and petrochemical equipment industry. As at the Latest Practicable Date, we possessed (including those co-owned) 212 registered patents which comprised of 160 utility patents, 49 invention patents and three design patents in the PRC, as well as four international patents.

During the Track Record Period and up to the Latest Practicable Date, our principal market has been the PRC. Internationally, we have also established overseas presence in Hong Kong, Canada and Brazil with a view to expanding our market presence. During the Track Record Period, our revenue was substantially generated from contracts with customers located in the PRC.

For the years ended 31 December 2021, 2022 and 2023, our revenue was approximately RMB248.0 million, RMB419.1 million and RMB544.1 million, respectively. Our net profit for the same period was approximately RMB13.2 million, RMB36.5 million and RMB55.2 million, respectively.

## COMPETITIVE STRENGTHS

We believe that our success and potential for future growth are largely attributable to a combination of our competitive strengths set out as follows:

**Leveraging on our years of experience, we have accumulated a wealth of industry knowhow.**

Our Group has over 20 years of experience dedicated in the design, research and development of petroleum refinery and petrochemical equipment. Our years of industry knowhow provides us with strong technical foundation and a wealth of experience to further our innovative development and enhancement. Our Group was the third largest manufacturers of catalytic cracking equipment for petroleum refinery and petrochemical operations in the PRC with a market share of approximately 6.3% in terms of revenue in 2022. We were also the second largest SRU and VOCs

incineration equipment manufacturer for petroleum refinery and petrochemical operations in the PRC with a market share of approximately 3.1% in terms of revenue in 2022.

With over 20 years of production and industrial experience and the close coordination of our technicians production team, we have developed and maintained a database of various design plan of equipment catering to different needs of our customers and we are able to design, manufacture and offer customized equipment for our customers. Our Directors are of the view that a stable and reliable source of research and development talents enables us to accumulate an extensive pool of industry knowhow and experience.

With our proven track record in the petroleum refinery and petrochemical equipment industry, we have received numerous awards in recognition of our design from local authorities. For details, see "— Awards and Recognitions" in this section. In light of our established history, our Directors believe that we have maintained a strong reputation in the industry which in turn enables us to maintain a strong market position and a stable and loyal customer base.

**We have established and maintained strong and stable business relationships with our major customers.**

We have established and maintained strong and stable business relationships with industry-renowned customers, including Customer A, Customer B and Customer H, consisting subsidiaries and branch offices of three of the largest petroleum refinery and petrochemical groups in the PRC and Customer M, one of the largest EPC (engineering, procurement, and construction) contractors in this industry in the PRC. We commenced business relationships with Customer A, Customer B, Customer H and Customer M in 2000, 1994, 2007 and 2010, respectively. The business relationship between our Group and our five largest customers during the Track Record Period has ranged from two to 29 years. Through years of experience working with our major customers, we have developed a deep understanding of their business needs for petroleum refinery and petrochemical equipment, which enables us to provide prompt customers services and adjust our production and supply plans accordingly.

Our Directors believe that a stable and long-standing business relationship with industry-renowned participants are crucial to our business and enabled us to (i) maintain a relatively substantial market share in the industry; and (ii) be well-positioned for competitive pricing for our equipment. In addition, our Directors believe that our established business relationships with our major customers provide confidence to our potential customers as well as preserve customer loyalty to our Group.

**We possess strong research and development and design capabilities.**

We believe that our research and development and design capabilities contribute significantly to our success. We have retained an experienced research and development team to facilitate the advancement of our equipment designs and production efficiency. Our research and development team is led by Mr. Shao Song, our executive Director, who has more than 20 years experience in the petroleum refinery and petrochemical equipment industry.

With our capabilities in both the design and manufacturing of petroleum refinery and petrochemical equipment, we are able to offer customized products to our customers. According to the F&S Report, in general, equipment suppliers in the petroleum refinery and petrochemical equipment market are categorized into two types, one being manufacturers which only manufacture standardized equipment (單體設備) based on the production plan provided by design institutions and one being manufacturers who possess the ability to design and draw up the production plan for core equipment and manufacture a complete set of system equipment (成套設備) based on customers' specifications, and our Group, being the above two types of manufacturers is more competitive in the market as we can easily adapt to the varying products needs of our customers.

We have also contributed to and assisted in the drafting of national industry codes, such as the "Testing and Measurements Code of Burner Tubular Heater in Petrochemical Industry" (石油化工管式爐用燃燒器試驗檢測規程) and the "Technical Specification for Burners of Tubular Heater in Petrochemical Industry" (石油化工管式爐燃燒器工程技術條件), published by the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) in 2009 and 2016, respectively; and industry technical standards, such as standards for "Burner for Fired-heater of Refinery Services" (煉油裝置火焰加熱爐用燃燒器) in 2020. Moreover, we have developed collaborations with renowned universities and institutions, such as Huazhong University of Science and Technology (華中科技大學) to establish the Innovative Combustion Technology Research and Development Center (燃燒新技術研發中心) in 2010; Xi'an Jiaotong University (西安交通大學) to establish a postdoctoral research program and research and development center in 2020; and with Honeywell China on the construction of the Asia Pacific Burning Testing Centre (亞太燃燒測試中心) in 2015. We also obtained the relevant invention patents for our glass plate heat exchanger (玻璃板式預熱器) in 2012. We entered into a cooperation agreement with the National Technology Transfer Center of the East China University of Science and Technology (華東理工大學國家技術轉移中心) to jointly establish a research centre to cooperate on low-carbon and green energy research and development in 2022, which is officially in operation in 2023.

As at the Latest Practicable Date, we possessed (including co-owned) 212 registered patents which comprised of 160 utility patents, 49 invention patents and three design patents in the PRC, as well as four international patents.

**We have an experienced management team.**

We have an experienced management team that has extensive in-depth industry experience. Both Mr. Lu Bo, our Chairman, executive Director and chief executive officer and Ms. Lu Xiaojing, our executive Director and deputy chief executive officer possess over 30 years of experience in operation and management business of petroleum refinery and petrochemical equipment industry and have been with our Company since 1994. Mr. Lu Bo and Ms. Lu Xiaojing received their qualification as an engineer from the Henan Province Science and Technology Committee (河南省科學技術委員會) in 1999 and from the Luoyang City Science and Technology Committee (洛陽市科學技術委員會) in 2002, respectively. Other members of our Board and our senior management team also have extensive management and operational experience in their respective industries.

Our experienced management team has accumulated valuable insights and good business relationships with market participants. We believe that with the industry insights and operational and management experience of our Directors and senior management team, we are able to capture market opportunities, and formulate and implement sound business strategies that will enable us to attain sustainable business growth in the long run. For details of the background and experience of our Directors and senior management, see "Directors and Senior Management" in this document.

## BUSINESS STRATEGIES

In order to leverage on our aforementioned competitive strengths to capture the growing market demand, we plan to have a series of incremental capacity expansions of our production facilities and enhancement of our research and development capabilities. We intend to fund our business strategies by utilizing net **[REDACTED]** from the **[REDACTED]** with details set out below. Any shortfall in relation to our expansion of production capacity and capabilities is intended to be financed by internal resources and/or external borrowings of our Group.

**Increase our production capacity and capabilities to expand our scale of operation.**

Our Directors believe that our business and growth depend on the levels of domestic petroleum refinery and petrochemical development in the PRC where our customers are based. According to OPEC, the refinery capacity of China has reached 936.0 million tonnes in 2023 and the China's petroleum refinery capacity is expected to reach 1,000 million tonnes a year by 2025, as according to the Action Plan for Carbon Dioxide Peaking Before 2030 (《2030年前二氧化碳達峰行動計劃》) issued by the State Council. According to the F&S Report, it is expected that the petroleum refinery capacity is forecast to grow to 1,050.7 million tonnes in 2028, thus, indicating that there is still approximately a room of over 100 million tonnes newly-built capacity of petroleum refinery to expand in the next five years. Additionally, alternative energy may possibly affect the demand for oil consumption as energy source, but the value chain of petroleum refinery and petrochemical industry is long and the demand for downstream petrochemical has limited threat from alternative energy. To face the challenge from alternative energy, petroleum refinery projects who has limited production capacity of petrochemical would actively seek opportunity to further extend its value chain to establish its own production capacity of petrochemicals such as ethylene, which may bring higher margin than refined oil products.

According to public information, there are at least over 70 million tonnes of petroleum refinery capacity to be implemented by 2025 and the production capacity of ethylene is expected to reach approximately 85 million tonnes by 2028, representing a CAGR of approximately 9.9% between 2023 to 2028. Many of these projects were integrated projects including both petroleum refinery capacity and capacity of petrochemicals such as ethylene, which would have additional demand for petroleum refinery and petrochemical equipment comparing to the projects which only have petroleum refinery capacity. Please refer to "Industry Overview — Overview of Petroleum Refinery and Petrochemical Industry in China" for scale and investments of key refinery and petrochemical integration projects from 2023 to 2026.

The stricter environmental requirements in the PRC have led to the transformation of domestic petroleum refinery and petrochemical industries to an integrated, large-scale, clean, high value-added and intelligent industry. Outdated refinery capacity and plants with low efficiency in refineries are being replaced by large integrated advanced technologies gradually. The market of the replacement of existing inefficient and not environment-friendly equipment is expected to be an important driving force of the petroleum refinery and petrochemical equipment industry. Despite the replacement cycle of petroleum refinery and petrochemical equipment ranging from 10 to 20 years, it is estimated that around 5% to 10% of the existing capacity of the petroleum refinery will be updated in every year, thus, generating approximately over 40 million tonnes in each year with sustained and additional demand for petroleum refinery and petrochemical equipment.

In addition, petrochemical products are widely used in various downstream applications. The ethylene industry is the core of the petrochemical industry. Ethylene is one of the most basic raw materials used in the petrochemical industry and ethylene products account for more than 75% of petrochemical products with an important position in the national economy. The world has taken ethylene production as one of the important symbols to measure the development level of a country's petrochemical industry. The rapid development of the PRC economy in recent years has led to a strong growth in the demand for ethylene. Between 2018 and 2023, the demand of ethylene in the PRC increased from 47.2 million tonnes to 69.4 million tonnes, representing a CAGR of approximately 8.0% and is expected to reach 90.8 million tonnes in 2028, representing a CAGR of approximately 5.5%. The strong growth in demand has driven the investments in the ethylene industry and relevant production capacity. At the same time, according to the statistics of authorities, the self-sufficient rate of ethylene in the PRC still lag behind at approximately 67.4% in 2023 as compared to that of 100% of the United States. The domestic petrochemical industry has fallen far behind those in developed countries. Looking forward, in order to fulfil the accelerating demand of downstream industries in the future, the production capacity of ethylene is expected to have a further rise, reaching approximately 85 million tonnes by 2028, bringing about rising demand for corresponding equipment. Furthermore, with sufficient investment in research and development, the products of domestic brands have caught up with foreign products in terms of the quality and technology applied and gained higher preference among downstream customers with high cost performance. As a result, the market size of petroleum refinery and petrochemical equipment market in China is forecasted to grow at a CAGR of approximately 6.5% from RMB715.1 billion in 2023 to RMB979.2 billion in 2028. For details, see "Industry Overview — Market Drivers of China's Petroleum Refinery and Petrochemical Equipment Industry Market" in this document.

According to the F&S Report, the future market concentration of the petroleum refinery and petrochemical equipment industry in China is expected to undergo changes in the coming years. As the demand for energy continues to rise, the industry is likely to become more consolidated as larger companies acquire smaller ones in order to gain access to new technologies, markets, and resources. As the market develops and changes, consumers tend to purchase products from larger and better-known brands, as these brands have higher reliability and credibility. This also makes it easier for larger companies to gain more market share, thus increasing market concentration. Therefore, these factors have led to the increasing concentration of the petroleum refinery and petrochemical equipment industry, with more market share being occupied by larger companies. In order to meet the rising demand for our petroleum refinery and petrochemical equipment, we intend to increase our production capacity and capabilities to expand our scale of operation.

During the Track Record Period, we mainly manufactured our equipment in two production facilities based in Luoyang city, Henan province, the PRC, one of which is responsible for the production of SRU and VOCs incineration equipment and catalytic cracking equipment, and the other one is responsible for the production of process burners and heat exchangers. For the year ended 31 December 2023, our utilization rate of each of our self-owned production facilities was approximately 100.9% and 70.1%, respectively. In order to capture the growing demand for refinery and petrochemical equipment from domestic and overseas customers, we have leased a production facility in Jiangsu province, the PRC on 1 June 2023, with over 100% utilization rate. As at the Latest Practicable Date, our ending value of backlog (exclusive of VAT) amounted to approximately RMB440.0 million, representing a significant growth from the years ended 31 December 2021, 2022 and 2023 of approximately RMB186.5 million, RMB409.0 million and RMB366.5 million, respectively. Our Directors are of the view that it is not feasible for us to further capture the increasing demand of our products and the market growth of petroleum refinery and petrochemical equipment industry in the PRC by utilizing our existing production facilities as our production facility for production of SRU and VOCs incineration equipment and catalytic cracking equipment has already reach a high level of approximately 100.9%, for the year ended 31 December 2023. As such, our Directors consider that we can only capture the business opportunities arising from the growing demand of petroleum refinery and petrochemical equipment in the coming years and solidify our market position in the PRC by increasing the production capacity of our Group. Our Group plans to construct a new production facility (the "**New Production Facility**") in Luoyang city, Henan province, the PRC, responsible for the production of SRU and VOCs incineration equipment and catalytic cracking equipment.

It is planned that we will construct the New Production Facility on a piece of land owned by us in the New High Technology Development Zone, Jianxi district, Luoyang city, Henan province. The construction will be completed in two phases, with the first phase (construction of the production compartment for SRU and VOCs incineration equipment and catalytic cracking equipment and ancillary facilities, including warehouse for finished goods and materials, testing facilities and supporting equipment) (the "**Phase One Construction**") and the second phase (construction of the administrative office, dormitories and supporting facilities) (the "**Phase Two Construction**") planned to be completed within the first quarter of 2025 and by the first quarter of 2026, respectively. It is expected that our production capacity will be increased by 100% upon the completion of and full operation of the New Production Facility.

We expect that we would commence the trial operation of the production compartment for petroleum refinery and petrochemical equipment within three months after the completion and obtain approval from the relevant government authority by the second quarter of 2025 upon the completion of the trial operation of the New Production Facility. Based on our understanding, to commence our trial operation of Phase One Construction, we would be granted a temporary permit from local authority, stating their permission and approval to commence trial operation. It is estimated that we would receive the approval to commence trial operation by the second quarter of 2025. During the design stage of the New Production Facility, we will ensure that the design and

construction of the New Production Facility meet the relevant legal requirements. As at the Latest Practicable Date, we have engaged an Independent Third Party consultant to complete a feasibility report on the proposed construction of the New Production Facility to evaluate, among others, construction and commissioned design works, coordination with and grant of approval from relevant government authorities, costs and environmental impact for the construction of the New Production Facility and market and prospect of sales of oil refinery and petrochemical equipment. We have also obtained approval for the environmental impact report on the proposed construction of the New Production Facility from the relevant government authority.

The construction works for Phase One Construction are expected to be completed within the first quarter of 2025. We will then lodge the application to the relevant government authority for inspection and acceptance of our construction projects. We estimate that it will take approximately one to two months for the government authority to grant the acceptance and then we could commence the trial operation for production. It is also estimated that our Phase Two Construction will be completed by the first quarter of 2026.

*The estimated capital expenditure for constructing the New Production Facility*

Our Directors consider that the parcel of land on which the New Production Facility will be constructed is expected to have a gross floor area up to 52,643 sq.m. with an estimated building area of approximately 45,390 sq.m.. The estimated building area is intended to be utilised as follows: (i) approximately 37,390 sq.m. will be used for production compartments for SRU and VOCs incineration equipment and catalytic cracking equipment and ancillary facilities (including warehouses for finished goods and materials, testing facilities and supporting equipment); and (ii) approximately 8,000 sq.m. will be used as administrative office, dormitories and supporting facilities for our staff.

It is expected that major capital expenditure required for constructing the New Production Facility includes (i) the construction cost; (ii) the purchase costs of machinery and equipment; and (iii) installation cost. Based on the current planning, the estimated investment for the New Production Facility would be at approximately RMB98.5 million. The estimated consideration for the construction costs and capital expenditure for the purchase of machinery and equipment of approximately RMB98.5 million is based on market quotations obtained from a PRC certified cost engineer and equipment providers. We will be relying on the net **[REDACTED]** from the **[REDACTED]**, our internal resources and/or via external financing, with the following detailed items breakdown:

| | **Net [REDACTED] from the [REDACTED] to be used** | | **Total estimated investment cost** |
|---|---|---|---|
| | *RMB'million* | *HK$'million* | *RMB'million* |
| Construction cost | **[REDACTED]** | **[REDACTED]** | [81.7] |
| Purchase costs of machinery and equipment | **[REDACTED]** | **[REDACTED]** | [14.8] |
| Installation cost | **[REDACTED]** | **[REDACTED]** | [2.0] |
| Total | **[REDACTED]** | **[REDACTED]** | [98.5] |

We intend to partially finance the construction cost, purchase costs of the machinery and equipment and installation cost of the New Production Facility of approximately HK$**[REDACTED]** (equivalent to approximately RMB**[REDACTED]**) by the net **[REDACTED]** from the **[REDACTED]** and the remaining costs of approximately HK$**[REDACTED]** (equivalent to approximately RMB**[REDACTED]**) will be financed by our internal resources and external financing (if necessary). For details, see "Future Plan and **[REDACTED]**" in this document.

*Analysis of investment payback period and breakeven points*

For reference and illustration purpose only, set forth below is a highly hypothetical analysis on the investment payback period and breakeven points and the key assumptions used in calculating the investment payback period and breakeven points in respect of our New Production Facility.

We consider that a new production compartment achieves breakeven when the revenue it generated is able to cover its costs and expenses arising in the same year on an accounting basis. The production scale required to achieve breakeven varies depending on various factors, including but not limited to general economic and market conditions, market demands, utilization rate of our production compartments, market competition, labour costs and price of materials. We consider that a new production compartment achieves investment payback when the total future net cash flow generated from operating activities since the commencement of business operation is able to cover the total investment amount. The time required to achieve investment payback varies

depending on various factors, including those mentioned above and the capital expenditure including construction costs, purchase costs of relevant machinery and equipment and installation costs.

Our key assumptions used in calculating the investment payback period and breakeven points in respect of our New Production Facility mainly include the Phase One Construction will commence trial operation in the second quarter of 2025 with 50% utilization rate and 80% utilization rate in average after six-months trial operation period ends. It is estimated that, based on our Directors' knowledge and experience, the breakeven points and the investment payback period are expected to be approximately seven months and 3.9 years, respectively, after completion of the construction of the New Production Facility. Our Directors believe that the assumed utilization rate of the New Production Facility is pulled by our sufficient orders.

**Further strengthening our design and research and development capabilities.**

As at the Latest Practicable Date, we have collaborated with and established one testing and research center with Honeywell China. Leveraging on our existing technological advantage, we will continue to strengthen our in design and research and development capabilities and improve our ability to convert our research achievements into engineering capabilities to meet our customers' demands in relation to industry transformation, energy saving and emissions reduction in light of the prevailing government policies. We believe that by enhancing our design and research and development capabilities, we shall be able to improve our product quality, efficiency and market competitiveness which in turn improve our profitability.

We plan to (i) expand our research and development team and enhance our research and development facilities; and (ii) further engage in collaborative research and development programs with universities and research institutions.

*Expand our research and development team and enhance research and development facilities*

In order to continue our product invention so as to widen our product offerings, enhance production procedures and techniques and achieve higher research and development effectiveness, we consider our research and development capabilities are vital to our continuous business growth. Hence, to cater for the increasing demand of our research and development function, we need to expand our research and development team.

Our research and development team is broadly sub-divided into product development and enhancement; testing and engineering; project design and management; and calloborations with universities and institutions. As at the Latest Practicable Date, our research and development team consist of 85 personnel, with 61 personnel stationed in Luoyang and 24 personnel stationed in Shanghai, the PRC, including (i) 25 specialists and designers who communicate with our sale team to understand the specifications of our customers and analyses the technical aspects and designs and adjust the composition and feature of our equipment as well as to work closely with our major materials and components suppliers; (ii) five officers and technicians who are responsible for project management and communicate with quality control team when quality issue arise; (iii) 13 technicians and engineers who work on new products inventions and enhancements, including performing data integration and analysis, production process design, process guidance and supervision; (iv) 41 technicians and engineers who work on product testing and communicate with production team when technical issue encounter during production and (v) one officer who is mainly responsible for collaboration with universities and institutions.

Our Directors consider that our existing research and development staff are fully utilized during the Track Record Period. As at the Latest Practicable Date, our backlog (exclusive of VAT) amounted to approximately RMB440.0 million, representing an increase by approximately 7.6% from approximately RMB409.0 million for the year ended 31 December 2022 and an increase by approximately 136.0% from approximately RMB186.5 million for the year ended 31 December 2021. Our existing manpower is not sufficient to cater for the expected increase in number and size of contracts. Thus, we have an imminent need to expand our research and development team. For details, see section headed "Future plans and use of **[REDACTED]** — **[REDACTED]** — 2. Further strengthening our design and research and development capabilities" to this document.

As at the Latest Practicable Date, we achieved the accomplishment of research phase for six existing research and development projects and progressed to the next stage of output's application. In addition to the existing research and development projects to follow up, we have also started six new research and development projects to be executed by 2025, which include upgrading our existing products, industrial extension of product application and new research and development cooperation with East China University of Science and Technology (華東理工大學).

The following table sets out the major research and development projects on product upgrades and extension of product applications as at the Latest Practicable Date:

| Name of project | Details of research and its targeted results | Expected year of completion | Approximate project sum |
|---|---|---|---|
| Research and development of key technologies of low eddy current loss and erosion protection for catalytic equipment (催化設備的低渦流損失及侵蝕防護關鍵技術的研究與開發) | This project aims to research and develop key technologies for low eddy current loss and erosion protection of equipment used in catalytic plants, to reduce wear and tear of the equipment, to improve the normal service life of the equipment, to ensure the performance index of the plant, and thus to improve the overall economic output of the plant. | 2025 | RMB1.3 million |
| Research and development of low-carbon heat storage energy conversion and utilization system (低碳儲熱能源轉化與利用系統的研究與開發) | This project aims to research and develop of low-carbon heat storage energy conversion and utilization system, to build a set of MW-scale calcium-based thermochemical new energy storage devices and completed the test operation, as well as proposed a 100MW calcium-based thermochemical energy storage system technology program, decrease 10% investment and operation cost compared with other similar chemical heat storage technologies. | 2025 | RMB1.6 million |
| Research and development of ultra-low NOx combustion system for energy saving and carbon reduction (節能減碳超低NOx燃燒系統的研究與開發) | This project aims to research and develop an ultra-low NOx combustion system to effectively control the amount of NOx generated and reduce the amount of CO generated, increase combustion efficiency by at least 2%, reduce the amount of fuel used by 8%, and reduce carbon emissions at the same times. | 2025 | RMB1.3 million |
| Research and development of combined air preheating system with efficient recovery of latent heat of vaporization and deep condensation of flue gas (汽化潛熱高效回收煙氣深度冷凝組合式空氣預熱系統的研究與開發) | This project aims to research and develop combined air preheating system with efficient recovery of latent heat of vaporization and deep condensation of flue gas, to improve the thermal efficiency of the system by more than 3–5%, realize the continuous operation time of the heat exchanger in acid condensing condition for not less than 4 years and the service life of the system for not less than 8 years, as well as reduce the flue gas emission of solid dust particles to within 10mg/$m^3$. | 2025 | RMB1.3 million |

| Name of project | Details of research and its targeted results | Expected year of completion | Approximate project sum |
|---|---|---|---|
| Research and development of medium and low-temperature waste heat deep recovery energy-saving equipment (中低溫餘熱深度回收節能裝備的研究與開發) | This project aims to use non-metallic corrosion-resistant materials to develop various types of plate and tube heat exchangers for gas-gas, gas-liquid, and liquid-liquid heat exchange scenarios to achieve the depth of waste heat utilization under the medium and low-temperature corrosive environment and solve the corrosion, clogging and other problems, to improve the equipment long cycle operation time, reduce the number of equipment maintenance, improve equipment life, and reduce 15% cost compared with other heat exchangers in the market. | 2025 | RMB1.4 million |
| Development of the incineration system for complex waste liquids containing salts and other components (含鹽等複雜廢液焚燒系統的開發) | This project aims to develop efficient incineration and pollutant reduction control technology, to solve the problems of wall combustion, incomplete atomization of waste liquid and corrosion, blockage, and pollutant compliance of salt-containing waste liquid incineration system due to irrational design, to make the waste gas emission satisfying the emission requirements. | 2025 | RMB1.4 million |

The following table sets out the major research and development projects with East China University of Science and Technology as at the Latest Practicable Date:

| Name of project | Details of research and its targeted results | Expected year of completion | Approximate project sum |
|---|---|---|---|
| High temperature waste heat recovery technology of metallurgical slag (冶金熔渣高溫餘熱回收技術) | This project aims to develop high-temperature waste heat recovery technology for metallurgical slag with an energy recovery rate of 80%, to replace the traditional technology in the market, which used a large number of water-quenching slag flushing and generated low-grade waste heat through the metallurgical slag high-temperature waste heat. | 2025 | RMB2.0 million |

| Name of project | Details of research and its targeted results | Expected year of completion | Approximate project sum |
|---|---|---|---|
| High-efficiency treatment technology for waste liquid containing salt, nitrogen and organic silicon (含鹽含氮及含有機硅廢液高效處理技術) | This project aims to improve the current technology for the treatment of waste liquid containing salt, nitrogen and organic silicon, which mainly includes combustion process control, numerical simulation and solid separation technology, and develop a core combustion and solid separation equipment, in order to increase the energy saving efficiency by more than 15% as compared with the existing equipment. | 2025 | RMB2.0 million |
| Design and manufacture of key system equipment sample for calcium-based thermochemical energy storage technology (鈣基熱化學儲能技術關鍵系統裝備樣機設計及製造) | This project aims to design and manufacture calcium-based thermochemical energy storage technology key system equipment samples, provide relevant technical analysis, display results, and guide for the application of results. | 2025 | RMB3.9 million |

Moreover, we applied for a total of 32 and 47 patents in the PRC during the years ended 31 December 2022 and 2023, respectively, among which, 30 patent applications are pending examination as at the Latest Practicable Date. The number of patents applications for the year ended 31 December 2023 has increased by approximately 47% compared with that of 2022. Thus, we plan to recruit two additional engineers and technicians on new product development and improving our existing equipment, nine additional technicians and engineers on product testing and one additional officer in collaboration with universities and institutions, so as to help us capture the business opportunities arising from the growing demand for petroleum refinery and petrochemical equipment in the coming years.

In view of (i) the significant growth in our contract backlog; (ii) our strategy of expanding our scale of operations by leveraging on the net **[REDACTED]** from the **[REDACTED]** to undertake more sizeable contracts; (iii) the existing research and development projects progressed to next stage of output's application and new research and development projects to be executed by 2025; and (iv) the expected increase in the overall petroleum refinery and petrochemical equipment industry with major petroleum refinery and petrochemical integration projects executed from 2023 to 2026, we intend to utilise approximately HK$**[REDACTED]** (equivalent to approximately RMB**[REDACTED]**) from the net **[REDACTED]** of the **[REDACTED]**, representing approximately **[REDACTED]**% of the net **[REDACTED]** of the **[REDACTED]**, for the hiring of a total of 18 staffs for the payment of wages and related social insurance **[REDACTED]** for approximately 18 months after **[REDACTED]**.

To cope with our expanded research and development team, we intend to utilise approximately HK$**[REDACTED]** (equivalent to approximately RMB**[REDACTED]**), representing **[REDACTED]**% of the net **[REDACTED]** from the **[REDACTED]**, to purchase the machinery and equipment, mainly consisting of computers and professional supporting software, for research and development purpose.

*Engage in collaborative research and development programs with universities and research institutions*

During the Track Record Period, we have collaborated with a number of PRC universities to further our design capabilities and attract new talents to join us. Our Directors believe that with the ever-changing technological advancement in the industry, our Group could benefit from such collaborations and maintain our research and development and technical edge in design and manufacture of petroleum refinery and petrochemical equipment. For details, see "— Technology, Research and Development" in this section. We intend to utilise approximately HK$**[REDACTED]** (equivalent to approximately RMB**[REDACTED]**) from the net **[REDACTED]** of the **[REDACTED]**, representing approximately **[REDACTED]** of the net **[REDACTED]** of the **[REDACTED]** for engaging in collaborative research and development programs with universities and research institutions. In particular, we have entered into an agreement with East China University of Science and Technology (華東理工大學) in March 2022 for the study and technology advancement of a calcium-based chemical reaction heat storage (鈣基化學反應儲熱技術) for three contract years with an estimated costs of approximately RMB3.0 million.

**Expanding our business presence in overseas markets.**

As at the Latest Practicable Date, we have established overseas presence in Hong Kong, Canada and Brazil. Among which, our overseas presence in Brazil is a company jointly owned by us and two individuals, who are Independent Third Parties and to our Directors' best knowledge were local sellers in Brazil engaging in petroleum refinery and petrochemical business and were introduced to us through our connection in Honeywell International. As present, our overseas sale offices do not have substantial operations. Our Directors are of the view that overseas markets have many potentials and with our advanced level of technology and research and development capabilities, it would be able to increase our engagement in these markets, specifically in Brazil and Turkey.

During the Track Record Period, we generally obtain oversea business opportunities through referrals/introduction from our business partners and/or our sale personnel. For the years ended 31 December 2021, 2022 and 2023, we transacted with four, four and eight overseas customers with revenue recognised of approximately RMB10.2 million, RMB1.2 million and RMB68.1 million, respectively, accounting for approximately 4.1%, 0.3% and 12.5% of our total revenue for the same period, respectively. To our Directors' best knowledge, our overseas customers are principally engaged in the production and sale of petrochemical and provision of petroleum refinery and petrochemical equipment in oversea, which mainly included (i) Customer G, our second largest customer for 2023 and who is the owner of production facilities in Russia. Details of background of Customer G is disclosed under paragraph headed "Our Customers — Our five largest customers" in this section; (ii) a Russian customer principally engaged in engineering,

manufacturing, supply and installation of process equipment operating at high temperature in different industries, such as oil refining and petrochemistry with over 20 years of history; (iii) a Brazilian customer who is a process plant supplier; (iv) a listed company in Taiwan Stock Exchange who is a manufacturer of petrochemicals and basic chemical raw materials; (v) an oversea company in Brunei who is also a subsidiary of a listed company in Shanghai Stock Exchange involving in research and development, production and sales of various chemicals, oil products and chemical fiber products; and (vi) an overseas company in Malaysia who is a subsidiary of a state-owned enterprise in the PRC principally engaged in integrating petroleum refining and chemical industry.

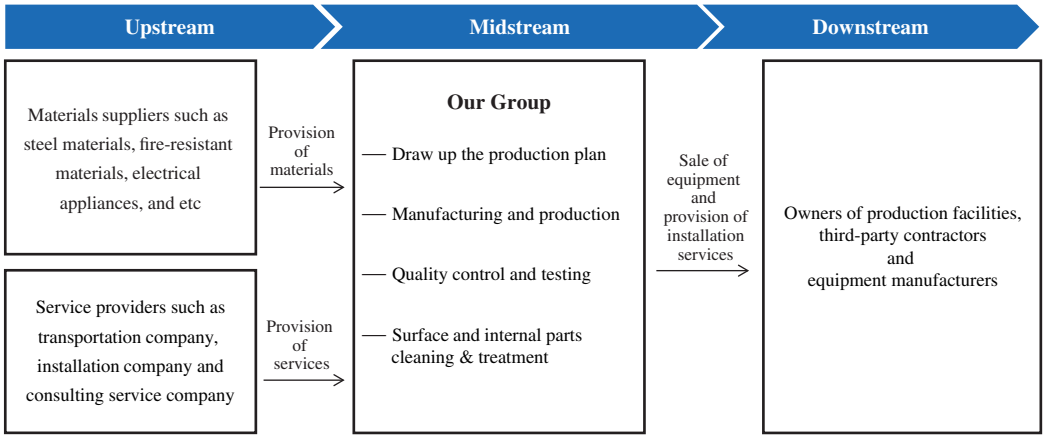
After we obtain the contract from overseas customers, the following principal workflows, such as the execution stage and the storage arrangement, are the same as our business in PRC. In the delivery stage, we will provide delivery services as agreed in the contracts between us and our oversea customers. For details, see "— Our business flow" in this section. Our overseas customers purchased equipment from us rather than their respective local suppliers because our equipment are more diverse and comparatively lower in price than the products they sourced locally in oversea. According to F&S, the supply chain for oil refinery and petrochemical equipment is integrated and expanded internationally and there is increasing overseas end-users source equipment from the PRC market due to the country's diverse range of manufacturing capabilities and competitive pricing. PRC equipment manufacturers offer a broad selection of oil refinery and petrochemical equipment catering to the specific needs and requirements of customers. This trend has allowed overseas end users to access cost-effective solutions and a wider variety of equipment options compared to sourcing locally in their respective countries. Our Directors confirm that we have not received any complaints or report of any material issues regarding the quality, legality of the equipment sold to our overseas customers as at the Latest Practicable Date.

Going forward, we will continue to participate in local and international exhibitions and conference constantly and actively study the changing trends and preferences of our customers in order to tailor our promotional initiatives to better attract their attention. We will also upgrade and optimize our website to increase the number of readable languages so as to increase the accessibility of our website to international customers; and publish advertisements and promotional videos, in order to enhance our Company's image.

## OUR BUSINESS MODEL

We mainly design, manufacture and supply petroleum refinery and petrochemical equipment that are customized to meets our customers' requirements. We currently have four product categories, namely (i) SRU and VOCs incineration equipment; (ii) catalytic cracking equipment; (iii) process burners; and (iv) heat exchangers; and the related parts and components. During the Track Record Period, we also provide installation services for the equipment manufactured by us only and/or ancillary facilities such as electrical erection work and mechanical erection work, to our customers under manufacturing and sale of equipment as this is a part and parcel of our manufacturing and sale of equipment.

We set out below flowchart showing our business activities in the manufacturing and sale of petroleum refinery and petrochemical equipment during the Track Record Period.




## OUR PRODUCTS AND SERVICES

The following table sets out a breakdown of revenue by business activities for the Track Record Period:

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2021 | | 2022 | | 2023 | |
| | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* |
| **Manufacturing and sale of equipment** | | | | | | |
| SRU and VOCs incineration equipment | 101,719 | 41.0 | 72,854 | 17.4 | 77,218 | 14.2 |
| Catalytic cracking equipment | 63,273 | 25.5 | 251,625 | 60.0 | 319,266 | 58.7 |
| Process burners | 29,971 | 12.1 | 45,046 | 10.8 | 114,264 | 21.0 |
| Heat exchangers | 50,832 | 20.5 | 45,767 | 10.9 | 33,381 | 6.1 |
| Subtotal | 245,795 | 99.1 | 415,292 | 99.1 | 544,129 | 100.0 |
| **Installation services** | 2,249 | 0.9 | 3,781 | 0.9 | — | — |
| Total | 248,044 | 100.0 | 419,073 | 100.0 | 544,129 | 100.0 |

### *Manufacturing and sale of equipment*

#### SRU and VOCs incineration equipment

We manufacture four main equipment used in SRU and VOCs incineration equipment, including: (i) catalyzing reactor; (ii) waste heat boiler; (iii) sulfur condenser; and (iv) burner used in SRUs. Our SRU and VOCs incineration equipment are mainly applied in industries such as petroleum refining, petrochemical and specialty chemical.

Catalyzing reactor is responsible for boosting catalytic effect in order to decompose and turn organic sulphur compound such as carbonyl sulfide and carbon disulfide into hydrogen sulfide and carbon dioxide.

Waste heat boilers are typically connected to the outlet of heat reactors and they serve two main functions during the process of sulphur recovery being, (i) to recover high heat by producing medium steam; and (ii) to cool down the steam gas during the process.

Sulphur condenser is a type of heat exchanger which serves to cool down and condense sulphur generated in the upstream reaction sections.

Burners used in SRUs are responsible for mixing fuel gas, acidic gas and combustion air into a definite form and then spraying it into the fire channel and furnace to generate combustion reaction. Depending on the needs of our customers, we mainly design and manufacture three types of burners, being (i) acid gas reaction furnace burner; (ii) online heat furnace burners; and (iii) tail gas incinerator burners.

In addition, our Group is able to provide a complete set of system equipment (成套設備) for sulfur recovery and aimed at small and medium sized sulfur plants with an annual output of less than 60,000 tons and we use the "two-stage CLAUS + selective hydrogenation + selective oxidation" process, with a total sulfur recovery rate above 99%. Such sales amounted to nil, approximately RMB13.0 million and nil, respectively, for the years ended 31 December 2021, 2022 and 2023, accounting for nil, approximately 3.1% and nil of our revenue from manufacturing and sale of equipment, respectively, for the same period. Based on this, our Directors considered that the sale of sulfur recovery system is not a major equipment of our Group and we focus on the provision and sale of the abovementioned major equipment under the SRU and VOCs incineration equipment whose target customers consist of key and large petroleum refinery and petrochemical companies in the PRC.

Our waste gas and waste liquid incineration solution equipment is aimed at waste gas and waste liquid produced in different industries. It uses its own technology to effectively remove harmful components in waste gas and waste liquid, so that the emissions after incineration can meet the relevant environmental protection emission standards. Such sales amounted to approximately RMB10.6 million, RMB1.4 million and nil, respectively, for the years ended 31 December 2021, 2022 and 2023, accounting for approximately 4.3%, 0.3% and nil for our revenue from manufacturing and sale of equipment, respectively, for the same period.

For the years ended 31 December 2021, 2022 and 2023, we generated revenue of approximately RMB101.7 million, RMB72.9 million and RMB77.2 million, respectively, from the sale of SRU and VOCs incineration equipment. Our Directors believe that driven by the expansion of refinery capacity, the development of domestic petrochemical industry and environmental protection measures adopted in the PRC, the market demand for our SRU and VOCs incineration equipment will continue to grow in the coming years.

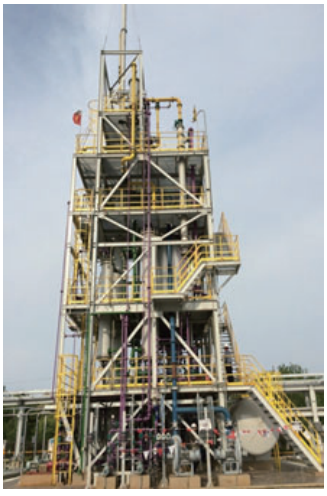
| Key equipment under SRUs and VOCs incineration | Function |
|---|---|
| *Catalyzing reactor*  | Catalyzing reactor is responsible for boosting catalytic effect in order to decompose and turn organic sulphur compound such as carbonyl sulfide and carbon disulfide into hydrogen sulfide and carbon dioxide. |
| *Waste heat boiler*  | Waste heat boiler is a fire tube boiler connected to heat reactors used in SRUs. It mainly serves to recover high heat by producing medium pressure steam and cool down the gas during the process. |
| *Sulphur condenser*  | Sulphur condenser forms the shell and tube boiler of a special type of heat exchanger. The main function is to cool down sulphur generated in the upstream reaction section of heat exchanger systems. |
| *Burner used in SRUs*  | Burner used in SRUs is responsible to mix fuel gas, acidic gas and combustion air into a definite form and product combustion reaction by spraying the mixture into fire channels and furnaces. Efficient burners can improve the conversion rate of elemental sulphur in thermal reactors, eliminate the influence on downstream equipment from heavy hydrocarbon of ammonium salt or other impurities and ensure efficiency and reliable operation of SRU equipment. |

**System equipment (成套設備) under SRUs and VOCs incineration**

*Sulfur recovery system*

We use the "two-stage CLAUS + selective hydrogenation + selective oxidation" process, with a total sulfur recovery rate above 99%.

*Incineration system for chlorofluorocarbons*



Incineration system for chlorofluorocarbons will burn chlorofluorocarbons at a high temperature in the 1,200°C furnace, and then enter the scrubber after spraying and cooling to avoid the generation of dioxins and effectively remove the harmful substances in the flue gas.

## Catalytic cracking equipment

Our catalytic cracking equipment is usually used in industries such as that of petroleum refinery, methanol and coal chemical operation. We focus on the design and manufacture of catalytic cracking equipment which are cost effective and reliable. During the years ended 31 December 2021, 2022 and 2023, we generated revenue of approximately RMB63.3 million, RMB251.6 million and RMB319.3 million, respectively, from the sale of catalytic cracking equipment.

The main equipment used in the catalytic cracking unit and their respective functions are shown below:

| Key catalytic cracking equipment | Function |
|---|---|
| *Burner for large CO incineration*<br>  <br>  | Burner for large CO incineration serves to mix supplementary fuel gas and combustion air and burn evenly.<br><br>We mainly own two invention patents for the burner for large CO incineration, namely "Built-in integrated smoke exhaust-heat boiler burner for catalysis device" (一種內置式一體化催化裝置煙氣餘熱焗爐燃燒器) (Application no. 2009100662364) and "A kind of efficient burning low pressure drop CO incinerator" (一種高效燃燒低壓降CO焚燒爐) (Application no. 2014107699591), which are protecting the manufacturing, selling and development and enhancement of our burner for large CO incineration. As advised by our PRC Legal Advisers, the term of our invention patent is 20 years from the date of application. The expiry date of the "Built-in integrated smoke exhaust-heat boiler burner for catalysis device" and "A kind of efficient burning low pressure drop CO incinerator" are 22 October 2029 and 14 December 2034, respectively. For details, see "Statutory and General Information — Further Information about Our Group — Our material intellectual property rights" in Appendix V to this document.<br><br>Compared with the traditional burner, our burner for large CO incineration takes into account good furnace integrity, simple construction, and full mixing to ensure that the CO content in flue gas is less than 10ppm; while at the same time, it can reduce the investment cost. |

| Key catalytic cracking equipment | Function |
|---|---|
| *Low pressure auxiliary combustion chamber*<br>  | Under the premise of ensuring the combustion effect of the burner in the catalytic auxiliary heating chamber, the pressure drop of the main air system in the catalytic auxiliary heating chamber can be effectively reduced to achieve a good energy-saving effect. |
| *Low pressure water sealed tank*<br>  | We developed a type of low pressure water sealed tank in 2011. When compared to previous model of water sealed tanks, our product can reduce pressure drop by more than 75% during the transportation of low-pressure gas phase medium with large flow and large flow channel, achieving good energy saving effect. |

**Process burners**

Our process burners are commonly used in industries such as petroleum refining, petrochemical, chemical and clean heating. During the years ended 31 December 2021, 2022 and 2023, we generated revenue of approximately RMB30.0 million, RMB45.0 million and RMB114.3 million, respectively, from the sale of process burners.

| Key process burners | Function |
|---|---|
| *Low NOx process burner*<br>  | Low NOx process burners are part of furnaces used in the petrochemical and refinery industry. Process burners are used for providing energy through combustion and will be used in different appliances such as hydrogen production unit, delayed coking unit and VDU and CDU heaters. |

**Heat exchangers**

We mainly manufacture and supply a combination of traditional heat exchangers being, glass plate heat exchanger and metal plate heat exchanger; and wet plume treatment products. Typically, heat exchangers are used in petroleum refining, steel making, thermal power generation and industrial furnaces. During the Track Record Period, we also provided wet plume treatment products that help to process the white smoke in the three types of manufacturing activities, being pulp and paper industry, natural gas plants and steel mills.

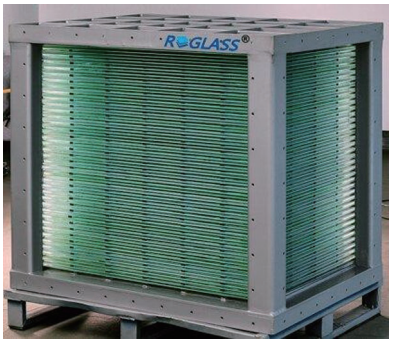
Leveraging our research and development experience and expertise, we obtained the relevant invention patents for our glass plate heat exchanger in 2012 which is mainly used in air preheaters in the petrochemical industry.

Our glass plate heat exchanger is branded under our registered trademark "R GLASS" in the PRC in 2015 and is designed to improve the efficiency of the heating furnace and can significantly reduce furnaces' exhaust temperature. In recognition of our innovative abilities, we received the second-class award for the "Prize for Progress of Science and Technology of Luoyang City" (洛陽市科技進步二等獎) issued by the Luoyang City People's Government in 2015.

During the years ended 31 December 2021, 2022 and 2023, we generated revenue of approximately RMB50.8 million, RMB45.8 million and RMB33.4 million, respectively, from the sale of heat exchangers.

**Key heat exchangers**

*Glass plate heat exchanger*




**Function**

The glass plate heat exchanger is mainly used in the low temperature flue gas section of the air preheater. We obtained the authorization of invention patents in China, the European, and the United States, forming a very complete intellectual property protection system. We mainly own two invention patents for the glass plate heat exchanger, namely "the plate type heat exchanger of Efficient non-metallic corrosion resistant heat exchanger rig and this heat-exchanger rig of tool"(高效非金屬抗腐蝕換熱裝置及具該換熱裝置的板式換熱器) (Application no. 2013104766585) and "plate type air preheating device with adjusting function" (一種具有調節功能的板式空氣預熱裝置) (Application no. 2015100014827) in the PRC. The expiry date of above-mentioned patents are 13 October 2033 and 4 January 2035, respectively. For details, see "Statutory and General Information — Further Information about Our Group — Our material intellectual property rights" in Appendix V to this document.

Compared with the traditional metal plate heat exchanger, the glass plate heat exchanger uses special heat-resistant glass as the heat exchange element. Under design conditions, its heat transfer capacity is equivalent to that of metal plate heat exchanger. At the same time, it has better corrosion resistance and surface ash resistance than metal, which can completely solve the corrosion and blockage problems of low temperature air preheater, thereby making it more durable and reliable.

**Key heat exchangers**

*Metal plate heat exchanger*

**Function**

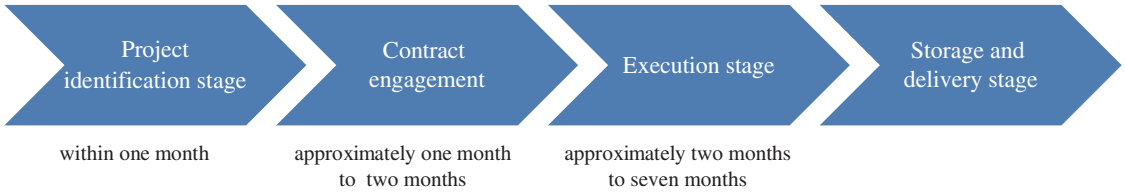
Our metal plate heat exchanger is a patented product. It is used together with the glass plate heat exchanger as the high-temperature flue gas section of the air preheater system. We mainly own two invention patents for the glass plate heat exchanger, namely "A kind of arc plate type heat exchanger" (一種弧形板式換熱器) (Application no. 2014107685847) and "A kind of tubular arc heat exchange plate type heat-exchanger rig" (一種筒狀弧形換熱板式換熱裝置) (Application no. 2014107677380). The expiry date of "A kind of arc plate type heat exchanger" and "A kind of tubular arc heat exchange plate type heat-exchanger rig" are 14 December 2034 and 14 December 2034, respectively. For details, see "Statutory and General Information — Further Information about Our Group — Our material intellectual property rights" in Appendix V to this document.

The metal plate heat exchanger has the characteristics of compact structure, good sealing, and high heat transfer coefficient. Different from other traditional metal plate heat exchangers on the market, our products are internally designed with a patented self-conducting flow support structure, which can effectively resist the high temperature deformation of the heat exchanger plate, play a good role in guiding and dispersing the heat transfer fluid, and avoid the dead zone of flow field and abnormal pressure in the heat exchanger due to bias flow.

| Key wet plume treatment products | Function |
|---|---|
| *Plate form modified polymer phase transition agglomerator*  | The product's core is made of modified polymer plates and the shell is made of metal with anti-corrosion coating. It is mostly used in flue gas de-whitening projects. Compared with material such as metal and glass, plate form polymer phase transition agglomerator is compact and lightweight, and is resistance to acidic corrosion of sulfur and nitrogen-containing compounds. |
| *Tube form modified polymer phase transition agglomerator*  | The product's core is made of modified polymer tube and the shell is made of modified polymer material. It is mostly used in waste heat recovery projects. It can also be used in corrosive liquid environment with low temperature. |
| *Glass tube phase transition agglomerator*   | The product's core is made of glass tube and the shell is made of metal with anti-corrosion coating. It is mostly used in flue gas de-whitening projects. Compared with modified polymer material, glass tube heat exchanger has better heat and corrosion resistance. |

## Our business flow

The following diagram illustrates the principal workflow in our business operations. The production costs and duration involved in each contract depend on the size, complexity and requirements of individual customers.




***Project identification stage***

Our sales and marketing team generally secure our contracts directly with customers through our sales, referrals, tendering/quotations, or direct negotiation. With the help of our technicians, our sales and marketing team seeks to understand the requirements and technical specifications of potential customers through initial discussion with potential customers or obtaining the tender documents or invitation to offer documents from the potential customers. Based on the specific requirements of each tender, we will review our technical qualifications and capacity to ensure that we can meet the requirements. Our sales and marketing team with the technical support from our technicians will prepare a preliminary proposal based on customers' specifications and expected budget in response to a tender.

***Contract engagement***

We generally obtain sales contracts through (i) tendering or quotations; and (ii) direct negotiation. Over the years of business development, we have maintained a solid sales and marketing network.

*Tendering/quotations*

For the years ended 31 December 2021, 2022 and 2023, approximately 77.6%, 81.2% and 75.3% of our sale contracts (in terms of contract values) were secured through tendering with total contract value (inclusive of VAT) of approximately RMB295.0 million, RMB573.5 million and RMB426.6 million, respectively. Typically, a preliminary proposal contains the proposed equipment design, technical specifications, our technical qualifications, work scope, estimated timetable and fee quotes. Should the customer select us, we will proceed to review and negotiate the contract terms.

For the years ended 31 December 2021, 2022 and 2023, our overall tender success rate (calculated by dividing the number of contracts awarded in respect of the tenders submitted during the year by the total number of tenders submitted during the year) was approximately 53.9%, 46.3% and 51.4%, respectively. Our Directors consider that we focus on the contract size compared to the tender success rates and we submit more tenders on contracts with larger contract sum. Due to such a strategy, we have successfully tendered for relatively sizeable contracts during the Track Record Period.

*Direct negotiation*

We may also obtain contracts through direct negotiation with our customers. When a sales contract is obtained through direct negotiation, the workflow of such contract are similar to the workflow of tender contracts, except that we do not need to prepare or submit any tender document at the preliminary stage.

***Execution stage***

Based on the preliminary proposal, our technicians will formulate the production plan. The production plan will include detailed implementation with design, technical and execution plan. If our customers require us to provide installation services in addition to equipment manufacturing, we will obtain quotations from our qualified supplier for installation services in order to include such costs in our fee quote to our customers. Once our customers are satisfied with our initial design plan and our fee quote, we will enter into contract and finalise the production plan.

Upon finalization of the production plan, we will then proceed to procure the materials and components required for the production of our products upon signing of sale contracts or our receipt of the advance payment for customers. We manufacture our equipment based on the detailed design, technical and execution plan provided by technicians. Our principal materials and components used included steel materials, such as steel plates and steel pipes; and components included electrical parts and fire resistant materials. We generally manufacture products and components that relate to our proprietary technologies ourselves to ensure that our proprietary technologies are kept confidential and to ensure the quality of our equipment. In general, our production process involves cutting, drilling, assembling, welding, and painting. During the course of our production, our customers will generally be required to make progress payment pursuant to the terms of the sale contract.

During our production process, our quality control team will conduct inspection and test to ensure that each part of the equipment is properly manufactured and is functioning at the required standards.

***Storage and delivery stage***

After completing the final inspection, we will proceed to store the qualified equipment at a designated place and deliver the equipment to our customers as per the arrangement required by each customer. We also provide the necessary assistance and supervision during the process of delivery and installation to our customers.

***Warranty period***

Our contracts typically stipulate a warranty period of 12 months from the date of the normal operation of our products or 18 months from the date of delivery of our products, whichever is earlier. During the warranty period, we provide after-sale services to our customers free of charge if our products malfunction is due to product defects. If our warranty period has expired or the malfunctions are caused by improper use or maintenance by the customers, we may charge service fees incurred and/or cost of parts and components if our customers are agreeable with such term quotation. During the Track Record Period, there was no material claim brought against our Group by our customer and cost incurred for rectifying defective products was not material.

**Installation services**

In order to maintain our competitiveness in the market, upon requests by our customers, we have provided installation services to our customers in the manufacturing and sale of equipment during the Track Record Period. This includes installation services for equipment manufactured by us only and/or together with ancillary facilities.

In the event that any of our customers in the manufacturing and sale of equipment require us to provide installation services for the equipment manufactured by us and/or together with ancillary facilities, we normally do not enter into a separate service contract with our customers as the terms regarding those services are included in the main contract of sale of equipment and this is an industry practice as confirmed by F&S. The salient terms of our installation services are fairly straight-forward which usually set out that the installation services and/or the parts and components for the installation services are to be provided by our Group. In addition to the installation services for the equipment manufactured by us only, during the Track Record Period, there is one customer who engaged us for the installation of equipment manufactured by us and ancillary facilities, such as platforms and escalators, mechanical erection work and electrical erection work. Our installation services is part and parcel of our manufacturing and sale of equipment as we provide such services to our customers under our manufacturing and sale of equipment business. As we outsource such installation services to third-party installation companies, we will enter separate agreements with third-party suppliers for installation services to be provided to our customers. Upon receiving requests for installation services from our customers, we shall estimate the cost incur and/or obtain price quotations from third-party installation companies and provide our quotation for manufacturing and sale of equipment and provision of installation services to our customers. According to F&S, equipment manufacturers may sometimes be engaged by their customers for installation services for the equipment manufactured by them and/or ancillary facilities and this is common in the industry.

The price of these contracts which include the manufacturing and sale of equipment and installation services is generally a fixed fee, taking into account the estimated cost of equipment, scope of installation services, costs for carrying out the services and/or whether any outsourcing engaged. Our fee is payable either in one lump sum for sales of equipment and/or by instalment after completion of specified progress milestone set out in the contract if installation services are involved. F&S is of the view that the pricing mechanism and terms offered by us in relation to our manufacturing and sale of equipment and installation services are in line with the industry players in the PRC.

Details of our major and completed equipment-related contract which include installation services are disclosed in paragraph headed "Our Contracts — Major and completed equipment-related contracts during the Track Record Period" in this document.

## OUR CONTRACTS

Our contracts can be broadly classified as (i) equipment-related contracts which include the sales of equipment and related parts and components and installation services in one contract as it is part and parcel of our manufacturing and sale of equipment; and (ii) parts and components contracts which include sales of parts and components standalone in one contract. The following table sets out a breakdown of our revenue and the number of contract by contract types during the Track Record Period:

| | Year ended 31 December | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2021 | | | 2022 | | | 2023 | | |
| | *Number of contracts* | *RMB'000* | *%* | *Number of contracts* | *RMB'000* | *%* | *Number of contracts* | *RMB'000* | *%* |
| Equipment-related contracts | 179 | 236,542 | 95.4 | 158 | 404,148 | 96.4 | 202 | 535,444 | 98.4 |
| Parts and components contracts | 196 | 11,502 | 4.6 | 190 | 14,925 | 3.6 | 189 | 8,685 | 1.6 |
| Total | 375 | 248,044 | 100.0 | 348 | 419,073 | 100.0 | 391 | 544,129 | 100.0 |

### Equipment-related contracts awarded to our Group during the Track Record Period and up to the Latest Practicable Date

The following table sets out the number of equipment-related contracts awarded to us during the Track Record Period and up to the Latest Practicable Date and the corresponding aggregate awarded contract sum (exclusive of VAT):

| | Year ended 31 December | | | From 1 January 2024 to the Latest Practicable Date |
|---|---|---|---|---|
| | 2021 | 2022 | 2023 | |
| Number of equipment-related contract awarded *(Note 1)* | 190 | 190 | 154 | 25 |
| Corresponding aggregate awarded contract sum (exclusive of VAT) *(RMB'000)* | 322,517 | 628,278 | 497,204 | 83,420 |

*Note:*

1. The number of contracts awarded includes all equipment-related contracts for a particular year during which we were engaged by our customers and we had signed the relevant sale contract and irrespective of whether our tender was submitted during the same year.

Our Group generally submits for more tenders than our available capacity in order to secure sufficient sales for optimization of our resources and we focus on and occupy ourselves with larger contracts before turning to contracts with smaller size. During the years ended 31 December 2021, 2022 and 2023, we were awarded with 190, 190 and 154 equipment contracts with corresponding aggregate awarded contract sum (exclusive of VAT) of approximately RMB322.5 million, RMB628.3 million and RMB497.2 million, respectively.

**Equipment-related contracts with revenue recognition during the Track Record Period**

The following table sets forth a breakdown of revenue contribution from equipment-related contract undertaken by range of revenue recognition during the Track Record Period:

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | **2021** | | **2022** | | **2023** | |
| | *Number of contracts* | *RMB'000* | *Number of contracts* | *RMB'000* | *Number of contracts* | *RMB'000* |
| **Revenue recognized** | | | | | | |
| Above RMB10 million | 3 | 48,178 | 10 | 225,467 | 11 | 323,641 |
| Above RMB5 million to RMB10 million | 6 | 39,191 | 7 | 49,725 | 7 | 54,265 |
| Above RMB1 million to RMB5 million | 47 | 111,126 | 48 | 105,126 | 54 | 120,985 |
| RMB1 million and below | 123 | 38,047 | 93 | 23,830 | 130 | 36,553 |
| **Total** | 179 | 236,542 | 158 | 404,148 | 202 | 535,444 |

**Major and completed equipment-related contracts during the Track Record Period**

Some of our major and completed equipment-related contracts with contract sum (inclusive of VAT) over RMB10 million during the Track Record Period are as follows:

| No. | Customer | Products/ services provided | Location/ delivery place | Engagement date(Note 1) | Completion date(Note 2) | Contract sum(Note 3) *RMB'000* | Revenue recognised during the Track Record Period (Note 4) *RMB'000* | Duration of the contracts (Note 5) (number of months) |
|---|---|---|---|---|---|---|---|---|
| 1 | Customer A | SRU and VOCs incineration equipment | Anqing | November 2020 | August 2021 | 18,000 | 15,929 | 10 |
| 2 | Ningbo Zhongneng Liantong Machinery Co., Ltd* (寧波中能連通機械有限公司) ("**Ningbo Zhongneng**") | Heat exchangers | Huizhou | November 2020 | December 2021 | 22,000 | 19,469 | 14 |

| No. | Customer | Products/ services provided | Location/ delivery place | Engagement date[Note 1] | Completion date[Note 2] | Contract sum[Note 3] *RMB'000* | Revenue recognised during the Track Record Period[Note 4] *RMB'000* | Duration of the contracts[Note 5] (number of months) |
|---|---|---|---|---|---|---|---|---|
| 3 | Guizhou Jinze New Energy Science Technology Co., Ltd* (貴州金澤新能源科技有限公司) ("**Guizhou Jinze**")[Note 6] | SRU and VOCs incineration equipment and installation service | Guizhou | April 2021 | September 2022 | 14,980 | 13,097 | 18 |
| 4 | Customer A | SRU and VOCs incineration equipment | Yueyang | June 2021 | May 2022 | 10,705 | 9,474 | 12 |
| 5 | Customer A | Catalytic cracking equipment | Anqing | October 2021 | April 2022 | 11,750 | 10,398 | 7 |
| 6 | Customer A | Catalytic cracking equipment | Yangzi | December 2021 | May 2022 | 21,282 | 18,833 | 6 |
| 7 | Customer A | Catalytic cracking equipment | Anqing | March 2022 | November 2022 | 81,028 | 71,706 | 9 |
| 8 | Customer A | Catalytic cracking equipment | Wuhan | March 2022 | November 2022 | 20,531 | 18,169 | 9 |
| 9 | Customer A | Catalytic cracking equipment | Anqing | February 2022 | May 2022 | 21,257 | 18,811 | 3 |
| 10 | Customer A | Catalytic cracking equipment | Yangzi | April 2022 | October 2022 | 13,350 | 11,814 | 6 |
| 11 | Customer A | Catalytic cracking equipment | Yangzi | August 2022 | December 2022 | 11,604 | 10,269 | 5 |
| 12 | Customer E[Note 6] | SRU and VOCs incineration equipment and installation service | Luoyang | March 2022 | September 2022 | 17,000 | 15,138 | 7 |
| 13 | Customer A | Catalytic cracking equipment | Wuhan | April 2022 | March 2023 | 15,935 | 14,102 | 12 |
| 14 | Customer I | Catalytic cracking equipment | Longkou | May 2022 | June 2023 | 23,500 | 20,796 | 12 |
| 15 | Customer A | Catalytic cracking equipment | Yangzi | April 2022 | March 2023 | 19,500 | 17,257 | 12 |
| 16 | Customer A | Catalytic cracking equipment | Yangzi | June 2022 | March 2023 | 66,650 | 58,982 | 10 |
| 17 | Customer I | Catalytic cracking equipment | Longkou | May 2022 | August 2023 | 21,600 | 19,115 | 15 |
| 18 | Customer A | Catalytic cracking equipment | Ningbo | October 2022 | August 2023 | 41,714 | 36,915 | 11 |
| 19 | Customer A | Catalytic cracking equipment | Ningbo | November 2022 | September 2023 | 31,852 | 28,188 | 11 |

| No. | Customer | Products/ services provided | Location/ delivery place | Engagement date[Note 1] | Completion date[Note 2] | Contract sum[Note 3] | Revenue recognised during the Track Record Period[Note 4] | Duration of the contracts[Note 5] (number of months) |
|---|---|---|---|---|---|---|---|---|
| | | | | | | *RMB'000* | *RMB'000* | |
| 20 | Customer A | Catalytic cracking equipment | Ningbo | January 2023 | September 2023 | 24,868 | 22,007 | 9 |
| 21 | Customer G | Process burners | Russia | November 2022 | November 2023 | 62,523 | 62,456 | 13 |
| 22 | Customer H | Catalytic cracking equipment | Ningbo | April 2023 | November 2023 | 46,000 | 40,708 | 8 |
| 23 | Customer D | Heat exchangers | Qianan | June 2022 | December 2023 | 21,500 | 19,027 | 19 |
| 24 | Customer H | Process burners | Ningbo | November 2022 | December 2023 | 10,320 | 9,133 | 14 |

*Notes:*

1 Engagement date refers to the date when our customer issued tender acceptances or entered into a sale contract with us.

2 Completion date refers to the date when we complete revenue recognition of a sale contract with our customer.

3 Contract sum represents sale contract amount including VAT and other sales taxes (if applicable).

4. Revenue recognised (excluding VAT) had taken into account relevant adjustments to the contract value pursuant to the variation of the term of original contract agreed between the relevant parties.

5. Duration of the contracts refers to the period between the engagement date and the completion date.

6. The sale contracts with Guizhou Jinze and Customer E involved the manufacturing and sale of SRU and VOCs incineration equipment and installation services for equipment manufactured by us only. Details of background of Guizhou Jinze and Customer E are disclosed in "— Our Customers — Our five largest customers" in this section. The revenue derived from sale of equipment is recognized when the equipment is delivered to Guizhou Jinze and Customer E while the revenue from installation services are recognized by stage based on the performance progress. We recorded total revenue from Guizhou Jinze and Customer E on these contracts of approximately RMB13.1 million and RMB15.1 million, respectively, among which approximately RMB10.3 million and RMB12.9 million were derived from manufacturing and sale of equipment, respectively, and approximately RMB2.8 million and RMB2.2 million were derived from provision of installation services, respectively.

## BACKLOG AND NEW CONTRACT VALUE

### Backlog

Backlog represents our estimate of sales contract value that remains to be completed as of a certain date. The sales contract value represents the amount that we expect to receive under the terms of the contract, assuming the contract is performed in accordance with its terms. Backlog is not a measure defined by generally accepted accounting principles. For more information, see "Risk Factors — Risks Relating to Our Business and Our Industry — Our backlog may not be a reliable indicator of our future results of operations". As at the 31 December 2021, 2022 and 2023 and up to the Latest Practicable Date, the aggregate contract value of our backlog (exclusive of VAT) was approximately RMB186.5 million, RMB409.0 million, RMB366.5 million and RMB440.0 million, respectively.

The following table shows the movement of our backlog during the Track Record Period and up to the Latest Practicable Date:

| | Year ended 31 December | | | From 1 January 2024 to the Latest Practicable Date |
|---|---|---|---|---|
| | 2021 | 2022 | 2023 | |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Opening value of backlog (exclusive of VAT) | 102,632 | 186,502 | 408,971 | 366,475 |
| New contract sum[(1)] | 332,210 | 641,897 | 502,063 | 86,754 |
| Difference due to variation of original contracts and reference date of contracts[(3)] | (296) | (355) | (430) | 74 |
| Revenue recognized | (248,044) | (419,073) | (544,129) | (13,310) |
| Ending value of backlog[(2)(4)] | 186,502 | 408,971 | 366,475 | 439,993 |

*Notes:*

1. The new contract sum is the original contract sum (exclusive of VAT) based on the initial sale contracts with our customers.

2. Ending value of backlog refers to the portion of the total estimated revenue that has not been recognized with respect to the sale contracts.

3. The backlog calculation had taken into account relevant adjustments to the contract value pursuant to the variation of the terms of the original contract agreed between the relevant parties.

4. As at the Latest Practicable Date, our ending value of backlog of approximately RMB440.0 million, which was derived from sale orders of SRU and VOCs incineration equipment, catalytic cracking equipment, process burners and heat exchangers of approximately RMB180.6 million, RMB220.1 million, RMB28.1 million and RMB11.2 million, respectively.

**Loss-making contracts**

Our sales are on contract-basis and each individual customer may place a number of orders to us and enter into a number of sales contracts with us for use in each of their production facilities. Our Directors consider a loss-making contract arose when loss appeared from sale contracts of the same production facilities as a whole.

During the Track Record Period, we recorded one, three and three loss-making contracts, with aggregate gross loss of approximately RMB0.5 million, RMB0.7 million and RMB0.1 million, for the years ended 31 December 2021, 2022 and 2023, respectively, representing approximately 0.7%, 0.5% and 0.06% of our total gross profit, respectively, for the same period. The relevant revenue from these loss-making contracts represented approximately 1.4%, 0.1% and 0.03% of our total revenue for the years ended 31 December 2021, 2022 and 2023, respectively. The main reasons for these loss-making contracts include: (i) maintaining relationships with customers to increase market penetration; (ii) higher upfront expenses that may be incurred for obtaining a sale contract; and (iii) additional cost we may be incur when quality issue arose on our equipment. During the year ended 31 December 2022, we incurred a compensation of approximately RMB0.6 million to a customer due to quality issue. Our Directors consider that the losses recognised as a result of these loss-making contracts were acceptable losses that may arise out of our ordinary course of business and such losses were insignificant to our operations, financial performance and profitability as a whole.

**New contract value**

New contract value represents the aggregate value of new contracts we entered into during a specified period. The value of a contract is the amount that we expect to receive under the terms of the contract if the contract is performed in accordance with its terms. Our aggregate new contract value (exclusive of VAT) for the years ended 31 December 2021, 2022 and 2023 amounted to approximately RMB332.2 million, RMB641.9 million and RMB502.1 million, respectively.

The following table shows the total contract value (exclusive of VAT) by product categories for the Track Record Period:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2021** | **2022** | **2023** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| SRU and VOCs incineration equipment | 161,183 | 91,763 | 210,888 |
| Catalytic cracking equipment | 99,721 | 378,168 | 218,894 |
| Process burners | 40,281 | 119,721 | 55,504 |
| Heat exchangers | 31,025 | 52,245 | 16,777 |
| | 332,210 | 641,897 | 502,063 |

## PRODUCTION FACILITIES

### Production facilities

As at the Latest Practicable Date, we owned two production facilities located in Luoyang city, Henan province, the PRC; we also leased a production facility located in Taizhou city, Jiangsu province, the PRC.

| No. | Name of production facility | GFA | Function | Ownership |
|---|---|---|---|---|
| | | *(Sq.m.)* | | |
| 1. | Production facility at Yanguang Road, New High Technology Development Zone, Jianxi district, Luoyang city, Henan province | 12,602.6 | Production of SRU and VOCs incineration equipment and catalytic cracking equipment | 100% owned by us |
| 2. | Production facility at Jinxin Road, New High Technology Development Zone, Jianxi District, Luoyang city, Henan province | 8,204.8 | Production of process burners and heat exchangers | 100% owned by us |
| 3. | Production facility at South District, Wanfugang No. 1, Jingjiang Economic and Technological Development Zone, Taizhou city, Jiangsu province[(1)] | 7,400 | Production of SRU and VOCs incineration equipment and catalytic cracking equipment | Rented by us |

*Note:*

(1) We leased a production facility at Taizhou city, Jiangsu province on 1 June 2023 in order to capture the growing market demand for our equipment from overseas customers. Our Directors consider that leaving a production facility along the coastal ports enable us to enjoy convenient transportation to oversea customers; and this location, which is close to Shanghai, making our engineering team efficiently in project management and communication of equipment production process.

### Production capacity and utilization rate

Due to the diversity of our products and our products are customized based on customers' requirements. Every equipment differs in size, design plan and specification, and hence the type, materials and specification of equipment involved in each contract vary on a case-by-case basis. Our Directors consider it difficult to accurately estimate our production capacity as well as utilization rate of our production capacity during the Track Record Period. Various factors, such as customers' demand and our production schedule, may affect the utilization rate of our production facilities.

The core of our production process is the welding and assembly of materials, parts and components into equipment. While production capacity cannot be easily quantified due to the highly varied product specifications, to illustrate the scale of our production, our Directors consider that the most meaningful way to measure our production capacity is by effective working hours of production workers operating the welding machines and manpower limitations under specific production area rather than by units or volume of production output. We allocate the amount of space (with the right condition) necessary for on time delivery of the orders. We take into account a number of factors including size of materials, parts and components and finished equipment, physical characteristics of parts and components to be assembled and space necessary for materials and equipment flow. Since our main production process are labour intensive that involves the welding and assembling of materials, parts and components into finished products by our production workers, hence, manpower is essential for our operation. Our Directors believe our calculation of the production capacity and the measurement of the utilization of our production facilities are in line with the industry norm. According to F&S, there is no fixed practice on the calculation of production capacity and utilisation rate and different companies may use different basis, including but not limited to tonnes of steel processed, machine hours, effective man hours and etc. It is also confirmed by F&S that our Group's calculation basis is one of the calculation method to measure the production in the equipment manufacturing business and is a common industry practice.

For illustrative purpose only, the following table sets out the production capacity and utilization rate of the major production process in each of our production facilities during the years indicated:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2021** | **2022** | **2023** |
| **Production facility at Yanguang Road** | | | |
| Production capacity *(hour)*[(1)] | 153,300 | 153,300 | 153,300 |
| Actual output *(hour)*[(4)] | 108,340 | 125,819 | 154,732 |
| Utilization rate *(%)*[(5)] | 70.7 | 82.1 | over 100 |
| **Production facility at Jinxin Road** | | | |
| Production capacity *(hour)*[(2)] | 140,160 | 140,160 | 140,160 |
| Actual output *(hour)*[(4)] | 85,709 | 72,443 | 98,298 |
| Utilization rate *(%)*[(5)] | 61.2 | 51.7 | 70.1 |
| **Production facility at Taizhou city** | | | |
| Production capacity *(hour)*[(3)] | — | — | 57,780 |
| Actual output *(hour)*[(4)] | — | — | 58,281 |
| Utilization rate *(%)*[(5)] | — | — | over 100 |

*Notes:*

(1) Production capacity of our production facility at Yanguang Road is calculated based on the assumption of (i) the maximum number of production workers operating the welding machines under the specific production area in the production facility at the same time; (ii) seven and a half hours per shift; (iii) two shifts per day; and (iv) 365 days per year.

(2) Production capacity of our production facility at Jinxin Road is calculated based on the assumption of (i) the maximum number of production workers operating the welding machines under the specific production area in the production facility at the same time; (ii) eight hours per shift; (iii) one shift per day; and (iv) 365 days per year.

(3) Production capacity of our production facility in Taizhou city is calculated based on the assumption of (i) the maximum number of production workers operating the welding machines under the specific production area in the production facility at the same time; (ii) nine hours per shift; (iii) one shift per day; and (iv) the number of days is counted from 1 June 2023 to 31 December 2023 as the production facility in Taizhou city commenced operations in 1 June 2023.

(4) Actual output is the multiple of actual working hours of our production team operating the welding machines in our production facilities based on internal record.

(5) Utilization rate is calculated by dividing the actual output by the production capacity.

(6) Our two production facilities at Yanguang Road and Jinxin Road are not inter-changeable under current condition, due to the differences in the following aspects: (i) the variation of machinery and equipment used in our two production facilities for different production processes, particularly the span of overhead crane, one kind of lifting equipment used during our production of SRU and VOCs incineration equipment and catalytic cracking equipment and which is not used in the production facility at Jinxin Road for the production of process burners and heat exchangers; (ii) the current structure of the production facility at Jinxin Road do not meet the requirement for the installation of aforesaid equipment; and (iii) the production of SRU and VOCs incineration equipment and catalytic cracking equipment requires design and production licenses of special equipment of the PRC registered under permitted premises for pressure piping, components and special pressure equipment, and the production facility at Jinxin Road is not required to have these licenses for the production of process burners and heat exchangers. To the best knowledge of our Directors, if we redeploy the production facility at Jinxin Road to facilitate the production of SRU and VOCs incineration equipment and catalytic cracking equipment, the expected costs of redeployment would be approximately RMB6.8 million, which comprised of (i) approximately RMB1.8 million for demolition; (ii) approximately RMB4.6 million for construction works of the building of the production facility based on the requirement; and (iii) approximately RMB0.4 million for installation of required machinery and equipment. Approval of the relevant design and production licenses of special equipment of the PRC is also necessary for the redeployment.

**Major production machinery and equipment**

The table below sets out a summary of our major production machinery and equipment owned by us as at the Latest Practicable Date:

| Major production machinery/ equipment | Principal usage and function | Number of units | Approximate average remaining lifespan *(Years)* |
|---|---|---|---|
| Lathe (車床) | Shaping metal | 10 | — |
| Welding machine (焊接機) | Welding parts and shells of equipment | 126 | 3.1 |
| Shearing machine (剪板機) | Cutting of alloys and other sheet metal | 2 | — |
| Rolling machine (卷板機) | Rolling and compressing raw metal | 6 | 1.9 |
| Beveling machine (刨邊機) | Smoothen the ends for welding | 3 | 2.8 |
| Lifting equipment (起重設備) | Lifting heavy loads | 27 | 0.4 |
| Cutting machine (切割機) | Cutting sheet metals, metal tubes and pipes | 20 | 2.0 |
| Flaw detector (探傷機) | Inspecting parts and component of equipment | 10 | 2.4 |
| Press machine (壓機) | Forming shapes | 15 | 1.7 |

During the Track Record Period, our capital expenditures in relation to property, plant and equipment amounted to approximately RMB4.5 million, RMB2.1 million and RMB4.3 million for the years ended 31 December 2021, 2022 and 2023, respectively. We conduct regular inspection of our production machinery and equipment and have in place maintenance systems for our production machinery and equipment. Maintenance is carried out by our repair staff and we would engage the repair team of the manufacturer of a particular machine when necessary. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any material or prolonged interruption to our production processes due to machinery or equipment failure.

**Production process**

Save for process burners which are more standardized equipment, most of our products can be customized based on individual customer's specifications. As such, the duration of the production process for each equipment varies depending on the equipment size, complexity of the design, manufacturing requirements and customers' specifications. The following table sums up a typical production process involved in our production.

| | Stages | Details |
|---|---|---|
| 1. | Manufacture preparation | Upon finalizing the production plan (design, technical and execution plan) to prepare the material and components list. |
| 2. | Procurement of materials and components | Principal materials and components typically include steel materials, such as plates and pipes, electrical parts and fire resistant materials. |
| 3. | Manufacturing | Typically involved shaping, assembling, welding, drilling applying fire resistant materials and drying |
| 4. | Quality control and testing | Finished products are sent to conduct testing, inspection and pressure tests to ensure that each part of the equipment is properly manufactured and is functioning at the required standards. |
| 5. | Surface and internal parts cleaning and treatment | Products which pass the final inspection and testing stages are sent to the sand blasting, cleaning and painting. |
| 6. | Delivery and installation | The final products are sent to our warehouses for storage, delivery to our customers and provision of installation services. |

## SALES AND MARKETING

During the Track Record Period and up to the Latest Practicable Date, we identified potential business opportunities mainly through tendering or quotation and direct negotiation with customers. Our Directors are of the view that our success is largely based on our long-standing and stable relationships with our customers.

As at the Latest Practicable Date, our sales and marketing team comprised 43 employees. Our sales and marketing team is led by Mr. Zhang Xian and Mr. Jin Xuli, our senior management team, who have over 20 years of experience in the petroleum refinery and petrochemical equipment market and thus have gained adequate industry knowledge and experience which is beneficial to our business operation. Our sales and marketing team is responsible for market research, contract negotiation and tracking, coordination of contract tendering and quotation, follow up with unpaid invoices and customer relationship management.

In order to maintain good relationships with our customers, we may also schedule visits with our customers based on the communication and arrangements with individual customers. Such visits act as feedback sessions with our customers. The visits are invaluable in securing further contracts and represent an opportunity for us to keep our customers informed of our latest product development activities. With an aim to tap into overseas markets, we have established overseas presence in Hong Kong, Canada and Brazil.

During the Track Record Period, our promotional expenses on advertising and business promotion activities amounted to approximately RMB0.3 million, RMB0.3 million and RMB0.3 million, respectively.

## OUR CUSTOMERS

During the Track Record Period, our customers mainly included market participants in the petroleum refinery and petrochemical industry in the PRC, which can be further classified into (i) owners of production facilities; (ii) third-party contractors; and (iii) equipment manufacturers; and (iv) others.

The following table sets out our revenue by customer type during the Track Record Period:

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2021 | | 2022 | | 2023 | |
| | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* |
| Owners of production facilities | 169,053 | 68.2 | 384,300 | 91.7 | 480,823 | 88.4 |
| Third-party contractors | 40,146 | 16.2 | 30,117 | 7.2 | 46,753 | 8.6 |
| Equipment manufacturers | 34,713 | 14.0 | 3,762 | 0.9 | 16,224 | 3.0 |
| Others[(1)] | 4,132 | 1.6 | 894 | 0.2 | 329 | — |
| | 248,044 | 100.0 | 419,073 | 100.0 | 544,129 | 100.0 |

*Note:*

(1) Others mainly consist of sale of equipment to trading companies and a research centre during the Track Record Period, which our Directors consider this represented an insignificant part of our total revenue. For details, please refer to "— Our transactions with trading companies and a research centre during the Track Record Period" in this section.

### Our five largest customers

We have forged and maintained stable relationships with our major customers. For the years ended 31 December 2021, 2022 and 2023, revenue from our five largest customers in each year of the Track Record Period amounted to approximately RMB116.4 million, RMB318.0 million and RMB400.3 million, representing approximately 46.9%, 75.9% and 73.6% of our total revenue, respectively, among which revenue from our largest customer in each year during the Track Record Period amounted to approximately RMB51.7 million, RMB253.4 million and RMB191.7 million, representing approximately 20.8%, 60.5% and 35.2% of our total revenue, respectively.

The information of our five largest customers in each year during the Track Record Period is set out below:

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

| Rank | Customer | Background of the customer | Year in which our business relationship commenced | Major products/services provided by us | Approximate revenue amount *RMB'000* | Approximate percentage of our total revenue % | Credit term and major payment method |
|---|---|---|---|---|---|---|---|
| 1. | Customer A | One of the largest petroleum refinery and petrochemical groups in the PRC and was established on February 2000 with listing position in both Hong Kong and the PRC. The listed group is principally engaged in (i) exploration and production, pipeline transportation and sale of petroleum and natural gas; (ii) the production, sale, storage and transportation of refinery products, petrochemical products, coal chemical products, synthetic fibre, and other chemical products; (iii) the import and export of petroleum, natural gas, petroleum products, petrochemical and chemical products, and other commodities and technologies; and (iv) research, development and application of technologies and information. Customer A is ultimately owned and controlled by a state-owned enterprise in the PRC. As at 31 December 2023, there were over 368,000 employees and Customer A recorded consolidated revenue and consolidated net profit of approximately RMB3,212 billion and RMB67.9 billion, respectively, for the year ended 31 December 2023. | 2000 | SRU and VOCs incineration equipment, catalytic cracking equipment, process burners and heat exchangers | 51,694 | 20.8 | 60 to 90 days; by bank transfer and bank acceptance note |
| 2. | Ningbo Zhongneng | A private company established on September 2010 with a registered capital of approximately RMB88 million. Ningbo Zhongneng is principally engaged in the manufacturing and production of complete sets of petrochemical equipment and wholesale of machinery and equipment in the PRC. There were over 60 employees in the company. | 2018 | Heat exchangers | 23,717 | 9.6 | 60 days; by bank transfer and bank acceptance note |
| 3. | Customer B | One of the largest petroleum refinery and petrochemical groups in the PRC and was established on November 1999 with listing position in Hong Kong and the PRC. The listed group is principally engaged in (i) the exploration, development, transportation and production and marketing of crude oil and natural gas; (ii) the refining of crude oil and petroleum products, production and marketing of primary petrochemical products, derivative petrochemical products and other chemical products; (iii) the marketing of refined products and non-oil products, and trading business; and (iv) the transportation of natural gas and the sale of natural gas. Customer B is ultimately owned and controlled by a state-owned enterprise in the PRC. As at 31 December 2023, there were around 399,000 employees and Customer B recorded consolidated revenue of approximately RMB3,011 billion for the year ended 31 December 2023. | 1994 | SRU and VOCs incineration equipment, catalytic cracking equipment and process burners | 16,888 | 6.8 | 90 days; by bank transfer |
| 4. | Guizhou Jinze[(1)] | A private company mainly engaged in the production of biological fertilizers in the PRC. Guizhou Jinze was established on September 2020, with a registered capital of approximately RMB200 million. There were around 55 employees in the company. Guizhou Jinze is an affiliate of a state-owned enterprise and is 51% owned by a PRC private company which was established in 2011 and engaged in the research and development of industrial gas (tail gas) fermentation to fuel ethanol technology and related products. | 2021 | SRU and VOCs incineration equipment; and installation services | 12,780 | 5.2 | 180 days; by bank transfer |
| 5. | Customer C[(1)] | A subsidiary of a state-owned enterprise in the PRC principally engaged in design, procurement and construction for coal chemical and petrochemical equipments. The company was established on October 2007, with a registered capital of approximately RMB146.8 million. There were around 175 employees in the company. | 2020 | Catalytic cracking equipment | 11,277 | 4.5 | 30 to 45 days; by bank transfer |
| | | | | | 116,356 | 46.9 | |

***For the year ended 31 December 2022***

| Rank | Customer | Background of the customer | Year in which our business relationship commenced | Major products/services provided by us | Approximate revenue amount<br>*RMB'000* | Approximate percentage of our total revenue<br>% | Credit term and major payment method |
|---|---|---|---|---|---|---|---|
| 1. | Customer A | One of the largest petroleum refinery and petrochemical groups in the PRC and was established on February 2000 with listing position in both Hong Kong and the PRC. The listed group is principally engaged in (i) exploration and production, pipeline transportation and sale of petroleum and natural gas; (ii) the production, sale, storage and transportation of refinery products, petrochemical products, coal chemical products, synthetic fibre,and other chemical products; (iii) the import and export of petroleum, natural gas, petroleum products, petrochemical and chemical products, and other commodities and technologies; and (iv) research, development and application of technologies and information. Customer A is ultimately owned and controlled by a state-owned enterprise in the PRC. As at 31 December 2023, there were over 368,000 employees and Customer A recorded consolidated revenue and consolidated net profit of approximately RMB3,212 billion and RMB67.9 billion. respectively for the year ended 31 December 2023. | 2000 | SRU and VOCs incineration equipment and catalytic cracking equipment, process burners and heat exchangers | 253,406 | 60.5 | 60 to 90 days; by bank transfer and bank acceptance note |
| 2. | Customer B | One of the largest petroleum refinery and petrochemical groups in the PRC and was established on November 1999 with listing position in Hong Kong and the PRC. The listed group is principally engaged in (i) the exploration, development, transportation and production and marketing of crude oil and natural gas; (ii) the refining of crude oil and petroleum products, production and marketing of primary petrochemical products, derivative petrochemical products and other chemical products; (iii) the marketing of refined products and non-oil products, and trading business; and (iv) the transportation of natural gas and the sale of natural gas. Customer B is ultimately owned and controlled by a state-owned enterprise in the PRC. As at 31 December 2023, there were around 399,000 employees and Customer B recorded consolidated revenue of approximately RMB3,011 billion for the year ended 31 December 2023. | 1994 | SRU and VOCs incineration equipment, catalytic cracking equipment, process burners and heat exchangers | 20,220 | 4.8 | 90 days; by bank transfer and bank acceptance note |
| 3. | Customer D | A private company principally engaged in manufacture of steel material in the PRC. The company was established on August 2002, with a registered capital of approximately RMB4,000 million. There were over 12,700 employees in the company. | 2019 | Heat exchangers | 17,760 | 4.2 | 90 days; by bank acceptance note |
| 4. | Customer E | A private company principally engaged in manufacture of petrol and diesel in the PRC. The company was established on September 2016 with a registered capital of approximately RMB600 million. There were around 310 employees in the company. | 2018 | SRU and VOCs incineration equipment; and installation services | 15,175 | 3.6 | 30 days; by bank acceptance note |
| 5. | Customer F | A private company principally engaged in manufacturing chemical products in the PRC. The company was established on November 1993 with a registered capital of approximately RMB163.2 million. There were over 2,000 employees in the company. | 2012 | SRU and VOCs incineration equipment | 11,469 | 2.8 | 180 days; by bank transfer and bank acceptance note |
| | | | | | 318,030 | 75.9 | |

***For the year ended 31 December 2023***

| Rank | Customer | Background of the customer | Year in which our business relationship commenced | Major products/services provided by us | Approximate revenue amount *RMB'000* | Approximate percentage of our total revenue % | Credit term and major payment method |
|---|---|---|---|---|---|---|---|
| 1. | Customer A | One of the largest petroleum refinery and petrochemical groups in the PRC and was established on February 2000 with listing position in both Hong Kong and the PRC. The listed group is principally engaged in (i) exploration and production, pipeline transportation and sale of petroleum and natural gas; (ii) the production, sale, storage and transportation of refinery products, petrochemical products, coal chemical products, synthetic fibre,and other chemical products; (iii) the import and export of petroleum, natural gas, petroleum products, petrochemical and chemical products, and other commodities and technologies; and (iv) research, development and application of technologies and information. Customer A is ultimately owned and controlled by a state-owned enterprise in the PRC. As at 31 December 2023, there were over 368,000 employees and Customer A recorded consolidated revenue and consolidated net profit of approximately RMB3,212 billion and RMB67.9 billion, respectively for the year ended 31 December 2023. | 2000 | SRU and VOCs incineration equipment, catalytic cracking equipment, process burners and heat exchangers | 191,671 | 35.2 | 60 to 90 days; by bank transfer and bank acceptance note |
| 2. | Customer G[(2)] | Owner of production facilities. A company established under the laws of Russia with limited liability and 60% hold by a natural gas processing and petrochemical company in Russia and 40% hold by Customer A. The company's scope of business covers the design, construction, operation, maintenance and ownership of polyolefin project; the processing of energy products into chemical products; and the operation of production facilities, gas treatment facilities, pipeline, transportation and warehousing facilities related to the aforementioned activities according to public information. | 2022 | Process burners | 62,456 | 11.5 | Payment in advance; by bank transfer |
| 3. | Customer H | One of the largest group specializing in oil and natural gas exploration and remains the dominant crude oil and natural gas producer in China. The group was established on February 1983 and is ultimately owned and controlled by a state-owned enterprise in the PRC. | 2007 | Catalytic cracking equipment and process burners | 57,024 | 10.5 | 30 days; bank transfer |

| Rank | Customer | Background of the customer | Year in which our business relationship commenced | Major products/services provided by us | Approximate revenue amount<br>*RMB'000* | Approximate percentage of our total revenue<br>% | Credit term and major payment method |
|---|---|---|---|---|---|---|---|
| 4. | Customer I | A private company principally engaged in the production of refined products and chemical materials in the PRC. Customer I was established in June 2019 with a registered capital of RMB38.0 billion and over 1,800 employees in the company. The company is an associate company of a state-owned enterprise in the PRC. | 2021 | SRU and VOCs incineration equipment and catalytic cracking equipment | 45,885 | 8.4 | 45 days; by bank transfer and bank acceptance note |
| 5. | Customer J | A PRC listed company principally engaged in the manufacture and sales of chemical products derived from coal in PRC. Customer J was established in November 2005 and recorded consolidated revenue and consolidated net profit of approximately RMB29.1 billion and RMB5.7 billion, respectively, for the year ended 31 December 2023. | 2012 | SRU and VOCs incineration equipment and catalytic cracking equipment and process burners | 43,272 | 8.0 | 30 days; by bank transfer and bank acceptance |
| | | | | | 400,308 | 73.6 | |

*Note:*

1. Our Group became acquainted with Guizhou Jinze and Customer C in early 2021 and 2020, by securing our first contracts with Guizhou Jinze and Customer C through tendering. To our Directors' best knowledge after making reasonable enquiries, the SRU and VOCs incineration equipment purchased by Guizhou Jinze from us were to be used in their production facilities for treatment of exhaust gases emitted during the process of their own fermentation.

(2) Revenue from Customer G included revenue from project where an agent was assigned by Customer G to enter into the relevant contract with us, of which Customer G remained our primary reporting party (including, without limitation, design and specification of products, work progress, terms and payment).

All of our five largest customers and their respective ultimate beneficial owners during the Track Record Period were Independent Third Parties. None of our Directors or their respective close associates or any Shareholders, which to the best knowledge of our Directors, own more than 5% of the issued share capital of our Company, had any interest in any of our five largest customers during the Track Record Period. During the Track Record Period and up to the Latest Practicable Date, there were no litigations or arbitration or disputes between us and our five largest customers which have a material and adverse impact on our business operations or financial condition.

**Our sale transactions with Customer A during the Track Record Period**

During the Track Record Period, our Group provided petroleum refinery and petrochemical equipment and related parts and component to Customer A, our largest customer in each of the year ended 31 December 2021, 2022 and 2023. Customer A consists of several subsidiaries and branch companies of one of the largest petroleum refinery and petrochemical groups in the PRC and they were the key users of our equipment. Our Group has transacted with 23, 19 and 23 branch companies and subsidiaries of Customer A, respectively, during the Track Record Period and recorded revenue of approximately RMB51.7 million, RMB253.5 million and RMB191.7 million, respectively, for the same period. To our Directors' best knowledge after making reasonable enquiries, such increased sales and revenue from Customer A was mainly attributable to their increased demand for our equipment and more sizable contracts were awarded to us. It is consistent to their significant capital expenditures for their refinery segment business, mainly related to their constructions of Anqing and Yangzi refining upgrading projects and Zhenhai refining and chemical project. In particular, we have entered into several contracts with Anqing branch office and Yangzi branch office of Customer A, with aggregate contract sum (inclusive of VAT) of approximately RMB47.5 million and RMB237.2 million, respectively, for the years ended 31 December 2021 and 2022. We have entered into contracts with Zhenhai company of Customer A, with aggregate contract sum (inclusive of VAT) of approximately RMB78.7 million and RMB32.0 million, respectively, for the years ended 31 December 2022 and 2023.

As at the Latest Practicable Date, we have 19 sale contracts with Customer A with aggregate contract sum (inclusive of VAT) of approximately RMB7.4 million which are expected to be recognised as revenue for the year ending 31 December 2024.

**Customer concentration**

For the year ended 31 December 2021, 2022 and 2023, approximately 46.9%, 75.9% and 73.6%, respectively, of our total revenue was attributable to our five largest customers in each year during the Track Record Period. In particular, our largest customer in each year during the Track Record Period has contributed approximately 20.8%, 60.5% and 35.2% of our revenue for the years ended 31 December 2021, 2022 and 2023, respectively. Our Group is a petroleum refinery and petrochemical equipment manufacturer in the PRC and our equipment were sold to market participants in the petroleum refinery and petrochemical industry in the PRC, including Customer A, Customer B and Customer H, consisting branches and subsidiaries of the three largest petroleum refinery and petrochemical groups in the PRC. Our Directors consider that we are not reliant on any of our five largest customers and Customer A and such customer concentration is not uncommon for the petroleum refinery and petrochemical equipment industry and the business model of our Group is sustainable despite the customer concentration due to the following factors:

*(i) The petroleum refinery and petrochemical market in the PRC is dominated by several market leaders*

According to the F&S Report, the petroleum refinery and petrochemical industry in the PRC is dominated by Sinopec Group ("**SINOPEC**") and China National Petroleum Corporation ("**CNPC**") and CNOOC Limited ("**CNOOC**") and they were the key end-users of the petroleum refinery and petrochemical equipment. These three largest market participants in the industry in the PRC would partner with manufacturers for the production of the petroleum refinery and petrochemical equipment. In contrast to the highly concentrated petroleum refinery and petrochemical industry, the petroleum refinery

and petrochemical equipment industry is fragmented and overflowed with over thousands of manufacturers in the PRC. Accordingly, each market participant only accounts for a tiny fraction of the petroleum refinery and petrochemical equipment market. There were over 40,000 petroleum refinery and petrochemical equipment manufacturers in the PRC in 2022. Since (i) the petroleum refinery and petrochemical industry in the PRC is concentrated in several market participants; and (ii) the petroleum refinery and petrochemical equipment industry is fragmented with numerous small to medium sized enterprises producing petroleum refinery and petrochemical equipment, the tremendous production orders placed by these market participants come to represent a substantial portion of our Group's total revenue during the Track Record Period. Due to the limitation of our Group's size and scale of operation, and the fact that some contract amount are very large, it is reasonable to have our Group's revenue for each year to be overwhelmingly dominated by just a few large contracts, leading to the results that customers of a single or a few sizable contracts can easily become our largest customer in terms of revenue contribution for more than one financial year.

*(ii) Well established business relationship with our major customers*

Our Group has over 20 years of business relationships with each of Customer A and Customer B; and over 17 years of relationships with Customer H as at the Latest Practicable Date. Our Directors believe that we have established a stable and long term business relationship with them. Our Group works with customers on products advancement, and communicates with our customers through face-to-face meetings, text message and email communications. Through such frequent contacts, our Directors believe that we have a sound understanding of the needs and preferences of our customers, which helps to maintain the relationship between us and our customers. During the Track Record Period, we generally go through competitive tendering procedure for contracts awarded by Customer A, Customer B and Customer H, our Group's overall tender success rate was approximately 53.9%, 46.3% and 51.4% for the year ended 31 December 2021, 2022 and 2023, respectively, with corresponding contract values awarded of approximately RMB295.0 million, RMB573.5 million and RMB426.6 million. Our Directors believe that these relationships are attributable to the consistent product quality, timely delivery of our products and the quick response to market demand for different product specifications. We shall endeavour to strengthen the continuing alliance with its customers.

*(iii) Admitted by Customer A, Customer B and Customer H as a qualified supplier*

During the Track Record Period, Customer A, Customer B and Customer H admitted our Group as a qualified supplier. One of the three aforementioned, Customer A carried out site visits and communication with our Group in relation to the technical requirements and production plan for specific projects from time to time during the Track Record Period.

*(iv) Optimise the utilization of current production capacity of the Group*

We consider that sales orders from sizable customers including but not limited to Customer A and Customer B are relatively stable given that customers such as them would provide their requirements and production specifications that allow us to formulate and manage the production plans beforehand and thus optimise the utilization of our production capacity. The utilization rates of each of our self-owned production facilities was approximately 51.7% and 82.1% for the year ended 31 December 2022, and approximately 70.1% and 100.9% for the year ended 31 December 2023, respectively. For details, see "— Production Facilities" in this section. Our Directors managed to reduce idle capacity of us during the Track Record Period by establishing relationships with others customers. Except for Customer

A, being our largest customer for each of the year during the Track Record Period, other of our five largest customers for each of the years ended 31 December 2021, 2022 and 2023 were substantially different, which suggests that we did not place undue reliance on any particular one of them throughout the Track Record Period for revenue generation.

For associated risks, please refer to the section headed "Risk factors — Risks Relating to Our Business and Our Industry — We have a concentration of customers during the Track Record Period, which may cause our business to be materially and adversely affected." in this document.

**Our sales with trading companies and a research centre during the Track Record Period**

During the Track Record Period, we also sold our equipment to trading companies customers and a research centre, namely Honeywell Integrated Technology (China) — Luoyang Branch, which is a wholly-owned subsidiary of Honeywell China and ultimately owned by Honeywell International, with aggregate revenue amounted to approximately RMB4.1 million, RMB0.9 million and RMB0.3 million, respectively, for the years ended 31 December 2021, 2022 and 2023, accounting for approximately 1.6%, 0.2% and 0.06% of our total revenue, respectively, for the same period.

Our trading company customers mainly consist of (i) privately-owned company engaged in the trading and sale of petroleum refinery and petrochemical equipment and parts and components in the PRC, and (ii) subsidiaries or related companies of listed companies or stated-owned enterprises in the PRC whose parent company is engaged in the petroleum refinery and petrochemical and related industry in the PRC. To the best knowledge of our Directors after making reasonable enquiry, our trading company customers on-sell our equipment and parts and components to their customers or related companies who are the owners of production facilities. During the years ended 31 December 2021, 2022 and 2023, we had transacted with 30, 22 and 15 trading company customers respectively. Our trading company customers place orders with us on a transaction basis and the revenue from the sales of our equipment are recognised when the control of the goods have been transferred to them.

Our Group generally became acquainted with trading company customers through sale referral and/or introduction by our existing customers and some trading company customers may purchase from us under the instruction of their respective project owners who usually refer to the owners of production facilities. According to F&S, it is an industry practice that owners of production facilities may engage contractors and equipment traders to purchase or source equipment or parts and components from equipment manufacturers like our Group as these equipment traders have particular connections with equipment manufacturers which allow them to access to a wide range of equipment, parts and components; streamlined the procurement process and allow the project owners to enjoy cost savings benefits for equipment sourcing. Our Group does not adopt any favourable treatment in respect of the types of our customers (i.e. trading company customers and non-trading company customers) and thus, our pricing for sales to trading company customers and a research centre are similar to those offered by us to other customers of our Group. To the best knowledge of our Directors after making reasonable enquiries and confirmed with our trading company customers, our price of equipment and parts and component are similar to those offered by industry peers.

The tables below set out the background information of our trading company customers with revenue contribution over RMB500,000 during the Track Record Period:

| Customer | Background | Major product category | Business with relevant customers commenced since | Revenue Year ended 31 December 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|
| | | | | *RMB'000* | *RMB'000* | *RMB'000* |
| Customer K | Privately-owned PRC company, which is located in Beijing and a direct subsidiary of CNPC. The company is mainly engaged in the export of petroleum equipment and materials and providing materials and equipment for overseas projects of its group companies. The company was established in 1987 with a registered capital of RMB1 billion and over 500 employees. | Process burners | 2018 | 1,766 | — | — |

*Note:* There is no any individual trading company customers with revenue contribution over RMB500,000 during the year 31 December 2022 and 2023.

To the best knowledge of our Directors, save for being our customers and the business relationship with our Group, there are no other past or present relationships (family, business, employment, financing, trust, shareholding or otherwise) between our Group (including our Directors, our Shareholders, senior management or any of the irrespective associates) and the trading companies customers and their respective ultimate beneficial owners during the Track Record Period and up to the Latest Practicable Date; and all of them and their respective ultimate beneficial owners were Independent Third Parties.

Our Group recorded revenue from Honeywell Integrated Technology (China) — Luoyang Branch for the sales of parts and components of nil, approximately RMB5,000 and nil, respectively for the years ended 31 December 2021, 2022 and 2023. To our Directors' best knowledge after making reasonable enquires, our parts and components are to be used for repair and maintenance purposes. Honeywell Integrated Technology (China) — Luoyang Branch was established in 2013 and our relationship with it could be traced back to 2012 when Honeywell China, being the parent company of Honeywell Integrated Technology (China) — Luoyang Branch and Luoyang Ruichang commerce to negotiate the cooperation for designing, manufacturing, selling, and installing the refining and petrochemical equipment and supporting systems in PRC. Details of our acquaintance with Honeywell China is disclosed in paragraph headed "Research and Development — Testing and research centers" in this section.

To the best knowledge of our Directors, save for Honeywell Integrated Technology (China) — Luoyang Branch being our customer, our Group being a landlord (details of our lease of buildings to Honeywell Integrated Technology (China) — Luoyang Branch is disclosed in paragraph headed "Properties — Leased buildings" in this section) and the business and collaboration relationship of Honeywell China with our Group as disclosed, there are no other past or present relationships, transactions or arrangement between our Group (including our Directors, our Shareholders, senior management or any of the irrespective associates) and Honeywell Integrated Technology (China) — Luoyang Branch during the Track Record Period and up to the Latest Practicable Date.

**Contracts with customers**

Our typical sale contracts include terms that govern specifications of our equipment, order details, payment terms, quality requirements, technical support, warranty period, liability for breach of contract and delivery terms.

The contracts we entered into with a customer typically contain the following salient terms:

| | | |
|---|---|---|
| Order details | : | The quantity and the total amount are specified. |
| Payment terms | : | Our contract generally provides for payment by several instalments, and each instalment will be paid subject to the contract progress and delivery progress. |
| Quality requirements | : | Our equipment is required to be in compliance with the relevant national or industrial standards of the country where our equipment is to be used or sold to. |
| Technical support | : | Our technical officers will provide technical support and training to our customers. |
| Warranty period | : | A warranty period of 12 months from the date of the normal operation of our products or 18 months from the date of delivery of our equipment, whichever is earlier. |
| Liability for breach of contract | : | We are responsible for the payment of costs arising from delays in technical documentation, delays in delivery or quality problems caused by our negligence. |
| Delivery terms | : | We are generally responsible for the delivery of the equipment to the customer's designated place. |

**Pricing policy**

We determine our pricing on a case-by-case basis by adopting a cost-plus pricing model, where we determine the price of our equipment and services by taking into account various factors such as the cost of materials and components, overhead, labour costs, transportation costs, technical requirement, outsourcing costs, customer relationships, competitive landscape, production schedule, contract sum and our business strategies adopted from time to time. We determine the price of each order or contract value of each contract on a standalone basis, all of which are negotiated on an individual basis with each customer.

### Seasonality

In general, our business has no obvious cyclical or seasonal changes. However, as our business is contract-based and our equipments are customized to each contract, our revenue will be affected by the number of the contract completed for a period and the demand from our customers. It is not uncommon in the petroleum refinery and petrochemical equipment industry that petroleum refinery and petrochemical equipment manufacturers for meeting the manufacturing deadline and so the majority of products are shipped at the end of the year. The fourth quarter of the year is typically a peak season for manufacturers' revenue according to the F&S Report.

## PROCUREMENT OF MATERIALS AND COMPONENTS AND PURCHASES OF SERVICES

### Procurement of materials and components

Our procurement and manufacturing team is responsible for procuring materials and components according to our production needs, monitoring the performance of suppliers and handling ongoing liaison work with existing or potential suppliers. We have in place a procurement policy, which is subject to review from time to time. In accordance with our procurement policy, we obtain quotes from suppliers and assess and select suitable suppliers with reference to factors such as, their technical capabilities, competitiveness in price, quality, length of our business relationship and requirements of our customers. For details regarding quality control during our procurement process, see "— Quality Control" in this section.

The key materials procured by us are steel materials, such as steel plates and steel pipes, and components such as fire resistant materials, electrical parts, water-sealed tanks, reactors and converters. We also purchase some components processed by third parties based on our design and technical specifications. We purchase certain materials and components from designated suppliers outside the PRC under our customers' requests, other than that, we purchase materials and components from local suppliers in the PRC. Materials and components used constituted the largest component of our cost of sales during the Track Record Period, which amounted to approximately RMB135.5 million, RMB232.8 million and RMB289.6 million, representing approximately 76.5%, 81.4% and 82.1% of our total cost of sales for the years ended 31 December 2021, 2022 and 2023, respectively. We did not encounter any significant delays or shortages in the supply of our materials and components during the Track Record Period which may have a material adverse impact on our business, and we do not anticipate significant difficulties in obtaining alternative sources of supply in the future.

During the Track Record Period, our cost of materials and consumables used generally fluctuated with the price of steel plates in the PRC and the numbers of sale contracts we obtained. Most of our contracts are fixed-price contracts and in determining the value of contracts we entered into with our customers, we adopts the cost-plus model. We estimate the costs involved in manufacturing the equipment required by our customers, such as material and components costs and labour costs. Since we usually make material procurement arrangements with suppliers after we have entered into the relevant contracts with our customers, in which the price of the materials are usually set out, we generally would not be able to pass on any increase in material costs to our customers when we experience an unexpected increase in material costs during the period from signing of a sale contract to placing the relevant purchase order with our suppliers. Moreover, the duration period of our contracts varies and may take up to three to 19 months or more to complete, due to a number of factors, including the scale and complexity of the equipment, the technical specifications and the construction schedule specified by

the customers. Hence, the time interval between sale contracts with our customers and the procurement contract also varies and might be relatively long, which will affect our cost of materials and components used and our profit margin.

The price index of overall steel plate in China fluctuated during the Track Record Period and recorded a sharp increase since October 2020 with lowest price index hit at 107.3 in October 2020 and highest price index hit at 157.7 in September 2021, representing a change of approximately 47.0%. The price index of overall steel plate in China was in decreasing trend during the years ended 31 December 2022 and 2023. For details of the price index of overall steel price (China), please refer to "Industry Overview — Major cost analysis of petroleum refinery and petrochemical equipment market — Steel materials" to this document.

Steel materials is our principal materials which we used during the production process. We did not conduct any hedging activities with respect to the price fluctuation in the material during the Track Record Period. In order to mitigate the price fluctuations of steel plate to our profitability, we have implemented the following measures: (i) analyse price trends of steel plates on an on-going basis and increase our inventory levels of steel plates in anticipation of price increase and vice versa; (ii) review and monitor our inventory levels on a periodical basis; and (iii) maintain a list of readily available alternative suppliers for each type of materials to reduce reliance on any one supplier and to avoid having any disruption to our supplies. We believe that we are able to adapt to the latest price trends of our steel plate and make appropriate purchasing decisions.

For the sensitivity analysis of the impact of hypothetical changes in the cost of materials and components used on our profit before tax during the Track Record Period, see "Financial Information — Description of Selected Items in the Consolidated Statements of Profit or Loss and Other Comprehensive Income — Cost of sales — Sensitivity analysis" in this document. Given our extensive supplier network, our Directors are of the view that we are able to maintain a steady supply of key materials and components without a substantial increase in procurement costs in the event that we experience any unexpected disruption in supplies from our major suppliers. Our Directors are of the view that, in the event of any increase in the price of key materials and components, we will be able to find alternative suppliers in the market.

**Purchase of services**

We generally engage third parties for transportation, installation and consulting services. For consulting services, we typically required third parties to provide site visits and technical studies to assist our Group with tender preparation. Given that our sale and marketing team and technicians were not able to travel to other regions of the PRC under travel restrictions due to the COVID-19 pandemic during the Track Record Period, our Directors consider that engaging such consulting services are more cost effective and efficient.

We will select suitable service suppliers based on their scale of operation and prices. Also, we will consider their past performance, reputation in the industry, professional qualification and whether they can complete the work within the expected timeframe as specified by us. During the Track Record Period and up to the Latest Practicable Date, we did not experience any difficulty in identifying and engaging suppliers for transportation, installation, and consulting services.

For the years ended 31 December 2021, 2022 and 2023, these outsourcing service fees incurred by us amounted to approximately RMB16.2 million, RMB23.1 million and RMB29.9 million which represent approximately 9.2%, 8.1% and 8.5% of our total cost of sales, respectively.

## OUR SUPPLIERS

We maintain a list of qualified suppliers, including materials and components suppliers and service suppliers, and have in place a set of selection criteria for suppliers including various factors such as quality of work, pricing, their qualification and financial position. We require potential suppliers to submit documentary proof to demonstrate that they possess the required qualifications including ISO 9001 certificate and certificates for manufacturing and designing special equipment. Suppliers that satisfy our selection criteria will be included in our list, which will be reviewed and updated regularly.

In general, qualified suppliers are classified into three categories being, class A being suppliers from which we source large quantity of key materials and components; class B being suppliers from which we source key materials and components in a relatively smaller volume; and class C being suppliers from which we source materials and components which are ancillary and replaceable and in a relatively smaller volume.

### Our five largest suppliers

We have established stable and long-term business relationship with our major suppliers. For the years ended 31 December 2021, 2022 and 2023, purchases from our five largest suppliers in each year during the Track Record Period amounted to approximately RMB40.9 million, RMB53.5 million and RMB73.6 million, representing approximately 24.0%, 21.0% and 23.8% of our total purchase, respectively, among which purchases from our largest supplier in each year during the Track Record Period amounted to approximately RMB10.6 million, RMB14.9 million and RMB22.2 million, representing approximately 6.2%, 5.8% and 7.2% of our total purchase, respectively.

The information of our five suppliers for the Track Record Period is set out below:

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

| Rank | Supplier | Background of the supplier | Year in which our business relationship commenced | Major products provided to us | Approximate amount of purchase *RMB'000* | Approximate percentage of our total purchase % | Credit term and major payment method |
|---|---|---|---|---|---|---|---|
| 1. | Hebei Hualin Echanical Device Limited Company* (河北華林機械設備有限公司) | A private company principally engaged in the manufacturing of radiators, central heating boilers and auxiliary equipment in the PRC with around 1,000 employees and a registered capital of RMB100 million. | 2018 | Incinerators, condensers and reactors | 10,617 | 6.2 | 60 days; by bank transfer and bank acceptance note |
| 2. | Zibo Shenghua Refractory Resistant Materials Co., Ltd* (山東勝華耐磨材料有限公司) | A private company principally engaged in the manufacturing of fire resistant materials in the PRC and a registered capital of RMB15 million. | 2018 | Fire resistant materials | 9,117 | 5.4 | 30 to 60 days; by bank transfer and bank acceptance note |
| 3. | Shanxi Xinrongchuang Stainless Steel Co., Ltd* (山西鑫榮創不銹鋼有限公司) | A privately company principally engaged in sales of stainless steel materials in the PRC with a registered capital of RMB5 million. | 2017 | Steel materials | 8,402 | 4.9 | 7 days; by bank transfer and bank acceptance note |
| 4. | Laining (Dalian) Refractory Engineering Co., Ltd* (萊寧(大連)熱能技術有限公司) | A private company principally engaged in the manufacturing and wholesale of fire-resistant materials and the development of thermal energy technology in the PRC with a registered capital of RMB4 million. | 2016 | Fire resistant materials | 6,903 | 4.1 | 180 days; by bank acceptance note |
| 5. | Supplier A | A private company principally engaged in the manufacturing of petrochemical equipments in the PRC with over 80 employees and a registered capital of RMB50 million. | 2013 | Coolers | 5,828 | 3.4 | 30 to 180 days; by bank transfer and bank acceptance note |
| | | | | | 40,867 | 24.0 | |

***For the year ended 31 December 2022***

| Rank | Supplier | Background of the supplier | Year in which our business relationship commenced | Major products provided to us | Approximate amount of purchase *RMB'000* | Approximate percentage of our total purchase % | Credit term and major payment method |
|---|---|---|---|---|---|---|---|
| 1. | Supplier B | A private company principally engaged in the manufacturing of petrochemical equipments in the PRC with a registered capital of RMB108 million. | 2012 | Water-sealed tanks | 14,867 | 5.8 | 180 days; by bank transfer and bank acceptance note |
| 2. | Supplier C | A private company principally engaged in the design, manufacturing and sale of furnace, pressure vessels and heat exchangers in the PRC with around 450 employees and a registered capital of RMB107.9 million. | 2022 | Water-sealed tanks | 10,425 | 4.1 | 90 days; by bank transfer and bank acceptance note |
| 3. | Supplier D | A private company principally engaged in the manufacturing and sale of steel, pressure vessel and mechanical equipment in the PRC with a registered capital of RMB100.2 million. | 2022 | Water-sealed tanks | 10,162 | 4.0 | 30 days; by bank transfer |
| 4. | Hebei Hualin Echanical Device Limited Company* (河北華林機械設備有限公司) | A private company principally engaged in the manufacturing of radiators, central heating boilers and auxiliary equipment in the PRC with around 1,000 employees and with a registered capital of RMB100 million. | 2018 | Pressure-reducing orifices, incinerators,condenser and reactors | 9,637 | 3.8 | 90 days; by bank transfer and bank acceptance note |
| 5. | Supplier E | A private PRC company principally engaged in the design, manufacturing and sale of petrochemical equipment in the PRC with a registered capital of RMB500,000. | 2021 | Flue | 8,437 | 3.3 | 60 days; by bank transfer and bank acceptance note |
| | | | | | 53,528 | 21.0 | |

***For the year ended 31 December 2023***

| Rank | Supplier | Background of the supplier | Year in which our business relationship commenced | Major products provided to us | Approximate amount of purchase *RMB'000* | Approximate percentage of our total purchase % | Credit term and major payment method |
|---|---|---|---|---|---|---|---|
| 1. | Hebei Hualin Echanical Device Limited Company* (河北華林機械設備有限公司) | A private company principally engaged in the manufacturing of radiators, central heating boilers and auxiliary equipment in the PRC with around 1,000 employees and a registered capital of RMB100 million. | 2018 | Condensers and reactor | 22,208 | 7.2 | 60 days; by bank transfer and bank acceptance note |
| 2. | Supplier F | A private company principally engaged in production and assembly of mechanical parts in the PRC with a registered capital of RMB0.3 million. | 2023 | Nozzles | 18,950 | 6.1 | Payment in advance; by bank transfer and bank acceptance note |
| 3. | Supplier G | One of major companies in the metal manufacturing industry in the PRC and was established in February 2007 with a listing position in Hong Kong. The listed group is principally engaged in (i) metal materials and components processing; and (ii) high-end equipment manufacturing. As at 31 December 2022, there were around 7,000 employees and the listed group recorded consolidated revenue of approximately RMB50.1 billion for the year ended 31 December 2022. | 2020 | Steel materials | 12,008 | 3.9 | 7 days; by bank transfer |
| 4. | Supplier H | A private company principally engaged in the manufacturing and sale of petrochemical mechanical equipment in the PRC with a registered capital of RMB5 million. | 2022 | Separation shell | 10,455 | 3.4 | 30 days; by bank transfer and bank acceptance note |
| 5. | Supplier I | A private company principally engaged in the manufacturing and sale of refining equipment processing products in the PRC with a registered capital of RMB50 million. | 2014 | Reactors and regenerator distill grid | 9,959 | 3.2 | 30 days; by bank transfer and bank acceptance note |
| | | | | | 73,580 | 23.8 | |

* *for identification purpose only*

All of our five largest suppliers in each year during the Track Record Period were Independent Third Parties. None of our Directors or their respective close associates or any Shareholders, which to the best knowledge of our Directors, own more than 5% of the issued share capital of our Company, had any interest in any of our five largest suppliers in each year during the Track Record Period. During the Track Record Period and up to the Latest Practicable Date, our Group had not experienced any major disruption in business due to material delays or defaulting payments.

### Major contract terms with our suppliers

Our Directors consider it is in line with normal practice in the industry. We generally enter into individual purchase contract/order and negotiate the price, quantity and payment terms with them on a case-by-case basis with suppliers. Set out below is a summary of typical key terms of our purchase contracts with suppliers:

| | |
|---|---|
| Specifications: | The purchase orders generally set out the specifications, quantities and pricing |
| Delivery and inspection: | Our suppliers are typically responsible for the delivery of the materials to our production bases. We are entitled to inspect the materials upon delivery |
| Payment terms: | We generally settle our purchases with our suppliers in RMB. We usually make payment to our suppliers by way of bank transfer and bank acceptance notes |
| Credit terms: | Our suppliers generally provide us with credit terms of not more than 30–90 days from the date of invoice |
| Warranty: | Our suppliers generally provide us with a specific period of warranty |

During the Track Record Period, we were not in breach of any material terms of our purchase contracts entered into with our suppliers.

## OVERLAPPING OF MAJOR CUSTOMER AND SUPPLIER

During the Track Record Period, to the best knowledge and belief of our Directors, among our five largest suppliers and customers in each year during the Track Record Period, Supplier A was our major overlapping customer and supplier.

The table below sets forth the total sales and total purchases attributable to Supplier A for the years ended 31 December 2021, 2022 and 2023:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2021** | **2022** | **2023** |
| **Sales to Supplier A** | | | |
| Revenue *(RMB'000)* | 412 | 178 | 392 |
| As a percentage of our total revenue | 0.2% | 0.04% | 0.07% |
| Related cost *(RMB'000)* | 114 | 82 | 167 |
| Gross profit margin | 27.7% | 46.1% | 42.6% |
| **Purchases** | | | |
| Cost *(RMB'000)* | 5,828 | 7,422 | — |
| As a percentage of total purchase | 3.6% | 2.9% | — |

For the Track Record Period, we principally purchased components, such as coolers and water sealed tanks from Supplier A with purchase amounts of approximately RMB5.8 million, RMB7.4 million and nil, respectively; and we provided it with spare parts such as nozzles and hex steel with aggregate transaction amounts of approximately RMB0.4 million, RMB0.2 million and RMB0.4 million for the years ended 31 December 2021, 2022 and 2023, respectively, with credit period of 30 days. As at the Latest Practicable Date, our receivables from Supplier A was fully settled. Details of the background of and our relationship with Supplier A are disclosed in "— Our Suppliers — Our five largest suppliers" in this section. Based on our experience in the petroleum refinery and petrochemical equipment market in the PRC and also according to the F&S Report, our Directors noted that it is a normal practice that petroleum refinery and petrochemical equipment manufacturers purchase equipment and parts and components from other equipment manufacturers in the PRC as there is over a hundred types of petroleum refinery and petrochemical equipment with different specifications or the production processes which resulting one supplier may have to purchase from other manufacturers. However, it is not our common practice to purchase from our customers or sell to our suppliers.

To the best knowledge and belief of our Directors after making all reasonable enquiries, Supplier A and his respective ultimate beneficial owners are Independent Third Parties. Our Directors confirmed that negotiations of the terms of our sales to and purchases from Supplier A were conducted separately and the sales and purchases were not inter-conditional with each other. Our Directors confirmed that, during the Track Record Period, the components we purchased from Supplier A were not the same as those products we previously sold or provided to them. The pricing and terms of transactions with Supplier A are generally in line with our Group's other customers and suppliers and the industry peers, which our Directors considered to be on normal commercial terms.

## INVENTORY MANAGEMENT

Our inventory comprises of materials and components; work-in-progress; finished products and spare parts. As at 31 December 2021, 2022 and 2023, our inventory balance amounted to approximately RMB45.3 million, RMB53.1 million and RMB66.7 million, respectively, representing approximately 15.6%, 11.3% and 11.7% of our total current assets as at the respective year end dates. During the Track Record Period, the average inventory turnover days was approximately 80 days, 63 days and 62 days for the relevant years, respectively. For more information of our average inventory turnover days, see "Financial Information — Description of Selected Items of the Consolidated Statements of Financial Position — Inventories".

As our production process is principally sales-driven, procurement arrangements with our suppliers for each individual contract are generally made after we have entered into the relevant contract and confirmed the contract specifications with our customers and therefore we are generally not exposed to significant over-stocking risk. We seek to maintain our inventory at a level sufficient to ensure that no interruption is caused to our production.

We have adopted a set of operational guidelines to regulate our inventory management. Our Group has in place an inventory management system that tracks all incoming and outgoing inventory relating to each purchase order and/or the common-usage materials so as to ensure that an optimal inventory level is maintained at all times to satisfy the needs of our customers without over-stocking. We also carry out stock takes at least once a year. Our inventory management staffs also conduct regular inspections to ensure accuracy of our inventory records. There is no material obsolete stock in our Group's inventory due to the characteristic of the materials and components and products during the Track Record Period.

## QUALITY CONTROL

We believe that quality standards are crucial to our success. Therefore, we have established internal quality control policy which sets out clear standards of testing and quality control procedures and guidelines to ensure strict compliance with national industrial standards application in the PRC including ISO 9001 and international standards including ASME standards. ASME standards are one of the leading international codes and standards that are accepted for use in more than 100 countries around the world. As we supply our products to customers based in both the PRC and overseas countries, we strive to comply with not only the industrial standards required in the PRC but also international standards.

Our quality control team is headed by Mr. Qu Gang, the vice general manager of Luoyang Ruichang. The quality control team is responsible for monitoring quality of our products and services, enhancing internal quality control system and conducting annual quality control reviews. As of the Latest Practicable Date, our quality control team comprised 20 employees, majority of whom have received tertiary or higher education and were familiar with the applicable industry requirements.

During the Track Record Period and up to the Latest Practicable Date, we did not receive any material claims or complaints from our customers in respect of the quality of our equipment, and there was no incident of failure of our qualify control systems, product returns or recalls that had a material adverse impact on our business operations.

### Quality control in our production and operation processes

Our Company has established a comprehensive quality control system which pertains to quality control, health, safety and environment ("**HSE**"). Our quality control and HSE divisions operate independently. We strive to ensure our product quality, provide a safe working environment to our employees and maintain an environmentally responsible operation. We adopt the following major quality control procedures in our production processes:

***Procurement***

We implement quality control measures to ensure the quality of materials and components procured. We maintain a list of qualified suppliers, which is subject to our review from time to time. It is our policy to make procurement only from the qualified suppliers. In addition, we conduct routine inspection and sample tests on materials and components procured from our suppliers before they are used in the production process to ensure that such materials and components comply with our specifications and also the quality standards required. Materials and components that have passed the testing conducted in accordance with our internal policy will then be labelled as "qualified" and stored properly to avoid any unnecessary tear and wear or damage

during storage. In the event that we detect any substandard or defective materials or components, they will be labelled as "sub-standard" and be retained in a designated area where technicians will inspect and decide whether such materials and components could be repaired or returned to the relevant suppliers for replacement.

***In-process quality testing***

We carry out in-process quality inspection and tests at various stages of the production process. In particular, our quality control staff monitor and inspect key production stages to ensure the critical stages in our business, are properly done. Such in-process quality testing enables us to identify any defects easily and to promptly rectify the problems. During the process of industrial thermal engineering equipment production, we also conduct standard non-destructive testing and pressure testing to ensure that our equipment such as process burners and pressure vessels are able to sustain the high pressure, temperature and have overall good integrity and quality.

***Finished product testing***

Our quality control staff conduct various types of testing on finished products to make sure that the finished products meet the relevant technical standards and our customers' specifications. For process burners and heat exchangers, we typically will carry out trial and testing at our testing centers to ensure the equipment operates according to customers' specifications and functional requirements. Adjustments will be made if necessary to satisfy specific needs of our customers. Only finished products that pass the final product quality control testing will be delivered to our customers.

## RESEARCH AND DEVELOPMENT

### Research and development collaboration with PRC universities

We have collaborated with a number of PRC universities to further our innovative capabilities and attract new talents to join us. Our Directors believe that with the ever-changing technological advancement in the industry, we could benefit from such collaborations and maintain our research and development and technical edge in design and manufacture of petroleum refinery and petrochemical equipment. During the Track Record period, we have entered collaborative arrangements with a number of top-tier PRC universities, which includes Beihang University (北京航空航天大學), and East China University of Science and Technology (華東理工大學) to take advantage of the research skills and technology of the universities to optimise our product designs and improve our manufacturing technology of petroleum refinery and petrochemical equipment. We have entered into legally binding collaboration agreements with all aforementioned parties, separately.

The collaboration agreements we entered into with the collaborating universities typically contain the following salient terms:

| | |
|---|---|
| Specifications: | The collaboration agreements generally specify the requirements, technical methods, research progress, funds and remuneration and deliverables of the research and development project |
| Delivery and inspection: | We usually conduct acceptance inspections according to the technical content and requirements specified in the agreements. We should organize acceptance inspections within a certain period after receiving the research and development results |
| Payment terms: | We generally settle research and development funds with cooperating universities in RMB and will make installment payments based on project progress. We usually make payment to collaborating universities by way of bank transfer |
| Intellectual property: | Some collaboration agreements stipulate that the new technical results that we complete using the technical service work results submitted by the collaborating universities shall be owned by us. Other collaboration agreements stipulates that both parties shall have the right to apply for patents for research and development achievements and related intellectual property rights arising from the performance of the agreements, and the ownership of related intellectual property rights shall be jointly owned by both parties |

Our Directors are of the view that our Company can benefit from the shared pool of talents and research and development skills and technology of the universities to optimize our equipment designs and improve our manufacturing technology. In addition, we aim to recruit graduates from these universities and send our employees to attend training sessions at these universities in order to keep ourselves abreast with latest industry trends and support development of our Company with a stable supply of research and development talents.

We recorded research and development expenses of approximately RMB18.7 million, RMB25.1 million and RMB38.0 million during the years ended 31 December 2021, 2022 and 2023, respectively. For details of our research and development expenses, please refer to the section headed "Financial Information — Description Selected Items in the Consolidated Statements of Profit or Loss and Other Comprehensive Income — Research and development expenses" in this document.

**Testing and research centers**

As of the Latest Practicable Date, we have collaborated with and established one testing and research center with Honeywell China, and one research and development center with Huazhong University of Science and Technology, respectively. Honeywell China is a subsidiary of Honeywell International which is an internationally leading supplier and licensor, specializing in providing specialty chemicals and processing technology for the refining and petrochemicals. Our relationship can be traced back to 2012 when Honeywell China and Luoyang Ruichang commerce to negotiate the cooperation for designing, manufacturing, selling, and installing the refining and petrochemical equipment and supporting systems in PRC, and eventually resulted in the implementation of strategic collaboration and the parties jointly established a testing and research center with Luoyang Ruichang in 2015. In total, we have established four research and development centers and one testing and research center in Henan Province. Details of our research and testing centers are set out in the table below:

| No. | Name of the center | Function |
|---|---|---|
| **Research and development center** | | |
| 1. | Henan Province Industrial Wet Smoke Condensation, Energy-saving and Lower Emission System Engineering Research Center (河南省工業濕煙氣冷凝節能減排消煙系統工程研究中心) | Develop wet plume treatment, low temperature waste heat recovery technology and improve glass plate heat exchanger design |
| 2. | Henan Corporate Technology Center (河南企業技術中心) | Formulate enterprise technological innovation plans, carry out industrial technological research and development, create and use intellectual property, establish standard technical systems, attract and train innovative talents, construct collaborative innovation networks and promote the implementation of technological innovation throughout the whole process. |
| 3. | Henan Province Petrochemicals Burner Engineering Technology Research Center (河南省石油化工燃燒器工程技術研究中心) | Research on domestic emission controls on industrial boilers |
| 4. | East China University of Science and Technology — Ruichang International Joint Institute for Low Carbon Green Energy Technology Innovation and Transfer（華東理工大學 — 瑞昌國際低碳綠色能源聯合技術創新轉移研究所） | Development and research and industrial application promotion for chemical energy storage, low carbon fuel application technology development, organic waste disposal and waste heat recovery technology |

| No. | Name of the center | Function |
|---|---|---|
| | **Testing and research center** | |
| 1. | Ruichang Asia Burning Testing Center (瑞昌亞太燃燒測試中心) | Conduct testing on burners and analyze temperature changes and types of flame |

## COMPETITION

### PRC market

The participants in the PRC petroleum refinery and petrochemical industry primarily include listed companies, state-owned enterprises, international engineering companies and private enterprises. The market of petroleum refinery and petrochemical equipment in the PRC is fragmented. In 2022, there were over 40,000 petroleum refinery and petrochemical equipment manufacturers in China's petroleum refinery and petrochemical equipment market. There are over a hundred types of petroleum refinery and petrochemical equipment and in general, equipment manufacturers would only produce certain types of equipment and producers would only compete with each other in the same product type.

In terms of the market share and ranking of our major product category, we were the third largest catalytic cracking equipment manufacturer in petroleum refinery and petrochemical operation in the PRC with a market share of approximately 6.3% in terms of revenue in 2022; we are also the second largest SRU and VOCs incineration equipment manufactures in petroleum refinery and petrochemical operations in the PRC with a market share of approximately 3.1% in terms of revenue in 2022. Based on our past performance and the fact that we are one of the few equipment manufacturers in the industry that possess both design engineering and manufacturing capabilities in China's petroleum refinery and petrochemical equipment industry as of 2022, according to the F&S Report, we believe we are one of the key market players in the PRC petroleum refinery and petrochemical equipment industry with a focus in the provision of SRU and VOCs incineration equipment, catalytic cracking equipment, process burners and heat exchangers; and we also participate in drafting certain national standards and codes in the industry.

Our main competitors in the PRC market include large engineering and equipment manufacturing enterprises. The market of petroleum refinery and petrochemical equipment in China is a large market, including various static and rotating equipment. The market size of petroleum refinery and petrochemical equipment in China increased from RMB484.9 billion in 2018 to RMB715.1 billion in 2023, representing a CAGR of approximately 8.1%. With the growing petroleum refinery capacity and developing petrochemical industry in China, the market is forecasted to grow at a CAGR of approximately 6.5% from 2023 to 2028, reaching RMB979.2 billion in 2028. Market drivers like growing macro economy and accelerating urbanization process are likely to drive the growth of China's petroleum refinery and petrochemical equipment industry. Alternative energy may affect the demand for oil consumption as energy source, but the value chain of petroleum refinery and petrochemical industry is long and the demand for downstream petrochemical has limited threat from alternative energy. In addition, to face the challenge from alternative energy, petroleum refinery projects who has limited production capacity of petrochemical would also actively seek opportunity to further extend its value chain to establish its own production capacity of petrochemicals such as ethylene, which may bring higher margin than refined oil products. For details of the market development and drivers, please refer

to the section headed "Industry Overview — Overview of Petroleum Refinery and Petrochemical Equipment Industry in China" in this document. Due to substantial requirements for technology, capital, good relationships and market reputation, there are high barriers to entry in the industry in which we operate. For details of the market barriers in the PRC, please refer to the section headed "Industry Overview — Overview of Petroleum Refinery and Petrochemical Equipment Industry in China — Entry Barriers Analysis" in this document. However, we believe that with our extensive industry experience, established customization, research and development capabilities and long-standing business relationships with our major customers, we are well-positioned as one of the key market players in the industry.

**Overseas market**

Leveraging on our established platform in the PRC petroleum refinery and petrochemical equipment industry, we have established overseas presences in Hong Kong, Canada and Brazil in during the Track Record Period. At present, our overseas sale offices do not have substantial operations and our Group is aimed to expand our sale networks and increase our engagement in Brazil. Brazil's oil refining capacity in 2022 was 2.4 million barrels per day, far below its crude oil production of 3.1 million barrels per day in the same year and Brazil has taken some measures to expand its oil refining capacity to meet its domestic demand. In addition, the PRC government's "One Belt, One Road" Initiative is expected to bring overseas opportunities to PRC manufacturers. The oil refinery capacity of "One Belt, One Road" countries increased from 30.2 million b/d in 2017 to 33.0 million b/d in 2022, with a CAGR of 1.8% and is expected to reach 35.7 million b/d in 2027, at a CAGR of 1.6% since 2022. For details, please refer to the section headed "Industry Overview — Overseas market" in this document.

Relying on our solid industry knowhow and experience accumulated over the years, we plan to extend our market presence internationally in the near future. Our Directors are of the view that our ability to deliver quality and reliable equipment at competitive costs to our customers enables us to advance our business presence in the international market.

## BUSINESS ACTIVITIES IN COUNTRIES/REGIONS WITH INTERNATIONAL SANCTIONS EXPOSURE

Certain countries or organizations, including the U.S., the European Union, the United Kingdom, and Australia, maintain economic sanctions and trade restrictions targeting certain industries or sectors within countries/regions subject to International Sanctions.

Prior to our Track Record Period, we had revenue generated from sales within China of products to unaffiliated Chinese customers that were subsequently resold to Sanction Persons in Iran (the "**Indirect Iran Sales**"). During the Track Record Period, we sold our products including process burners and SRU and VOCs incineration equipment to four customers located in Russia who were operating in the engineering and manufacturing sectors of the Russian economy (the "**Russian Customers**"). The total revenue generated from our sales to the Russian Customers was approximately RMB6.8 million, RMB0.2 million and RMB63.4 million, representing approximately 2.8%, 0.06% and 11.7% of our total revenue for the years ended 31 December 2021, 2022 and 2023, respectively. In 2023, we made sales to Customer G who is a owner of production facilities located in Russia and the contract was signed in November 2022 with an agent assigned by Customer G, which is a private company registered in Turkey (the "**Turkish Company**") in June 2022. We have completed the relevant sales to Customer G during the year ended 31 December 2023 with revenue recognized of approximately RMB62.5 million. Details of background and our sales with Customer G, please see "Our Customers — Our five largest customers" in this section. Our engagements related to Indirect Iran Sales and the Russia Customers

were driven by the growing demand and opportunities from overseas customers, while we had insufficient knowledge and were lack of awareness about risks in relation to International Sanctions at that time, as we principally focused on offering our petroleum refinery and petrochemical equipment to the customers in China.

Our International Sanctions Legal Adviser has evaluated our International Sanctions risk exposure by requesting and reviewing factual information, in reliance upon and subject to the assumption that such information provided is accurate, complete, and not misleading. Such factual information included:

a. documents provided by us about our Group, our shareholding structure, business operations, revenues, contracts and customer lists in respect of our sales to Iran and Russia;

b. our list of customers in Iran and Russia; and

c. written confirmations from us that neither our Group nor any of our affiliates (including any representative office, branch, subsidiary or other entity which forms part of our Group) conducted during the Track Record Period any business dealings in or with any other countries or persons that are subject to International Sanctions.

In addition, our International Sanctions Legal Adviser reviewed our customer lists and published lists of entities and regions subject to International Sanctions in Relevant Jurisdictions.

Our International Sanctions Legal Adviser is of the view that our contract with the Turkish Company do not involve any potential contacts with the EU, UK, or Australia. With respect to U.S. sanctions, the U.S. sanctions applicable to Turkey are list-based sanctions and export control measures rather than sectoral or comprehensive sanctions. Specifically, the U.S. government has imposed sanctions on certain Turkish entities that allegedly supported Russia's war in Ukraine. The Turkish Company was screened against the U.S. Consolidated Sanctions Lists by utilizing the U.S. OFAC official Sanctions List Search Application and it is not designated on any sanction lists maintained by OFAC. Thus, our Group's contractual relationship with the Turkish Company would not infringe current sanctions measures of a Relevant Jurisdiction.

Our Directors confirm that, as at the Latest Practicable Date, we have no reasonable grounds to believe that any of the owners, controllers or directors of the contracting parties are on the Specially Designated Nationals and Blocked Persons List or the Sectoral Sanctions Identifications List maintained by OFAC (the "**SDN Lists**").

As advised by our International Sanctions Legal Adviser, our Company is not a Sanctioned Target, or located, incorporated, organized or resident in a Sanctioned Country; and our sales activities during the Track Record Period do not qualify as a Sanctioned Trader for purposes of the 2019 Guidance Letter.

Our International Sanctions Legal Adviser has further advised that our export of products manufactured in China to customers outside of China without any connected sales, marketing, or financing activity occurring in the European Union, the United Kingdom and Australia, or involvement of any our employees who are citizens or permanent residents of such jurisdictions, including our direct and indirect business dealings in Russia and Iran, will not satisfy the jurisdictional requirements of offenses under national sanctions measures adopted by European Union, the United Kingdom and Australia.

On this basis, for the purpose of the 2019 Guidance Letter, our International Sanctions Legal Adviser has advised that, having considered that Iran is subject to comprehensive U.S. economic sanctions; and Russia (excluding Crimea region) and Turkey were not subject to a general and comprehensive export, import, financial or investment embargo under sanctions related law or regulation of a Relevant Jurisdiction, our Indirect Iran Sales and sales of products to the Russian Customers (a) did not constitute Primary Sanctioned Activity; and (b) did include certain transactions that might potentially qualify as Secondary Sanctioned Activity under U.S. law, and that the risks that such conduct described in (b) might result in the imposition of significant penalties are low. Our International Sanctions Legal Adviser has also advised that the risks that our Company might become subject to secondary sanctions under U.S. law as a result of the Indirect Iran Sales alone and our sales to the Russian Customers alone are determined to be low. Nevertheless, because the U.S. executive branch has substantial discretion in determining whether or not to impose secondary sanctions in order to advance broader policy objectives, such risks cannot be excluded but may be further reduced to the extent that our Company can demonstrate compliance with the undertakings to the Exchange discussed below.

As at the Latest Practicable Date, our Group had already ceased to sell equipment to Iran. Given that Russia is not subject to a general and comprehensive embargo under relevant law or regulation of a Relevant Jurisdiction and it is not a Sanctioned Country as at the Latest Practicable Date; and under our continued compliance with our internal control measures regarding International Sanctions, conducting business with Russia would not implicate violations of Primary Sanctioned Activity. Nevertheless, our Directors confirm that our Group will not conduct any future business with persons on the SDN Lists or with any individuals, entities or countries who are subject to International Sanctions or located in Iran or Sanctioned Countries. In addition, we have implemented, and will continue to enhance, internal control and risk management measures which we believe enable us to better monitor and evaluate our business and to address economic sanctions risks. For more details, please refer to the paragraph headed "Our Internal Control Measures to Minimize Sanctions Risk" in this section. Further, given the scope of the **[REDACTED]** and the expected use of **[REDACTED]** as set out in this document, our International Sanctions Legal Adviser are of the view that the involvement by parties in the **[REDACTED]** will not implicate any applicable International Sanctions on such parties, including our Company, our potential investors, Shareholders, the Stock Exchange, the Listing Committee, and group companies and accordingly, the sanctions risk exposure to our Company, potential **[REDACTED]** and Shareholders, and persons who might, directly or indirectly, be involved in permitting the **[REDACTED]**, trading and clearing of our **[REDACTED]** (including the Stock Exchange, the Listing Committee and related group companies) is very low. As a result, we are not subject to material contingent liabilities in relation to the Primary Sanctioned Activity or Secondary Sanctioned Activity during the Track Record Period.

**Our undertakings to the Stock Exchange**

We [undertake] to the Stock Exchange that:

— we will not conduct any sales, directly or indirectly, to Iran or any individuals, entities or countries who are subject to International Sanctions or located in Sanctioned Countries;

— we will not use the net **[REDACTED]** from the **[REDACTED]**, as well as any other funds raised through the Stock Exchange, whether directly or indirectly, to finance or facilitate any activities or businesses with, or for the benefit of, any Sanctioned Countries or any other government, individual or entity sanctioned by the United States, the European Union, Australia or the United Kingdom, including but not limited to, any government, individual or entity that is the subject to any OFAC-administered sanctions or that would be in breach of sanctions imposed by the United States, the European Union, Australia or the United Kingdom;

— we will not use the net **[REDACTED]** from the **[REDACTED]** to pay any damages for terminating or transferring any contract that violates International Sanctions;

— As at the Latest Practicable Date, we do not have any sales contracts that constitute Primary Sanctioned Activity; and we do not have any business dealings with Customer G which may constitute Secondary Sanctioned Activity;

— we will not undertake any future business that would cause us, the Stock Exchange, HKSCC, HKSCC Nominees, our Shareholders or potential investors to violate or become a target of sanctions laws of the United States, the European Union, Australia or the United Kingdom;

— we will make timely disclosure on the website of the Stock Exchange and our website if we believe that any of our business activities would put our Group or our Shareholders and investors at risks of being in breach of the sanctions imposed by the United States, the European Union, Australia or the United Kingdom;

— we will also include such disclosures in our annual or interim reports and the discussion of our efforts on monitoring our business exposure to sanctions risk, the status of our future business (if any) in any country subject to sanctions imposed by the United States, the European Union, Australia and the United Kingdom, and our business intention relating to customers from any such country; and

— we have adopted internal control and risk management measures to ensure that we can comply with the above undertakings. Please see paragraph headed "Our Internal Control Measures to Minimize Sanctions Risk" in this section for more details.

**Our internal control measures to minimize sanctions risk**

In order to identify and monitor our exposure to risks associated with sanctions laws relating to these sales, the following measures have been fully implemented as at the Latest Practicable Date to control and monitor our exposure to sanctions risks.

— our Company has established a sanctions oversight committee to (the "**Sanctions Oversight Committee**") manage our exposures to sanctions risks and oversee the implementation of the related internal control policies. The Sanctions Oversight Committee comprises three members, including Mr. ZHANG Shengjie (an independent non-executive Director) as chairman, Mr. FU Cong (financial director and a joint company secretary) and Ms. WU Rui (an executive Director and vice president (administration)). Please refer to the section headed "Directors and Senior Management" for further details on the experience of the members. The composition of our Sanctions Oversight Committee consists of members who collectively, are familiar with our operations, have relevant legal and financial management expertise, able to offer independent oversight and have executive power and authority to monitor sanctions risks and implement recommendations made by the Sanctions Oversight Committee. Our Sanctions Oversight Committee will hold at least once meetings each year regularly to monitor our exposure to sanctions risks. Upon consultation with the International Sanctions Legal Adviser, our Directors are of the view that the Sanctions Oversight Committee collectively have sufficient capabilities and expertise in identifying and advising us on sanctions matters and risks, together with the advice from appropriate external legal advisers, if necessary;

— the Sanctions Oversight Committee may engage external legal advisers with relevant expertise and experience in sanctions matters to advise and evaluate our Company on the sanctions risks as and when necessary. The Sanctions Oversight Committee will also implement risk management measures taking into account the advice and recommendations provided by such external legal advisers, in order to safeguard our Group against potential sanctions risks. Based on the above, the International Sanctions Legal Adviser are of the view that the establishment of Sanctions Oversight Committee would be able to serve the purpose on monitoring our exposure to sanctions risks and advise us on sanction matters together with external legal advisers, if necessary;

— our Company has prepared and maintained a control list of countries/regions subject to International Sanctions and persons and entities designated pursuant to the sanctions imposed by the United States, the European Union, Australia or the United Kingdom which is provided and updated by the external legal advisers from time to time.

— for existing customers and suppliers, we have established a guideline and performed risk assessment prior to entering into a transaction and/or on a quarterly basis to confirm that they have not become sanction targets. Prior to entering into a transaction with potential customers, we would conduct assessment and review their information provided (including company background, operating location and nature of business) and check against the control list for sanction risk assessment.

— before entering into any equipment-related contacts with our customers, we would enquire for the location of projects or production facilities for the use of our products. For customers who are trading companies, we would conduct further enquires on their downstream customers. No purchase order would be accepted unless and until the relevant information is obtained. Approval from the Sanctions Oversight Committee is required for any potential sanctions risk identified.

— we have recorded and maintained the accurate and complete name and address information of our business partners (including suppliers, customers and other partners) in our system, clarify all relevant parties directly or indirectly involved in our business activities, and make compliance review and export authorization determination;

— we have and will on-going arrange additional due diligence on our customers and obtain information of end-users or end-use declarations, including but not limited to, our equipment involving resales to Sanctioned Countries, restricted subjects and/or reselling for restricted end user;

— we will stipulate the termination rights of us in sales contracts, including but not limited to stipulating that our Group has the right to terminate the contracts if our customers resell our products to Sanctioned Countries or Sanctioned Persons; and

— we and the Sanctions Oversight Committee continuously observe the development of International Sanctions laws and regulations to timely and effectively determine appropriate measures to mitigate sanctions risk.

The internal control measures above are ongoing measures which have been taken by us. Upon **[REDACTED]**, we will further implement below measures to minimize sanctions risk:

— we will open and maintain separate bank account(s) which is/are designated for **[REDACTED]** from the **[REDACTED]**, as well as any other funds raised through the Stock Exchange. Our Sanctions Oversight Committee will monitor and regulate the use of **[REDACTED]** from the **[REDACTED]**, as well as any other funds raised through the Stock Exchange, to ensure that such funds will not be used to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, any sanctioned country or any other government, individual or entity sanctioned by the United States, the European Union, Australia or the United Kingdom; and

— we will arrange external international legal counsel to provide training programs relating to sanctions to our Directors before **[REDACTED]**, our senior management and other relevant personnel to assist them in evaluating the potential sanctions risks in our daily operations, in particular, to perform screening procedures where appropriate in respect of counterparties to our Group's business to ensure none of them are Sanctioned Persons. Our external international legal counsel will provide a current list of countries subject to International Sanctions and Sanctioned Persons to our Directors, senior management and other relevant personnel, who will in turn disseminate such information internally.

The Internal Control Consultant conducted follow-up reviews on our enhanced internal control measures in respect of our exposure to sanction risks that may arise from our business dealings with counterparties in overseas countries, for the period from March 2023 to February 2024. The Internal Control Consultant is not aware of any significant deficiencies in the design and implementation (save for those internal control measures which will be implemented upon **[REDACTED]**) of the enhanced internal control measures in respect of our exposure to sanction risks, and the Internal Control Consultant did not have any further recommendation in the internal control review.

After undertaking relevant due diligence and taking into accounts the view of our International Sanctions Legal Adviser regarding our business activities and Internal Control Consultant, our Directors and the Sole Sponsor, are of the view that these measures are adequate and effective for our Group to identify potential sanctions risk and comply with applicable International Sanctions laws.

## INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we have also obtained registration of 212 patents (including co-owned) and 30 trademarks in the PRC and we have been the registrant of the domain name **www.ruichang.com.cn** since 25 May 1999. For details, see "Statutory and General Information — Further Information about Our Group — Our material intellectual property rights" in Appendix V to this document. Our Directors are of the view that our registered patents represent important technical capacities which set the foundation of our research and development abilities. Our Directors also consider that our registered domain name and trademarks are important to our business in terms of brand identification and customers' awareness.

### Co-owned patents

As of the Latest Practicable Date, we have registered the following patents which are co-owned with the third parties and material to our business:

| Patent | Type of patent | Name of patent holder | Place of registration | Patent number | Application date | Grant date |
|---|---|---|---|---|---|---|
| Catalytic cracking flue gas treatment device (催化裂化煙氣處理裝置) | Invention | Luoyang Ruichang, Luoyang Mingyuan Petrochemical Technology Co., Ltd. (洛陽明遠石化技術有限公司) | PRC | ZL2016111170683 | 7 December 2016 | 9 January 2024 |
| A kind of adjustable solid heat storage boiler system (一種可調式固體蓄熱鍋爐系統) | Utility Model | Luoyang Ruichang, Shanghai Ruiqieer | PRC | ZL202322049310X | 1 August 2023 | 5 January 2024 |
| A kind of vertical glass tube air preheater (一種立式玻璃管空氣預熱器) | Utility Model | Luoyang Ruichang, Shanghai Ruiqieer | PRC | ZL2023219372212 | 22 July 2023 | 15 December 2023 |

| Patent | Type of patent | Name of patent holder | Place of registration | Patent number | Application date | Grant date |
|---|---|---|---|---|---|---|
| Thermochemical heat storage system (熱化學儲熱系統) | Utility Model | Luoyang Ruichang, Shanghai Ruiqieer East China University of Science and Technology (華東理工大學) | PRC | ZL2023216731567 | 28 June 2023 | 1 December 2023 |
| A thermal chemical storage system of calcium hydroxide (一種氫氧化鈣熱化學儲能系統) | Utility Model | Luoyang Richen, Luoyang Ruichang, East China University of Science and Technology (華東理工大學) | PRC | ZL2023208920389 | 20 April 2023 | 31 October 2023 |
| A kind of acetylene cracking furnace burner plate (一種乙炔裂解爐燒嘴板) | Utility Model | Luoyang Ruichang, China Chengda Engineering Co.,Ltd. (中國成達工程有限公司) | PRC | ZL2023203593094 | 1 March 2023 | 22 August 2023 |
| A kind of flue gas heat exchanger and waste lead-acid battery recycling system exhaust dual GGH energy-saving treatment system (一種煙氣熱交換器及廢鉛酸蓄電池回收系統廢氣雙GGH節能處理系統) | Utility Model | Luoyang Ruichang, China Enfi Engineering Corporation (中國恩菲工程技術有限公司) | PRC | ZL2023208324268 | 14 April 2023 | 21 July 2023 |
| Fluidized bed reaction system of calcium-based thermal storage material (鈣基儲熱材料的流化床反應系統) | Utility Model | Luoyang Richen, Luoyang Ruichang, East China University of Science and Technology (華東理工大學) | PRC | ZL2022233598548 | 14 December 2022 | 2 June 2023 |
| A kind of sulfur recovery systems (一種硫回收系統) | Utility Model | Luoyang Ruichang, Luoyang Hongxing Xinneng Chemical Co., Ltd. (洛陽宏興新能化工有限公司) | PRC | ZL2022224033755 | 9 September 2022 | 6 January 2023 |

| Patent | Type of patent | Name of patent holder | Place of registration | Patent number | Application date | Grant date |
|---|---|---|---|---|---|---|
| Kind of wear-resistant nozzle (一種耐磨噴嘴) | Utility Model | Luoyang Ruichang, China Petroleum and Chemical Corp (中國石油化工股份有限公司), Sinopec Guangzhou Engineering Co., Ltd. (中石化廣州工程有限公司), Sinopec Engineering (Group) Co., Ltd. (中石化煉化工程(集團)股份有限公司) | PRC | ZL2022210956153 | 9 May 2022 | 6 September 2022 |
| kind of wear-resistant nozzle (一種耐磨噴嘴) | Utility Model | Luoyang Ruichang, China Petroleum and Chemical Corp (中國石油化工股份有限公司), Sinopec Guangzhou Engineering Co., Ltd. (中石化廣州工程有限公司), Sinopec Engineering (Group) Co., Ltd. (中石化煉化工程(集團)股份有限公司) | PRC | ZL2022210956327 | 9 May 2022 | 6 September 2022 |
| A kind of whitening chimney and flue gas treatment system (一種消白煙囪及煙氣處理系統) | Utility Model | Luoyang Ruichang, Chengdu Rainbow Environmental Equipment Co., Ltd. (成都雲白環境設備製造有限公司) | PRC | ZL2020203341776 | 17 March 2020 | 11 December 2020 |
| Acid gas combustor (一種酸性氣燃燒器) | Utility Model | Luoyang Ruichang, Puguang Branch Zhongyuan Oilfield Sinopec (中國石化股份有限公司中原油田普光分公司), China Petroleum and Chemical Corp (中國石油化工股份有限公司), Petroleum Engineering Technology Research Institute of Sinopec Zhongyuan Oilfield Co. (中國石油化工股份有限公司中原油田分公司石油工程技術研究院) | PRC | ZL2019218606438 | 31 October 2019 | 17 July 2020 |

| Patent | Type of patent | Name of patent holder | Place of registration | Patent number | Application date | Grant date |
|---|---|---|---|---|---|---|
| CO2 reduction of hydrogen production device 2 Matched burner of discharge process heating furnace (一種製氫裝置減少CO2排放工藝加熱爐配套燃燒器) | Utility Model | Luoyang Ruichang, China Petroleum and Chemical Corp (中國石油化工股份有限公司) | PRC | ZL2019203937743 | 27 March 2019 | 3 January 2020 |
| A kind of sulfur recovery process for highly concentrated acid gas (一種高濃度酸性氣的硫磺回收工藝) | Invention | Luoyang Ruichang, Shandong Xunda Chemical Group Corp (山東迅達化工集團有限公司) | PRC | ZL2018110057466 | 30 August 2018 | 23 October 2020 |
| A kind of sulfur recovery process for low to medium concentrated acid gas (一種中低濃度酸性氣的硫磺回收工藝) | Invention | Luoyang Ruichang, Shandong Xunda Chemical Group Corp (山東迅達化工集團有限公司) | PRC | ZL2018110057470 | 30 August 2018 | 23 October 2020 |
| A kind of Heat exchanger plates and plate and tube air Preheaters with same (一種換熱板管以及具有其的板管式空氣預熱器) | Utility Model | Luoyang Ruichang, Luoyang Mingyuan | PRC | ZL2017209306295 | 28 July 2017 | 2 March 2018 |
| A kind of plate and tube air preheater (一種板管式空氣預熱器) | Utility Model | Luoyang Ruichang, Luoyang Mingyuan | PRC | ZL2017208904111 | 21 July 2017 | 2 March 2018 |
| Tail gas burning plants and tail gas burning furnace (尾氣焚燒設備和尾氣焚燒爐) | Utility Model | Luoyang Ruichang, Luoyang Mingyuan | PRC | ZL2016213951245 | 19 December 2016 | 8 September 2017 |
| Catalytic cracking flue gas treatment plants (催化裂化煙氣處理裝置) | Utility Model | Luoyang Ruichang, Luoyang Mingyuan | PRC | ZL2016213365588 | 7 December 2016 | 3 October 2017 |
| A kind of water-sealed valve (一種水封閥) | Utility Model | Luoyang Ruichang, Luoyang Mingyuan | PRC | ZL2015208506717 | 29 October 2015 | 30 March 2016 |
| A kind of exhaust gas burner (一種廢氣燃燒器) | Invention | Luoyang Ruichang, Luoyang Mingyuan | PRC | ZL2015105978123 | 17 September 2015 | 13 June 2017 |

| Patent | Type of patent | Name of patent holder | Place of registration | Patent number | Application date | Grant date |
|---|---|---|---|---|---|---|
| A kind of new type of high-efficiency welded plate type heat exchanger (一種新型高效焊接板式換熱器) | Invention | Luoyang Ruichang, Luoyang Mingyuan | PRC | ZL2015105368387 | 27 August 2015 | 29 March 2017 |
| A kind of water seal valve apparatus for installation in a chimney and method of use (一種設置於煙囪內的水封閥設備及其使用方法) | Invention | Luoyang Ruichang, Luoyang Mingyuan | PRC | ZL2015104703496 | 4 August 2015 | 6 March 2018 |
| Dual fuel flat flame gas burner (雙燃料扁平火焰氣體燃燒器) | Utility Model | Luoyang Ruichang, Luoyang Mingyuan | PRC | ZL2015204509491 | 26 June 2015 | 28 October 2015 |
| A kind of flue gas piping system and a gas sealing valve thereof (一種煙氣管道系統及其氣封閥) | Invention | Luoyang Ruichang, Luoyang Mingyuan | PRC | ZL2015103090663 | 8 June 2015 | 15 August 2017 |
| A kind of flue gas waste heat recovery device (一種煙氣余熱回收裝置) | Invention | Luoyang Ruichang, Luoyang Mingyuan | PRC | ZL2015100046419 | 6 January 2015 | 11 January 2017 |
| A kind of water-sealed valve (一種水封閥) | Utility Model | Luoyang Ruichang, Cheng Xiangfeng | PRC | ZL2014202298665 | 6 May 2014 | 24 September 2014 |

As advised by our PRC Legal Advisers, under the relevant PRC law, a granted invention has a validity period of 20 years from the date of its application and a granted utility model has a validity period of ten years from the date of its application.

Our Directors confirmed that there are no agreements regarding the exercise of rights by the co-owners of the right to apply for the patent or of the patent right between us and the above co-owners. As advised by our PRC Legal Advisers, in accordance with applicable PRC law, if there is no agreements between the co-owners, any co-owner can implement the co-owned patent on his own without obtaining the consent of other co-owners.

We had not been subject to any intellectual property infringement claim which had any material adverse impact on our Group during the Track Record Period and up to the Latest Practicable date and we were not aware of any such claims, either pending or threatened against us. Please refer to the section headed "Risk Factors — Risks Relating to Our Business and Our Industry — Any failure to adequately protect our intellectual property rights or any infringement claims brought by third parties against us may have an adverse effect on our business, financial condition and results of operations" in this document.

## QUALIFICATIONS AND LICENCES

As of the Latest Practicable Date, we have the following material licences, permits and certificates required by our Group for our current business operations:

| License/permit/certificate | Awarded subsidiary | Issuing body/authority | Date of effect | Expiry date |
|---|---|---|---|---|
| Production License of Special Equipment of the PRC (Design of pressure pipeline) (特種設備生產許可證(壓力管道設計)) | Luoyang Ruichang | Henan Provincial Market Supervision Administration | 15 November 2021 | 19 November 2025 |
| Production License of Special Equipment of the PRC (Manufacture of pressure piping components) (特種設備生產許可證(壓力管道元件製造)) | Luoyang Ruichang | Henan Provincial Market Supervision Administration | 1 July 2022 | 30 June 2026 |
| Production License of Special Equipment of the PRC (Manufacture of pressure piping) (特種設備生產許可證(壓力容器製造)) | Luoyang Ruichang | Henan Provincial Market Supervision Administration | 26 October 2021 | 25 October 2025 |
| Production License of Special Equipment of the PRC (Installation, repairment and modification of special pressure equipment) (特種設備生產許可證(承壓類特種設備安裝、修理、改造)) | Luoyang Ruichang | Henan Provincial Market Supervision Administration | 3 December 2023 | 2 December 2027 |
| Customs Declaration Entity Registration Certificate (報關單位註冊登記證書) | Luoyang Ruichang | Luoyang customs of the people's Republic of China | 25 June 2018 | Long-term |
| Certificate of Authorization (ASME-U) | Luoyang Ruichang | ASME | 10 July 2021 | 10 July 2024 |

| License/permit/certificate | Awarded subsidiary | Issuing body/authority | Date of effect | Expiry date |
|---|---|---|---|---|
| Certificate of High Technology Enterprise (高新技術企業證書) | Luoyang Ruichang | Department of Science and Technology of Henan Province, the Henan Provincial Department of Finance, Henan Provincial Tax Service of the State Taxation Administration | 22 November 2023 | 21 November 2026 |
| Certificate of Conformity of Explosion-Proof (防爆合格證) | Luoyang Ruichang | National Explosion-proof Electrical Product Quality Supervision and Inspection Center Nanyang Explosion-proof Electrical Research Institute | 28 June 2021 | 27 June 2026 |
| Pollutant Discharge Permit (排污許可證) | Luoyang Ruichang | High-tech Branch of Luoyang Ecological Environment Bureau | 22 August 2021 | 21 August 2026 |
| Certificate of Conformity of Occupational Health and Safety Management System (職業健康安全管理體系認證證書) | Luoyang Ruichang | Beijing United Intelligence Certification Co., Ltd. | 2 July 2021 | 2 July 2024 |
| Quality Management System Certificate (質量管理體系認證證書) | Luoyang Ruichang | Beijing United Intelligence Certification Co., Ltd. | 2 July 2021 | 2 July 2024 |
| Environmental Management System Certificate (環境管理體系認證證書) | Luoyang Ruichang | Beijing United Intelligence Certification Co., Ltd. | 2 July 2021 | 2 July 2024 |
| Construction Enterprise Qualification Certificate (建築業企業資質證書) | Luoyang Ruichang | Luoyang High-tech Zone (Luoyang Free Trade Zone, Comprehensive Free Trade Zone) Management Committee | 15 January 2024 | 15 January 2029 |

As some of our industrial licenses or certificates will expire in 2024, we will apply for renewal of such licenses or certificates as and when appropriate. Based on our understanding, the issuing body or authority generally would grant the renewal of the relevant licenses or certificate to us (i) if there is no adverse change in our manufacturing capacity, such as the major production machinery that we equipped at our production facilities and the qualification of our technical personnel, as compared to the time when we first applied for the relevant license or certificate; and (ii) if we have complied with or satisfied the relevant requirements or standards of the relevant license or certificate during the term of the relevant license or certificate. We do not expect any legal impediment to renew these licenses or certificates upon their expiration and historically, we have not failed to renew the relevant licenses or certificates that had expired. As confirmed by our PRC Legal Advisers, all of our operating subsidiaries in the PRC have obtained all requisite material certificates, licenses, permits and approvals from the relevant PRC authorities for our operations in the PRC as of the Latest Practicable Date.

## AWARDS AND RECOGNITIONS

Over the years, we have obtained various awards and recognitions from a number of accrediting institutions as to conformity with industry standards of specifications of our products and recognizing our products as a technologically advanced model. The table below sets out the more notable awards and recognitions obtained by us:

| Year of award | Award/recognition | Issuing authority |
|---|---|---|
| 2017 | Prize for Progress of Science and Technology of Luoyang City (洛陽市科技技術進步獎二等獎)<br><br>— Low pressure water sealed tank (低壓降節能水封罐) | Luoyang City People's Government (洛陽市人民政府) |
| 2015 | Model enterprise in the development of innovative technologies for energy-saving and low emission equipment in Henan Province (河南省節能減排科技創新示範企業) | Science and Technology Committee of Henan Province (河南省科學技術廳)<br><br>Development and Reform Committee of Henan Province (河南省發展和改革委員會)<br><br>Industrial and Information Committee of Henan Province (河南省工業和資訊化委員會)<br><br>Environmental Protection Committee of Henan Province (河南省環境保護廳)<br><br>Residential and Suburb Development Committee of Henan Province (河南省住房和城鄉建設廳) |

| Year of award | Award/recognition | Issuing authority |
|---|---|---|
| 2015 | National Patent Distinction Award (中國專利優秀獎) | State Intellectual Property Office of the People's Republic of China (國家知識產權局) |
| 2015 | Prize for Progress of Science and Technology of Luoyang City (洛陽市科技技術進步獎二等獎) | Luoyang City People's Government (洛陽市人民政府) |
| | — Plate heat exchanger (板式空氣預熱器) | |
| | — Low NOx process burner (低氮氧化物燃燒器) | |
| 2014 | Luoyang New & High-Tech Quality Award (洛陽高新區主任質量獎) | Luoyang National New & High-Tech Industry Development Zone (洛陽國家高新技術產業開發區) |

## HEALTH, SAFETY AND ENVIRONMENTAL PROTECTION

### Health and safety

Our business operations are subject to certain PRC laws and regulations relating to occupational health and workplace safety. We strive to provide a healthy and safe work environment for our employees for which we have implemented safety guidelines to promote occupational health and workplace safety and to ensure compliance with applicable laws and regulations. According to our internal HSE guideline issued in March 2020, we set out six principles being, "safety first (安全第一)", "emphasis on prevention (預防為主)", "energy-saving and environmentally friendly (節能環保)", "healthy working environment (健康從業)", "strict compliance with laws and regulations (遵紀守法)" and "continuous improvement (持續改進)". We provide trainings on occupational safety to our employees from time to time. We have implemented safety measures at our production bases to ensure compliance with applicable regulatory requirements and to minimize the risk of injury of employees.

***Fatal accident happened in January 2024***

On 18 January 2024, Luoyang Ruichang have encountered one accident happened in our production facilities at Yanguang Road, Luoyang city that resulted in the death of our worker (the "**Accident**"). The deceased worker was fatally injured by conducting polishing work on the processed piece without turning off the machinery during the operation. As a result of this Accident, we have entered into a compensation agreement with the deceased worker's family members and paid RMB1.7 million (the "**Compensation**") to the deceased's family members which has been fully settled as at the Latest Practicable Date.

We have obtained a letter issued by Luoyang City Jianxi District Emergency Management Bureau (洛陽市澗西區應急管理局), confirming that (i) the Accident is an ordinary accident and does not constitute a serious safety accident. There is no material non-compliance in relation to the Accident; and (ii) as the investigation procedures for the Accident are still undergoing, apart from this, during the Track Record Period and up to the Latest Practicable Date, Luoyang Ruichang has been in compliance with work safety laws and regulations in all material respects. As advised by our PRC Legal Advisers, Luoyang City Jianxi District Emergency Management Bureau (洛陽市澗西區應急管理局) is the competent authority to confirm the related matters. As at the Latest Practicable Date, our Directors confirmed that neither administrative penalty was imposed on our Group nor any claims or legal proceedings in relation to the Accident were initiated at this stage.

After the occurrence of the Accident, we have enhanced our safety measures, such as (i) carrying out trainings related to machinery safety and protection to our frontline workers and enhanced their safety awareness; (ii) conducting a comprehensive check on our machinery and equipment and ensure safety issues are remedied; (iii) upgrading the monitor system to exercise effective safety supervision and enhanced safety awareness of our staff; and (iv) carrying regular review of the implementation of the safety measures and assess the effectiveness of the measures.

To the best of our knowledge, information and belief, during the Track Record Period and up to the Latest Practicable Date, we were in compliance with the work safety laws and regulations in all material respects. During the Track Record Period, save as the above Accident and set out in the paragraph headed "Legal Proceedings" below, we had not received any notice or order from any government or regulatory authorities relating to non-compliance with work safety laws and regulations nor experienced any significant incidents or accidents in the course of our operations and our Directors were not aware of any material claims for personal or property damages in connection with health and occupational safety.

**Environmental protection**

We regard environmental protection as an essential corporate responsibility and therefore place great emphasis on environmental protection measures and promulgate various internal policies on environmental compliance matters and are committed to integrating environmental protection technologies into product design and manufacture to ensure that we operate in compliance with relevant environmental laws and regulations. The following table sets out our major pollutants, environmental protection measures adopted and the relevant discharge standard:

| Major pollutants | Major environmental protection measures adopted | Discharge standards |
|---|---|---|
| Wastewater | We may produce two types of wastewater during our operation being, industrial wastewater and domestic wastewater. For industrial wastewater, it is mainly the acid wash wastewater generated from the surface treatment of some stainless steel containers. We use the plant wastewater treatment station for treatment in accordance with the industrial standards wastewater treatment scheme. The sludge generated in the treatment process will be sent to the sludge drying tank, temporarily stored in the hazardous waste temporary storage room after dehydration, and regularly delivered to a qualified third-party recognized waste collector for transportation and disposal. After the treatment is up to the standard, it is discharged into the municipal pipe network and enters wastewater treatment plant in Jianxi, Luoyang for advanced treatment. For domestic wastewater, we discharge the waste water into the municipal sewage pipe network for advanced treatment at the wastewater treatment plant in Jianxi, Luoyang after being treated in the septic tank in the plant area. | Integrated Wastewater Discharge Standard (GB 8978-1996) (《污水綜合排放標準》GB8978-1996) |

| Major pollutants | Major environmental protection measures adopted | Discharge standards |
|---|---|---|
| Air pollutants | We may produce air particles, nitrogen oxides and other air pollutants during our operation. We collect, filter and process air pollutants produced and discharge the processed air through a chimney in accordance with the local emission control regulations. We have also installed a monitoring device at our emission chimney which is connected with the local environmental monitoring center and real time emission data can be uploaded and monitored by the provincial environmental authority. | Integrated Emission Standard for Air Pollutants (GB 16297-1996) (《大氣污染物綜合排放標準》GB 16297-1996)<br><br>Emission Standard of Volatile Organic Compounds for Industrial Surface Coating (DB41/1951-2020) (《河南省工業塗裝工序揮發性有機物排放標準》DB41/1951-2020)<br><br>Emission Standard of Air Pollutants for Industrial Furnaces in Henan Province (DB41/1066-2020) (《河南省工業爐窯大氣污染物排放標準》DB41/1066-2020) |
| Solid waste | We may produce three types of solid waste during our operation being, metal scrap and scrap iron, hazardous waste and domestic waste. We collect metal scrap and scrap iron produced during our operation and send them to local recycling center. For hazardous waste, we engage qualified third party waste treatment agents to properly process and treat such waste in accordance with applicable laws and regulations. As for domestic waste, we dispose such waste to local waste treatment center. | Standard for Pollution Control on the Non-hazardous Industrial Solid Waste Storage and Landfill (GB18599-2020) (《一般工業固體廢物貯存及掩埋污染控制標準》GB18599-2020)<br><br>Standard for Pollution Control on Hazardous Waste Landfill (GB18598-2019) (《危險廢物填埋污染控制標準》GB18598-2019)<br><br>Standard for Pollution Control on Hazardous Waste Storage (GB18597-2023) (《危險廢物貯存污染控制標準》GB 18597-2023) |

| Major pollutants | Major environmental protection measures adopted | Discharge standards |
|---|---|---|
| Noise control | We install basic noise cancellation and sound insulation devices to minimize the level of noise produced during our operation. To ensure strict compliance with national and local standards, we also engage third party monitoring organization to inspect the level of noise produced during our operation on an annual basis. | Environmental Noise Emission Standard for Industrial Enterprises (GB12348-2008) (《工業企業廠界環境噪聲排放標準》GB12348-2008) |

During the Track Record Period, we actively monitored our resource consumption for our manufacturing function. We adhere to the concept of green management and actively seek low-carbon sustainable development in our operations. We plan to further improve our resource consumption management system to promote efficient energy management and reduce the carbon footprint in our operations. We will closely monitor relevant industry developments and make management improvements in accordance with changes in market condition or industry standards when appropriate.

We are committed to enhancing and improving technology and services to fulfil our social responsibilities to both the community and environment. In delivering our products, we strive to ensure that all products and services are delivered with high quality and in an environmentally responsible manner.

We believe that our businesses are in compliance with the applicable national, local and foreign environmental laws and regulations in all material aspects. As of the Latest Practicable Date, we are not aware of any material penalties associated with the breach of any existing environmental law or regulation.

During the Track Record Period, we have incurred approximately RMB0.2 million, RMB0.3 million and RMB0.2 million for the years ended 31 December 2021, 2022 and 2023, respectively, mainly contributing to the disposal of hazardous waste, environmental testing, purchase of environmental protection equipment and repair, maintenance, upgrading and modification of environmental protection equipment for compliance with the applicable environmental protection laws and regulations.

**Governance on environmental-related risks and social responsibilities, including the respective roles and extent of involvement of our Directors and senior management of our Group**

Our Group acknowledges its responsibility on environmental protection and social responsibilities and is committed to comply with the ESG reporting requirements upon **[REDACTED]**. We will establish an ESG policy (the "**ESG Policy**") which outlined, among others,

(i) the appropriate risk governance on ESG matters;

(ii) ESG strategy formation procedures;

(iii) ESG risk management and monitoring; and

(iv) the identification of key performance indicators ("**KPIs**") and the relevant measurements.

Our Group's ESG Policy will be established in accordance with the standards of Appendix 27 to the Listing Rules.

Our Board will have the overall responsibility for evaluating and determining our Group's ESG-related risks, and establishing, adopting and reviewing the ESG vision, policy and target of our Group. Certain senior management of our Group are designed to support our Board in establishing a special ESG project team to implement the ESG Policy and collecting ESG data from different parties while preparing for the ESG report. It serves as a supportive role and has to report to our Board regularly and to oversee and monitor in implementing measures to address our Group's ESG-related risks and responsibilities.

We also intend to invest in social-related aspects, including compliance with employment-related laws and regulations, employees' health and safety, employee development and training, anti-corruption and community investment.

**Measures and Strategies in Addressing ESG-Related Risk**

We intend to adopt various strategies and measures to identify, assess and manage environmental-related risks, social-related risks, and climate-related issues, including but not limited to:

- reviewing and assessing the ESG reports of similar companies in the industry to ensure that all relevant ESG-related risks are identified on a timely basis;
- formulating ESG-related internal control processes, with special ESG project team to perform oversight, management and improvement;
- discussing among management periodically to ensure all the material ESG areas are recognised and reported;
- discussing with key stakeholders on an ongoing basis on key ESG principles and practices as well as their concerns and expectations to ensure that the significant aspects are covered;
- setting targets for each major ESG KPI with reference to guidance on ESG released by the Stock Exchange, including emission, pollution and other impact on the environment aiming at reducing emissions and natural resource consumption and evaluate the ESG results annually;
- assessing the risk of sanctions on the customers and suppliers when exploring overseas markets and avoiding the impact of policies on our operation; and
- adopting incentive policies for the management in relation to ESG matters, including but not limited to achievement of the announced ESG targets.

Our Group has also adopted and implemented health and safety measures and procedures to protect our employees from bodily harm and other health and safety risks.

### Mitigation Steps

To mitigate the potential impact resulting from environmental-related risk, social-related risk and climate-related risks, our Group has formulated the Waste Water and Liquid Discharge Control Procedures (廢水、廢液排放控製程序), the Noise Pollution Prevention and Control Procedures (噪聲污染防治控製程序), the Solid Waste Management Procedures (固體廢物管理程序), Environmental and Occupational Health and Safety Control Procedures for Renewal, Renovation and the Expansion Projects (新、改、擴建項目環境和職業健康安全控製程序) and the Energy Material Management Control Procedures (能源材料管理控製程序) to regulate our measures of environmental management and energy utilization in our operation. In addition, our Group also has formulated an Safety Production Accident Emergency Rescue Plan (安全生產事故應急救援預案) which covers the immediate actions to be carried out during an emergency incident, including leakage of exhaust gas, emergency caused by human or irresistible natural factors. The procedures aim to improve the emergency response system for environmental pollution, enhance the prevention and early warning mechanism, and build capacity of staff in handling environmental emergency situations. The procedures also set out the guidelines that should be adopted during emergency situations, which include extreme climate events that constitute hazards and dangers to our Group's property. A special environment and energy use team lead by Mr. Qu, the vice general manager of our Company, has set up to implement and monitor the relevant work in order to minimise the adverse impact of unforeseen circumstances on our operations.

### Metrics and Targets

Our Board will set metrics and targets for material KPIs at the beginning of each financial year with reference to the disclosure requirements of Appendix 27 to the Listing Rules. Set forth below an analysis of our environmental protection performance for the years indicated and some key metrics and targets for the material KPIs we have currently identified:

(i) in relation to use of energy and resources, the key metrics mainly include direct energy (diesel consumed), indirect energy (electricity consumed) and water consumed. Our Directors confirmed that, during the Track Record Period, the wage of diesel for our operation was minimal.

The following table sets forth the an analysis of our energy and resources consumption for the years indicated:

| | | Year ended 31 December | | |
|---|---|---|---|---|
| **Type of energy/resources** | **Unit** | **2021** | **2022** | **2023** |
| **Electricity** | | | | |
| Total consumption amount | kWh'000 | 2,109 | 2,115 | 2,212 |
| Intensity of electricity consumption | kWh per RMB'thousand of revenue | 8.5 | 5.0 | 4.1 |
| **Water** | | | | |
| Total consumption amount | litre'000 | 15,865 | 23,651 | 20,541 |
| Intensity of water consumption | litre per RMB'thousand of revenue | 64.0 | 56.4 | 37.8 |

*Notes:*

(1) There are no permitted levels for the use of electricity and water. The government implemented segmented power electricity prices and fixed water prices over the industrial enterprises.

We strive to continue to reduce our energy and resources consumption. We have implemented the following measures to conserve electricity and water, including: (a) adjusting the temperature of office air-conditioning according to real-time weather; (b) encouraging the staff to leave curtains open to make full use of natural light and reduce the use of electricity; (c) reminding the staff to completely switch off computers and electronic devices after office hours or when they are not in use; and (d) conducting maintenance of pipelines and taps and inspecting any possible water leakage in our office facilities. We will implement the following electricity and water consumption targets (taking into account of the expected increase of number of employees and consumption in line with our business expansion) for the year ending 31 December 2024:

| **Type of energy/resources** | **Unit** | **Annual performance target set by our Group for the year ending 31 December 2024** |
|---|---|---|
| **Electricity** | | |
| Total consumption amount | kWh | 2,150,000 |
| **Water** | | |
| Total consumption amount | litre | 22,000,000 |

*Note:*

(1) The estimation is taken into account of the full year operation of our new leased production facility in Taizhou city for the year ending 31 December 2024.

We intend to continue to reduce the level of our electricity and water usage per employee in the future, primarily through raising electricity and water conservation awareness among our employees and fostering a conservation culture within our Group through a variety of training programs and related events. We expect that this can also indirectly reduce our average greenhouse gases emission per employee.

(ii) The following table sets forth an analysis of our greenhouse gas emissions for the years indicated:

| | | Year ended 31 December | | |
|---|---|---|---|---|
| | | 2021 | 2022 | 2023 |
| | | *(tonnes of carbon dioxide equivalent)* | | |
| Scope 1 (direct greenhouse gas emissions) | Combustion of diesel[(1)] | N/A | N/A | N/A |
| Scope 2 (indirect greenhouse gas emissions) | Purchased electricity[(2)] | 1,202.8 | 1,206.2 | 1,261.5 |
| Intensity of greenhouse gas emissions (per million RMB revenue) | | 4.8 | 2.9 | 2.3 |

*Notes:*

(1) The usage of diesel was minimal during the Track Record Period which the greenhouse gas emissions was also minimal.

(2) Combined margin emission factor of 0.5703 tCO2/MWh was used for purchased electricity in the PRC.

(3) As advised by our PRC Legal Adviser, as at the Latest Practicable Date, there have been no mandatory targets or emission standards stipulated by PRC laws and regulations. Instead, enterprises are encouraged to voluntarily reduce their greenhouse gas emissions.

Our Group will gradually increase the use of more environmentally friendly equipment and make continuous efforts in working towards the target of reducing the greenhouse gas emissions intensity by 1% by the year ending 31 December 2024, against the emission intensity of the baseline for the year ended 31 December 2023.

(iii) in relation to noise and air pollutants emission, we dedicate to achieving the discharge of noise and air pollutants emission in full compliance with the applicable standards. The following table sets forth a breakdown of our average noise level during the Track Record Period:

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2021 | | 2022 | | 2023 | |
| | Day | Night | Day | Night | Day | Night |
| | *Emission (decibels)* | | | | | |
| Production facility at Yanguang Road | 54 | 44 | 54 | 42 | 53 | 43 |
| Production facility at Jinxin Road | 54 | 43 | 54 | 43 | 53 | 42 |

*Note:*

(1) According to the Law of the People's Republic of China on the Prevention and Control of Pollution from Environmental Noise (《中華人民共和國環境噪聲污染防治法》) and Emission Standard for Industrial Enterprises Noise at Boundary (《工業企業廠界環境噪聲排放標準》), due to our facilities' location in industrial areas, we adhere to the third type of standard, which stipulates a maximum noise level of 65 decibels during the day and 55 decibels at night.

The following table sets forth a breakdown of our air pollutant emissions during the years indicated:

| | Year ended 31 December[(1)] | | | Discharge permitted level[(2)] |
|---|---|---|---|---|
| | 2021 | 2022 | 2023 | |
| | *Emissions ($mg/m^3$)* | | | |
| **Air pollutants** | | | | |
| Non-methane hydrocarbon intensity | 12.9 | 3.6 | 4.2 | 50.0 |
| Benzene intensity | 0.0707 | 0.0455 | 0.0458 | 1.0 |
| Particulates intensity | 4.6 | 4.8 | 3.8 | 120.0 |

*Notes:*

(1) The air pollutant emission analysis is conducted on an annual basis.

(2) The applicable standards were the Integrated Emission Standard for Air Pollutants (GB 16297–1996)《(大氣污染物綜合排放標準》) (GB16297-1996) and Emission Standard of Volatile Organic Compounds for Industrial Surface Coating (DB41/1951-2020) (《河南省工業塗裝工序揮發性有機物排放標準》DB41/1951-2020).

Our Group will make continuous efforts in working towards the target of maintaining the intensity of emitted items in air pollutants below the discharged permitted level.

(iv) The following table sets forth an analysis of quality of our wastewater for the years indicated:

*For the year ended 31 December 2021:*

| Items of emission | Chemical oxygen demand | Suspended solids | PH Value | Fluorides |
|---|---|---|---|---|
| | | *(mg/L)* | | |
| Average density of our Group | 26 | 8 | 7.3 | 7.12 |
| Standard requirement[(3)] | 500 | 400 | 6–9 | 20 |

*For the year ended 31 December 2022:*

| Items of emission | Chemical oxygen demand | Suspended solids | PH Value | Fluorides |
|---|---|---|---|---|
| | | *(mg/L)* | | |
| Average density of our Group | 32 | 15 | 7.3 | 0.89 |
| Standard requirement[(3)] | 500 | 400 | 6–9 | 20 |

*For the year ended 31 December 2023:*

| Items of emission | Chemical oxygen demand | Suspended solids | PH Value | Fluorides |
|---|---|---|---|---|
| | | *(mg/L)* | | |
| Average density of our Group | 205.0 | 119.0 | 6.6 | 0.78 |
| Standard requirement[(3)] | 500 | 400 | 6–9 | 20 |

*Note:*

(1) According to the Categorized Management Catalog of Pollutant Discharge Permits for Stationary Sources of Pollution (《固定污染源排污許可分類管理名錄》), key management, simplified management and registration management of pollutant discharge permits are implemented according to factors such as the amount of pollutants generated, the amount of emissions, the degree of impact on the environment, etc., and only pollutant discharge entities that implement registration management do not need to apply for a pollutant discharge permit. As at the Latest Practicable Date, our Company belong to Category 84 and 111 respectively the Categorized Management Catalog of Pollutant Discharge Permits for Stationary Sources of Pollution and implements the key management. As advised by our PRC Legal Adviser, we have achieved the relevant pollutant discharge permits in accordance with the aforementioned PRC laws and regulations.

(2) The wastewater quality analysis is conducted on an annual basis.

(3) Regarding wastewater, our operations are regulated under the Integrated Wastewater Discharge Standard (GB 8978–1996) (《污水綜合排放標準》(GB8978–1996)). During the Track Record Period, we prepared an annual inspection report and submitted such data of wastewater quality to the relevant authorities. The average density of emitted items in the wastewater discharged by our Group is lower than the standard requirement.

(v) the following table set forth our discharge level of hazardous solid waste during the Track Record Period:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| Hazardous solid waste discharge level (tonnes) | 3.1 | 2.7 | 2.3 |

The hazardous solid waste generated in our daily operations is stored in dedicated hazardous waste warehouses and we engaged qualified waste disposal enterprises to transfer and dispose of the hazardous solid waste and complete the corresponding procedures following the Management Measures for the Transfer of Hazardous Wastes《(危險廢物轉移聯單管理辦法》) once or twice per year. We have registered with the National Solid Waste Management Information System and submitted environment monitoring data to the system annually and during the Track Record Period, all of our submissions have been reviewed and approved.

Our Group strictly follows the waste emission requirements and treatment regulations and has formulated relevant policies to carry out standard collection and treatment of hazardous and non-hazardous waste generated by our operations. Our Group will make continuous efforts in working towards the target of maintaining the average density of emitted items in our wastewater below the standard requirement. Regarding the discharge of hazardous solid waste, we will continue to work with qualified third-party waste disposal enterprises to appropriately dispose of our hazardous solid waste and achieve a reduced environmental impact.

(vi) save for the abovementioned targets, we target to maintain zero environmental pollution accidents for our overall environmental matters.

The metrics and targets used to assess social-related risks mainly include employee gender structure, employee turnover rate, employee age distribution, frequency of employee training, and completion of learning hours.

We will continue to progressively retrofit and upgrade our equipment in accordance with the ESG policy, and promote new water-saving technologies and water-saving equipment and appliances to minimize water and energy consumption and greenhouse gas emissions.

We will closely monitor and ensure strict compliance with Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules, the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 of the Listing Rules and all relevant rules and regulations in relation to environmental, social and governance aspects.

**Governance on ESG Matters**

Our Board has the overall responsibility for overseeing and determining the environmental-related, climate-related and social-related risks and opportunities impacting us. We will establish an ESG committee (the "**ESG Committee**") at our Board level after the **[REDACTED]** to support our Board in establishing and adopting the ESG policy, strategies and targets of our Group, and reviewing our performance against ESG-related targets and revising the ESG strategies as appropriate if significant variance from the target is identified. Our management team is generally responsible for carrying out the ESG policies in executing our business operations.

ESG Committee will evaluate the likelihood of occurrence and the estimated magnitude of the resulting impact over short-, medium- and long-term horizons. The decision to mitigate, transfer, accept or control a risk is influenced by various factors such as business location, cost-benefit analysis and change in regulatory landscape. In addition, the ESG Committee will also be responsible for the identification, assessment and management of material ESG-related matters, including climate-related

risks, by taking into consideration the metrics and targets stipulated in Appendix 27 to the Listing Rules and applicable laws, regulations and industry standards. We will incorporate physical and transition risk analysis into risk assessment processes and risk appetite setting. If the risks and opportunities are considered to be material, we will incorporate them into the strategy and financial planning process. We have been and will continue taking mitigating steps to address the ESG-related risks, including establishing and monitoring various metrics and targets to advance our ESG goals.

In the future, ESG Committee will also be responsible for assessing and managing environmental and climate-related opportunities in terms of: (i) in order to improve production efficiency and save costs, and achieve carbon neutrality, our policy was set to purchase energy-efficient production equipment or carry out energy-saving renovation projects so as to limit or reduce emissions and production costs; and (ii) our Directors believe that giving priority to low-carbon manufacturing and producing green and low-carbon products over competitors can develop a carbon emission advantage, which is conducive to the development of customers and the increase of product share in regional markets with higher carbon emission requirements.

## IMPACT OF OUTBREAK OF COVID-19 ON OUR OPERATIONS

There has been an outbreak of COVID-19, since January 2020 across the PRC and around the world. Such outbreak of epidemic has endangered the health of many people residing in the PRC and around the world and significantly disrupted travel and economy. In order to combat the COVID-19 outbreak, government authorities in the PRC and other countries have imposed various controls and restrictions, including travel restrictions and quarantine for travelers from affected regions, stay home orders, lock down measures, and shutting down certain business operations temporarily.

Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, our operations had not experienced any material impact due to the COVID-19 pandemic.

### Employees

In accordance with Luoyang New High Technology Zone COVID-19 Prevention Directive (洛陽高新區新型冠狀病毒感染的肺炎疫情防控指揮部), our Company submitted the application of the work and production resumption on 9 February 2022. Accordingly, we have been granted permission to resume production and work on 12 February 2022. We had not laid off any employees or cut off employees' salaries due to COVID-19. Since the ease of COVID-19 restrictions in December 2022, there had been a rapid progression of the COVID-19 infections in China. Consequently, we experienced an increased number of COVID-19 related sick leaves from our employees in late 2022; however, as these sick leaves were staggered, we continued to maintain normal business operations.

### Customers and suppliers

We mainly supply our products to PRC customers during the Track Record Period. Despite the temporary suspension of production, we had not experienced any cancellation and/or suspension of our sales contracts or suspension and/or termination of business cooperation due to the COVID-19.

Our suppliers primarily include materials and components suppliers and service suppliers for outsourcing services located in the PRC. The lockdowns and temporary suspension of operations in certain affected regions during the first half of 2022 have caused uncertainty and disruption to our

domestic supply chain and posed logistical challenges with inter-provincial transport being affected. However, our Directors considered that such impact on our supply chain was relatively minimal because it was a relatively short period of suspension of our suppliers' operation.

Moreover, we have mitigated such adverse effect by adopting more advance planning, such as ascertaining the COVID-19 related measures of the relevant cities, closely monitoring the situation through negotiation and cooperation with our major suppliers to ensure overall production progress and delivery of products; and continuously identifying high-quality suppliers that may reduce our risk exposure to supply of materials and components and long-distance transportation. Due to our timely and effective responses and the PRC authorities' effective control of the COVID-19, the impact of COVID-19 on the supply of materials and components for our production and supply of services has been limited. Therefore, we did not experience significant shortage of inventories or delay in the delivery of supplies which materially adversely affected our operation due to COVID-19.

**Our production activities**

The impact of COVID-19 on our production activities in Luoyang city was minimal. Due to the Notice, our production bases were closed during the extended Chinese New Year holiday. However, we closely observed the guidelines issued by Luoyang New High Technology Zone COVID-19 Prevention Directive and applied the resumption on 9 February 2020. As such, we were permitted to resume production from 12 February 2020 onwards. With the gradual resumption of local logistics by mid-February 2020, the outbreak of COVID-19 has minimal impact on the delivery of our products. None of our contracts have been significantly delayed as a result of the temporary suspension of local logistics due to COVID-19.

**Our sales and marketing activities**

Since February 2020 and up to the Latest Practicable Date, to the best knowledge of our Directors, we are not aware of any potential contracts that we have submitted tender or quotation is being aborted as a result of the outbreak of COVID-19. As a result of the travel restrictions and stay home policies as well as recommendation to minimize social activities to reduce transmission of COVID-19, since February 2020, we had reduced the amount of face-to-face marketing activities and site visits in the PRC. Instead, we conducted marketing activities through alternative means such as phone calls, text messages and video conferences. With the steady and effective control measures imposed by the PRC authorities, our sales and marketing activities have gradually resumed.

**Impact of COVID-19 on our financial performance**

Given the limited impact of COVID-19 on our production and sales, our business and financial conditions have not been materially adversely affected as a result of the COVID-19. With the rapid resumption of sales and production since February 2020, the impact on our financial performance for the year of 2020 as a whole was not significant. Nonetheless, when and whether COVID-19 could be successfully contained remains uncertain. We cannot guarantee that the outbreak of COVID-19 will not further escalate, which in turn may have a material adverse effect on our business operations. For more information, see "Risk Factors — Risk Relating to Our Business and Our Industry — The outbreak of COVID-19 and the uncertainty of the global economic conditions could have a material adverse impact on our financial condition and results of operations" in this document.

**Our contingency plan**

In the unlikely event that we are forced to completely suspend our business operations due to the outbreak of COVID-19, whether due to government policy or any other reasons beyond our control, taking into account (i) approximately HK$**[REDACTED]** (equivalent to approximately RMB**[REDACTED]**), or [9.5]% of the net **[REDACTED]** from the **[REDACTED]** which is allocated for working capital and general corporate purposes (assuming an **[REDACTED]** of HK$**[REDACTED]**, being the mid-point of the indicative **[REDACTED]**, and that the **[REDACTED]** is not exercised); and (ii) our cash and cash equivalent of approximately RMB45.7 million as 31 December 2023; and assuming that (i) our operations have been completely suspended after the Latest Practicable Date; (ii) we will not generate any revenue due to the suspension of business; (iii) fixed operation costs such as rental expenses (including utilities expenses) will be paid in connection with the leased premises; (iv) all employees will be paid based on the minimum salary standards set up by the local government authorities; (v) our expansion plans will be suspended; (vi) there will be no further internal or external financing from financial institutions; (vii) no further dividend will be declared and paid; (viii) repayment of bank borrowings will be made for the principal and related interests according to the repayment schedule; (ix) trade and notes payables will be settled when due; (x) trade and notes receivables will be settled based on the historical settlement pattern and appropriate estimates, our Directors estimate that we will be financially viable for not less than 11 months. The abovementioned extreme situation may or may not occur and the abovementioned analysis is for illustrative purpose only. Our Directors currently assess that the likelihood of such situation is remote. The actual impact caused by the outbreak of COVID-19 will depend on its subsequent development, therefore it is a possibility that such impact to our Company may be out of our Director's control and beyond our estimation and assessment.

Nevertheless, as one of the major petroleum refinery and petrochemical equipment manufacturers in the PRC, we will take prudent steps to ensure the business continuity of our Company despite the ongoing health and financial crises. We will also continue to work closely with our customers and suppliers to ensure that the impact of any unforeseen incidents or change in circumstances is minimized to its fullest extent and implement our business contingency plans. In light of the foregoing, our Company has implemented several business contingency plans to help us manage the outbreak of COVID-19 and reduce the possibility of any project suspensions and/or cancellations or supply chain disruptions due to COVID-19, which include the following:

- offering remote testing and inspection for customers to inspect the finished equipment without physically attending to our testing centers;

- ensuring adequate back up facilities, mobile computing/communication devices and network bandwidth for remote working arrangements; and

We have also implemented stringent measures to prevent the spread of COVID-19 in our work places from time to time. These measures include:

- measuring and recording the temperature of employees twice a day, to ensure no employee with COVID-19 symptoms enter our offices and working areas;
- requiring employees to wear sanitary masks when taking public transports;
- requiring all vehicles entering our production bases and offices to be sterilized at the entrance gate;
- keeping all conference rooms and offices well ventilated;
- installing disinfecting products including sanitizer and alcohol disinfectant in working areas to enhance personal hygiene; and
- conducting regular cleaning and disinfecting arrangements in working areas.

## INTERNAL CONTROLS

In preparation for the **[REDACTED]**, we have engaged an independent internal control consultant (the "**Internal Control Consultant**") to perform an evaluation of our Group's internal control system. Based on its review, the Internal Control Consultant has identified certain internal control matters and we have adopted corresponding internal control measures or taken reasonable steps to address these matters. Our Directors are of the view that the enhanced internal control measures adopted by our Company are adequate and effective for the purpose of Listing Rules, and consider that the non-compliance incidents, see "Business — Regulatory Compliance" in this document, do not have any material impact on: (i) the suitability of our Directors under the Listing Rules; and (ii) our suitability for **[REDACTED]** under the Listing Rules.

## INSURANCE

We have maintained various types of insurance in accordance with the applicable PRC laws and regulations, such as, (i) comprehensive safe production and employees' occupational safety for industrial gas user insurance to insure against operational hazards, (ii) third-party liability insurance in relation to fixed assets and vehicles to insure against the potential damages and loss caused by workplace accidents or work-related incidents, (iii) pension insurance, (iv) medical insurance, (v) unemployment insurance, (vi) injury insurance and (vii) maternity insurance. For each year during the Track Record Period, our Group paid approximately RMB52,000, RMB41,000 and RMB65,000, respectively, as insurance premium payment for insurance policies (excluding social insurance and housing provident fund contributions). Such insurance coverage is generally in line with the industry norm. Accordingly, our Directors' are of the view that our current insurance coverage is sufficient for our current operations and is in line with the industry norm.

## EMPLOYEES

As of the Latest Practicable Date, we had a total of 413 employees. The following table presents a breakdown of our employees by function as of the Latest Practicable Date:

| Functions | As of the Latest Practicable Date |
|---|---|
| Management | 10 |
| Production | 192 |
| Sales and marketing | 43 |
| Research and development | 85 |
| Quality control | 21 |
| Finance, human resources and administration | 62 |
| **Total** | 413 |

As of the Latest Practicable Date, 30 of our employees held master's degree, 168 of our employees finished undergraduate studies and 57 of our employees held college qualification.

As of the Latest Practicable Date, our employees included approximately nine senior engineers, 54 engineers and 11 assistant engineers.

In accordance with the relevant requirements of local governments in the PRC where we operate, we make contributions to pension and purchase medical insurance, unemployment insurance, maternity insurance and injury insurance for our employees. The amount of our contributions is based on the specified percentages of our employees' aggregate salaries as required under the PRC laws and regulations. We also make contributions to the employee housing fund according to the applicable PRC regulations.

For the years ended 31 December 2021, 2022 and 2023, our total staff costs (including salaries, allowance and benefits and retirement benefit scheme contribution) amounted to approximately RMB38.7 million, RMB53.7 million and RMB71.6 million, respectively.

We will establish a labor union. We have established a mediation committee for labor disputes to protect our employees' rights and encourage employees to participate in our management. We believe we maintain a good working relationship with our employees, and we have not experienced any material labor dispute or any difficulty in recruiting staff for our operations during the Track Record Period and up to the Latest Practicable Date.

Our recruitment is applied according to the Company's annual personnel requirements or temporary recruitment requirements. We use various methods for our recruitment, including online recruitment and through recruitment firms or agents, to satisfy our demand for different types of talents and select talents suitable for the positions based on an overall consideration of educational background, ability, and experience. We endeavor to provide training for our employees. We provide continuing education, safety training and technical training programs for our management staffs and technical staffs to enhance their skills and knowledge. We also offer management courses for our managers.

According to our employee handbook of our Group, we enter into an employment contract with our employees at his/her reporting. We also enter into confidentiality agreements and non-competition agreements with our key employees.

## PROPERTIES

Our headquarters are located in Luoyang, Henan Province, the PRC. As at 31 December 2023, we owned 13 land use rights of five parcels of city land in the PRC and 11 buildings or units in the PRC. All of the five parcels of land with an aggregate site area of approximately 128,876.1 sq.m. are in the PRC. We also leased in three properties in the PRC for our office and industrial use, among which, one property is an intra-group rental.

### Owned land

Our production base is located at the New High Technology Development Zone, Luoyang City, Henan Province, the PRC. Our self-owned industrial land is of a total GFA of approximately 128,876.1 sq.m., on which we own a number of properties for industrial and scientific research purposes.

**Owned buildings**

Details of our owned properties as of the Latest Practicable Date are set out as follows:

| No. | Location | Approximate GFA *(Sq.m.)* | Use of property[1] |
|---|---|---|---|
| 1. | Block 1, 8 Yanguang Road, New High Technology Development Zone, Jianxi District, Luoyang City, Henan Province | 2,935.8 | Industrial use and scientific research |
| 2. | Block 2, 8 Yanguang Road, New High Technology Development Zone, Jianxi District, Luoyang City, Henan Province | 8,714.9 | Industrial use |
| 3. | Block 3, 8 Yanguang Road, New High Technology Development Zone, Jianxi District, Luoyang City, Henan Province | 3,887.7 | Industrial use |
| 4. | Block 5, 8 Yanguang Road, New High Technology Development Zone, Jianxi District, Luoyang City, Henan Province | 10,413.7 | Industrial use and scientific research |
| 5. | Block 1, 1 Jinxin Road, New High Technology Development Zone, Jianxi District, Luoyang City, Henan Province | 4,364.8 | Industrial use |
| 6. | Block 2, 1 Jinxin Road, New High Technology Development Zone, Jianxi District, Luoyang City, Henan Province | 3,285.0 | Industrial use |
| 7. | Block 3, 1 Jinxin Road, New High Technology Development Zone, Jianxi District, Luoyang City, Henan Province | 794.6 | Industrial use |
| 8. | Block 5, 1 Jinxin Road, New High Technology Development Zone, Jianxi District, Luoyang City, Henan Province | 478.6 | Industrial use |
| 9. | Block 6, 1 Jinxin Road, New High Technology Development Zone, Jianxi District, Luoyang City, Henan Province | 76.4 | Industrial use |
| 10. | Block 7, 1 Jinxin Road, New High Technology Development Zone, Jianxi District, Luoyang City, Henan Province | 109.1 | Industrial use |

| No. | Location | Approximate GFA *(Sq.m.)* | Use of property[1] |
|---|---|---|---|
| 11. | Block 8, 1 Jinxin Road, New High Technology Development Zone, Jianxi District, Luoyang City, Henan Province | 298.8 | Industrial use |

*Note:*

(1) The categories of use of property are based on real estate title certificates.

**Leased buildings**

As of the Latest Practicable Date, we, as the landlord, leased out the following properties for office and/or industrial purposes and all of these properties are solely owned by Luoyang Ruichang:

| No. | Location | Tenant | Area *(Sq.m.)* | Lease term | Use of property |
|---|---|---|---|---|---|
| 1. | Building 1, No. 8, Yanguang Road, New High Technology Development Zone, Jianxi District | Henan Zhongchuang Finance and Taxation Service Center (Limited Partnership) 河南眾創財稅服務中心(有限合夥) | 40 | 1 November 2023–31 December 2024 | Office |
| 2. | East side of Jinxin Road, New High Technology Development Zone, Luoyang | Honeywell Integrated Technology (China) Co., Ltd. — Luoyang Branch (霍尼韋爾綜合科技(中國)有限公司洛陽分公司) | 17,920 | 15 April 2015–14 April 2025 | Industrial use |
| 3. | Intersection of Luoyi Road and Lingbo West Road, New High Technology Development Zone, Luoyang | Luoyang Richen | 300 | 1 January 2024–31 December 2025 | Industrial use |

As of the Latest Practicable Date, we have leased in three properties in the PRC for office and industrial use, among which one property is an intra-group rental. As of the Latest Practicable Date, two of them have not been registered with the relevant PRC authorities. As advised by our PRC Legal Advisers, failure to register an executed lease agreement will not affect the validity and enforceability. Therefore, we believe that the failure to register these lease agreements will not have any material adverse effect on our operations and financial condition. However, we may be ordered by the relevant government authorities to register the unregistered lease agreements within a prescribed period, failing which we may be subject to a fine of no less than RMB1,000 and not exceeding RMB10,000 for each unregistered lease agreement. As of the Latest Practicable Date, we had not been subject to any administrative penalties enforcement actions by any relevant competent authorities as a result of our failure to file the lease agreements described above, nor had we received any rectification notice from any relevant PRC government authorities regarding lease registrations.

## LEGAL PROCEEDINGS

During the Track Record Period and up to the Latest Practicable Date, there was no litigation or arbitration pending or threatened against our Group or any of our Directors which could have a material adverse effect on our Group's financial condition or results of operations.

## REGULATORY COMPLIANCE

Our PRC Legal Adviser is of the view that, during the Track Record Period and up to the Latest Practicable Date, we complied in all material respects with the relevant PRC laws and regulations relating to our business operation and we obtained licenses, approvals and permits from the appropriate regulatory authorities that are material for our business operations in the PRC. In the opinion of our respective overseas legal counsels, we have complied in all material respects with the applicable local laws and regulations of the overseas jurisdictions in which we operate, and we have obtained licenses, approvals and permits from the appropriate regulatory authorities that are material for our operations.

During the Track Record Period and up to the Latest Practicable Date, we had been involved in certain non-compliance incident, details of which are set out below. Such non-compliance incidents have not resulted, and are not expected to result, in any material impact on our financial condition and/or our operations. Save as disclosed, our Directors, based on the legal opinions issued by our PRC Legal Advisers and our respective overseas legal counsels, confirm that we have been in compliance in all material respects with the applicable PRC laws and regulations relating to our business operations during the Track Record Period and up to the Latest Practicable Date.

**Details of non-compliance incident**

For each year during the Track Record Period, Luoyang Ruichang and Luoyang Richen failed to make full contributions to the social insurance and housing provident fund contributions for employees as required under the relevant PRC laws and regulations.

**Reasons**

The non-compliance incident was mainly due to (i) insufficient understanding of the relevant PRC laws and regulations of our responsible handling staff; and (ii) absence of professional advice for our staff at the material time.

**Possible legal consequences and impact**

Pursuant to the Social Insurance Law of the PRC (中華人民共和國社會保險法), employers who failed to promptly contribute social security premiums in full amount shall be ordered by the social security premium collection agency to make or supplement contributions within a stipulated period, and shall be subject to a late payment fine computed from the due date at the rate of 0.05% per day; where payment is not made within the stipulated period, the relevant administrative authorities shall impose a fine ranging from one to three times the amount of the amount in arrears.

Pursuant to the Regulations on the Management of Housing Funds (住房公積金管理條例), where, in violation of the provisions of these Regulations, an employer is overdue in the contribution of, or underpays, the housing provident fund, the housing provident fund management center shall order it to make the contribution within a prescribed time limit; where the contribution has not been made after the expiration of the time limit, an application may be made to a people's court for compulsory enforcement.

We have obtained the confirmations from the local social insurance and housing provident fund authorities confirming (i) we have made social insurance and housing provident fund contributions of our employees in accordance with the requirements of relevant PRC policies; and (ii) Luoyang Ruichang and Luoyang Richen did not have record of arrears of social insurance and housing provident fund contributions.

Our PRC Legal Advisors have confirmed that the local social insurance authority and housing provident fund authority are the competent authorities issuing the above written confirmations.

As at the Latest Practicable Date, we (i) have not received any orders from the relevant PRC authorities requesting the payment of outstanding social insurance and housing provident fund contributions and corresponding late payment fees; (ii) have not been penalised under the relevant PRC laws and regulations related to social insurance and housing provident fund contributions; and (iii) we were also not aware of any employees' complaints or demands for payment of social insurance or housing provident fund contributions.

As advised by our PRC Legal Advisers, pursuant to the relevant PRC laws and regulations as well as the abovementioned facts, the probability of our Group being subjected to penalties by the relevant authorities for such non-compliant behavior is low and such non-compliance will not have any material impact on our operations and financial conditions.

**Remedial measures and internal control measures**

We have made full provisions for the underpaid amount of our social insurance and housing provident funds contributions in the amount of approximately RMB3.3 million, RMB3.2 million and RMB2.7 million, respectively, for the years ended 31 December 2021, 2022 and 2023. Our Directors are of the view that, the provisions are sufficient to cover the potential payment in relation to the non-compliance.

Our Directors believe that the non-compliance has not caused or will not cause any material and adverse financial or operational impact on us as our internal policy and guidelines have been revised to include (i) calculation of social insurance and housing provident fund contribution matters; (ii) our human resources department and finance department will review the calculation of the relevant contributions, and keep proper records of any contributions paid; and (iii) internal review and approval by our general manager of the calculation of the relevant contributions.

In addition, we have designated our financial director to carry out procedures of review to ensure the register of payment record is properly updated and that all payments of contributions to social insurance and housing provident fund are made on a timely basis.