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The following discussion and analysis should be read in conjunction with our consolidated financial information included in “Appendix I — Accountants’ Report” annexed to this document. Our audited consolidated financial statements have been prepared in accordance with HKFRSs. You should read the entire Accountants’ Report and not merely rely on the information contained in this section.

The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis that we make in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed in the section headed “Risk Factors” and elsewhere in this document.

OVERVIEW

During the Track Record Period, we primarily focused on the provision of construction services: (i) civil building construction services, provision of construction contracting mainly as general contractor for residential, industrial and commercial construction projects; (ii) municipal works construction services, which mainly consisted of the construction of urban roads, education institution, sports stadium and water supply works; (iii) foundation works services which include foundation construction as well as earthwork construction; (iv) prefabricated steel structure construction services; and (v) other specialised contracting works which includes renovation and decoration construction specialised contracting. We provide comprehensive construction services for customers throughout the construction process from procurement, project management, construction to project supervision. To a lesser extent, we also engage in provision of construction machinery and equipment service.

For FY2019, FY2020, FY2021 and 3Q2022, (i) our total revenue amounted to approximately RMB1,821.9 million, RMB1,769.9 million, RMB1,823.4 million and RMB1,366.0 million, respectively; (ii) our gross profit amounted to approximately RMB183.4 million, RMB189.1 million, RMB195.6 million and RMB148.6 million, respectively, representing gross profit margins of approximately 10.1%, 10.7%, 10.7% and 10.9%, respectively; and (iii) our profit and other comprehensive income for the year/period was approximately RMB50.9 million, RMB49.6 million, RMB61.9 million and RMB51.2 million, respectively.

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BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands on 27 March 2020 as an exempted company with limited liability under the Companies Act.

Pursuant to the Reorganisation as detailed in the section headed “History, Development and Reorganisation” in this document, in preparation for the [REDACTED] and for the purposes of rationalising our Group’s structure, our Company became the holding company of the subsidiaries now comprising our Group in 2020.

On 8 May 2019, the shareholders of Zhongtian Construction resolved to undergo the Demerger, pursuant to which Zhongtian Construction was demerged into two companies, namely Zhongtian Construction and Puhui Commercial. As a result of the Demerger, Puhui Commercial was established on 28 June 2019 and assets with a net carrying value of RMB57.1 million were allocated from Zhongtian Construction to Puhui Commercial, including investment properties. No liability of Zhongtian Construction was transferred to Puhui Commercial. The purpose of the Demerger is to enable us to focus on construction contracting business as our principal business but not property leasing. The Demerger was registered by the relevant government authority on 2 July 2019. Our Company, Head Sage, Zhongtian HK, Zhaolin Trading, Jicai Trading, Hangxiao Materials, (together, the “**Non-operating Companies**”) are newly incorporated/established companies as part of the Reorganisation and none of these new holding companies carried out any businesses since their incorporation/establishment. The Non-operating Companies became holding companies of Zhongtian Construction, have no substance, have not been involved in any business and do not meet the definition of a business. Accordingly, for the purpose of the Accountants’ Report, our historical financial information has been prepared based on that of Zhongtian Construction which comprised our Group at the beginning of the Track Record Period using the predecessor carrying amounts in accordance with all applicable HKFRSs which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the HKICPA. Further details of the significant accounting policies adopted are set out in note 4 in the Appendix I to this document.

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Based on Zhongtian Construction’s management account which was prepared under accounting principles generally accepted in the PRC (the “**PRC GAAP**”), the net carrying value of the assets of Zhongtian Construction as at the date of the Demerger which were transferred to Puhui Commercial is as follows:

	<i>RMB’000</i>
Property, plant and equipment	13,702
Investment properties	39,378
Prepayments	4,020
Total	<u>57,100</u>

The above assets of approximately RMB57.1 million were transferred to Puhui Commercial at net carrying value without gain or loss and, except for these assets, no other assets were transferred to Puhui Commercial under the Demerger.

Based on the Zhongtian Construction’s management account which was prepared under PRC GAAP, the net carrying value of the assets of Zhongtian Construction as at the date of the Demerger which were retained by Zhongtian Construction is as follows:

	<i>RMB’000</i>
Non-current assets	
Property, plant and equipment	2,368
Investment properties	7,084
Investment in subsidiaries	5,574
Deferred tax assets	3,394
Intangible assets	58
	<u>18,478</u>
Current assets	
Inventories	3,170
Trade, bills and other receivables (including amounts due from related parties)	354,511
Contract assets	699,249
Cash and cash equivalents (including restricted bank deposits)	34,292
	<u>1,091,222</u>
Total assets	<u>1,109,700</u>

The investment properties that were retained by Zhongtian Construction under the Demerger had an aggregate fair value of approximately RMB13.5 million as at 31 December 2018. The investment properties that were transferred to Puhui Commercial under the Demerger had an

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aggregate fair value of approximately RMB131.6 million as at 31 December 2018. The fair value of these investment properties have been arrived at based on market approach valuation carried out by the Independent Valuer.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of our Group for the Track Record Period include the results and cash flows of all companies now comprising our Group as if the Non-operating Companies share under common control of our Company and the current structure had been in existence throughout the Track Record Period, or since their respective dates of acquisition or incorporation/establishment, whichever is the shorter period. The consolidated statements of financial position of our Group as at 31 December 2019, 2020 and 2021 and 30 September 2022 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing carrying values, as if the current structure had been in existence at these dates or since their respective dates of acquisition or incorporation/establishment, whichever is the shorter period. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation. All intra group transactions and balances have been eliminated between the consolidating entities.

Our historical financial information for the Track Record Period has been prepared in accordance with accounting policies which conform with all applicable HKFRSs issued by the HKICPA. The HKICPA has issued a number of new or revised HKFRSs which are relevant to our Group and became effective during the Track Record Period. For the purpose of preparing and presenting the historical financial information, we have consistently adopted HKFRS 9 *Financial Instruments* (“**HKFRS 9**”), HKFRS 15 *Revenue from Contracts with Customers* (“**HKFRS 15**”) and HKFRS 16 *Leases* (“**HKFRS 16**”) throughout the Track Record Period.

HKFRS 9 — Financial Instruments

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement* (“**HKAS 39**”). It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. The new impairment model in HKFRS 9 replaces the “incurred loss” model in HKAS 39 with an expected credit loss (“**ECL**”) model. Under the ECL model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month ECL or a lifetime ECL, depending on the asset and the facts and circumstances.

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HKFRS 15 — Revenue from Contracts with Customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction Contracts* (“HKAS 11”), which specified the accounting for construction contracts, and related interpretations.

Our Group engages in the provision for construction services of civil building, municipal works, foundation works, prefabricated steel structure construction services and other specialised contracting works. Our Group’s performance creates or enhances an asset or work in progress that the customer controls as the asset is created or enhanced, thus our Group satisfies a performance obligation and recognises revenue over time, by reference to completion on the basis of the contract costs incurred to date as a proportion to the total estimated contract costs. Payments are received in arrears or in advance of the revenue to be recognised based on the input method and would be recognised as a contract assets or contract liabilities, respectively.

HKFRS 16 — Lease

HKFRS 16 is effective for the accounting period beginning on or after 1 January 2019. The adoption of HKFRS 16 primarily affects our Group’s accounting as a lessee of leases for properties, plant and equipment which are classified as operating leases under HKAS 17, *Leases*. Upon the adoption of HKFRS 16, at the lease commencement date, our Group as a lessee recognises a right-of-use asset and a lease liability, except for short-term leases with a lease term of 12 months or less and leases of low-value assets. The application of HKFRS 16 has impact on the recognition of right-of-use assets and lease liabilities as well as the recognition of depreciation charges of right-of-use assets and the interest expense on lease liabilities. Our Group presents right-of-use assets in “property, plant and equipment” and presents “lease liabilities” separately in the consolidated statements of financial position.

The revised and new accounting standards and interpretations issued but not yet effective for the accounting period beginning on 1 January 2022 which have not early applied are further set out in note 3 in the Appendix I to this document.

SIGNIFICANT FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our Group’s business, financial condition and results of operations have been and we expect will continue to be affected by a number of factors, including those set out below:

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General economic conditions and regulatory environment of the PRC construction industry





The PRC construction industry is to a large extent affected by the market conditions of the PRC economy. General economic conditions in China have affected and may continue to affect our business and results of operations. Our revenue to a large extent correlates with the level of construction activities in China, particularly in Hunan and Hainan Province, where a majority of our construction projects were located during the Track Record Period. The future growth and level of profitability of the construction industry in the PRC is likely to depend primarily upon the continued availability of major construction works projects. The nature, extent and timing of such projects will, however, be determined by the interplay of a variety of factors, in particular, the PRC Government’s spending patterns on the construction and infrastructure industry in the PRC, the investment by property developers and the general conditions and prospects of the PRC economy. These factors may affect the amount of construction works projects offered by the public sector, private sector or institutional bodies. Apart from the public spending of the PRC Government, there are numerous factors affecting the construction industry, including cyclical trends in the economy as a whole, fluctuations in the interest rates and the availability of new projects in the private sector. Any changes in the national or local regulatory environment in respect of the PRC construction industry may also affect the level of activities in this industry, as well as the supply of land for property development, project financing, taxation and foreign investment. An occurrence of recession in the PRC, deflation or any changes in the PRC’s currency policy, or the demand for construction works in the PRC deteriorate, our operations and profits could be adversely affected.

Billing progress and accounting treatments of our construction projects

We recognise revenue over time based on input method in accordance with our Group’s accounting policy which complies with HKFRS 15. When the outcome of the contract can be reasonably expected, revenue from the contract is recognised based on the total value of work performed, which is measured by the percentage of completion of a project (the proportion of the actual costs incurred relative to the budgeted total construction costs) out of the total contract value of the corresponding project. As our projects usually take a few months or a few years to complete, the scale of contracts and progress of each of the contracts we undertake in each of the year/period may affect our results of operations.

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The general schedule of our billing progress and accounting treatments for our major construction projects during the Track Record Period are set forth as below:

	Billing progress	Accounting treatments
 <p>Upon signing of contract</p>	<ul style="list-style-type: none"> Depending on contract terms, prepayment of 10% to 30% of the contract sum may be required to be paid by our customers. 	<ul style="list-style-type: none"> No revenue will be recognised during this stage. Any prepayment paid by our customers will be accounted as contract liabilities.
 <p>Project implementation</p>	<ul style="list-style-type: none"> Unless there are specific milestones stipulated in the relevant contracts, the progress amount billed is based on a progress billable percentage, generally ranging from 70% to 85%, of the total value of the work performed, as stipulated in the relevant construction contract. If specific milestones are stipulated in the contracts, the billable percentages may vary upon reaching different milestone and generally speaking, we are able to start billing at an agreed percentage, generally ranging from 70% to 85%, of the value of work performed. The total value of the work is measured by the percentage of completion (the proportion of the actual costs incurred relative to the estimated total costs) out of the total contract value. 	<ul style="list-style-type: none"> Revenue is recognised based on input method by reference to the total value of the work as measured by the percentage of completion (the proportion of the actual costs incurred relative to the estimated total costs) out of the total contract value. The portion of the value of work performed and billed by us will be accounted for as trade receivables and the unbilled balance will be accounted for as contract assets.
 <p>Project completion and settlement</p>	<ul style="list-style-type: none"> The total billing amounts that we are entitled to make billing to our customers (on an accumulative basis) generally amounted to up to 95% to 97% of the final settlement value (i.e. the finalised total value of the work after settlement audit). The retention money usually accounts for 3% to 5% of the final settlement value. 	<ul style="list-style-type: none"> The accounting treatment is the same as project implementation phase.
 <p>Post execution</p>	<ul style="list-style-type: none"> Upon expiry of the warranty period, the remaining 3% to 5% (being the retention money) of the final settlement value will be billed to our customers. 	<ul style="list-style-type: none"> No revenue will be recognised during this stage. The amount of the remaining 3% to 5% of the final settlement value has previously been accounted for as contract assets, and will be reclassified as trade receivables.

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Project Implementation phase

Recognition

Revenue is recognised using the input method. When the outcome of the contract can be reasonably expected, revenue from the contract is recognised based on the total value of work performed, which is measured by the percentage of completion of a project (the proportion of the actual costs incurred relative to the budgeted total construction costs) out of the total contract value of the corresponding project.

The total construction costs budget for each project is prepared by our cost and contract department mainly by reference to the contract amount, the amount of labour input and raw materials required, the market prices and quotations provided by the relevant suppliers and subcontractors on such inputs involved in each of the projects as well as the prior experience of the management of our Group in similar projects. The record of actual cost incurred for a project was prepared by our on-site project manager and project accountant of each of the projects from time to time during the project implementation phase.

Internal control on project progress

For our internal control purpose, the responsible personnel of our cost and contract department conducts periodic reviews and comparisons on the budgeted costs and the actual costs incurred of the projects by making reference to the latest information available, including but not limited to delivery notes of construction materials, acceptance notes of subcontracting services performed and the project progress certificates. The project progress certificates are prepared by us and endorsed by the licensed personnel of the qualified surveyors engaged by the relevant customer to confirm the progress of construction work from time to time. The project progress certificate is served as one of the several internal control documents reviewed by our Group. Nonetheless, it is not the only document or proof for ascertaining the accuracy of the costs incurred in the relevant projects.

As part of the duties performed by qualified surveyors under the respective engagement by customers to monitor the construction progress for each project, usually the qualified surveyors will assign their employees as representatives, who are qualified chief surveying engineer (i.e. with registered engineering qualification or intermediate level or above professional qualification and three years or above practising construction experience) and/or qualified surveying engineer (i.e. with registered engineering qualification or intermediate level or above professional qualification and two years or above practising construction experience) to station at the construction site to conduct on-site supervision on a regular basis and closely monitor the project's progress, including, among others, construction craftsmanship, construction technology, project

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workflow, quality of works performed, safety, subcontractors' involvement, progress of the project, materials used and human resources deployed by each contractor. Accordingly, when we submit the project progress certificate together with the cost schedule to the qualified surveyors for endorsement on a regular basis, the qualified surveyors would be able to assess the reasonableness of each cost schedule by cross-checking the information therein with its own record when requested.

The Hunan Engineering Management Society* (湖南省工程管理學會) a non-profit organisation and aims to explore advanced engineering management theories and methodologies, strengthen theoretical research and academic exchanges, promote the organic combination of engineering management theory and practice, and act as a bridge and link between academic research and engineering management practice. According to Hunan Engineering Management Society, it would from time to time publishes papers related to engineering management, so as to achieve complementary advantages and resource sharing in the construction industry.

As a non-profit organisation engaging in academic researches, the Hunan Engineering Management Society from time to time engages in academic exchanges with us and provide assistance and support to reputable construction enterprises in Hunan province in order to achieve resources sharing and the founding objectives of the Hunan Engineering Management Society. As such, the Hunan Engineering Management Society shares its insights and research findings to us from time to time.

According to Hunan Engineering Management Society, it is an industry norm for qualified surveyors to assign their representatives to station at the construction site on a regular basis to conduct on-site supervision. Qualified surveyors are bound by the Regulation on the Quality Management of Construction Projects* (《建設工程質量管理條例》) and other relevant regulations to assign qualified chief surveying engineer (i.e. with registered engineering qualification or intermediate level or above professional qualification and three years or above practising construction experience) and qualified surveying engineer (i.e. with registered engineering qualification or intermediate level or above professional qualification and two years or above practising construction experience) to station at the construction site to conduct surveying works.

According to Hunan Engineering Management Society, some contractors conduct regular monitoring on project progress and issue project progress certificates for endorsement by qualified surveyors for internal control purpose. Usually the contractor will submit the project progress certificate together with the relevant documents including cost schedule to the representatives of the qualified surveyors for endorsement on a regular basis. The qualified surveyor would (i) assess the reasonableness of such project progress certificate by cross-checking the information therein based on the regular records prepared by their representatives during the on-site supervision; (ii)

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evaluate if the discrepancy is material; and (iii) obtain approval from the internal management of the qualified surveyor before the representative endorsing the project progress certificate if the discrepancy is within their materiality threshold.

F&S is of the view that (i) it is an industry practice for the qualified surveyors to assign employees as representatives, who are qualified chief surveying engineer (i.e. with registered engineering qualification or intermediate level or above professional qualification and three years or above practising construction experience) and qualified surveying engineer (i.e. with registered engineering qualification or intermediate level or above professional qualification and two years or above practising construction experience) to station at the construction site to conduct on-site supervision on a regular basis and closely monitor the projects, among other things, the cost incurred by the constructors and (ii) (a) the endorsement procedures adopted by our Group and (b) the bases on which the qualified surveyors assess the reasonableness of the project progress certificates are widely adopted by qualified surveyors in the industry for assessing the construction progress of similar construction projects.

Based on the industry experience of the Hunan Engineering Management Society, it is a common practice in the construction industry in the PRC that representatives of the qualified surveyors will hold discussion to clarify or resolve any material discrepancies in between each progress certification dates, any material discrepancies are clarified throughout the project implementation phase, thus the discrepancies between the cost schedule and the information with its own record is normally immaterial at the time of endorsing the project progress certificate.

F&S is also of the view that it is reasonable and common in the industry for (i) a construction contractor to experience no material deviation between the project progress certificates submitted by the contractor and the qualified surveyors’ own cost record; and (ii) qualified surveyors adopt a materiality threshold when endorsing the progress certificates.

Billing

During the project implementation phase, unless there are specific milestones stipulated in the relevant contracts, the progress billable amount is based on a progress billable percentage, generally ranging from 70% to 85%, of the total value of the work performed, as stipulated in the relevant construction contract (with exceptions as stated in the section headed “Business — Our business operations — Operating process — Project implementation phase — Progress billing to customers” in this document) .

If specific milestones are stipulated in the contracts, generally speaking, we are able to start billing at an agreed percentage, generally ranging from 70% to 85%, of the total value of work performed upon achieving the relevant milestone (with exceptions as stated in the section headed

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“Business — Our business operations — Operating process — Project implementation phase — Progress billing to customers” in this document) . The billable percentages may vary upon reaching different milestones and typical milestones stipulated in construction contracts include (i) the completion of the foundation works and/or the basement of the buildings; (ii) the completion of the main structure and/or the roofing of the buildings; and (iii) the removal of exterior frames of the buildings.

The portion of the value of work performed and billed by us will be accounted for as trade receivables and the unbilled balance will be accounted for as contract assets.

We generally issue VAT invoices upon customers’ request when receiving the progress payment from the relevant customer. We maintain proper records of the VAT invoices issued for each project, and makes accruals for VAT payables in respect of the portion of revenue for which VAT invoice has not been issued due to the timing difference in issuing VAT invoices.

The total contract sum for the project is still subject to change due to variation orders during the project implementation phase. After the finalisation of settlement value of the relevant construction contract upon the completion of settlement audit, we are able to confirm the finalised total contract sum and revenue amount for the project and determine the total amount for VAT invoices. Upon the conclusion of the settlement audit of the relevant project and receiving the payments from the customers, VAT invoices are issued in respect of the remaining revenue for which VAT invoice has not been issued during the project implementation phase. Our management team reviews the VAT invoice records for each project to ensure that VAT invoices are issued before or upon receiving the payments from these customers and the conclusion of the settlement audit of the relevant project.

According to F&S and Hunan Engineering Management Society, it is a common market practice that VAT invoices are issued to customers upon receiving progress payments from these customers and at the conclusion of the settlement audit of the relevant project notwithstanding the stage of completion of the construction work.

Pursuant to the interview with Zhuzhou Hetang Tax Bureau* (株洲市荷塘區稅務局), it confirmed that there are no specific rules on the timing of issuing VAT invoices, there is no violation of rules and regulations for issuing VAT invoices upon receiving progress payments from these customers and the conclusion of the settlement audit. Also, pursuant to the confirmation letter issued by Zhuzhou Hetang Tax Bureau* (株洲市荷塘區稅務局), Zhongtian Construction complies with all the requirements of current laws and regulations of the PRC in all material respects, and there is no tax evasion, tax underpayment or non-fulfilment or resistance of tax obligations, or any other violation of tax management laws and regulations of the PRC in all material respects. Zhuzhou Hetang Tax Bureau* (株洲市荷塘區稅務局) has also provided a written

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confirmation that Zhongtian Construction had paid all taxes during the Track Record Period and up to 25 October 2022. As advised by the PRC Legal Advisers, Zhuzhou Hetang Tax Bureau* (株洲市荷塘區稅務局) is the competent authority to confirm the above tax matters.

Project completion and settlement

Recognition

The accounting recognition is the same as project implementation phase.

Billing

After the completion and acceptance (including the settlement audit), the total billing amounts that we are entitled to make billing to our customers (on an accumulative basis) is generally up to 95% to 97% of the final settlement value (i.e. the finalised total value of the work after the settlement audit). The retention money usually accounts for 3% to 5% of the final settlement value. The total billed amount will be converted from contract assets to trade receivables and the unbilled balance (i.e. the retention money) will be accounted for as contract assets.

In contrast to the project progress certificates, settlement audit reports prepared by qualified surveyors is generally a prerequisite for final billing as stipulated in the construction contracts. Therefore, there are circumstances where all of the construction work of a project has been completed which the customer has certified its acceptance, but the final billing has yet to be issued to the customer subject to the completion of the settlement audit by the customer according to payment terms.

Post execution

Upon expiry of the warranty period, the remaining 3% to 5% of the final settlement value (being the retention money) will be billed to our customers. Such amount has previously been accounted for as contract assets and will then be reclassified as trade receivables.

Non-recurrent nature of the projects

We are awarded construction projects by our customers on a project-by-project basis with no long-term commitment. As at the Latest Practicable Date, we had a total of 147 on-going construction projects, and accordingly, upon the completion of these on-going construction projects, our existing customers are not obligated to award projects to us again in subsequent

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construction project. Moreover, for the construction project which we will potentially engage in, we are required to undergo the entire tender selection process in order to be awarded with a new project. As such, the revenue attributable to our construction service is not recurring in nature.

There is no guarantee that our existing customers will award new construction projects to us or that our existing customers will require our construction service again after completion of the projects despite the established relationships we may have with certain customers. As a result, our revenue and the number of projects we are able to secure may vary from period to period and it is difficult to forecast the volume of our business in the future. In the event that we are unable to secure new construction works projects from our current customers or to attract new customers, our Group's revenue or profit may decrease significantly and our business, financial condition or results of operation may be adversely affected.

Discrepancies between the estimated costs and the actual costs in construction projects and cost fluctuations in construction projects

Our construction works projects are generally awarded by our customers by way of public tender or invitation to tender. When we prepare our tender price, we will estimate cost through analysing a number of factors, for instance, the costs of raw materials, labour and equipment costs and subcontracting costs. We generally set our tender price on a project-by-project basis based on the estimated costs to be incurred plus a mark-up percentage. However, the actual time and costs incurred in our construction works projects may be adversely affected by a series of factors, some of which may be beyond our control, which include but are not limited to the following: (i) unfavourable weather conditions during the construction works projects; (ii) unforeseen disputes with our customers, suppliers, subcontractors and other relevant parties; and (iii) receipt of variation orders from our customers, with substantial subsequent additional contract amount. In the event that there is a significant deviation from the scheduled works to be done for our projects due to any of the above factors or otherwise, there may be a substantial delay or increase in costs in connection with our construction works projects. We cannot guarantee that the actual time and costs incurred will be consistent with our initial estimates, which in turn may reduce our profitability or even expose us to litigation or claims from our customers in case of delays.

In the event that our actual costs significantly exceed our estimated costs and the price adjustment clause is not adequate to cover the increased costs, our financial conditions and results of operations could be materially and adversely affected.

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Fluctuation in cost of sales

Our cost of sales include raw material costs, subcontracting costs, labour costs, cost of machinery and equipment and other project costs. Please refer to the section headed “Business — Suppliers” in this document for further details on our suppliers. Our ability to control and manage our cost of sales will enhance our profitability.

To better estimate the costs of undertaking a project, at the tender assessment stage, our marketing operation team would estimate the costs by reference to various factors such as the costs of labour, raw materials and machinery and equipment required.

In addition, to avoid delay in projects that may result in additional costs, our project management team conducts on-site monitoring and supervision on the work performance of the subcontractors and their workers, and assesses the performance of our subcontractors from time to time to ensure the work quality and project progress. Notwithstanding the above, any material fluctuation in our cost of sales may adversely impact our financial performance. Please refer to the paragraph headed “Sensitivity analysis” in this section below for sensitivity analysis illustrating the impact of hypothetical fluctuations in our cost of sales on our profit before tax during the Track Record Period.

Performance and availability of our subcontractors

We may subcontract our construction works to our subcontractors. The subcontracting agreements with subcontractors may expose us to risks associated with non-performance, late performance or substandard performance by our subcontractors, which may have impact on our profitability, financial performance, operational cash flow and reputation, and may lead to potential litigation or damage claims. In addition, as we do not sign any long-term contracts with our subcontractors, there is no assurance that our Group will always be able to secure suitable subcontractors when required, or be able to negotiate acceptable prices and terms of service with subcontractors. In such event, our operations and financial position may be adversely affected.

Access to and cost of financing

Our operation is capital intensive. During the Track Record Period, we generally funded our operations from our own internal funds from operation and external funds which is bank and other borrowings and amounts due to/loans from related parties. The accessibility of bank borrowings depends on the prevailing policies of the government or other regulatory bodies in the PRC, and the implementation of the relevant policies by our financing banks on acquisition or construction of properties with bank financing. Our future expansion may be adversely affected in the event that we are not able to obtain sufficient financing to take up construction projects should suitable

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opportunities arise. In addition, our bank borrowings carried variable interest. In FY2019, FY2020, FY2021 and 3Q2022, our finance costs amounted to approximately RMB8.9 million, RMB5.3 million, RMB3.5 million and RMB4.8 million, respectively. The weighted average effective interest rates based on weighted average of our total borrowings excluding lease liability for FY2019, FY2020, FY2021 and 3Q2022 were 9.3%, 7.4%, 5.2% and 5.4%, respectively. Thus, any increase in interest rate may negatively affect our cost of financing and, thus, our results of operation. During the Track Record Period, we also used funds from our related parties for our business operation. Upon [REDACTED], the outstanding amounts due to our related parties will be settled or assigned to Independent Third Parties in full before or upon [REDACTED]. Our Directors believe that we will be financially independent from them and related parties upon [REDACTED].

Taxation

Currently, Zhongtian Construction, our operating subsidiary is identified as a High and New Technology Enterprise (高新技術企業) and is eligible for a preferential tax rate of 15%. There is no assurance that we will continue to enjoy the preferential tax treatment after the term expires. Please refer to the section headed “Risk Factors — Risks relating to our business — Discontinuation of any of the preferential tax treatments we enjoy or imposition of any additional taxes can adversely affect our financial conditions and results of operations.” If we could not maintain the status of High and New Technology Enterprise (高新技術企業) of Zhongtian Construction, it may have an adverse effect on our cash flow and results of operation. As a result of the above preferential tax treatment, our effective tax rates in FY2019, FY2020, FY2021 and 3Q2022 were 14.7%, 16.7%, 14.0% and 13.2%, respectively. Moreover, according to Notice of the Ministry of Finance (“MOF”) and the State Administration of Taxation on Adjusting Value-added Tax Rates (Cai Shui [2018] No. 32) (財政部、國家稅務總局關於調整增值稅稅率的通知(財稅[2018]32號)) which was promulgated by the MOF and SAT on 4 April 2018 and came into effect on 1 May 2018, VAT for construction was adjusted to 10% from 11%. Furthermore, pursuant to the Announcement on Relevant Policies for Deepening Value-Added Tax Reform (關於深化增值稅改革有關政策的公告) which was promulgated by MOF, SAT and the General Administration of Customs of PRC on 20 March 2019 and came into effect on 1 April 2019, the VAT rate for construction industry has further been adjusted to 9%. Any termination or change in the various preferential tax treatment that we and our certain subsidiaries currently enjoy may have an adverse effect on our results of operation and financial position.

CRITICAL ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES

We have identified certain accounting policies and estimates significant to the preparation of the consolidated financial information in accordance with HKFRSs. Details of significant accounting policies are set out in note 4 of the Accountants’ Report set out in Appendix I to this document, which are important for an understanding of our financial condition and results of

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operations. In the application of our Group’s accounting policies, our Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant, although actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Our key sources of estimation uncertainty are as follows:

Impairment of financial and contract assets

The measurement of the ECLs allowance for financial and contract assets measured at amortised cost is an area that requires the use of significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). A number of significant judgements, including determining the criteria for significant increase in credit risk, are also required in applying the accounting requirements for measuring ECLs. Changes to these estimates and assumptions can result in significant changes to the timing and amount of ECLs to be recognised.

Revenue from provision of construction services

Construction contract revenue is recognised on input method according to the total value of work performed based on the percentage of completion of individual construction contract, which is measured by the proportion of the actual costs incurred relative to the budgeted total construction costs out of the total contract value. Contract assets/contract liabilities are determined based on contract costs incurred, progress billings, any foreseeable losses and recognised profit which is also dependent on estimation of contract costs. The recognition of contract revenue and contract assets/contract liabilities requires significant management judgement and involves estimation uncertainty. Estimated contract costs of individual contract, which mainly comprise subcontracting charges, materials and project staff costs, are supported by contract budget which was prepared by the directors of our Group. In order to ensure that the total estimated contract costs are accurate and up-to-date such that contract revenue can be estimated reliably, management reviews the contract budget, costs incurred to date and costs to completion regularly, in particular in the case of costs overruns, and revises the estimated contract costs where necessary. Recognition of variations and claims also requires estimation and judgement by the management. Notwithstanding that the management regularly reviews and revises contract budgets when those

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construction contracts progressed, the actual contract costs and gross profit margin achieved may be higher or lower than the estimates and that will affect the revenue and gross profit recognised in the consolidated financial statements.

Estimation of total budgeted costs and cost to completion for construction contracts

Total budgeted costs for construction contracts comprise (i) materials and processing charges and project staff costs; (ii) costs of subcontracting; and (iii) an appropriation of variable and fixed construction overheads. In estimating the total budgeted costs for construction contracts, management makes reference to information such as (i) costs incurred up-to-date; (ii) current offers from sub-contractors and suppliers; (iii) recent offers agreed with sub-contractors and suppliers; and (iv) professional estimation on materials and processing charges, project staff costs and other costs estimated by our Directors. During the Track Record Period, there were no material differences between our budgeted costs and the actual costs incurred for our construction projects.

Estimates of current tax and deferred tax

Significant judgement is required in determining the amount of the provision for tax and the timing of payment of the related tax. Where the final tax outcomes are different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination is made.

FAIR VALUE DISCLOSURE OF INVESTMENT PROPERTIES

Our investment properties are accounted for under cost model but it is required to disclose their fair value. The assessment of the fair value of our investment properties utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised (the “**Fair Value Hierarchy**”). The Fair Value Hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable of the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset and liability that are not based on observable market data (i.e. unobservable inputs).

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The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value of the item. The fair value of our investment properties is categorised as level 3 of fair value measurement. We have engaged the Independent Valuer for the valuation of the investment properties. Our Directors are of the view that the Independent Valuer is independent from our Company, was suitably qualified and had the relevant expertise and resources to conduct the valuation of the investment properties, and the valuation estimated by the Independent Valuer in relation to the investment properties are reliable to our Group. Our Reporting Accountants have assessed and evaluated the competence, capabilities and objectivity of the Independent Valuer, and an independent third-party valuer has been engaged by the Reporting Accountants as an auditor’s expert to evaluate the appropriateness of the Independent Valuer’s work in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. The Sole Sponsor has assessed the qualifications, experiences and competence of the Independent Valuer. Taking into consideration our Directors’ view and the Reporting Accountants’ work done above, nothing has come to the Sole Sponsor’s attention that would cause it to question the valuation performed by the Independent Valuer on the investment properties.

RESULTS OF OPERATIONS

The following table is a summary of the consolidated statements of profit or loss and other comprehensive income of our Group during the Track Record Period, extracted from the Accountants’ Report in Appendix I to this document.

	FY2019	FY2020	FY2021	3Q2021	3Q2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	1,821,916	1,769,900	1,823,384	1,325,392	1,366,030
Cost of sales	(1,638,473)	(1,580,786)	(1,627,737)	(1,181,605)	(1,217,468)
Gross profit	183,443	189,114	195,647	143,787	148,562
Other income and other gains, net.	3,217	6,480	1,456	1,331	482
Administrative expenses	(107,914)	(112,563)	(116,526)	(81,954)	(80,158)
[REDACTED] expenses	(2,399)	(10,722)	(4,513)	(3,975)	(4,464)
Share of result of an associate	(423)	—	—	—	—
Impairment on financial and contract assets, net.	(7,409)	(7,473)	(500)	230	(712)
Finance costs	(8,921)	(5,299)	(3,549)	(2,651)	(4,776)
Profit before taxation	59,594	59,537	72,015	56,768	58,934
Income tax expense	(8,734)	(9,938)	(10,112)	(8,977)	(7,768)
Profit and other comprehensive income for the year	50,860	49,599	61,903	47,791	51,166
Profit and other comprehensive income for the year attributable to:					
Owners of the Company	49,778	48,533	60,570	47,697	50,832
Non-controlling interests	1,082	1,066	1,333	94	334
	<u>50,860</u>	<u>49,599</u>	<u>61,903</u>	<u>47,791</u>	<u>51,166</u>

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DESCRIPTION OF CERTAIN KEY ITEMS OF OUR RESULTS OF OPERATIONS

Revenue

During the Track Record Period, our Group generated revenue from (i) construction contracts and (ii) provision of construction machinery and equipment service.

Revenue breakdown by type of projects

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

	FY2019		FY2020		FY2021		3Q2021		3Q2022	
	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue
	RMB'000		RMB'000		RMB'000		RMB'000		RMB'000	
Revenue from construction contracts										
Civil building construction	888,497	48.8	1,031,904	58.3	885,259	48.5	657,407	49.6	670,050	49.1
Municipal works construction	669,011	36.7	485,033	27.4	427,745	23.5	262,359	19.8	461,373	33.8
Foundation works	146,162	8.0	120,067	6.8	114,195	6.3	81,161	6.1	22,455	1.6
Prefabricated steel structure construction works	62,650	3.5	106,345	6.0	369,761	20.3	305,023	23.0	202,563	14.8
Other specialised contracting works (<i>Note</i>).	49,666	2.7	17,857	1.0	17,170	0.9	12,924	1.0	3,796	0.3
Sub-total	1,815,986	99.7	1,761,206	99.5	1,814,130	99.5	1,318,874	99.5	1,360,237	99.6
Revenue from provision of construction machinery and equipment service										
	5,930	0.3	8,694	0.5	9,254	0.5	6,518	0.5	5,793	0.4
Total	1,821,916	100	1,769,900	100	1,823,384	100	1,325,392	100	1,366,030	100

Note: Our other specialised contracting works mainly include building renovation and decoration works.

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	FY2019		FY2020		FY2021		3Q2021		3Q2022	
	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue
	RMB'000		RMB'000		RMB'000		RMB'000		RMB'000	
Revenue from construction contracts										
Commercial projects	134,780	7.4	341,054	19.3	318,983	17.5	250,751	18.9	324,097	23.7
Residential projects	671,504	36.9	632,442	35.7	573,834	31.5	456,076	34.4	380,056	27.8
Industrial projects	276,905	15.2	218,079	12.3	209,274	11.5	139,634	10.5	100,917	7.4
Public facilities projects	731,506	40.2	566,392	32.0	708,800	38.9	471,131	35.5	554,400	40.6
Others	1,291	0.1	3,239	0.2	3,239	0.2	1,282	0.1	767	0.1
Subtotal	1,815,986	99.7	1,761,206	99.5	1,814,130	99.5	1,318,874	99.5	1,360,237	99.6
Revenue from provision of construction machinery and equipment service										
	5,930	0.3	8,694	0.5	9,254	0.5	6,518	0.5	5,793	0.4
Total	1,821,916	100	1,769,900	100	1,823,384	100	1,325,392	100	1,366,030	100

Construction contracts

Our revenue generated from construction contracts amounted to approximately RMB1,816.0 million, RMB1,761.2 million, RMB1,814.1 million and RMB1,360.2 million for FY2019, FY2020, FY2021 and 3Q2022, respectively, representing approximately 99.7%, 99.5%, 99.5% and 99.6% of our total revenue.

Revenue generated from commercial projects, residential projects and public facilities projects accounted for most of our revenue from construction contracts, in aggregate representing approximately 84.5%, 87.0%, 87.9% and 92.1% of our total revenue for FY2019, FY2020, FY2021 and 3Q2022. To cope with the changes in the construction industry due to the apparently deteriorated residential sales in the PRC since the second half of FY2021, as a result, we increased the proportion of revenue generated from commercial projects from approximately 18.9% in 3Q2021 to approximately 23.7% in 3Q2022.

We generate revenue from both government entities, state-owned enterprises and state-invested enterprises (collectively, the “**Government-related Entities**”) and private enterprises. For FY2019, FY2020, FY2021 and 3Q2022, approximately RMB662.9 million, RMB453.3 million, RMB447.7 million and RMB676.5 million of our revenue was generated from Government-related Entities, representing approximately 36.4%, 25.6%, 24.6% and 49.5% of our total revenue for each of FY2019, FY2020, FY2021 and 3Q2022, respectively.

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Revenue generated from construction contracts slightly decreased by approximately RMB54.8 million or 3.0% from approximately RMB1,816.0 million for FY2019 to approximately RMB1,761.2 million for FY2020. Such decrease was mainly due to decrement in revenue generated from other specialised contracting works, municipal work construction and foundation works of approximately RMB31.8 million, RMB184.0 million and RMB26.1 million, respectively, while partially net-off by the increment in civil building construction and prefabricated steel structure construction of approximately RMB143.4 million and RMB43.6 million, respectively. For FY2021, our revenue generated from construction contracts increased by approximately RMB52.9 million or 3.0% from approximately RMB1,761.2 million for FY2020 to approximately RMB1,814.1 million for FY2021. The increment was mainly due to the increase in revenue generated from prefabricated steel structure construction works, which grew by approximately RMB263.4 million or 247.7% while partially net-off by the decrement in revenue generated from civil building construction of approximately RMB146.6 million or 14.2%, revenue generated from municipal works construction of approximately RMB57.3 million or 11.8% and revenue generated from foundation works of approximately RMB5.9 million or 4.9%. For 3Q2022, our revenue generated from construction contracts increased by approximately RMB41.4 million or 3.1% from approximately RMB1,318.9 million for 3Q2021 to approximately RMB1,360.2 million for 3Q2022. The increment was mainly due to the increase in revenue generated from municipal works construction works, which grew by approximately RMB199.0 million or 75.8% while partially net-off by the decrement in revenue generated from prefabricated steel structure construction works of approximately RMB102.5 million or 33.6%.

Civil building construction

Driven by our established presence in Hunan Province and recognition from our customers for the quality of our construction services, since 2016, we were engaged to perform Dongfang Xin'an Homeland (Phase II)* (東方市新安家園 (二期)) project, a residential building construction project in Hainan Province by Oriental Shouchuang Xingda Investment Co., Ltd.* (東方首創興達投資有限公司), one of our top customers, with a total contract sum (excluded VAT) amounted to approximately RMB708.7 million, which was our largest revenue generating project in terms of contract sum throughout the Track Record Period. We have recognised approximately RMB320.8 million, RMB133.9 million, RMB57.5 million, RMB8.8 million and RMB12.3 million of revenue from such project, respectively, before the Track Record Period, in FY2019, FY2020, FY2021 and 3Q2022. The construction works was slowed down in FY2021 pending the clearance of certain parts of the construction site by the relevant government authority but has resumed construction upon the completion of clearance of the relevant construction site since June 2022. In light of the latest development, we and Oriental Shouchuang Xingda Investment Co., Ltd.* (東方首創興達投資有限公司) mutually agreed to extend the project completion date to October 2023.

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Benefited from our experience in undertaking large scale projects, such as Dongfang Xin’an Homeland (Phase II)* (東方市新安家園 (二期)) project, we were able to obtain new civil construction building projects with higher contract sum, such as Hainan Lixun Meilun Science and Technology Park* (海南力迅美倫科創園) project with a contract sum (excluded VAT) amounting to approximately RMB334.9 million, which was commenced in FY2020 and is expected to complete by FY2023. We also secured two projects namely Sharing Lease Housing* (共享租賃住房) with a contract sum (excluded VAT) amounting to approximately RMB1,100.9 million to be commenced in December 2022 and Lixun Changjiang * (力迅•昌江) with a contract sum (excluded VAT) amounting to approximately RMB719.9 million and to be commenced in the second quarter of 2023.

For FY2019, our revenue generated from civil building construction was mainly attributable to the revenue generated from several large-scale projects which commenced in or before 2018, including Dongfang Xin’an Homeland (Phase II)* (東方市新安家園(二期)) project of approximately RMB133.9 million, Chunteng Village Third Phase* (春藤小鎮三期) project of approximately RMB152.3 million and Jindong Taozi Lake* (金東陶子湖) project of approximately RMB115.8 million.

For FY2020, our revenue generated from civil building construction significantly increased by approximately RMB143.4 million or 16.1% from approximately RMB888.5 million in FY2019 to RMB1,031.9 million in FY2020, which was mainly due to the commencement of Hainan Lixun Meilun Science and Technology Park* (海南力迅美倫科創園) project with a contract sum (excluded VAT) amounting to approximately RMB334.9 million and generated revenue of approximately RMB220.5 million in FY2020. Such increment effect was partially offset by the decrease in revenue recognised from Jindong Taozi Lake* (金東陶子湖) project from approximately RMB115.8 million in FY2019 to approximately RMB35.7 million in FY2020 as the project is approaching its late stage of development and was completed in November 2021.

For FY2021, our revenue generated from civil building construction decreased by approximately RMB146.6 million or 14.2% from approximately RMB1,031.9 million for FY2020 to RMB885.3 million for FY2021, which was mainly attributable to (i) the decrease in revenue generated from Hainan Lixun Meilun Science and Technology Park* (海南力迅美倫科創園) project from approximately RMB220.5 million in FY2020 to approximately RMB133.1 million in FY2021 as the project is approaching its later stage of development and (ii) the decrease in revenue generated from Chunteng Mansion* (春藤公館) project from approximately RMB89.7 million in FY2020 to approximately RMB4.0 million in FY2021 as the construction work was comparatively minor when getting close to the completion of the project in March 2021.

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For 3Q2022, our revenue generated from civil building construction stayed relatively stable and increased by approximately RMB12.6 million or 1.9% from approximately RMB657.4 million for 3Q2021 to RMB670.0 million for 3Q2022, which was mainly attributable to revenue contributed by a new project namely Kairuisi Phase I* (凱睿思(一期)) project with a contract sum (excluded VAT) amounting to approximately RMB130.8 million and generated revenue of approximately RMB82.8 million in 3Q2022. The increment was partially net-off by the decrease in revenue generated from Hainan Lixun Meilun Science and Technology Park* (海南力迅美倫科創園) project by approximately RMB66.2 million from 3Q2021 to 3Q2022 as the project is approaching its final stage of development.

Municipal works construction

Benefited from our long operating history in Hunan and Hainan Provinces, we have established our presence in those regions and are recognised by local governmental entities which enable us to undertake municipal works construction projects. Throughout our Track Record Period, our municipal works construction mainly consisted of construction of urban roads, education institutions, sports stadium and water supply works.

Our revenue generated from municipal works construction amounted to RMB669.0 million in FY2019, which was mainly attributable to Changjun Yunlong Experimental School (Second Phase)* (長郡雲龍實驗學校(二標)) project, a new project engaged by a government entity for the construction of an education institution in Zhuzhou which commenced construction since January 2019 with a total contract sum (excluded VAT) of approximately RMB130.0 million and recognised revenue of approximately RMB117.6 million in FY2019. Another project for a new education institution in another city of Hunan Province commenced in October 2018 with a total contract sum (excluded VAT) of approximately RMB55.2 million and recognised revenue of approximately RMB40.3 million in FY2019.

Our revenue generated from municipal works construction for FY2020 decreased by approximately RMB184.0 million or 27.5% from approximately RMB669.0 million in FY2019 to RMB485.0 million in FY2020, which was mainly due to (i) the decrease in revenue recognised from the Changjun Yunlong Experimental School (Second Phase)* (長郡雲龍實驗學校(二標)) project of approximately RMB117.6 million in FY2019 to approximately RMB31.5 million in FY2020 as the project was approaching its completion; (ii) the decrease in revenue recognised from Sanya City Third Ring Road* (三亞市三環路) project by approximately RMB38.3 million due to the delay in the clearance of certain parts of the construction site to be completed by the relevant customer; and (iii) the decrease in revenue of another municipal works construction work project involving an education institution in Hunan Province by approximately RMB39.9 million due to the relevant customer has not completed the demolition for the site preparation of a municipal works construction work project, our Group and the relevant customer have mutually

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agreed to make adjustment in the project construction schedule to extend the completion of such project from June 2020 until December 2023 and thus leading to the decrease in the amount of revenue recognised by this project in FY2020.

Our revenue generated from municipal works construction decreased by approximately RMB57.3 million or 11.8% from approximately RMB485.0 million for FY2020 to RMB427.7 million for FY2021, which was mainly due to (i) the decrease in aggregate revenue recognised from the second phase and third phase of Changjun Yunlong Experimental School* (長郡雲龍實驗學校(二標及三標)) projects by approximately RMB38.7 million from approximately RMB64.4 million in FY2020 to approximately RMB25.7 million in FY2021 as the second phase project was completed in March 2021 and the third phase project was completed in September 2021; and (ii) the decrease in revenue recognised from Tongdao County Sports Stadium* (通道縣體育館) project from approximately RMB49.7 million in FY2020 to approximately RMB23.1 million in FY2021 as the project was approaching its later stage of development and the main structure was completed in FY2020.

Our revenue generated from municipal works construction increased by approximately RMB199.0 million or 75.9% from approximately RMB262.4 million for 3Q2021 to RMB461.4 million for 3Q2022, which was mainly due to (i) revenue contributed by a road construction project in Haikou of approximately RMB45.6 million in 3Q2022; (ii) increment in revenue contributed by Xupu County Chengbei School Supporting Facilities Construction Project* (瀋浦縣城北學校配套設施建設工程) by approximately RMB62.5 million compared to 3Q2021 due to completion of substantial parts in 3Q2022; (iii) increment in revenue contributed by Jincheng International School* (金城國際學校) project by approximately RMB35.0 million compared to 3Q2021; and (iv) increased in revenue contributed by Sanya City Third Ring Road* (三亞市三環路) project by approximately RMB53.8 million due to the clearance of the construction site has been completed and the project has resumed, as well as the additional variation order amounting to approximately RMB90.0 million engaged by the customer in 3Q2022.

Foundation works

Our foundation works business commenced when we obtained the first-grade qualification in foundation construction specialised contracting since 2011. Foundation works generally include earthwork, excavation and pile foundation works on project basis. For some civil building projects which we are not separately engaged for conducting the foundation works, the revenue of such projects will be included in the civil building construction segment instead of the foundation works segment. Generally, it took a shorter time for us to complete the foundation works project than other types of construction projects.

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For FY2019, our revenue generated from foundation works consisted of 15 foundation work projects, generating a total revenue of approximately RMB146.2 million. In particular, the revenue was largely attributable to the commencement and completion of Sanya Summer Experience Plaza* (三亞夏日體驗廣場) project, a foundation construction project in Hainan Province with a total contract sum (excluded VAT) of approximately RMB73.4 million in FY2019.

For FY2020, our revenue generated from foundation works decreased by approximately RMB26.1 million or 17.9% from approximately RMB146.2 million in FY2019 to RMB120.1 million in FY2020, which was mainly due to the net-off effect of the (i) decrease in revenue recognised from Sanya Summer Experience Plaza* (三亞夏日體驗廣場) project from approximately RMB73.4 million to approximately RMB7.0 million due to a variation order after completion of project, and the (ii) commencement and completion of Chunteng Village Third Phase Earthwork* (春藤小鎮三期土石方) project with total contract sum (excluded VAT) of approximately RMB47.6 million in FY2020.

For FY2021, our revenue generated from foundation works decreased by approximately RMB5.9 million or 4.9% from approximately RMB120.1 million for FY2020 to RMB114.2 million for FY2021, mainly attributable to the commencement and completion of the earthwork and the relevant slope support work for Chunteng Village Third Phase* (春藤小鎮三期) project with an aggregate contract sum (excluded VAT) of approximately RMB58.9 million in FY2020 but no revenue was recognised in FY2021. Such decrement was partially offset by the commencement of two new projects namely Changsha Zhenye City Phase V Field Leveling Earthwork* (長沙振業城五期場平土石方工程) project in September 2021 and recognised revenue of approximately RMB33.7 million in FY2021 and Zhouzhou Luosha Hongbei Cultural and Creative Park Plant Water, Electricity, Road, Land Levelling and Ancillary Works* (株洲羅莎烘焙文創園地塊三通一平及附屬工程) project in February 2021 and recognised revenue of approximately RMB12.3 million in FY2021.

For 3Q2022, our revenue generated from foundation works decreased by approximately RMB58.7 million or 72.3% from approximately RMB81.2 million for 3Q2021 to approximately RMB22.5 million for 3Q2022, mainly because of (i) the commencement and substantial completion of Changsha Zhenye City Phase V Field Leveling Earthwork* (長沙振業城五期場平土石方工程) project in FY2021 with a contract sum of approximately RMB33.7 million and approximately RMB17.4 million of revenue was recognised in 3Q2021 while no revenue was recognised in 3Q2022; (ii) decrement in revenue contributed from Zhuzhou Luosha Hongbei Cultural and Creative Park Plant Water, Electricity, Road, Land Levelling and Ancillary Works* (株洲羅莎烘焙文創園地塊三通一平及附屬工程) project by approximately RMB5.9 million compared to 3Q2021; and (iii) the decrement in another foundation work project that was substantially completed in FY2021 with approximately RMB24.7 million of revenue recognised in 3Q2021 while no revenue was recognised in 3Q2022.

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Prefabricated steel structure construction works

Our growth and focus on the prefabricated steel structure construction works commenced when we form a business alliance with Hangxiao Technology in developing prefabricated steel structure building construction for residential properties under the EPC model. Since FY2018, we undertook two projects engaged by Hangxiao Technology for the construction of the building base and R&D building of Hangxiao Technology with a total contract sum (excluded VAT) of approximately RMB56.7 million and RMB45.4 million, respectively. In FY2020, in line with our strategy to capture the latest development trend of the prefabricated steel structure projects in the PRC construction industry by expanding our prefabricated steel structure construction business, we were able to secure five new prefabricated steel structure projects with a total contract sum (exclude VAT) of approximately RMB670.6 million.

For FY2020, our revenue generated from prefabricated steel structure construction works increased by approximately RMB43.6 million or 69.5% from approximately RMB62.7 million to RMB106.3 million, the increment was mainly due to five new projects and generated revenue of approximately RMB81.0 million in FY2020, which included Zhongtian Lutai* (中天•麓台) project with a total contract sum (exclude VAT) of approximately RMB611.1 million. The increment has partially net off by the decrement in revenue recognised from the two projects engaged by Hangxiao Technology of approximately RMB37.3 million as these projects are approaching their late stage of development.

For FY2021, our revenue generated from prefabricated steel structure construction works increased substantially from approximately RMB106.3 million for FY2020 to RMB369.8 million for FY2021, mainly due to Zhongtian Lutai* (中天•麓台) project which commenced in October 2020 and generated revenue of approximately RMB286.6 million in FY2021 and Integration and upgrading of Bogie Urban Rail Frame* (轉向架城軌構架整合升級) project engaged by Customer Group C which commenced in August 2020 with a total contract sum (excluded VAT) of approximately RMB50.5 million and generated revenue of approximately RMB36.5 million in FY2021.

For 3Q2022, our revenue generated from prefabricated steel structure construction works decreased from approximately RMB305.0 million for 3Q2021 to approximately RMB202.6 million for 3Q2022, mainly due to decrement of revenue generated from Zhongtian Lutai* (中天•麓台) project by approximately RMB60.8 million compared with 3Q2021 as the project has completed a major part of its construction works in FY2021 and approaching its later stage of construction and Integration and upgrading of Bogie Urban Rail Frame* (轉向架城軌構架整合升級) project was approaching its completion in 3Q2022, leading to the decrease in revenue by approximately RMB27.8 million compared with 3Q2021.

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Other specialised contracting works

Revenue from other specialised contracting works mainly include revenue generated from building renovation and decoration works services through our first-grade qualification in building renovation and decoration construction specialised contracting. In FY2019, two of our hospital and decoration projects had been completed and we recognised revenue of approximately RMB44.0 million.

In FY2020, substantial portions of a number of other specialised contracting works projects were completed in FY2019 and thus generated more revenue in FY2019 than in FY2020.

Revenue from other specialised contracting works remains relatively stable with only a slight decreased of approximately RMB0.7 million from approximately RMB17.9 million for FY2020 to approximately RMB17.2 million for FY2021.

For 3Q2022, our revenue from other specialised contracting works decreased from approximately RMB12.9 million 3Q2021 to approximately RMB3.8 million in 3Q2022 due to substantial portions of a number of projects were completed in 3Q2021 and no revenue was generated from new project in this segment in 3Q2022.

Provision of construction machinery and equipment service

For details of our provision of construction machinery and equipment service business, please refer to the section headed “Business — Our Business Operations — Provision of Construction machinery and equipment service” in this document.

Revenue from our provision of construction machinery and equipment service amounted to approximately RMB5.9 million in FY2019 and increased to approximately RMB8.7 million in FY2020, representing an increment of approximately RMB2.8 million or 47.5%. For FY2021, our revenue from this sub-segment slightly increased from approximately RMB8.7 million in FY2020 to approximately RMB9.3 million in FY2021. For 3Q2022, our revenue from this sub-segment decreased slightly from approximately RMB6.5 million for 3Q2021 to approximately RMB5.8 million for 3Q2022.

Revenue from this sub-segment accounted for less than 1% of our total revenue throughout the Track Record Period and was in an increasing trend due to the fact that more of our construction machinery and equipment were leased out in FY2019, FY2020, FY2021 and 3Q2022.

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Revenue breakdown by geographical locations

During the Track Record Period, we derived all of our revenue from our customers located in the PRC.

Cost of sales

The following table sets forth a breakdown of our cost of sales for the periods indicated:

	FY2019		FY2020		FY2021		3Q2021		3Q2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Raw material costs	796,440	48.6	687,710	43.5	642,700	39.5	432,035	36.6	531,603	43.7
Labour costs	42,715	2.6	12,779	0.8	9,652	0.6	8,738	0.7	4,857	0.4
Labour subcontracting costs	437,821	26.7	378,305	23.9	520,137	32.0	391,430	33.1	321,427	26.4
Construction subcontracting costs	131,137	8.0	191,279	12.1	124,295	7.6	94,759	8.0	180,671	14.8
Rental of machinery and equipment costs	137,831	8.4	212,248	13.4	244,010	15.0	180,754	15.3	117,300	9.6
Other project costs	92,529	5.7	98,465	6.3	86,943	5.3	73,889	6.3	61,610	5.1
Total	1,638,473	100	1,580,786	100	1,627,737	100	1,181,605	100	1,217,468	100

Raw material costs represented costs of raw materials used primarily for construction projects, such as steel, concrete and cement. Raw material costs are the major components of our cost of sales, accounting for approximately 48.6%, 43.5%, 39.5% and 43.7% of our total cost of sales for FY2019, FY2020, FY2021 and 3Q2022, respectively.

Raw material costs dropped by approximately RMB108.7 million or 13.7% from FY2019 to FY2020, which was mainly due to (i) decreased in revenue from construction contracts by approximately 3.0%; and (ii) part of our construction subcontracting fees paid to the subcontractors may include the costs of raw material used by them and such subcontracting costs increased by approximately RMB60.1 million from FY2019 to FY2020.

Raw material costs dropped by approximately RMB45.0 million or 6.5% from FY2020 to FY2021, which was mainly due to (i) the foundation works involved in Zhongtian Lutai* (中天•麓台) project required less raw material and hence incurred lower raw materials costs in FY2021 and (ii) the major works involved in FY2021 for Langting Lanjiang Main Structure* (朗廷•覽江) project were levelling of community road and painting exterior wall, which required less raw material but more labour and hence incurred lower raw material costs in FY2021.

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Raw material costs increased by approximately RMB99.6 million or 23.0% from 3Q2021 to 3Q2022, which was mainly due to increment in revenue from construction contracts by approximately 3.1%; and (ii) the major works of a number of projects such as Kairuisi Phase I* (凱睿思(一期)) project, Zhongyuan Guosheng Plaza Phase I* (中源國盛廣場(一期)) project and Zhongyuan Guosheng Plaza Phase II* (中源國盛廣場(二期)) project required more raw materials at this stage of construction and hence incurred higher raw material costs in 3Q2022 than 3Q2021.

Labour costs mainly represented salaries of our construction workers. Labour subcontracting costs represented costs paid to labour subcontractors for performing works in each construction project. Total labour costs and labour subcontracting costs amounted to approximately RMB480.5 million, RMB391.1 million, RMB529.8 million, RMB400.2 million and RMB326.3 million, accounting for total cost of sales of approximately 29.3%, 24.7%, 32.6%, 33.9% and 26.8%, respectively, for FY2019, FY2020, FY2021, 3Q2021 and 3Q2022. The decrease in total labour costs and labour subcontracting costs in FY2020 compared to FY2019 was attributed to (i) our decrease in revenue from construction contracts by approximately 3.0% and (ii) the less labour intensive characteristic resulted from our prefabricated steel structure construction projects. The increase in total labour costs and labour subcontracting costs in FY2021 as compared to FY2020 was attributed to (i) foundation works involved in Hainan Lixun Meilun Science and Technology Park* (海南力迅美侖科創園) project which incurred higher labour subcontracting costs and labour costs in FY2021 and (ii) the major work involved in FY2021 for Langting Lanjiang Main Structure* (朗廷·覽江) project were levelling of community road and painting exterior wall, which required less raw material but more labour and hence incurred higher labour subcontracting costs in FY2021. The decrease in total labour costs and labour subcontracting costs in 3Q2022 as compared to 3Q2021 was mainly attributable to the major works of a number of projects such as Zhongyuan Guosheng Plaza Phase I* (中源國盛廣場(一期)) project which required more raw materials but less labour and hence incurred less labour subcontracting costs in 3Q2022 than 3Q2021.

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Construction subcontracting costs represented costs for engaging specialised subcontractors to perform certain construction process such as curtain wall construction, installation of lifts, fireproofing and waterproofing works. The construction subcontracting costs represented 8.0%, 12.1%, 7.6%, 8.0% and 14.8% of our total cost of sales, respectively for FY2019, FY2020, FY2021, 3Q2021 and 3Q2022, which fluctuated throughout the Track Record Period. For FY2020, to increase our flexibility and cost efficiency, we engaged more construction subcontractors to separately perform non-major parts of our construction process and other ancillary construction services. For FY2021, as certain major projects such as Zhongtian Lutai* (中天·麓台) project and Chaling County People’s Hospital Phase II Construction Project* (茶陵縣人民醫院二期建設工程項目) were at its core construction stage that require relatively less ancillary construction services, the construction subcontracting costs decreased to a similar level as FY2019. The increase in total construction subcontracting costs in 3Q2022 as compared to 3Q2021 was mainly attributable to the use of more construction subcontractors for performance of non-major parts of our construction process and other ancillary construction services for some projects for which the major part of construction has been completed, such as Jincheng International School* (金城國際學校) which required installation of lift and other ancillary construction services in 3Q2022.

Rental of machinery and equipment costs represented rental expenses incurred for provision of construction machinery and equipment service for our construction projects when (i) some of the project sites were located out of Zhuzhou; and/or (ii) such kind of machinery and equipment are not available to us at the relevant time, representing 8.4%, 13.4%, 15.0%, 15.3% and 9.6%, respectively of our total cost of sales for FY2019, FY2020, FY2021, 3Q2021 and 3Q2022. For FY2020 and FY2021, our rental cost of machinery and equipment increased by approximately 54.0% compared to FY2019 and approximately 15.0% as compared to FY2020, which was mainly due to the increase in rental of machinery and equipment other than construction cranes and lifts to cater for the needs of our construction projects, including foundation works for certain residential building construction projects in FY2020 and Zhongtian Lutai* (中天·麓台) project in FY2021. The decrease in rental of machinery and equipment costs in 3Q2022 as compared to 3Q2021 was mainly attributable to the decrease in revenue generated from foundation works construction by approximately 72.3% and we utilised our own construction machinery and equipment for our construction works with over 80% utilisation rate in 3Q2022.

Other project costs consisted of other unallocated costs that are not related to a specified project remained relatively stable throughout the Track Record Period.

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Sensitivity analysis

During the Track Record Period, the majority of our cost of sales were our raw material costs and labour costs and labour subcontracting costs. The following sensitivity analysis illustrates the impact of hypothetical fluctuations in our cost of sales, on our profit before tax during the Track Record Period. The hypothetical fluctuation rates are set at 3.0% to 3.5%, which correspond to the maximum and minimum of fluctuations of cost of sales during the Track Record Period.

	FY2019	FY2020	FY2021	3Q2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost of sales increase/ (decrease) by:				
+3.5%	57,347	55,328	56,971	42,611
+3.0%	49,154	47,424	48,832	36,524
-3.0%	(49,154)	(47,424)	(48,832)	(36,524)
-3.5%	(57,347)	(55,328)	(56,971)	(42,611)

Gross profit and gross profit margin

The following table sets forth a breakdown of our gross profit and gross profit margin by project type for the periods indicated:

	FY2019		FY2020		FY2021		3Q2021		3Q2022	
	Gross profit		Gross profit		Gross profit		Gross profit		Gross profit	
	Gross profit	margin	Gross profit	margin	Gross profit	margin	Gross profit	margin	Gross profit	margin
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Construction contracts										
— Civil building construction	90,927	10.2	107,412	10.4	95,433	10.8	67,180	10.2	65,438	9.8
— Municipal works construction	67,839	10.1	54,039	11.1	42,027	9.8	26,358	10.1	49,883	10.8
— Foundation works	11,882	8.1	9,247	7.7	7,782	6.8	4,933	6.1	1,405	6.3
— Prefabricated steel structure construction	7,177	11.5	12,991	12.2	45,293	12.2	40,673	13.3	27,980	13.8
— Other specialised contracting works (Note)	3,518	7.1	2,232	12.5	2,362	13.8	2,210	17.1	1,673	44.1
Subtotal	181,343	10.0	185,921	10.6	192,897	10.6	141,354	10.7	146,379	10.8
Provision of construction machinery and equipment service	2,100	35.4	3,193	36.7	2,750	29.7	2,433	37.3	2,183	37.7
	<u>183,443</u>	<u>10.1</u>	<u>189,114</u>	<u>10.7</u>	<u>195,647</u>	<u>10.7</u>	<u>143,787</u>	<u>10.9</u>	<u>148,562</u>	<u>10.9</u>

Note: Our other specialised contracting works mainly include building renovation and decoration works.

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The following table sets forth a breakdown of our gross profit and gross profit margin of our construction contracts by contracting business model for the periods indicated:

	FY2019		FY2020		FY2021		3Q2021		3Q2022	
	Gross profit		Gross profit		Gross profit		Gross profit		Gross profit	
	Gross profit	margin	Gross profit	margin	Gross profit	margin	Gross profit	margin	Gross profit	margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
PC model	159,954	9.8	163,239	10.4	127,867	10.0	90,701	9.8	100,680	10.1
EPC model	16,818	12.1	21,911	11.6	63,636	12.3	47,717	12.5	44,231	12.4
Specialised subcontracting model . . .	4,571	10.9	771	11.4	1,394	11.6	2,936	32.2	1,467	15.4
	<u>181,343</u>	<u>10.0</u>	<u>185,921</u>	<u>10.6</u>	<u>192,897</u>	<u>10.6</u>	<u>141,354</u>	<u>10.7</u>	<u>146,378</u>	<u>10.8</u>

During the Track Record Period, our Group’s overall gross profit margin increased from approximately 10.1% in FY2019 to 10.7% in FY2020 and FY2021 and 10.9% in 3Q2022.

The primary reason leading to our growth in gross profit margin throughout the Track Record Period was the favourable PRC tax law adjustments on the VAT tax rate applicable to any taxpayer’s VAT taxable construction services from 11% to 10% that was promulgated on 4 April 2018, which was further adjusted downwards to 9% from 1 April 2019. For those new projects engaged after 1 April 2019 by our Group could enjoy a lower VAT tax rate and thus resulting in a higher gross profit margin for those projects carrying out throughout the Track Record Period. Furthermore, we were able to undertake construction projects with higher gross profit margin and to exert a tighter control on major costs such as labour costs and labour subcontracting costs (which together accounted for approximately 20% to 40% of the total cost of sales during the Track Record Period) by shifting our Group’s own labour costs to labour subcontractors for performing certain labour intensive construction process in order to maximise cost efficiency and flexibility. In FY2021 and 3Q2022, approximately 20.3% and 14.8%, respectively, of our revenue was derived from prefabricated steel structure construction works as compared with only 3.5% of our revenue from prefabricated steel structure construction works in FY2019. As the gross profit margin of prefabricated steel structure construction works was higher in general, with gross profit margin of 12.2% and 13.8% in FY2021 and 3Q2022 respectively, the increase in revenue of prefabricated steel structure construction works compared to FY2019 led to an increase in overall gross profit margin from 10.1% in FY2019 to 10.7% in FY2020 and FY2021 and further to 10.9% in 3Q2022.

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The average gross profit margin of our EPC projects and PC projects was around 12.1% and 10.1%, respectively, during the Track Record Period. According to the F&S Report, EPC projects in general have a higher profit margin than PC projects because the EPC model allows the general contractor to accelerate the project schedule and reduce construction costs through optimised project management abilities.

Through our R&D activities, we have commenced prefabricated steel structure construction projects which exhibit a relatively higher gross profit margin than other sub-segments due to the characteristic of less labour intensive and shorter construction period. During the Track Record Period, we have achieved a more cost-effective construction workflow with our dedication in R&D activities to enhance our construction methods and know-how which contributed to part of the gradual increment of our gross profit margin.

In respect of our civil building construction and municipal works construction segments, our gross profit margins were approximately 10.2% and 10.1% in FY2019 and increased to approximately 10.4% and 11.1% in FY2020 respectively. Part of the increment in our gross profits throughout the Track Record Period was due to (i) our Group’s ability to undertake construction projects with higher gross profit margins; and (ii) our Group’s tighten control on major costs as mentioned above in all types of projects.

Several new projects of civil building construction exhibited higher gross profit margin in FY2020 than projects undertook by our Group in prior periods which further increase the gross profit margin to 10.7% in FY2021, namely Hainan Lixun Meilun Science and Technology Park* (海南力迅美侖科創園) project engaged by Customer P which commenced in May 2020 and Shui Zhu Jiayuan* (水竹佳苑) project engaged by Customer W which commenced in September 2019 achieved a gross profit margin of approximately 10.7% and 11.9% respectively. The higher gross profit margin was mainly due to our raw material costs were lowered by purchasing in bulk. Also, some projects exhibited a higher gross profit margin primarily as a result of the use of new building materials such as the use of aluminium mould rather than traditional cement in Jindong Taozi Lake* (金東陶子湖) project engaged by Hunan Liling Underglaze Wucan City Development and Construction Co., Ltd.* (湖南醴陵釉下五彩城開發建設有限公司) with gross profit margin of approximately 11.1%. Our gross profit margin in FY2020 was also affected by the Changde Xiangjiang Yuefu* (常德香江悅府) project with additional works performed and relevant costs incurred and recognised in prior periods, while the additional revenue could not be recognised until Customer Group D and our Group signed the supplemental agreement in FY2020 to agree with the additional contract sum for the additional works as the revenue can only be recognised when we satisfied a performance obligation that can relate to a contract with customers in accordance with HKFRS 15 which is consistently applied throughout the Track Record Period and resulted in the extraordinarily high gross profit margin exhibited in FY2020.

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Municipal works exhibited a slightly higher gross profit margin in FY2020 as compared to FY2019, which was attributable to some projects involving decoration work such as Changjun Yunlong Experimental School (Second Phase)* (長郡雲龍實驗學校(二標)) project engaged by Zhuzhou Economic Development Group, which in general recorded higher gross profit margins than other projects.

For FY2021, the gross profit margins of civil building construction remained relatively stable as compared to FY2020 while the gross profit margin of municipal works construction exhibited a slight drop of approximately 1.3% from approximately 11.1% in FY2020 to approximately 9.8% in FY2021 mainly because we were engaged in some urban road construction projects in FY2021 such as Sanya Creative Pioneering Park Road V Municipal Engineering Project* (三亞創意創業園5號路市政工程) and Jin Gou Shan Road* (金鉤山路新建工程) project, which in general recorded lower gross profit margins compared to other type of municipal works engaged in FY2020 such as Tongdao County Sports Stadium*(通道縣體育館) and Changjun Yunlong Experimental School*(長郡雲龍實驗學校) project due to the relatively lower construction complexity of those urban road construction projects.

For 3Q2022, the gross profit margins of civil building construction remained relatively stable as compared to 3Q2021 while the gross profit margin of municipal works construction exhibited an increment of approximately 0.7% from approximately 10.1% in 3Q2021 to approximately 10.8% in 3Q2022 mainly because we recognised a larger portion of revenue in 3Q2022 than 3Q2021 from Jincheng International School* (金城國際學校) project, which recorded higher gross profit margins due to the relatively higher construction complexity and requirement compared to other type of municipal works engaged in 3Q2021 and a road construction in Haikou which recorded a higher gross profit margin due to tight construction schedule required by the relevant customer.

The gross profit margins of foundation works exhibited some fluctuations throughout the Track Record Period mainly attributable to different nature of projects engaged in each year with distinctive nature and circumstances of each projects as well as project progress period. In general, the gross profit margins of foundation works will be thinner than other types of construction work subject to different level of complexity. The gross profit margin for foundation works was in a decreasing trend throughout the Track Record Period, which was mainly contributed by foundation works for Chaling Pioneering Park* (茶陵創業園) and Facilities Improvement in Wuguang Area* (武廣片區配套改造) in FY2020, which had gross profit margins of approximately 6.2% and 6.0%, respectively and foundation works for Zhouzhou Luosha Hongbei Cultural and Creative Park Plant Water, Electricity, Road, Land Levelling and Ancillary Works* (株洲羅莎烘焙文創園地塊三通一平及附屬工程) project in FY2021 which had gross profit margin of approximately 6.3%. For 3Q2022, the gross profit margin of foundation works remained relatively stable and slightly

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increase to approximately 6.3% compared with approximately 6.1% in 3Q2021 as the revenue from foundation works was mainly contributed by for Chaling Pioneering Park* (茶陵創業園) project in 3Q2022 with gross profit margin of approximately 6.2%.

The gross profit margins of other specialised contracting works were approximately 7.1%, 12.5%, 13.8%, 17.1% and 44.1%, respectively, for FY2019, FY2020, FY2021, 3Q2021 and 3Q2022, depending on the nature and level of complexity if the specialised contracting works being engaged.

Other income and other gains

Other income mainly comprises interest income on bank deposits, rental income and refund of prior year’s retirement scheme contribution.

The following table sets forth a breakdown of our other income and other gains for the periods indicated:

	FY2019		FY2020		FY2021		3Q2021		3Q2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Interest income on bank deposits . . .	384	11.9	459	7.1	222	15.2	199	13.2	310	64.3
Rental income	1,324	41.2	—	—	—	—	—	—	—	—
Consulting fee income	1,023	31.8	—	—	—	—	—	—	—	—
Government grants ⁽¹⁾	152	4.7	334	5.2	1,435	98.6	1,313	86.8	84	17.4
Gain on disposal of an associate. . . .	935	29.1	—	—	—	—	—	—	—	—
Gain/(loss) on disposal of property, plant and equipment	(467)	(14.5)	(3)	(0.1)	(200)	(13.7)	(181)	—	—	—
Gain on disposal of investment property.	—	—	5,689	87.8	—	—	—	—	—	—
Gain on lease modification	—	—	35	0.5	—	—	—	—	—	—
Others.	(134)	(4.2)	(34)	(0.5)	(1)	(0.1)	—	—	88	18.3
Total other income and other gains. .	3,217	100	6,480	100	1,456	100	1,331	100	482	100

Note:

- (1) Government grants represent grants to incentivise the development of our Group, of which the entitlement was unconditional and one-off in nature.

Rental income represents the properties owned by us before the transfer upon the Demerger on 2 July 2019 rented to our related companies and Independent Third Parties. No such rental income was recognised after the Demerger.

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The other income and gains in FY2020 substantially increased by approximately RMB3.3 million or 101.4% compared to FY2019, which was mainly attributable to the gain on disposal of our interests in Ningbo Properties of approximately RMB5.7 million in FY2020. The other income and gains in FY2021 dropped by approximately RMB5.0 million as compared to FY2020 mainly due to the loss on disposal of machinery and equipment and there was no gain on disposal of investment property in FY2021. The other income and gains in 3Q2022 dropped by approximately RMB0.8 million as compared to 3Q2021 mainly due to decreased in government grants from approximately RMB1.3 million to approximately RMB0.1 million which was one-off in nature. For details of the disposal of investment property, please refer to the paragraph headed “Investment Properties” in this section.

Consulting fee income represents supporting services in administrative business operation and financial perspective engaged by our related companies in FY2019 on a standalone basis.

Administrative expenses

The following table sets forth a breakdown of our administrative expenses for the periods indicated:

	FY2019		FY2020		FY2021		3Q2021		3Q2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
R&D expenses	60,752	56.3	54,141	48.1	56,726	48.6	42,007	51.1	42,107	52.3
Salaries and other benefits	21,114	19.6	29,080	25.8	30,046	25.8	18,522	22.6	16,729	21.2
Depreciation and amortisation	1,776	1.6	1,435	1.3	1,258	1.1	987	1.2	760	0.9
Repair and maintenance expenses	5,983	5.5	1,971	1.8	2,160	1.9	4,737	5.8	6,651	8.3
Office and administration expenses	4,498	4.2	7,439	6.6	8,167	7.0	4,556	5.9	2,483	3.1
Travel and business development expenses.	6,139	5.7	6,807	6.0	7,731	6.6	3,110	3.8	2,729	3.4
Professional fees	3,443	3.2	4,809	4.3	3,797	3.3	3,075	4.0	3,872	4.8
Other expenses.	4,209	3.9	6,881	6.1	6,641	5.7	4,960	5.6	4,827	6.0
Total administrative expenses	107,914	100	112,563	100	116,526	100	81,954	100	80,158	100

Our administrative expenses mainly comprises R&D expenses and salaries and other benefits to our employees.

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R&D expenses

The following table sets forth a breakdown of our R&D expenses during the Track Record Period:

	FY2019	FY2020	FY2021	3Q2021	3Q2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Materials	42,960	43,738	41,737	31,017	33,350
Rental of equipment	8,591	5,395	7,445	5,492	3,078
Salaries and wages	6,484	3,280	5,133	3,693	3,893
Others ^(Note)	2,717	1,728	2,411	1,805	1,786
Total	60,752	54,141	56,726	42,007	42,107

Note: Others include, insurance costs, fuel and electricity expenses, inspection and trial costs, design fee, staff amenities and amortisation.

The following table sets forth our top five R&D suppliers for the periods indicated:

Ranking	R&D Supplier	Principal business	Commencement of business relationship since	Credit terms	Payment methods	Transaction	% of total
						Amount	R&D expenses
<i>(RMB'000)</i>							
<i>For FY2019</i>							
1	Zhuzhou Dahan Group	Construction raw material provider and real estate developer based in Hunan Province	2017	5 to 45 days	Bank transfer or bank's acceptance bill	7,663	12.6
2	Supplier C	Construction raw material provider based in Hunan Province	2017	1-30 days	Bank transfer	3,049	5.0
3	Zhuzhou Dayu Hengji New Material Company Limited* (株洲大禹恒基新材料有限公司)	Construction raw material provider based in Hunan Province	2017	3 months	Cash or bank transfer	2,828	4.7
4	Supplier D	Specialised subcontractor and raw material provider based in Hunan Province	2019	1-2 month(s)	Bank transfer	2,207	3.6
5	Supplier E	Specialised subcontractor and raw material provider based in Hunan Province	2016	30 days	Bank transfer	2,144	3.5

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Ranking	R&D Supplier	Principal business	Commencement of business relationship since	Credit terms	Payment methods	Transaction Amount	% of total R&D expenses
<i>(RMB'000)</i>							
<i>For FY2020</i>							
1	Supplier H.	Construction raw material provider based in Hainan Province	2020	nil	Bank transfer	9,491	17.5
2	Hunan Zhuzhou South New Material Group	Construction raw material provider based in Hunan Province	2018	1-3 month(s)	Bank transfer	2,226	4.1
3	Supplier F.	Construction raw material provider based in Zhejiang Province	2020	3 days	Bank transfer	2,113	3.9
4	Zhuzhou Dahan Group	Construction raw material provider and real estate developer based in Hunan Province	2017	5 to 45 days	Bank transfer or bank's acceptance bill	1,966	3.6
5	Supplier J.	Construction raw material provider based in Hunan Province	2020	45 days	Bank transfer or bank's acceptance bill	1,605	3.0

Ranking	R&D Supplier	Principal Business	Commencement of business relationship since	Credit terms	Payment methods	Transaction Amount	% of total R&D expense
<i>(RMB'000)</i>							
<i>For FY2021</i>							
1	Hangxiao Technology.	Steel structure designer and manufacturer based in Hunan Province	2018	1-3 months	bank transfer	5,479	9.7
2	Supplier L.	Construction raw material provider based in Hunan Province	2021	1 month	bank transfer	4,754	8.4
3	Supplier K.	Construction raw material provider based in Hunan Province	2021	1 month	Bank transfer	3,545	6.3
4	Supplier H.	Construction raw material provider based in Hainan Province	2020	nil	Bank transfer	2,703	4.8
5	Supplier I.	Construction raw material provider based in Hainan Province	2020	1-3 months	Bank transfer	2,467	4.3

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Ranking	R&D Supplier	Principal Business	Commencement of business relationship since	Credit terms	Payment methods	Transaction Amount	% of total R&D expense
<i>(RMB'000)</i>							
<i>For 3Q2022</i>							
1	Supplier H.	Construction raw material provider based in Hainan Province	2020	nil	bank transfer	2,868	7.8
2	Supplier G.	Construction raw material provider based in Hunan Province	2018	nil	bank transfer	2,479	6.7
3	Supplier B.	Construction raw material provider based in Hunan Province	2021	nil	bank transfer	2,156	5.8
4	Zhuzhou Dahan Group	Construction raw material provider and real estate developer based in Hunan Province	2017	5 to 45 days	Bank transfer or bank's acceptance bill	1,750	4.7
5	Hangxiao Technology.	Steel structure designer and manufacturer based in Hunan Province	2018	1-3 months	bank transfer	1,667	4.5

Since the majority of our Group’s R&D expenses are for procurement of construction raw materials, thus some of our Group’s top five R&D suppliers are also our top five suppliers during the Track Record Period. For details, please refer to section headed “Business — Customers and Suppliers — Suppliers” in this document. As confirmed by our Company, our Directors and each of these top five R&D suppliers of our Group for FY2019, FY2020, FY2021 and 3Q2022, save for Hangxiao Technology, all of such top five R&D suppliers are Independent Third Parties, which (other than the business relationship with our Group) have no past or present relationship, including, without limitation, employment, family, trust or financing, with our Company, our subsidiaries, their respective directors, shareholders or senior management, or any of their respective associates, save for the provision of construction materials, machinery and design services. For details of the relationship between our Group and Hangxiao Technology, please refer to the section headed “Relationship with our Controlling Shareholder — Independence of major customers” in this document.

We believe that our advancement in R&D allows us to detect and adapt to the changing market trends and our customers’ needs, keep ourselves abreast of the evolving technological advancements in the construction industry and differentiate ourselves from our competitors, which in turn further strengthens our market position. We devoted substantial resources to our R&D throughout the Track Record Period which was reflected in our aggregate R&D expenses during the Track Record Period.

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We were determined to apply results of our R&D projects into our traditional construction projects as well as prefabricated steel structure construction projects in order to benefit our Group’s overall business. During the Track Record period, we incurred expenses in raw materials, rental of equipment, manpower and other resources in our R&D projects.

In recognition of our R&D capabilities, achievements and initiatives, Zhongtian Construction, our principal subsidiary has been accredited as “High and New Technology Enterprise (高新技術企業)” in 2018, and has been enjoying a preferential EIT rate of 15%, (as compared to the standard EIT rate of 25%).

Our R&D expenses decreased slightly from approximately RMB60.8 million in FY2019 to RMB54.1 million in FY2020, which was mainly attributable to the decrease in the costs of rental of equipment from approximately RMB8.6 million to RMB5.4 million and the decrease in the costs of salaries and wages from approximately RMB6.5 million to RMB3.3 million as for different scope of the R&D projects carried out and the decrease in design fee of approximately RMB1.2 million in FY2020.

Our R&D expenses increased by approximately RMB2.6 million or 4.8% from approximately RMB54.1 million in FY2020 to approximately RMB56.7 million in FY2021. Such increment was mainly due to the increase in number of R&D projects from 24 in FY2020 to 30 in FY2021. Also, owing to the different scope of R&D projects carried out during the respective year, the costs of rental of R&D equipment increased from approximately RMB5.4 million in FY2020 to approximately RMB7.4 million in FY2021 while the material costs dropped from approximately RMB43.7 million in FY2020 to approximately RMB41.7 million in FY2021. The increment in R&D expenses was also attributed to the increase in the costs of salaries and wages from approximately RMB3.3 million in FY2020 to approximately RMB5.1 million in FY2021 as a result of the further expansion of the R&D department.

Our R&D expenses remained relatively stable at approximately RMB42.1 million in 3Q2022 compared with RMB42.0 million in 3Q2021.

Salaries and other benefit costs

Salaries and other benefit costs represent the expenses of salaries, staff bonus and other benefits paid or payable by us for our employees’ benefits. Our salaries and other benefit costs increased by approximately RMB8.0 million or 37.9% from approximately RMB21.1 million in FY2019 to approximately RMB29.1 million in FY2020, and further increased by approximately RMB1.0 million or 3.3% to approximately RMB30.0 million in FY2021. Such increases were primarily due to the increase in average salary and benefit paid per staff. Our salary and other

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benefit costs decreased by approximately RMB1.8 million or 9.7% from RMB18.5 million in 3Q2021 to RMB16.7 million in 3Q2022, which was mainly due to decrease in discretionary bonus for employees in 3Q2022.

Depreciation and amortisation

Depreciation represents depreciation of right-of-use asset, motor vehicle, furniture, fixtures and office equipment and leasehold improvement. Amortisation of intangible assets represented amortisation of our patents.

Repair and maintenance expenses

Repair and maintenance expenses represent repair of our office equipment and investment properties. Since the investment properties were disposed in FY2020, the repair and maintenance costs decreased accordingly. Repair and maintenance expenses increased by approximately RMB0.2 million or 9.6% from approximately RMB2.0 million in FY2020 to approximately RMB2.2 million in FY2021, and increased by approximately RMB2.0 million or 42.6% from RMB4.7 million in 3Q2021 to approximately RMB6.7 million in 3Q2022 which was primarily attributable to the increase in repair and maintenance costs for machinery and equipment.

Office and administrative expenses

Office and administrative expenses increased from FY2019 to FY2021 as a result of the general expansion and increased business activities. Office and administrative expenses decreased by approximately RMB2.1 million or 45.7% from approximately RMB4.6 million in 3Q2021 to approximately RMB2.5 million in 3Q2022 as a result of tighter budget control.

Travel and business development expenses

The travel and business development expenses increased to approximately RMB6.8 million during FY2020 compared to approximately RMB6.2 million in FY2019 and further increased to approximately RMB7.7 million in FY2021, which was mainly due to additional travelling expenses were incurred by our employees to negotiate with new project customers and the remaining increment was due to closer supervision of our projects in different locations and leading to more business trips. The travel and business development expenses remained relatively stable with approximately RMB2.7 million in 3Q2022 as compared to approximately RMB3.1 million in 3Q2021.

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Professional fees

Professional fees mainly represents legal advisory fee, compliance advisory fee and other professional fees for our Company’s quotation on the NEEQ in 2017 and its continuous compliance.

Other expenses

Other expenses primarily consisted of consumables, charity donations, insurance fees and other miscellaneous expenses.

[REDACTED] *expenses*

[REDACTED] expenses represented professional services fees incurred for the purpose of **[REDACTED]**. We incurred **[REDACTED]** expenses of approximately RMB2.4 million, RMB10.7 million, RMB4.5 million and RMB4.5 million for FY2019, FY2020, FY2021 and 3Q2022, respectively.

Share of result of an associate

Share of result of an associate represents the loss from our investment in Hangxiao Technology which had been held by 63%. Although our Group’s ownership in Hangxiao Technology was more than 50%, our Group was only entitled to appoint three out of seven directors to the board of directors of Hangxiao Technology so that our Group had no control over the financial and operation policies of but had significant influences over it and hence was regarded as an associate of our Group. All of our shares in Hangxiao Technology was disposed of on 1 March 2019 and upon the disposal, Hangxiao Technology ceased to be accounted as our associate of our Company. For details, please refer to the section headed “History, development and reorganisation — Disposal of interests in Hangxiao Technology” in this document.

Impairment on financial and contract assets, net

Our impairment on financial and contract assets (net) represents the expected credit losses on our trade receivables, other receivables and contract assets. We conducted impairment analysis at the end of each year/period during the Track Record Period using a provision matrix to measure expected credit losses. For FY2019, FY2020, FY2021 and 3Q2022, our impairment on financial and contract assets was RMB7.4 million, RMB7.5 million, RMB0.5 million and RMB0.7 million, respectively.

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The following table sets forth the details of impairment on financial and contract assets during the Track Record Period:

	FY2019	FY2020	FY2021	3Q2021	3Q2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Provision for contract assets	2,979	2,187	1,361	9	1,774
Provision for/(reversal of) trade and bills receivables	3,602	2,835	(447)	(1,490)	(582)
Provision for/(reversal of) deposit and other receivables /amounts due from related companies/shareholders	828	2,451	(414)	1,251	(480)
	<u>7,409</u>	<u>7,473</u>	<u>500</u>	<u>(230)</u>	<u>712</u>

For FY2020, impairment losses on financial and contract assets increased by approximately RMB0.1 million or 1.4% compared to FY2019 which was mainly due to (i) our net balances of trade and bills receivables in FY2020 was higher than that of FY2019; and (ii) to reflect the uncertainty that the outbreak of COVID-19 may bring to the future overall global and China economic conditions which may potentially impact the ability of our customers to settle their payable to our Group in the future, we increased the average ECL rates for trade and bills receivables and contract assets by approximately 41.3%, from 0.63% as at 31 December 2019 to 0.89% as at 31 December 2020. Our Directors considered that the effect of suspension in our construction projects due to the outbreak of COVID-19 has no material adverse impact on our Group as our Directors confirmed that the revenue delayed in recognition due to outbreak of COVID-19 has been fully recognised in FY2020. Also, based on subsequent settlements received up to the Latest Practicable Date, the financial position and viability of our customers are unlikely to be materially and adversely affected by the outbreak of COVID-19. Notwithstanding the above, we have increased the ECL rates for trade and bills receivables and contracts assets as at 31 December 2020 compared to prior year based on the calculation of the Independent Valuer and for prudent sake with response to the overall market conditions in the PRC.

For FY2021, impairment losses on financial and contract assets decreased by approximately RMB7.0 million or 93.3% as compared to FY2020, which was mainly due to (i) our gross balances of trade and bills receivables, deposit and other receivables and contract assets as at 31 December 2021 was lower than that as at 31 December 2020; and (ii) the reversal of loss allowances for trade and bill receivables and deposit and other receivables/amounts due from related companies/shareholders of approximately RMB0.4 million and RMB0.4 million respectively in FY2021 due to the high recovery rate of trade receivables and resulted in lower gross balances as at 31 December 2021, partially offset by the slight increase in our average ECL rates for trade and

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bills receivables and contract assets from 0.89% as at 31 December 2020 to 0.97% as at 31 December 2021 based on the calculation of the Independent Valuer and for prudent sake with response to the overall market conditions in the PRC (in contrast with the considerable increase in our average ECL rates for trade and bills receivables and contract assets from 0.63% as at 31 December 2019 to 0.89% as at 31 December 2020 attributed to the uncertainty brought by COVID-19).

For 3Q2022, impairment losses on financial and contract assets increased by approximately RMB0.9 million or 410% as compared to 3Q2021, which was mainly due to decrease in reversal of trade and bills receivables in 3Q2022 of approximately RMB0.6 million compared with approximately RMB1.5 million in 3Q2021. For 3Q2022, we increased our average ECL rates for trade and bills receivables and contract assets from 0.97% as at 31 December 2021 to 1.11% as at 30 September 2022 based on the calculation of the Independent Valuer and for prudent sake with response to the overall market conditions in the PRC and real estate market.

Finance costs

Our finance costs was mainly related to our interest bearing bank borrowings, related company borrowings and other borrowings. For FY2019, FY2020, FY2021 and 3Q2022, our finance costs amounted to approximately RMB8.9 million, RMB5.3 million, RMB3.5 million and RMB4.8 million, respectively.

The decrement in our finance costs in FY2020 and FY2021 when comparing with FY2019 and FY2020 by approximately RMB3.6 million and RMB1.8 million respectively were mainly attributable to the repayment of borrowings of approximately RMB74.8 million during FY2020 and approximately RMB58.8 million during FY2021.

Our finance cost in 3Q2022 increased by approximately RMB2.1 million as compared to 3Q2021, which was in line with the increase in bank and other borrowings in 3Q2022.

Income tax expenses

Our income tax expenses consist principally of enterprise income tax and movements in deferred tax assets. For FY2019, FY2020, FY2021 and 3Q2022, our income tax was RMB8.7 million, RMB9.9 million, RMB10.1 million and RMB7.8 million, respectively, and our effective tax rate for the corresponding periods was 14.7%, 16.7%, 14.0% and 13.2%, respectively. Since 1 January 2018 and up to the Latest Practicable Date, Zhongtian Construction, our principal operating subsidiary has been accredited as a High and New Technology Enterprise (高新技術企業) under the relevant PRC laws and regulation and was entitled to a preferential tax treatment of 15% for FY2019, which is lower than the statutory rate of 25.0%. The preferential tax treatment in

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relation to the High and New Technology Enterprise Certificate (高新技術企業證書) will continue until 17 September 2024. If such preferential tax treatment ceases, the normal statutory rate of 25.0% will apply. We plan to maintain our profitability once the preferential tax treatments cease in September 2024 by (i) renewing the application of High and New Technology Enterprise timely; (ii) continuously improving our operating cashflow position and selection of projects with higher gross profit margin; (iii) further enhancing on-site procurement and inventory management for better cost control; and (iv) enhancing our internal control for minimising unnecessary expenses.

For FY2020, our effective tax rate was 16.7% and was relatively higher than the preferential tax treatment of 15%. This was mainly due to our [REDACTED] expenses incurred in FY2020 which was non-tax-deductible.

Profit and other comprehensive income for the year

For FY2019, FY2020, FY2021, 3Q2021 and 3Q2022, our profit and other comprehensive income for the year attributable to owners of the Company amounted to approximately RMB49.8 million, RMB48.5 million, RMB60.6 million, RMB47.7 million and RMB50.8 million, respectively, and our net profit margin was approximately 2.7%, 2.7%, 3.4%, 3.6% and 3.7% for the respective periods. Our decrement of profit and other comprehensive income from FY2019 to FY2020 was mainly due to increase in [REDACTED] expenses of approximately RMB8.3 million partially net-off by the increment in gross profits. Our profit and other comprehensive income increased in FY2021 as compared to FY2020, which was mainly attributable to the decrease in [REDACTED] expenses and impairment in financial and contract assets of approximately RMB6.2 million and RMB7.0 million, respectively, as compared to FY2020. Our profit and other comprehensive income increased by approximately RMB3.1 million in 3Q2022 as compared to 3Q2021 mainly attributable to the increment in gross profits of approximately RMB4.8 million partially net-off by the increase in [REDACTED] expenses of approximately RMB0.5 million and decrease in other income of approximately RMB0.8 million.

LIQUIDITY AND CAPITAL RESOURCES

Our primary use of cash are mainly for financing our operations and satisfying our capital expenditure needs

Our source of funds for our operations mainly comes from cash generated from our operation and bank and other borrowings. Upon the [REDACTED], our source of funds will be a combination of internal generated funds, bank and other borrowings as well as net [REDACTED] from the [REDACTED].

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As at 30 September 2022, we had cash and cash equivalents of approximately RMB127.0 million. Substantially all of our Group’s cash and bank balances are held in RMB.

Working capital sufficiency

Taking into account: (i) net [REDACTED] from the [REDACTED] of approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million, after deducting the [REDACTED] commissions and other estimated expenses payable by us in connection with the [REDACTED], assuming an [REDACTED] of HK\$[REDACTED] per Share, being the low-end of the indicative [REDACTED] range) will be raised from the [REDACTED]; (ii) we had cash and cash equivalents of approximately RMB127.0 million as at 30 September 2022; (iii) the subsequent settlement for trade receivables up to the Latest Practicable Date amounted to approximately RMB14.2 million, representing approximately 3.6% of the balance of trade receivables as at 30 September 2022; (iv) we implemented measures to closely monitor our cashflow liquidity position; and (v) the other financial resources available to us, our Directors are of the view, and the Sole Sponsor concurs, that we have sufficient working capital for its present requirements and for at least the next 12 months from the date of this document.

Cash flows

The following table sets forth a summary of our consolidated statements of cash flows for the periods indicated:

	FY2019	FY2020	FY2021	3Q2021	3Q2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Operating profit before working capital changes	82,562	72,711	82,591	63,597	67,616
Changes in working capital	22,824	(22,577)	(41,648)	(124,497)	(91,119)
Income tax paid	(9,256)	(7,633)	(9,350)	(3,538)	(2,545)
Net cash (used in)/generated from operating activities	96,130	42,501	31,593	(64,438)	(26,048)
Net cash (used in)/generated from investing activities	66,569	7,110	(5,180)	(5,022)	(171)
Net cash generated from/(used in) financing activities	(150,231)	(53,358)	(14,145)	17,976	64,071
Net increase/(decrease) in cash and cash equivalents	12,468	(3,747)	12,268	(51,484)	37,852
Cash and cash equivalents at the beginning of the year/period	68,117	80,585	76,838	76,838	89,106
Cash and cash equivalents at the end of the year/period	<u>80,585</u>	<u>76,838</u>	<u>89,106</u>	<u>25,354</u>	<u>126,958</u>

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Operating activities

We derive our cash inflow from the receipt of payments from our construction business. Our cash used in operations principally comprises purchase of construction materials, payment of machinery and equipment costs, labour subcontracting costs, and other administrative expenses.

For 3Q2022, we recorded a profit before taxation of approximately RMB58.6 million and net cash used in operating activities of approximately RMB23.5 million. The cash outflow was principally due to the decrease in trade and bills payables of approximately RMB298.5 million, partially offset by the increase in accruals and other payables of approximately RMB79.6 million and the increase in trade, bills and other receivables of approximately RMB53.2 million. As generally more trade receivables are settled towards the end of a year, we typically generate net operating cash outflow in the first nine months of a year.

For FY2021, we recorded a profit before taxation of approximately RMB72.0 million and net cash generated from operating activities of approximately RMB31.6 million. The cash inflow was principally due to our net profit of approximately RMB61.9 million generated during FY2021, adjusted for the decrease in trade, bills and other receivables of approximately RMB79.9 million and the increase in accruals and other payables of approximately RMB49.9 million, partially offset by the decrease in trade and bill payables of approximately RMB175.6 million. Our Group made faster repayment for trade payables in FY2021, resulting in lower net cash generated from operating activities of approximately RMB31.6 million in FY2021, as compared to approximately RMB42.5 million in FY2020.

For FY2020, we recorded a profit before taxation of approximately RMB59.5 million and net cash generated from operating activities of approximately RMB42.5 million. The cash inflow was principally due to our profits of approximately RMB49.6 million generated during FY2020, the increase in trade and bills payables and accruals and other payables of approximately RMB89.8 million, partially offset by the increase in trade, bills and other receivables of approximately RMB51.6 million and contract assets of approximately RMB55.8 million.

For FY2019, we recorded a profit before taxation of approximately RMB59.6 million and net cash generated from operating activities of approximately RMB96.1 million. The result was reflected in the increase in trade and bills payables of approximately RMB561.3 million, partially offset by (i) an increase in contract assets of approximately RMB436.8 million in line with the increase in revenue recognised from our construction services during the year; and (ii) an increase in trade, bills and other receivables of approximately RMB188.2 million. In general it takes longer time for Government-related Entities to settle trade receivables.

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To further improve our operating cashflow position in the future, we plan to adopt a series of measures to improve our operating cashflow position going forward by increasing our cash inflow and reducing our cash outflow. For increasing our cash inflow, we plan to (i) negotiate with our customers for a higher proportion of upfront progress payments and a tighter payment schedule; (ii) include more stringent terms in the contracts with our customers regarding the breach of contract by our customers for failing to pay us in accordance with the agreed schedule such as reserving the right to terminate the contract when the customer fails to pay within a certain time; (iii) further enhance our project management and control procedures to facilitate the billing process by designating our finance department to regularly review the ageing of trade receivables and contract assets and report any long overdue receivables to our management. Our finance department will also monitor the settlement progress of trade receivables from our customers and our engineering department will proactively follow up the outstanding trade receivables with our customers by phone calls and emails. Our Group will set up task forces to monitor the settlement audit process of completed projects and aim to complete settlement audit within one year after project completion, and may also consider initiating legal actions to collect trade receivables for completed projects which have higher risk of default or has been overdue for over six months. We have placed continuous effort to persuade our customers for higher proportion of upfront progress payment and tighter payment schedule and up to the Latest Practicable Date, the major contracts newly entered after the Track Record Period exhibited a high proportion of upfront progress payment of up to approximately 85% of progress billable percentage upon completion of construction and those newly entered contracts also showed a tight payment schedule of payment on monthly basis. According to the F&S Report, such arrangement of requesting higher proportion of upfront progress payment and tighter payment schedule especially when the projects have higher complexity or require shorter construction period was a commercial arrangement and is in line with the construction industry norm. Our Directors considered given (i) our strong bargaining power given our reputation and market position in the construction industry; and (ii) projects with higher complexity or shorter construction period that require us to incur higher portion of expenditure during the initial stage of projects, some of our customers are willing accept such arrangement based on individual negotiation. For reducing our cash outflow, we plan to (i) manage the settlement of trade payables in accordance with our policy for recovery of trade and bills receivables and contract assets and to manage our cash flow by negotiating with our suppliers and subcontractors for extending the payment dates such that we could first receive payment from our customers before settling the payment for our suppliers; (ii) enhance our on-site procurement and inventory management for better cost control, including formulating procurement plan with respect to each project which shall be approved by the management, closely monitoring and analysing the difference between the procurement plan and the actual procurement and taking prompt remedial actions if necessary; and (iii) enhance our internal control for minimising unnecessary expenses by monitoring the budget plan for business development and the actual costs incurred for travel or other related costs from time to time.

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Investing activities

Our cash used in investing activities is primarily for payments for acquisition of items of property, plant and equipment and capital injection to associate. Our cash generated from investing activities consists primarily of proceeds on disposals of property, plant and equipment and proceeds on disposal of associate.

For 3Q2022, we had net cash used in investing activities of approximately RMB0.2 million, mainly due to purchase of property, plant and equipment of approximately RMB0.5 million partially offset by the interest received of approximately RMB0.3 million.

For FY2021, we had net cash used in investing activities of approximately RMB5.2 million, mainly due to purchase of property, plant and equipment of approximately RMB5.6 million.

For FY2020, we had net cash generated from investing activities of approximately RMB7.1 million, mainly due to the proceeds on disposal of investment properties of approximately RMB12.7 million partially offset by purchase of property, plant and equipment of approximately RMB6.1 million.

For FY2019, our net cash generated from investing activities was approximately RMB66.6 million. Our net cash inflow from investing activities mainly consisted of the proceeds from disposal of Hangxiao Technology of approximately RMB75.6 million, partially offset by acquisition of property, plant and equipment of approximately RMB9.7 million.

Financing activities

Our cash generated from financial activities consists primarily of proceeds from new borrowings and advances from related companies and shareholders. Our cash used in financing activities consists primarily of repayment of borrowings and repayment to related companies and shareholders.

For 3Q2022, our net cash flow generated from financing activities amounted to approximately RMB64.1 million. Our net cash inflow from financing activities mainly consisted of proceeds from new borrowings of approximately RMB108.9 million, partially offset by the repayment of borrowings of approximately RMB32.9 million. As generally more trade receivables are settled towards the end of a year, we typically generate less net operating cashflow in the first nine months of a year and required bank borrowings to improve out liquidity as at 30 September 2022.

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For FY2021, our net cash flow used in financing activities amounted to approximately RMB14.1 million. Our net cash outflow from financing activities mainly consisted of repayment of borrowings of approximately RMB58.8 million, the repayment to shareholders and directors of approximately RMB15.7 million, partially offset by the proceeds from new borrowings of approximately RMB60.1 million.

For FY2020, our net cash flow used in financing activities amounted to approximately RMB53.4 million. Our net cash outflow from financing activities mainly consisted of repayment of borrowings of approximately RMB74.8 million, the repayment to related companies, shareholders and directors of approximately RMB39.4 million in aggregate, partially offset by proceeds from new borrowings of approximately RMB64.2 million.

For FY2019, our net cash flow used in financing activities amounted to RMB150.2 million. Our net cash outflow from financing activities mainly consisted of repayment of borrowings of RMB122.9 million and repayment to related companies of RMB84.3 million, partially offset by proceeds from new borrowings of RMB91.4 million. We reduced our borrowing level in light of our improved cash position.

DISCUSSION ON SELECTED ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Our consolidated statements of financial position as at each of the period ended during the Track Record Period set forth below are extracted from the Accountants’ Report set out in Appendix I to this document:

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets				
Property, plant and equipment	25,728	25,500	24,156	21,506
Investment properties	6,919	—	—	—
Interests in an associate.	—	—	—	—
Deferred tax assets	2,593	3,730	3,797	3,835
Intangible assets	55	51	48	45
	<u>35,295</u>	<u>29,281</u>	<u>28,001</u>	<u>25,386</u>

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	As at 31 December			As at
				30 September
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current assets				
Inventories	694	3,273	3,018	940
Trade, bills and other receivables	544,649	590,524	513,270	459,884
Contract assets	1,173,525	1,227,155	1,216,095	1,179,017
Amounts due from related companies	—	3,623	6,475	10,479
Amounts due from shareholders	3,894	12,542	9,260	2,847
Restricted bank deposits	27,467	26,156	18,429	9,966
Cash and cash equivalents	80,585	76,838	89,106	126,958
	<u>1,830,814</u>	<u>1,940,111</u>	<u>1,855,653</u>	<u>1,790,091</u>
Current liabilities				
Trade and bills payables	1,320,754	1,341,678	1,166,117	867,599
Accruals and other payables	185,387	254,243	302,800	382,345
Contract liabilities	29,128	37,178	24,976	50,086
Amounts due to related companies	8,267	586	4,833	5,021
Amounts due to shareholders	56,313	28,080	14,046	6,777
Amounts due to directors	5,328	1,870	253	462
Lease liabilities	533	467	28	191
Borrowings	75,984	65,620	66,895	138,966
Income tax payable	4,013	7,455	9,538	14,799
	<u>1,685,707</u>	<u>1,737,177</u>	<u>1,589,486</u>	<u>1,466,246</u>
Net current assets	<u>145,107</u>	<u>202,934</u>	<u>266,167</u>	<u>323,845</u>
Total assets less current liabilities	<u>180,402</u>	<u>232,215</u>	<u>294,168</u>	<u>349,231</u>
Non-current liabilities				
Lease liabilities	424	28	—	—
Borrowings	233	—	—	3,855
NET ASSETS	<u>179,745</u>	<u>232,187</u>	<u>294,168</u>	<u>345,376</u>
EQUITY				
Equity attributable to owners of the Company				
Share capital	—	1	1	1
Reserves	<u>173,261</u>	<u>224,613</u>	<u>285,261</u>	<u>336,135</u>
	173,261	224,614	285,262	336,136
Non-controlling interests	<u>6,484</u>	<u>7,573</u>	<u>8,906</u>	<u>9,240</u>
TOTAL EQUITY	<u>179,745</u>	<u>232,187</u>	<u>294,168</u>	<u>345,376</u>

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Property, plant and equipment

Property, plant and equipment mainly comprised plant and machinery, tools and motor vehicles. As at 31 December 2019 and 2020 and 2021 and 30 September 2022, our property, plant and equipment amounted to approximately RMB25.7 million, RMB25.5 million, RMB24.2 million and RMB21.5 million, respectively.

Our property, plant and equipment remained stable at approximately RMB25.5 million as at 31 December 2020 mainly due to the transfer of our right-of-use assets with a net carrying value of approximately RMB13.7 million to Puhui Commercial as a result of the Demerger during the Reorganisation process, which was partially offset by the additions of property, plant and equipment of approximately RMB6.5 million during FY2020. Our property, plant and equipment decreased slightly from approximately RMB25.5 million as at 31 December 2020 to approximately RMB24.2 million as at 31 December 2021 mainly due to depreciation charge of approximately RMB6.5 million for FY2021, which was partially offset by additions of property, plant and equipment of approximately RMB5.6 million during FY2021. Our property, plant and equipment decreased from approximately RMB24.2 million to approximately RMB21.5 million mainly due to depreciation charge of approximately RMB3.5 million for 3Q2022.

Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by our Group are classified as investment properties. The carrying amounts of our investment properties decreased from approximately RMB6.9 million as at 31 December 2019 to nil as at 31 December 2020 and 2021 and 30 September 2022, primarily due to the transfer of investment properties with a net carrying value of approximately RMB39.4 million to Puhui Commercial as a result of the Demerger during the Reorganisation in FY2019 and the disposal of our interests in the Ningbo Properties in October 2020.

The background of the Ningbo Properties

During the Track Record Period, Zhongtian Construction had interest in the Ningbo Properties. The market value of the Ningbo Properties was approximately RMB13.9 million as at 31 December 2019. The net book value of the Ningbo Properties was approximately RMB7.7 million and RMB6.9 million as at 2 December 2016 (being the date of the transfer of the Ningbo Properties from Customer Shicuiying), 31 December 2019, respectively. The Ningbo Properties comprise five connected commercial units on the ground floor and all six connected office units on the 11th floor of Cuiyuan Building.

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As a result of a court-led mediation in November 2016 in respect of a dispute regarding construction services fees of approximately RMB52.4 million between Zhongtian Construction and Customer Shicuiying, Customer Shicuiying agreed to pay the amount of RMB52.4 million (the “**Settlement Sum**”) to Zhongtian Construction as settlement of the legal proceedings. For background of Customer Shicuiying and details of the relevant legal proceedings, please refer to the section headed “Business — Legal and Regulatory — Legal proceedings” in this document. Since Customer Shicuiying did not have sufficient cash to settle the Settlement Sum at the material times, pursuant to 11 sale and purchase agreements all dated 2 December 2016 entered into between Zhongtian Construction as purchaser and Customer Shicuiying as seller (the “**Sale and Purchase Agreements**”), Customer Shicuiying transferred the Ningbo Properties to Zhongtian Construction to settle approximately RMB7.7 million out of the Settlement Sum, which was determined with reference to the relevant construction area of the Ningbo Properties. Customer Shicuiying did not complete the registrations of such properties within the time frame as agreed by the parties. Immediately before we disposed of our interests in the Ningbo Properties in October 2020, Zhongtian Construction was in the course of applying for the relevant title documents and the Ningbo Properties remained vacant. As advised by our PRC Legal Advisers, there was no material legal impediment for Zhongtian Construction to obtain the property rights in the Ningbo Properties, which will be conditional upon (i) Customer Shicuiying having completed the initial registration of property interests in the Ningbo Properties; (ii) Zhongtian Construction having settled the consideration of the purchase of the Ningbo Properties under the Sale and Purchase Agreements by way of offsetting the settlement sum owed by Customer Shicuiying to Zhongtian Construction; and (iii) both Zhongtian Construction and Customer Shicuiying having complied with all the registration requirements imposed by the relevant regulatory bodies regarding the transfer of property rights for the Ningbo Properties.

Zhongtian Construction had been continuously taking follow up actions regarding the title documents for the Ningbo Properties since 2016, which include designating a project manager to follow up with the title documents and to report to the management of our Group from time to time, continuously liaising with Customer Shicuiying and making repeated requests since 2016, making enquiries with various local authorities in 2018 to explore alternative ways to obtain the title documents and formally sending a reminder letter to Customer Shicuiying urging it to complete the initial registrations in July 2020.

Customer Shicuiying is an Independent Third Party which is ultimately owned by Mr. Shi Jie (史傑) and Ms. Shi Cuiying (史翠英) who are Independent Third Parties. While Customer Shicuiying agreed to transfer the Ningbo Properties to us for settling part of the Settlement Sum and Zhongtian Construction had made repeated requests to Customer Shicuiying to complete the

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initial registration for the Ningbo Properties, Customer Shicuiying did not actively assist us in completing the initial registrations for the Ningbo Properties. As such, our Directors considered that the initial registration for the Ningbo Properties would not be completed within a short period of time.

When we transferred the other properties owned by Zhongtian Construction to Puhui Commercial pursuant to the Demerger in May 2019, our Directors decided not to include the Ningbo Properties after taking into account the following reasons:

- (i) as advised by our PRC Legal Advisers, without the title documents, the property rights of the Ningbo Properties could not be transferred out of our Group to Puhui Commercial pursuant to the Demerger;
- (ii) as compared to the administrative procedures which Zhongtian Construction would need to complete for obtaining the title documents for the Ningbo Properties, if our interests in the Ningbo Properties were transferred from Zhongtian Construction to Puhui Commercial through sale and purchase before we obtained the title documents, there would be additional registration requirements for Puhui Commercial to obtain the title documents for the Ningbo Properties after the transfer (such as termination of the Sale and Purchase Agreements between Customer Shicuiying and Zhongtian Construction, execution of sale and purchase agreements between Customer Shicuiying and Puhui Commercial for the Ningbo Properties, cancellation of the online registration of our interests in the Ningbo Properties and completion of the online registration of Puhui Commercial's interests in the Ningbo Properties), which would in turn lengthen the time needed for obtaining the title documents for the Ningbo Properties by at least one to two months (assuming Customer Shicuiying would fully co-operate in the process). As such, our Directors considered that such transfer would complicate the process and lengthen the time needed for obtaining the title documents for the Ningbo Properties; and
- (iii) as advised by our PRC Legal Advisers, without the title documents, registration of lease agreement could not be completed and non-registration of lease would constitute non-compliance with the Administrative Measures for Commodity House Leasing (商品房屋租賃管理辦法). As such, even if the Ningbo Properties were transferred to Puhui Commercial, Puhui Commercial could not use the Ningbo Properties for its business of property leasing in full compliance with the Administrative Measures for Commodity House Leasing, until Customer Shicuiying had completed the initial registrations of the Ningbo Properties, and Puhui Commercial completed the abovementioned additional registration requirements and obtained the title documents of the Ningbo Properties.

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The disposal of the Ningbo Properties

As the Ningbo Properties had not been transferred to Puhui Commercial for the reasons above, we started to seek other opportunities to dispose of our interests in the Ningbo Properties in the market. Subsequently, Ms. Huang Weihong (黃偉宏) (“**Ms. Huang**”), an Independent Third Party, approached us through the introduction of the property management company of the Ningbo Properties in May 2020 and expressed her interest in acquiring our interests in the Ningbo Properties. We became acquainted with Ms. Huang through the introduction by the property management company of the Ningbo Properties. As advised by Ms. Huang during the negotiations, she was looking for suitable premises in Ningbo for her own business use. Our Directors confirm that, save for the sale and purchase of our interests in the Ningbo Properties, Ms. Huang did not have past or present relationships (including employment, family, trust and financing relationships) with our Group, Shareholders, Directors and senior management or their respective associates.

Taking into account (i) the fact that Customer Shicuiying still had not completed the initial registration for the Ningbo Properties despite Zhongtian Construction had been continuously taking follow up actions regarding the same; (ii) the unpredictable timeline for obtaining the title documents for the Ningbo Properties; (iii) the price offered by Ms. Huang for acquiring our interests in the Ningbo Properties was reasonable and acceptable to our Group for the reasons described in the paragraph headed “The consideration for the Disposal was reasonable” below; and (iv) Ms. Huang intended to use the Ningbo Properties for her own business which, upon completion of the government inspection and acceptance process, would not be affected even if the title documents for the Ningbo Properties could not be obtained, and she agreed not to hold us liable to her even if she subsequently fails to obtain the title documents for the Ningbo Properties, we decided to dispose of our interests in the Ningbo Properties to Ms. Huang.

After commercial negotiations with Ms. Huang for around four months, in October 2020, we disposed of our interests in the Ningbo Properties to Ms. Huang (the “**Disposal**”) at a total consideration of approximately RMB12.66 million.

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The Disposal was bona fide

Our Directors confirm that the Disposal was bona fide, (1) there was commercial negotiation between our Group and Ms. Huang for the Disposal; and (2) the Disposal was settled genuinely by cash, the details of which are set out below:

- (1) There was commercial negotiation between our Group and Ms. Huang for the Disposal
 - (i) the Disposal was initiated by Ms. Huang, an Independent Third Party, who approached our Group through the introduction of the property management company of the Ningbo Properties in May 2020 and expressed her interest in acquiring our interests in the Ningbo Properties. As advised by Ms. Huang at the time of the Disposal, she was looking for suitable commercial premises in Ningbo for her own business use;
 - (ii) we understood from Ms. Huang that (a) she was looking for connected commercial and office units and she was interested in acquiring the Ningbo Properties because of its characteristics including the location and layout of the Ningbo Properties. The Ningbo Properties comprise five connected commercial units on the ground floor and all six connected office units on the 11th floor of Cuiyuan Building, those units on the ground floor would be more convenient for business promotion and Cuiyuan Building enjoys good accessibility; (b) there was limited supply of commercial units and office units with such characteristics in the area, and she was not aware of alternative choices of similar premises in the area that were available for sale; and (c) she conducted some online research about the price of commercial properties when determining the offer price and she expected that the price of properties in Ningbo will grow;
 - (iii) as advised by Ms. Huang at the time of the Disposal, she intended to acquire the Ningbo Properties for her own business use, as opposed to short term property investment. As such, she was more concerned about the right of use of the Ningbo Properties, while whether the title documents are immediately available was not her major concern. As advised by our PRC Legal Advisers and confirmed by Customer Shicuiying and Zhongtian Construction, Ms. Huang was entitled to use the Ningbo Properties even before she obtains the title documents for the Ningbo Properties;

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- (iv) acknowledging that the Ningbo Properties would be sold without title documents, Ms. Huang asked for a deep discount to the price initially proposed by us (i.e. a price of over RMB10,000 per sq.m. which we proposed in contemplation that Ms. Huang would counter-offer a much lower price) and counter-offered a price of approximately RMB7,000 per sq.m.. After commercial negotiations between our Group and Ms. Huang for around four months, our Group and Ms. Huang finally reached a consensus to transfer our interests in the Ningbo Properties at a consideration of approximately RMB12.66 million (i.e. approximately RMB7,600 per sq.m.);
 - (v) during negotiation of the terms of the Transfer Agreement between our Group and Ms. Huang, Ms. Huang requested to include Customer Shicuiying as a party to the Transfer Agreement for her to follow up with the application for the title documents of the Ningbo Properties;
- (2) The Disposal was settled genuinely by cash
- (i) the full amount of the consideration of approximately RMB12.66 million was settled by cash through bank transfer from Ms. Huang to Zhongtian Construction in October 2020;
 - (ii) as confirmed by Ms. Huang and to the best knowledge of our Directors, Ms. Huang settled the full amount of the consideration using personal funds of herself and her family; and
 - (iii) our Company, our executive Directors and the senior management of our Group confirmed that, save as the Disposal, they and their connected persons had no relationship with Ms. Huang, and Ms. Huang was not financed by them or their connected persons to acquire the Ningbo Properties.

Furthermore, to the best knowledge of our Directors, business has been commenced in few of the units of the Ningbo Properties and the other units were under renovation in May 2021, indicating that the Ningbo Properties have been put into use.

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The market value of the Ningbo Properties as at 30 September 2020, the basis of such valuation and the consideration is comparable to the market value of the Ningbo Properties as at 30 September 2020

We have engaged the Independent Valuer to evaluate the market value of the Ningbo Properties for our internal reference when assessing the offer price for the Ningbo Properties. According to the Independent Valuer, the market value of the Ningbo Properties as at 30 September 2020 was approximately RMB12.70 million (i.e. approximately RMB7,600 per sq.m.), which was determined with reference to the market price of similar properties in the Haishu District. In preparing the valuation, it was assumed that, among others, the Ningbo Properties are free of any encumbrances and the owner of the Ningbo Properties can freely dispose of them to purchaser(s). According to the Independent Valuer, the price of RMB7,600 per sq.m. was close to but slightly lower than the market price of similar properties in the Haishu District (i.e. approximately RMB7,900 per sq.m.) which is justified by the facts that the comparable properties are located in different and better location in the Haishu District. The nearest comparable commercial building in the Haishu District are located more than 2km away from the Ningbo Properties.

After commercial negotiation between our Group and Ms. Huang for around four months, the consideration offered by Ms. Huang was approximately RMB12.66 million. We considered such consideration was acceptable as it is comparable to market value of Ningbo Properties of approximately RMB12.70 million as at 30 September 2020 as appraised by the Independent Valuer. Therefore, we accepted the offer from Ms. Huang.

The consideration for the Disposal was reasonable

The consideration for the Disposal was reasonable to our Group for the following reasons:

- (i) we considered such consideration was acceptable as it is comparable to market value of Ningbo Properties of approximately RMB12.70 million as at 30 September 2020 as appraised by the Independent Valuer;
- (ii) we had not obtained the title documents for the Ningbo Properties despite we had been continuously taking follow up actions regarding the same for over four years, we no longer need to use resources on such matter after the Disposal; and
- (iii) it is not our principal business to hold investment properties, the Disposal enabled our Group to realise the Ningbo Properties for cash for the development of our constructions business.

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The consideration for the Disposal was reasonable to Ms. Huang for the following reasons:

- (i) we understood from Ms. Huang that she was looking for connected commercial and office units and she was interested in acquiring the Ningbo Properties because of its characteristics including the location and layout of the Ningbo Properties. The Ningbo Properties comprise five connected commercial units on the ground floor and all six connected office units on the 11th floor of Cuiyuan Building, and those on the ground floor would be more convenient for business promotion. Cuiyuan Building is located close to the two major arterial roads of the Haishu District connecting other districts of Ningbo and enjoy good accessibility, and residential developments and communal facilities can be found in the vicinity of Cuiyuan Building;
- (ii) the consideration (i.e. approximately RMB12.66 million, or approximately RMB7,600 per sq.m.) was agreed after commercial negotiation between our Group and Ms. Huang for around four months and it was close to the price first offered by Ms. Huang after she acknowledged and accepted that the Ningbo Properties would be sold without the title documents (i.e. approximately RMB7,000 per sq.m.). We understood from Ms. Huang that she conducted some online research about the price of commercial properties when determining the offer price;
- (iii) according to the Independent Valuer, property purchasers in the PRC might take into account some qualitative attributes when determining the price to offer for the properties that they are interested, such as (a) the supply of alternative premises with similar characteristics in the area; and (b) the expected potential growth in the price of the same type of properties in the area. Since (a) Ningbo Properties are located in an area with limited supply of commercial office units; (b) our Directors understood from Ms. Huang that she conducted some online research about the price of commercial properties and she expected that the price of properties in Ningbo will grow; (c) according to the Independent Valuer, the market value of the Ningbo Properties increased to approximately RMB13.30million (i.e. approximately RMB8,000 per sq.m.) as at 30 April 2021; and (d) the valuation of the Ningbo Properties as at 30 September 2020 was prepared for our internal reference only, and we did not and were not obliged to provide the valuation report to Ms. Huang to assist her in assessing the reasonableness of the consideration for the acquisition of our interests in the Ningbo Properties, our Directors consider that it is reasonable for a purchaser to acquire our interests in the Ningbo Properties with a minimal discount, notwithstanding that the Ningbo Properties were sold without title documents;

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- (iv) according to the Independent Valuer, if a transfer of property is introduced through a property agent, the property agent would usually charge a property agency fee of around 2%-3% of the transfer price. As we negotiated directly with Ms. Huang for the transfer of our interests in the Ningbo Properties without the involvement of any property agent, Ms. Huang also saved the property agency fee for the transfer of our interests in the Ningbo Properties;
- (v) according to the Independent Valuer and the F&S Report, properties without title documents have been seen in the market in the PRC, and whether such properties would be sold at a discount to the price of the properties with title documents depend on the condition of and the demand for the property on a case-by-case basis as well as the commercial negotiation between the parties;
- (vi) the Ningbo Properties comprise commercial and office units in Cuiyuan Building. According to the Independent Valuer, (a) there was no other unit in Cuiyuan Building that was publicly offered for sale in 2019 and 2020; (b) Cuiyuan Building is the only commercial building in the area; and (c) the nearest comparable commercial building in the Haishu District are located more than 2km away from the Cuiyuan Building. Thus, the supply of commercial and office units in the area was limited at the time of the Disposal; and
- (vii) as advised by Ms. Huang at the time of the Disposal, she intended to acquire the Ningbo Properties for her own business use, as opposed to short term property investment. As such, she was more concerned about the right of use of the Ningbo Properties, while whether the title documents are immediately available was not her major concern. As advised by our PRC Legal Advisers and confirmed by Customer Shicuiying and Zhongtian Construction, Ms. Huang was entitled to use the Ningbo Properties even before she obtains the title documents for the Ningbo Properties.

During the negotiations, we also understood from Ms. Huang that she was interested in acquiring the Ningbo Properties and offered such price notwithstanding the Ningbo Properties were sold without title documents for the reasons that:

- (i) the location and layout of the Ningbo Properties as a whole were suitable for the business that she intends to conduct;

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- (ii) she was not aware of alternative choices of premises with title documents at the material times, as (a) there was no other unit in the Cuiyuan Building that was publicly offered for sale in 2019 and 2020; and (b) Cuiyuan Building is the only commercial building in the area, thus, the supply of office units in the area was limited at the time of the Disposal;
- (iii) since she intended to acquire the Ningbo Properties for her own business use, she was more concerned about the right of use of the Ningbo Properties, while whether the title documents are immediately available is not her major concern; and
- (iv) while she understood the risks associated with acquiring properties without title documents, since she could use the properties before she obtains the title documents, she wished to acquire our interests in the Ningbo Properties notwithstanding they were sold without the title documents.

The terms of the Transfer Agreement

Pursuant to a transfer agreement (the "**Transfer Agreement**") dated 23 October 2020 entered into among Zhongtian Construction, Customer Shicuiying and Ms. Huang, Zhongtian Construction transferred its interests in the Ningbo Properties to Ms. Huang at a consideration of approximately RMB12.7 million, resulting in a gain on disposal of investment properties of approximately RMB6.0 million. Under the Transfer Agreement, Customer Shicuiying undertook to complete the initial registration for the Ningbo Properties and assist Ms. Huang to comply with all the registration requirements imposed by the relevant regulatory bodies in order to obtain the title and ownership of the Ningbo Properties. Pursuant to the Transfer Agreement, Ms. Huang acknowledged that Customer Shicuiying had not completed the initial registration for the Ningbo Properties and Zhongtian Construction had not obtained the title documents for the Ningbo Properties, and Zhongtian Construction would not be liable to her if she subsequently fails to obtain the title documents for the Ningbo Properties (unless the failure was caused by our refusal to assist in the registration process). As advised by our PRC Legal Advisers, and as confirmed by Zhongtian Construction and Ms. Huang, in order for Ms. Huang to obtain the title documents for the Ningbo Properties, we are only required to provide assistance in relation to the administrative procedures for the transfer of the property rights and the application of the title documents.

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Our Directors consider that the Transfer Agreement was based on normal commercial terms for the following reasons:

- (i) the terms of the Transfer Agreement was agreed based on arm's length negotiations with Ms. Huang. In particular, Ms. Huang requested to include Customer Shicuiying as a party to the Transfer Agreement for her to follow up with the application for the title documents of the Ningbo Properties;
- (ii) as advised by Ms. Huang at the time of the Disposal, Ms. Huang intended to acquire the Ningbo Properties for her own business use rather than for short term property investment, thus, whether Customer Shicuiying would complete the initial registration of the Ningbo Properties and assist Ms. Huang to obtain the title documents of the Ningbo Properties within a short period of time is not her major concern. Therefore, she did not request for a deadline or timeline for Customer Shicuiying to complete the initial registration of the Ningbo Properties when negotiating the terms of the Transfer Agreement;
- (iii) it is the obligation of Customer Shicuiying, the property developer, rather than Zhongtian Construction, to complete the initial registration and assist property owners in the process for obtaining the relevant title documents, and thus it is reasonable for Zhongtian Construction not to be liable for any future failure of Customer Shicuiying in complying with the Transfer Agreement, as it is beyond our control. As advised by our PRC Legal Advisers and confirmed by Zhongtian Construction and Ms. Huang, in order for Ms. Huang to obtain the title documents for the Ningbo Properties, Zhongtian Construction was only required to provide assistance in relation to the administrative procedures for the transfer of the property rights and the application of the title documents. Accordingly, and considering that Customer Shicuiying is already a party to the Transfer Agreement and undertook to complete the initial registration and assist Ms. Huang to comply with all the registration requirements imposed by the relevant regulatory bodies in order to obtain the title and ownership of the Ningbo Properties, our Directors are of the view that it is not unfair nor unfavourable to Ms. Huang to agree that Zhongtian Construction would not be liable to Ms. Huang if she subsequently fails to obtain the title documents for the Ningbo Properties (unless the failure was caused by our refusal to assist in the administrative procedures for the transfer of the property rights and the application of the title documents);

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- (iv) the consideration (i.e. approximately RMB12.66 million, or approximately RMB7,600 per sq.m.) was agreed after commercial negotiation between our Group and Ms. Huang for around four months and it was close to the price first offered by Ms. Huang after she acknowledged and accepted that the Ningbo Properties would be sold without the title documents (i.e. approximately RMB7,000 per sq.m.). Please refer to the paragraph headed "The consideration for the Disposal was reasonable" above for details;
- (v) according to the Independent Valuer and the F&S Report, properties without title documents have been seen in the market in the PRC, please refer to the paragraph headed "The consideration for the Disposal was reasonable" above for details;
- (vi) Ms. Huang considered the location and layout of the Ningbo Properties as a whole were suitable for the business that she intends to conduct, however, she was not aware of alternative choice of similar premises with title documents at the material times, please refer to the paragraph headed "The consideration for the Disposal was reasonable" above for details; and
- (vii) Ms. Huang is entitled to claim liabilities for breach of contract by Customer Shicuiying if it failed to fulfil its obligation in relation to the title documents of the Ningbo Properties in accordance with the Sale and Purchase Agreements and Transfer Agreement.

According to Article 79 of the Contract Law of the PRC (which was in force on the date of the Transfer Agreement), the obligee may assign its contractual rights to a third party in whole or in part, except in the following situations: (i) the rights may not be assigned because of the nature of the contract; (ii) the parties have agreed that the rights may not be assigned; or (iii) the laws stipulate that the rights may not be assigned. As advised by our PRC Legal Advisers, given that (i) the Sale and Purchase Agreements are valid agreements, thus Zhongtian Construction was entitled to its right under the Sale and Purchase Agreements; (ii) no clause in the Sale and Purchase Agreements prohibited the assignment of the rights under it; (iii) the rights may be assigned according to the nature of the Sale and Purchase Agreement; and (iv) the assignment of the rights under the Sale and Purchase Agreements is not prohibited under the law though Zhongtian Construction was still in the course of applying for the title documents for the Ningbo Properties immediately before the transfer, Zhongtian Construction was entitled to transfer its interest in the Ningbo Properties to a third party. As advised by our PRC Legal Advisers, the Transfer Agreement is valid, legally binding and enforceable, and the transfer of our interests in the Ningbo Properties has been completed pursuant to the Transfer Agreement which was executed on 23 October 2020. The purchaser settled the full amount of the consideration in October 2020 using personal funds of herself and her family.

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Customer Shicuiying is a party to the Transfer Agreement

Against the background of the transfer of the Ningbo Properties from Customer Shicuiying to us as described above and the legal proceedings between our Group and Customer Shicuiying as described in the paragraph headed “Business — Legal and regulatory — Legal proceedings” in this document, the long-standing adversarial relationship between Customer Shicuiying and our Group, and the fact that our Group became interested in the Ningbo Properties as a creditor rather than a customer who pay to buy properties from Customer Shicuiying, Customer Shicuiying has not been very cooperative in assisting us in applying for the title documents for the Ningbo Properties. Considering the reasons for Customer Shicuiying to enter into the Transfer Agreement as described below, our Directors consider that Customer Shicuiying entered into the Transfer Agreement was not inconsistent with its historical behaviour.

To the best knowledge of our Directors, Customer Shicuiying agreed to enter into the Transfer Agreement because:

- (i) Ms. Huang is a bona fide second-hand purchaser of the Ningbo Properties who has no involvement in the legal proceedings and disputes between our Group and Customer Shicuiying, while our Group is a creditor of Customer Shicuiying with long-standing adversarial relationship. The nature of the relationships are different. It would be reasonable for Customer Shicuiying as the property developer to agree to offer reasonable assistance to Ms. Huang and undertake to complete the initial registration for the Ningbo Properties and assist Ms. Huang to comply with all the registration requirements imposed by the relevant regulatory bodies in order to obtain the title and ownership of the Ningbo Properties, which is clearly the obligation of Customer Shicuiying as the property developer;
- (ii) as confirmed by Customer Shicuiying, Customer Shicuiying was obliged to complete the initial registration of the Ningbo Properties pursuant to the Sale and Purchase Agreements entered into between Zhongtian Construction and Customer Shicuiying on 2 December 2016, it would not result in additional obligation on Customer Shicuiying by signing the Transfer Agreement;
- (iii) as confirmed by Customer Shicuiying, having considered that Zhongtian Construction had been continuously taking follow-up actions regarding the title documents for the Ningbo Properties since 2016 and various representatives of Zhongtian Construction (including project manager, legal department and management of our Group) have been liaising with it from time to time, and Ms. Huang acknowledged the fact that the title documents of the Ningbo Properties have not been obtained, Customer Shicuiying was willing to assist in the transfer of our interests in the Ningbo Properties so as to reduce

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conflict with Zhongtian Construction. In light of the long-standing adversarial relationship between Customer Shicuiying and our Group, the Transfer Agreement would not result in additional obligations on Customer Shicuiying and the undertaking to Ms. Huang did not specify a deadline or timeline for performance, our Directors consider that it is understandable for Customer Shicuiying to agree to enter into the Transfer Agreement so it would no longer need to deal with our Group regarding the Ningbo Properties; and

- (iv) the Ningbo Properties have been left vacant for over 4.5 years since Customer Shicuiying and Zhongtian Construction entered into the Sale and Purchase Agreements. Our Directors believe that it is not in the interest of Customer Shicuiying, in terms of its reputation as the property developer, to see the properties developed by it (especially the units on the ground floor) to be left vacant for years. Although the Transfer Agreement does not bring any direct monetary benefit to Customer Shicuiying, our Directors consider that it is understandable for a property developer to welcome a purchaser who indicated that she would like to commence business in the premises that had been left vacant for years, and thus sign the Transfer Agreement which contained the undertaking to facilitate the acquisition by Ms. Huang.

As we no longer hold any interest in the Ningbo Properties, it is not within our knowledge and control in relation to whether Customer Shicuiying had actually completed the initial registration and assisted Ms. Huang in her application for the title documents after the transfer of the interests in the Ningbo Properties.

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Net Current Assets

The following table sets forth our current assets and current liabilities as at the dates indicated:

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current assets				
Inventories	694	3,273	3,018	940
Trade, bills and other receivables	544,649	590,524	513,270	459,884
Contract assets	1,173,525	1,227,155	1,216,095	1,179,017
Amounts due from related companies . .	—	3,623	6,475	10,479
Amounts due from shareholders	3,894	12,542	9,260	2,847
Restricted bank deposits	27,467	26,156	18,429	9,966
Cash and cash equivalents	80,585	76,838	89,106	126,958
	<u>1,830,814</u>	<u>1,940,111</u>	<u>1,855,653</u>	<u>1,790,091</u>
Current liabilities				
Trade and bills payables	1,320,754	1,341,678	1,166,117	867,599
Accruals and other payables	185,387	254,243	302,800	382,345
Contract liabilities	29,128	37,178	24,976	50,086
Amounts due to related companies . . .	8,267	586	4,833	5,021
Amounts due to shareholders	56,313	28,080	14,046	6,777
Amounts due to directors	5,328	1,870	253	462
Lease liabilities	533	467	28	191
Borrowings	75,984	65,620	66,895	138,966
Income tax payable	4,013	7,455	9,538	14,799
	<u>1,685,707</u>	<u>1,737,177</u>	<u>1,589,486</u>	<u>1,466,246</u>
Net current assets	<u>145,107</u>	<u>202,934</u>	<u>266,167</u>	<u>323,845</u>

Net current assets increased from approximately RMB145.1 million as at 31 December 2019 to approximately RMB202.9 million as at 31 December 2020 mainly due to the increase in contract assets and trade, bills and other receivables of approximately RMB53.6 million and RMB45.9 million, respectively, which was in line with the net profit of approximately RMB49.6 million generated in FY2020. The increase was partly offset by an increase in accruals and other payables of approximately RMB68.9 million. Our net current assets further increased from approximately RMB202.9 million as at 31 December 2020 to approximately RMB266.2 million as at 31 December 2021, primarily due to decrease in trade and bills payables by approximately RMB175.6 million, partially offset by the decrease in trade, bills and other receivables and contract assets by approximately RMB77.3 million and RMB11.1 million, respectively. Our net current assets continued to increase from approximately RMB266.2 million as at 31 December 2021 to approximately RMB323.8 million as at 30 September 2022, mainly due to increase in cash and cash equivalents by approximately RMB37.9 million.

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Inventories

During the Track Record Period, our inventories are raw materials, mainly being steel, cement, concrete, and consumables which are used in our construction process. Due to the nature of our business, we keep low inventory levels for our operations. As such, inventory turnover days is not indicative of our operation status. The higher balance of inventory as at 31 December 2020, as compared to that as at 31 December 2019, was primarily due to the relatively higher level of raw materials, mainly steel, maintained by us, as at 31 December 2020, to support the construction of two projects, namely Liuyang Jiangwan School (Phase I)* (瀏陽江灣學校(一期)) project and Amusement and Intelligent Equipment R&D and Production Base Construction (Phase I)* (遊樂和智能裝備研發生產基地建設一期) project in the end of 2020. The balance dropped to approximately RMB0.9 million as at 30 September 2022 as such materials have been utilised.

Trade, bills and other receivables

The following table sets forth the breakdown of our trade, bills and other receivables as at the dates indicated:

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables				
— related parties	43,304	76,304	36,060	13,763
— third parties	435,516	437,142	416,661	380,481
Trade receivables	478,820	513,446	452,721	394,244
Impairment provision for trade receivables	(5,875)	(8,760)	(8,335)	(7,757)
Trade receivables, net	472,945	504,686	444,386	386,487
Bills receivables	9,931	5,280	1,050	310
Impairment provision for bills receivables	(79)	(29)	(7)	(3)
Trade and bills receivables, net	482,797	509,937	445,429	386,794
Deposits and other receivables	66,421	64,086	56,001	56,789
Prepayment	1,341	25,284	18,453	23,717
Impairment provision for deposits and other receivables	(5,910)	(8,783)	(6,613)	(7,416)
Other receivables, prepayment and deposits, net	61,852	80,587	67,841	73,090
	<u>544,649</u>	<u>590,524</u>	<u>513,270</u>	<u>459,884</u>

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Trade receivables represented outstanding balances due from our customers.

The trade receivables increased slightly by approximately 7.2% from approximately RMB478.8 million as at 31 December 2019 to approximately RMB513.4 million as at 31 December 2020 mainly because a number of projects have completed their settlement audit during FY2020 such that a larger amount of contract assets was converted to trade receivables in FY2020, in particular, we have completed the settlement audit of Chunteng Village Third Phase* (春藤小鎮三期), which recorded a decrease in contract assets by approximately RMB57.6 million between 31 December 2019 and 31 December 2020, thus we were entitled to bill a larger amount of contract assets and the trade receivables increased as a result. For FY2020, approximately RMB848.3 million contract assets were converted to trade receivables, as compared with approximately RMB685.8 million contract assets that were converted to trade receivables in FY2019.

The trade receivables decreased by approximately 11.8% from approximately RMB513.4 million as at 31 December 2020 to approximately RMB452.7 million as at 31 December 2021 due to faster payment by our customers, including both third parties and related parties.

The trade receivables further decreased by 12.9% from approximately RMB452.7 million as at 31 December 2021 to approximately RMB394.2 million as at 30 September 2022 because we put more effort to collect trade receivables from our customers during 3Q2022.

The trade receivables due from Zhongtian Holdings Group, our related parties, increased by approximately 76.2% from approximately RMB43.3 million as at 31 December 2019 to approximately RMB76.3 million as at 31 December 2020 because certain projects which the customers are related parties have either reached specific milestones for billing as stipulated in contract or completed their settlement audit during FY2020 such that large amount of contract assets due from related parties was converted to trade receivables in FY2020. In particular, for Zhongtian Lutai* (中天·麓台) project, Lai Yin Village* (萊茵小鎮) and Chunteng Mansion* (春藤公館) project, we recorded an aggregated trade receivables of approximately RMB14.6 million and RMB37.4 million as at 31 December 2019 and 31 December 2020, respectively. The trade receivables due from Zhongtian Holdings Group decreased from approximately RMB76.3 million as at 31 December 2020 to RMB36.1 million as at 31 December 2021 and RMB13.8 million as at 30 September 2022 due to repayment from the related parties. As at the Latest Practicable Date, approximately RMB1.4 million, or 10.1% of trade receivables due from related parties of RMB13.8 million as at 30 September 2022, has been subsequently settled.

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Ageing analysis of trade receivables

As at 31 December 2019, 2020 and 2021 and as at 30 September 2022, the ageing analysis of trade receivables, based on invoice date, are as follows:

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0-90 days	292,387	255,683	220,150	187,723
91-180 days	30,126	67,563	61,210	33,046
181-365 days	61,854	69,243	61,851	57,339
1-2 years	51,798	73,909	66,818	81,550
2-3 years	15,849	17,855	16,265	13,735
Over 3 years	26,806	29,193	26,428	20,851
Trade receivables	<u>478,820</u>	<u>513,446</u>	<u>452,721</u>	<u>394,244</u>

The trade receivables aged over one year increased from approximately RMB94.5 million as at 31 December 2019 to RMB121.0 million as at 31 December 2020, which was mainly resulted from the long-aged trade receivables of three projects, namely (i) Sanya City Third Ring Road* (三亞市三環路) project with approximately RMB8.7 million aged over one year from Customer T, a Government-related Entity that requires complex internal settlement procedures and leading to the overall longer ageing pattern; and (ii) Sanya Summer Experience Plaza* (三亞夏日體驗廣場) project and Shuangdashanwu Bay Project surrounding Municipal Road Engineering Project* (雙大山湖灣專案周邊市政道路工程項目) which have, in aggregate, approximately RMB26.3 million of trade receivables aged over one year as at 31 December 2020. As at the Latest Practicable Date, all the trade receivables aged over one year as at 31 December 2020 due from the above three projects have been fully settled.

The ageing position of the trade receivables as at 31 December 2021 remained stable as compared to that as at 31 December 2020 as the percentages of trade receivables aged over one year as at 31 December 2020 and 31 December 2021 were approximately 23.6% and 24.2%, respectively. We have formulated internal control manuals which stipulate the regular review of the ageing of trade receivables and contract assets and relevant follow-up procedures. We regularly monitor the ageing of our contract assets and trade receivables to keep control of the subsequent billing and settlement of our contract assets and trade receivables.

The trade receivables aged over one year slightly increased from approximately RMB109.5 million as at 31 December 2021 to approximately RMB116.1 million as at 30 September 2022 mainly because generally more trade receivables are settled towards the end of a year, thus the trade receivable aging position as at 31 December 2021 is better than the aging position as at 30 September 2022.

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Our project periods generally range from approximately two months to three years, and depending on their scale and complexity of the projects, some projects may extend beyond three years. We generally grant credit terms of up to three months from the date of billing to our customers. As at 31 December 2019, 2020 and 2021 and 30 September 2022, a majority of our trade receivables was not past due or past due within 90 days. The amount of trade receivables that were past due over one year as at 31 December 2019, 2020 and 2021 and 30 September 2022 was approximately RMB70.1 million, RMB64.3 million, RMB21.2 million and RMB35.3 million, respectively, representing approximately 14.6%, 12.5%, 4.7%, and 9.0% of the total trade receivables as at 31 December 2019, 2020 and 2021 and 30 September 2022, respectively.

As at 31 December 2020, the trade receivables due from Customer Shicuiying and Customer V that were past due over one year in aggregate amounted to approximately RMB30.3 million and accounted for 47.2% of all trade receivables that were past due over one year. In April 2021, all the trade receivables due from Customer V have been fully settled after some properties of Customer V in the Tianjie Commercial City Plaza* (天傑商業城市廣場) were sold according to the relevant court procedures. The trade receivables due from Customer Shicuiying is pending court procedures for selling its properties for settlements as at the Latest Practicable Date. For details of the litigation with Customer Shicuiying, please refer to the section headed “Business — Legal and regulatory — Legal proceedings” in this document and the paragraph headed “Trade, bills and other receivables — Ageing analysis of trade receivables — (viii) Specific circumstances of major long-outstanding trade receivables” in this section.

In FY2020, out of all the settlement of trade receivables from Government-related Entities, approximately 82.4% of them were in relation to trade receivables that aged within 90 days. While some of the trade receivables from Government-related Entities were settled within 90 days or shorter, for some Government-related Entities which require complex internal settlement procedures, it may take a longer time for them to settle trade receivables due, leading to the overall longer ageing pattern of these customers. For example, Customer T, a government entity in Hainan responsible for transportation infrastructure which engaged our Group for the Sanya City Third Ring Road* (三亞市三環路) project, had trade receivables of approximately RMB24.3 million that were past due over 90 days as at 31 December 2020, out of which approximately RMB24.3 million has been subsequently settled as at the Latest Practicable Date. This results in the long-aged-trade receivables of some Government-related Entities as at 31 December 2020.

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Our trade receivables as at 31 December 2021 in general aged shorter than that as at 31 December 2020. The percentage of amount of trade receivables that were past due over one year to the aggregate amount of trade receivables dropped from approximately 12.5% as at 31 December 2020 to approximately 4.7% as at 31 December 2021, mainly due to the repayment of a substantial portion of our long-outstanding trade receivables from our customers as a results of our measures to follow-up outstanding trade receivables, as explained under the paragraph headed “Trade receivables and contract assets control policy” in this section. In particular, the trade receivables that aged over one year as at 31 December 2020 for the Tianjie Commercial City Plaza* (天傑商業城市廣場), Wenchang City Green Island Hotel* (文昌綠島酒店), Sanya City Third Ring Road* (三亞市三環路) project and Changde West New District Logistics Park and Exhibition Centre and related works* (常德市西城新區物流園會展中心及配套工程項目) of approximately RMB25.6 million have been settled by 31 December 2021.

In comparison of our ageing position with those of our industry peers, according to the F&S Report, approximately 33.0% of the trade receivables of our industry peers in the construction industry aged more than one year as at 31 December 2020 on average, while approximately 15.4% of our trade receivables aged more than one year as at 31 December 2020. Therefore, the overall ageing position of our trade receivables as at 31 December 2020 was better than that of our industry peers.

The amount of trade receivables that were past due one year increased from approximately RMB21.2 million as at 31 December 2021 to approximately RMB35.3 million as at 30 September 2022, mainly because generally more trade receivables are settled towards the end of a year, thus the trade receivable aging position as at 31 December 2021 is better than the aging position as at 30 September 2022.

Approximately RMB68.9 million or 17.5% of the trade receivables as at 30 September 2022 were subsequently settled up to the Latest Practicable Date, resulting in a net balance of approximately RMB325.3 million. The majority of the remaining trade receivables that were past due over one year represent the trade receivable due from Customer Shicuiying of approximately RMB17.9 million, which was pending court procedures for selling their properties for settlements, remained outstanding as at the Latest Practicable Date, representing approximately 50.9% of our trade receivables that were past due over one year and remained outstanding as at the Latest Practicable Date. For details of the amounts due from Customer Shicuiying, please refer to the section headed “Business — Legal and Regulatory — Legal proceedings” in this document and the paragraph headed “Trade, bills and other receivables — Ageing analysis of trade receivables — (viii) Specific circumstances of major long-outstanding trade receivables” in this section.

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The following tables set forth the details of our top five trade receivables that were past due over one year by project as at each of 31 December 2019, 2020 and 31 December 2021 and 30 September 2022:

As at 30 September 2022

Project name	Customer	Customer type	Project commencement date	Expected/actual project completion date	Original contract sum	Revenue recognition in accordance with HKFRS 15			Billings in accordance with the terms of relevant contract including any subsequent agreement up to 30 September 2022 (note 4)		Trade receivables that were past due over one year as at 30 September 2022	Amount and date of subsequent settlement up to the Latest Practicable Date
						Accumulated amount of variation orders/adjustments	Percentage of completion of the project	Accumulated value of work performed (i.e. revenue recognised)	Revenue recognised in 3Q2022	Progress billable percentage		
	(A)	(B)	(C)	(D)=(A+B)(X)	(E)	(F)=(D+E)	(G)	(H)	(I)	(J)	(K)	(L)
	(note 1)	(notes 1, 2)	(note 3)	(notes 1, 3)	(note 1)	(note 1)	(note 1)	(note 1)	(note 1)	(note 5)	(note 6)	(note 6)
	RMB'000	RMB'000		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Ningbo Gaoqiao Town Changle Village Development* (寧波高橋鎮長樂村居住地塊)	Customer Shicuiying	Private enterprise	April 2013	January 2016	80,000	26,494	100%	106,494	—	100%	106,494	17,913
Hunan Chemical Vocational And Technical College Library and Exhibition Hall Project* (化工職業技術學院圖書館、展覽館專案)	Customer J	Government entity	January 2014	December 2018	59,569	680	100%	60,249	—	95%	57,237	7,443
Cheung Sha Greenland External Wall Insulation Project* (長沙綠地外牆保溫工程)	Customer K	Private enterprise	December 2014	September 2020	18,887	4,673	100%	23,560	—	95%	22,382	3,101
Yanling County Chinese Medicine Hospital Relocation Project Phase I* (炎陵縣中醫院整體搬遷項目一期)	Customer L	Government entity	March 2017	December 2021	23,765	10,044	100%	33,809	23	95%	32,118	5,818
Huachen Yunxi Wan Phase I* (華辰雲溪灣一期) (note 7)	Customer I	Private enterprise	not applicable	not applicable	not applicable	not applicable	not applicable	not applicable	not applicable	not applicable	not applicable	1,244
												782
												3,961
												(November 2022)
												(November 2022)

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As at 31 December 2021

Project name	Customer	Customer type	Project commencement date	Expected/actual project completion date	Original contract sum (A)	Accumulated amount of variation orders/adjustments (B)	Percentage of completion of the project (C)	Accumulated value of work performed (i.e. revenue recognised) (D=(A+B)×C)	Revenue recognised in FY2021 (note 1)	Progress billable percentage (E)	Accumulated progress amount billed (F=(D×E)) (note 1)	Total trade receivables outstanding as at 31 December 2021	Trade receivables that were past due over one year as at 31 December 2021 (note 5)	Amount and date of subsequent settlement up to the Latest Practicable Date
Ningbo Gaoqiao Town Changle Village Development* (寧波高橋鎮長樂村居住地块)	Customer Shicuiyiyang	Private enterprise	April 2013	January 2016	80,000	26,494	100%	106,494	—	100%	106,494	17,913	17,913	—
Sanya City Third Ring Road* (三亞市三環路)	Customer T	Government entity	December 2016	December 2022	177,447	19,978	96%	188,742	8,132	80%	150,994	5,366	640	5,366
Huachen Century Centre* (華晨世紀中心)	Customer H	Private Enterprise	October 2015	August 2018	53,653	1,765	100%	55,418	—	100%	55,418	554	554	554
Tianhe Plaza Block 2* (天河廣場2棟) (note 7)	Customer I	Private Enterprise	not applicable	not applicable	not applicable	not applicable	not applicable	not applicable	not applicable	not applicable	not applicable	813	354	347
Toilet Revolution* (廁所革命)	Customer Group G	Government Entity	November 2018	December 2021	9,001	1,961	99%	10,834	—	75%	8,126	347	340	—

Billings in accordance with the terms of relevant contract including any subsequent agreement up to 31 December 2021 (note 4)

Revenue recognition in accordance with HKFRS 15

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As at 31 December 2020

Project name	Customer	Customer type	Project commencement date	Expected/actual project completion date	Original contract sum	Accumulated amount of variation orders/adjustments	Percentage of completion of the project	Accumulated value of work performed (i.e. revenue recognised)	Revenue recognised in FY2020	Progress billable percentage (E)	Accumulated progress amount billed (F=(D+E))	Total trade receivables outstanding as at 31 December 2020	Trade receivables that were past due over one year as at 31 December 2020	Amount and date of subsequent settlement up to the Latest Practicable Date
Ningbo Gaoqiao Town Changle Village Development* (寧波高橋鎮長樂村居住地块)	Customer Shicuiyiyang	Private enterprise	April 2013	January 2016	RMB'000 80,000	RMB'000 26,494	100%	RMB'000 106,494	RMB'000 —	100%	RMB'000 106,494	RMB'000 17,913	RMB'000 17,913	RMB'000 —
Tianjie Commercial City Plaza* (天傑商業城市廣場)	Customer V	Private enterprise	February 2015	March 2019	98,618	—	92%	90,816	106	85%	77,194	12,400	12,400	12,400 (April 2021)
Wenchang City Green Island Hotel* (文昌綠島酒店)	Customer B	Private enterprise	April 2016	December 2021	97,051	—	76%	74,240	2,000	96%	71,270	11,309	9,331	11,309 (February 2021 – June 2022)
Sanya City Third Ring Road* (三亞市三環路)	Customer T	Government entity	December 2016	December 2022	177,447	19,978	91%	180,610	19,268	80%	144,488	25,550	3,850	25,550 (January – November 2021)
Changde West New District Logistics Park and Exhibition Centre and related works* (常德市西城新區物流園會展中心及配套工程項目)	Customer R	State-owned enterprise	January 2018	March 2020	32,809	2,677	99%	34,960	115	70%	24,472	3,605	3,517	3,605 (March – November 2021)

Billings in accordance with the terms of relevant contract including any subsequent agreement up to 31 December 2020 (note 4)

Revenue recognition in accordance with HKFRS 15

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As at 31 December 2019

Project name	Customer	Customer type	Project commencement date	Expected/actual project completion date	Original contract sum	Revenue recognition in accordance with HKFRS 15			Billings in accordance with the terms of relevant contract including any subsequent agreement up to		Trade receivables that were past due over one year as at 31 December 2019	Amount and date of subsequent settlement up to the Latest Practicable Date	
						Accumulated amount of variation orders/adjustments	Percentage of completion of the project	Accumulated value of work performed (i.e. revenue recognised)	Revenue recognised in FY2019	Progress billable percentage			Accumulated progress amount billed
					(A)	(B)	(C)	(D)=(A+B)×C	(E)	(F=(D+E))			
					(note 1)	(notes 1, 2)	(note 3)	(notes 1, 3)	(note 1)	(note 1)	(note 5)	(note 6)	
Ningbo Gaoqiao Town Changle Village Development* (寧波高橋鎮長樂村居住地块)	Customer Shicuiying	Private enterprise	April 2013	January 2016	RMB'000 80,000	RMB'000 26,494	100%	RMB'000 106,494	—	RMB'000 106,494	RMB'000 17,913	RMB'000 17,913	—
Tulufan City Residential Development* (吐魯番住房工程)	Customer A	Government entity	September 2010	December 2016	64,013	13,460	100%	77,473	—	77,473	16,815	16,815	16,815
Tianjite Commercial City Plaza* (天津商業城市廣場)	Customer V	Private enterprise	February 2015	March 2019	98,618	—	92%	90,710	297	77,104	12,414	8,543	12,414
Wenchang City Green Island Hotel* (文昌綠島酒店)	Customer B	Private enterprise	April 2016	December 2021	97,051	—	74%	72,240	1,107	69,350	9,331	5,448	9,331
Hunan Chemical Vocational And Technical College Library and Exhibition Hall Project* (化工職業技術學院圖書館、展覽館專案)	Customer J	Government entity	January 2014	December 2018	59,569	—	93%	55,341	—	49,807	3,748	3,551	3,748

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Notes:

1. The amounts do not include any VAT.
2. The amount represents the amounts of adjustment for VAT (if any) and adjustment or additional to the original contract sum as may be agreed between the parties to the original contract from time to time, and such variation orders may be in the form of supplemental agreements for additional construction works undertaken by us or modifications of the scope of work previously agreed in the original contracts.
3. Revenue from construction contract is recognised according to the percentage of completion of individual construction contract, which is measured by reference to the contract costs incurred as a proportion to the total budgeted costs.
4. Throughout the terms of the relevant construction contract, we bill our customers the amount of recognised revenue, multiplied by a billing percentage under the relevant milestone as stipulated in the relevant construction contract.
5. Trade receivable represents the contractual billing amount, deducted by amount settled by customers and adjusted for VAT elements in the trade receivables.
6. For details of the basis of the loss allowance on the trade receivables due from these debtors, please refer to pages [430] to [432] of this document.
7. Tianhe Plaza Block 2* (天河廣場2棟) and Huachen Yunxi Wan Phase I* 華晨雲溪灣一期 are contracts for the rental of construction equipment services to the customers.

Impairment provision for trade receivables and contract assets and the bases

We generally grant credit terms of up to three months to our customers. In determining the applicable credit terms, we perform credit evaluation on each customer with reference to various factors including our past business relationship with them, payment history, reputation, financial strength and our evaluation on their future operation risk. We generally do not obtain collateral from our customers over our trade receivable balances.

We are only entitled to bill and receive payments from our customers accordingly until the settlement audit for the completed work to which the payments are due in accordance with the relevant contract terms and the completion of internal approval procedures of our customers. As a large number of our customers are Government-related Entities who may require complex internal settlement procedures and generally takes more time to settle their trade payables according to the F&S Report, and therefore, there may exist a gap between the due date of payments by our customers and the date of our submission of progress billings.

Our Group recognises loss allowances for ECLs on trade receivables and financial assets measured at amortised cost. As at 31 December 2019, 2020 and 2021 and 30 September 2022, we had provision for impairment loss on trade receivables amounting to RMB5.9 million, RMB8.8

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million, RMB8.3 million and RMB7.8 million, representing 1.2%, 1.7%, 1.8% and 2.0% of the amount of our trade receivables, respectively. The overall ECL rates for the provision for impairment loss on trade and bill receivables and contract assets is approximately 0.6%, 0.9%, 1.0% and 1.1% as at 31 December 2019, 2020 and 2021 and 30 September 2022, respectively. As at 30 September 2022, our Group has approximately RMB35.3 million of trade receivables that were past due over one year. Our provision for impairment loss on these trade receivables amounted to approximately RMB1.8 million, represented approximately 9.0% of trade receivables that were past due over one year (i.e. approximately RMB35.3 million).

Our Group elected to measure loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. With the support of the valuation performed by the Independent Valuer, our Group has established a provision matrix that is based on our Group’s historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The above ECL rates adopted by our Company are determined having considered that, among others, we have the priority of compensation to the proceeds from selling off or auctioning the underlying property projects for our contracted work in settling the debts owed (優先受償權) (the “**Priority of Compensation**”) and the Independent Valuer has been engaged to assess the market value of the underlying properties corresponding to the account receivables. The Independent Valuer adopted provision matrix method to assess the ECL rates of trade receivables and contract assets of our Company in accordance with HKFRS 9. The above ECL rate for each year represented the average of the relevant credit loss rates for each ageing group, which was determined based on a number of parameters, including (i) analysis of historical credit loss rates within two to five years from the measurement date is adopted; (ii) a discount of 30% to be applied on the value of the underlying properties so as to arrive at a conservative estimation of the proceeds that could be recovered by our Company under Priority of Compensation; (iii) the assessed market values of the underlying properties corresponding to the trade receivables and contract assets and any potential shortfall of proceeds recovered from the outstanding contract assets and account receivables balance based on conservative estimation; and (iv) forward-looking adjustment based on the correlation between default rates and macro-economic factors (indicative overall market conditions).

On the basis that, among others, (i) the valuation methodology adopted was in accordance with HKFRS 9; (ii) historical credit loss rates within two to five years from the measurement date is adopted as the two to five years’ period is typically the length of an economical cycle in the industry, and the two to five years’ historical period provides the most relevant indication to the current and future state of credit risk of the trade receivables and contract assets; (iii) according to the Civil Code of the PRC (中華人民共和國民法典) promulgated by the NPC on 28 May 2020 and became effective on 1 January 2021, where the property developer does not make payments as agreed, the contractor may demand the property developer to make the said payments within a reasonable period of time. Where the property developer has not made the said payments within

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the said period of time, then except where it is not appropriate to conduct a sale at a depreciated price or an auction due to the nature of the construction project, the contractor may conclude an agreement with the developer to sell off the project, or may apply to the People’s Court for the said project to be auctioned in accordance with the law. With respect to all monies received in selling off or auctioning the said project, priority shall be given to using the monies to make the relevant payments on the construction project. As advised by PRC Construction Legal Advisers, our Group has Priority of Compensation on the underlying property projects corresponding to the trade receivables and contract assets; (iv) the discount of 30% is considered as the haircut discount that would be involved to sell the properties to the potential buyer. The commonly observed ranged for the discount is generally around 20 to 30% and so 30% discount is adopted in this case for conservative measure; (v) forward-looking adjustment were incorporated to reflect the market condition for prudent sake; (vi) the Independent Valuer was engaged to perform the assessment which is in line with the market practice and (vii) analysis performed for each of the factors (i) to (vii) below, our Directors considered the ECL rates are fair and reasonable and our provision for impairment loss on trade receivables and contract assets is sufficient. The details of the factors (i) to (vii) are as follow:

In relation to all our customer categories:

(i) Latest development of trade receivables and contract assets as at the Latest Practicable Date

Approximately RMB68.9 million, representing 17.5% of the trade receivables as at 30 September 2022, was subsequently settled by the Latest Practicable Date. The majority of the remaining trade receivables that were past due over one year represent the trade receivable due from Customer Shicuiying of approximately RMB17.9 million, which was pending court procedures for selling their properties for settlements. Such trade receivable remained outstanding as at the Latest Practicable Date, representing approximately 50.9% of our trade receivables that were past due over one year and remained outstanding as at the Latest Practicable Date. The details of the legal proceedings with Customer Shicuiying are set out in the section headed “Business — Legal and regulatory — Legal proceedings” in this document.

Approximately RMB19.3 million, representing 16.0% of the contract assets balance that aged over one year as at 30 September 2022, was subsequently billed by the Latest Practicable Date. For details of the subsequent billings of the contract assets, please refer to the paragraph headed “Contract assets and contract liabilities — Contract assets” in this section. Taking into account the substantial subsequent settlement of trade receivables and/or subsequent billings of contract assets, our Directors consider that the credit risk of our long-outstanding trade receivables and contract assets is low.

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(ii) Consistent monitoring of the operation status of the debtors

We carry out continuous assessment and monitor our debtors status from time to time. Based on our latest monitoring results from publicly available information and to the best knowledge of our Directors, all of our trade receivable and contract asset debtors as at 30 September 2022 were under normal operation status (i.e. not wound-up or dissolved, and having valid business licence, where applicable) as at the Latest Practicable Date, and none of them received any winding-up petition as at the Latest Practicable Date. Except for the legal proceedings with Customer Shicuiying, the details of which are set out in the section headed “Business — Legal and regulatory — Legal proceedings” in this document, our Directors are not aware of any indication that any of our trade receivable and contract asset debtors as at 30 September 2022 were insolvent as at the Latest Practicable Date.

(iii) Adjustment to provision in light of the COVID-19 pandemic

The overall ECL rates for the provision for impairment loss on trade and bill receivables and contract assets is approximately 0.6%, 0.9%, 1.0% and 1.1% as at 31 December 2019, 2020 and 2021 and 30 September 2022, respectively. Although our Directors considered the outbreak of COVID-19 had no material adverse impact on our Group, for prudent sake and taking into account the overall global and China economic conditions which may potentially impact the ability of the customers of our Group to settle their payable to us in the future, the Independent Valuer has adjusted the average ECL rates for trade and bills receivables and contract assets as at 31 December 2020 upward by 40.5%, as compared with those average ECL rates as at 31 December 2019. Having considered the scale of operation, reputation and background of their customers, the years of business relationship with them, the minimal history of default as discussed above and the upward adjustment made based on estimated COVID-19 impact, our Directors consider that the provision for impairment loss on trade and bills receivables and contract assets is sufficient.

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In relation to trade receivables and contract assets due from non-Government-related Entities:

(iv) We are entitled to the Priority of Compensation

As advised by our PRC Construction Legal Advisers, pursuant to the Civil Code of the PRC (中華人民共和國民法典), promulgated by the NPC on 28 May 2020 and with effect from 1 January 2021, where the property developer has not made the payments to contractor within the reasonable period of time as requested by the contractor, the contractor may reach an agreement with the developer to sell off the project, or may apply to the People’s Court of the PRC for the said project to be auctioned in accordance with the law, and the contractor shall have Priority of Compensation.

Having reviewed the relevant details of 24 major construction projects, the relevant trade receivables and contract assets of which representing 84.5% of the total trade receivables and contract assets due from non Government-related Entities as at 30 September 2022, our PRC Construction Legal Advisers advised that:

- (1) we are either the sole main contractor or one of the contractors of these projects and (i) for projects that we were the sole main contractor, we solely have the Priority of Compensation in respect of these projects; while (ii) for project that we are one of the contractors, we have Priority of Compensation in pari passu of the other contractors of such project and we are entitled to the proceeds from selling off or auctioning the said project together with the other subcontractors proportional to the respective amount of debts owed by the developer;
- (2) no other creditors have made any claim on the properties of these projects as at the Latest Practicable Date; and
- (3) there is no legal impediment for our Group to transfer the interests in the underlying properties of these projects to willing and qualified buyers notwithstanding any incomplete legal title registration of the underlying properties of these projects, on the following bases: (a) according to Article 2 of the Provisions of the Supreme People’s Court for the People’s Courts to Seal up, Distrain and Freeze Properties in Civil Enforcement (2020 Amendment) (最高人民法院關於人民法院民事執行中查封、扣押、凍結財產的規定(2020修正)), the ownership of unregistered buildings and land use rights shall be determined based on the approval documents for land use rights and other relevant evidence, accordingly, our PRC Construction Legal Advisers advised that, although the property developer has yet to complete the legal title registration of the properties, the properties

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would still be owned by the property developer; and (b) according to Article 2 of the Notice of the Supreme People’s Court on Forwarding the Letter on Issues Concerning Handling Property Ownership Registration for Residential Properties without Property Ownership Certificate in Accordance with Assistance Enforcement Document of the Ministry of Housing and Urban-Rural Development (最高人民法院關於轉發住房和城鄉建設部〈關於無證房產依據協助執行文書辦理產權登記有關問題的函〉的通知), even if the legal title of the construction project involved is registrable but the initial registration has not been completed, the fact that the initial registration has not been completed would not affect the auction or selling off of the construction project involved, and the transferee would be entitled to obtain the ownership of the construction project through the prescribed method of the legislation.

Our Group has engaged the Independent Valuer to perform estimation of the fair value of the underlying properties in respect of the 24 major construction projects that has been reviewed by our PRC Construction Legal Advisers. The weighted average “fair value-to-trade receivables and contract assets ratio” of these 24 construction projects is approximately 690%, and such ratio of the median project is approximately 568% as at 30 September 2022.

In relation to the legal proceedings numbered three and four against two customers to recover the trade receivables and contracts assets due from them as set out in the section headed “Business — Legal and regulatory — Legal proceedings” in this document, our PRC Construction Legal Advisers, advised that (i) we are the sole main contractor of the relevant projects; (ii) no other creditor has made any claim on the properties of the relevant projects as at the Latest Practicable Date; (iii) we solely have the priority of compensation with respect to the relevant projects; (iv) there is no legal impediment for our Group to transfer the interests to willing buyers notwithstanding incomplete legal title registration of the underlying properties of the relevant projects. Our Group has also engaged the Independent Valuer to perform estimation of the fair value of the underlying properties in respect of these legal proceedings. Based on such valuation, the properties are valued at approximately RMB20.6 million and RMB205.2 million respectively, representing 1.9 times and 6.9 times of the outstanding trade receivable and contract asset due from these customers as at 30 September 2022 respectively. Based on the above, our Directors consider that our provision for impairment loss on trade receivables/contract asset due from these customers is sufficient. The details of these legal proceedings are set out in the section headed “Business — Legal and regulatory — Legal proceedings” in this document.

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In April 2021, all the long-outstanding trade receivables and contract assets due from Customer V as at 31 December 2020 with an aggregated amount of approximately RMB26.2 million that were subject to the Priority of Compensation have been fully settled after some properties of Customer V in the Tianjie Commercial City Plaza* (天傑商業城市廣場) were sold according to the relevant court procedures. This demonstrated that we could successfully recover trade receivables and contract assets due from our customers in full according to the Priority of Compensation in respect of properties constructed by us for our customers.

(v) Closing of on-going legal proceedings with Customer Shicuiying and Customer V and minimal history of default

In respect of the legal proceedings with Customer Shicuiying and Customer V, we have Priority of Compensation with respect to monies received from selling off or auctioning of such properties as advised by our PRC Construction Legal Advisers. The properties of our relevant project with Customer Shicuiying are pending for disposal under the direction of the court for settling our trade receivables and contract assets. In April 2021, all the trade receivables and contract assets due from Customer V as at 31 December 2020 have been fully settled after some properties of Customer V in the Tianjie Commercial City Plaza* (天傑商業城市廣場) were sold according to the relevant court procedures. The details of our legal proceedings, including that with Customer Shicuiying, is set out in the section headed “Business — Legal and regulatory — Legal proceedings” in this document and the paragraph headed “Trade, bills and other receivables — Ageing analysis of trade receivables — (viii) Specific circumstances of major long-outstanding trade receivables” in this section.

Except for the legal proceedings as set out in the section headed “Business — Legal and Regulatory — Legal Proceedings” in this document and the dispute with Customer K as set out in the paragraph headed “(viii) Specific circumstances of the major long-outstanding trade receivables” below, we had no material outstanding disputes or litigation with our trade receivable and contract asset debtors as at 30 September 2022.

In light of above, our Directors take the view that the credit risk of trade receivables and contract assets due from non-Government-related Entities is low.

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In relation to trade receivables and contract assets due from Government-related Entities:

(vi) The Government-related Entities had minimal history of default

Our Government-related Entity customers in general have good creditability and had minimal history of default. Throughout the Track Record Period, none of our Group’s trade receivables or contract assets debtors which were Government-related Entities had defaulted on their settlements of our Group’s trade receivables or had dispute with our Group with regard to the trade receivables and contract assets balances recorded by our Group during the Track Record Period, except for the litigation with Customer R as set out in the section headed “Business Legal and Regulatory — Legal proceedings” in this document, the litigations with Customer K as set out in the paragraph headed “(viii) Specific circumstances of the major long-outstanding trade receivables” below and Customer S, a government entity, involving in a legal proceeding with us for outstanding settlement of construction service fees. The amount of outstanding contract assets due from Customer S was approximately RMB1.1 million as at 31 December 2018. In September 2019, the trial court ruled that Customer S is liable to pay a net amount of approximately RMB1.1 million to our Group. We recovered the full outstanding amount of approximately RMB1.1 million from Customer S in November 2019, and had no actual impairment loss.

Our Directors submit that (i) there were only two Government-related Entities customer which had litigation with regard to the trade receivables and contract assets balances with our Group out of more than 100 such Government-related Entities customers throughout the Track Record Period; (ii) the disputed contract asset amount due from Customer S only accounted for approximately 0.2% of the aggregate of trade receivables and contract assets amounts due from all Government-related Entities of approximately RMB471.5 million as at 1 January 2019 and our Group fully recovered the outstanding amount and had no actual impairment loss; and (iii) the aggregate trade receivable and contract asset amount due from Customer R and Customer K was approximately RMB13.2 million, only accounted for approximately 1.44% of the aggregate of trade receivables and contract assets amounts due from all Government-related Entities of approximately RMB915.9 million as at 30 September 2022. In light of the above, our Directors are of the view that our Government-related Entity customers in general have good creditability.

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The ECL rate for the provision for impairment loss on trade receivables and contract assets of Government-related Entities is approximately 0.6%, 0.8%, 0.9% and 1.1% as at 31 December 2019, 2020 and 2021 and 30 September 2022, respectively. Having considered the scale of operation, reputation and governmental background of our customers, the years of business relationship with them, the minimal history of default as discussed above and the upward adjustment made based on estimated COVID-19 impact, our Directors consider that the provision for impairment loss on trade receivables and contract assets for Government-related Entities is sufficient.

(vii) Low credit risk for government projects

Pursuant to Article 22 of the Government Investment Regulation, government investment projects shall be fully funded in accordance with the relevant regulations. It also stipulates that advance payment by construction enterprise is not allowed in government investment projects. For the details of the Government Investment Regulation, please refer to the section headed “Regulatory Overview — Government Investment Regulation” in this document. As advised by our PRC Legal Advisers, pursuant to “Interpretations on Issues relating to the Application of Laws in the Trial of Disputes over Constriction Project Contracts” (關於審理建設工程施工合同糾紛案件適用法律問題的解釋), when no “advanced payment” is stipulated under the contract, the amounts due shall be treated as “construction debt”. The PRC Legal Advisers are of the view that the amounts due from the Government-related Entities customers under the contract shall be treated as the “construction debt” rather than the “advance payment” and customers of our Group which are Government-related Entities comply with the Government Investment Regulation.

In light of the general expectation that the payment obligations for government projects will be honoured, our Directors take the view that the credit risk of trade receivables and contract assets in relation to our government projects that are owned by Government-related Entities is low.

For the details of the expected loss rate and loss allowance of trade and bills receivables, please also refer to note 38(b)(i) to the Accountants’ Report set out in the Appendix I to the document.

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(viii) Specific circumstances of the major long-outstanding trade receivables

The trade receivables due from the top five debtors in terms of trade receivables that were past due over one year by project as at 30 September 2022 amounted to approximately RMB28.4 million, representing approximately 80.5% of the total trade receivables that were past due over one year as at 30 September 2022. The details of these major debtors in terms of trade receivables that were past due over one year as at 30 September 2022 are as follows:

Customer Name	Project Name	Trade receivables as at 30 September 2022	ECL loss allowance	Status of the underlying properties subject to settlement	Details of our Directors' assessment on the sufficiency of our provision for impairment loss for each customer
Customer Shicuiying	Ningbo Gaoqiao Town Changle Village Development* (寧波高橋鎮長樂村居住地) project	Approximately RMB17.9 million, the entire amount being past due over one year	Approximately RMB0.9 million	Some properties at the relevant Ningbo Gaoqiao Town Changle Village Development* (寧波高橋鎮長樂村居住地) project were sealed up for the purpose of settlement of account receivables due from Customer Shicuiying and we are pending the court procedures for selling these properties for settlements	Pursuant to agreement after the court-led mediation, it was agreed that Zhongtian Construction is entitled to Priority of Compensation in respect of the properties constructed by Zhongtian Construction for Customer Shicuiying. Our PRC Construction Legal Advisers advised that (i) we are the sole main contractor of the Ningbo Gaoqiao Town Changle Village Development* (寧波高橋鎮長樂村居住地) project; (ii) no other creditor has made any claim on the Ningbo Gaoqiao Town Changle Village Development* (寧波高橋鎮長樂村居住地) project as at the Latest Practicable Date; (iii) we solely have the Priority of Compensation with respect to the Ningbo Gaoqiao Town Changle Village Development* (寧波高橋鎮長樂村居住地) project; and (iv) there is no legal impediment for our Group to transfer the interest to willing buyers notwithstanding the incomplete legal title registration of the underlying properties of the relevant project.
					The Bureau of Housing and Urban-Rural Development of Ningbo City* (寧波市住房和城鄉建設局) has sealed up the property rights over 151 car parking spaces and 27 properties held by Customer Shicuiying for the purpose of settling our trade receivables. As appraised by the Independent Valuer, the market value of the relevant underlying properties of this project as at 30 September 2022 was approximately RMB30.4 million. For details, please refer to the section headed “Business — Legal and regulatory — Legal proceedings” in this document.

In light of the Priority of Compensation, the fact that we have sealed up properties of Customer Shicuiying for settling the balance and the market value of the relevant underlying properties of Customer Shicuiying, our Directors consider that our provision for impairment loss on trade receivables due from Customer Shicuiying is sufficient.

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Customer Name	Project Name	Trade receivables as at 30 September 2022	ECL loss allowance	Status of the underlying properties subject to settlement	Details of our Directors assessment on the sufficiency of our provision for impairment loss for each customer
Customer J	Hunan Chemical Vocational And Technical College Library and Exhibition Hall Project* (化工職業技術學院圖書館、展覽館專案)	Approximately RMB7.4 million, out of which approximately RMB4.4 million was past due over one year	Approximately RMB0.3 million	N/A	Customer J, a state-owned enterprise responsible for managing a higher education institute in Hunan, has been making repayments during the Track Record Period and it settled approximately nil, RMB3.6 million, RMB0.2 million, nil and nil, respectively, during each of FY2019, FY2020, FY2021, 3Q2022 and the period after the Track Record Period up to the Latest Practicable Date. In light of (i) the continuous repayment record during the Track Record Period; and (ii) its background as a state-owned enterprise established by the Hunan government, our Directors consider that our provision for impairment loss on trade receivables due from Customer J is sufficient.
Customer K	Cheung Sha Greenland related projects* (長沙綠地相關工程)	Approximately RMB3.1 million, the entire amount being past due over one year	Approximately RMB0.2 million	N/A	Customer K is principally engaged in, among others, property development in the PRC and is held as to 50% and 50% by a state-invested enterprise and a private enterprise, the parent companies of which are listed on the Shanghai Stock Exchange and Hong Kong Stock Exchange, respectively. Our Group had contractual dispute regarding construction service fees in relation to the amount of the construction service fees and the time of payment with this customer. In June 2022, Zhongtian Construction commenced three legal proceedings against Customer K in respect of Cheung Sha Greenland related projects* (長沙綠地相關工程), and the trial court ruled in October 2022 that Customer K is liable to pay, in aggregate, approximately RMB3.8 million plus interest of approximately RMB0.6 million to Zhongtian Construction plus other penalty. The above three legal proceedings are separate legal proceedings and each of them individually did not constitute material legal proceedings of our Group which would have a material adverse effect on our financial position. Such amounts remained outstanding as at the Latest Practicable Date In light of the results of the legal proceedings and considering the background of Customer K as a state-invested enterprise, our Directors consider that our provision for impairment loss on trade receivables due from Customer K is sufficient.

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Customer Name	Project Name	Trade receivables as at 30 September 2022	ECL loss allowance	Status of the underlying properties subject to settlement	Details of our Directors assessment on the sufficiency of our provision for impairment loss for each customer
Customer AP	Yanling County Chinese Medicine Hospital Relocation Project Phase I* (炎陵縣中醫醫院整體搬遷項目一期)	Approximately RMB5.8 million, out of which approximately RMB2.1 million was past due over one year	Approximately RMB0.2 million	N/A	Customer AP, being a state-owned enterprise established for managing a Chinese medicine hospital in Hunan, has been making repayments during the Track Record Period and it settled approximately RMB2.8 million, RMB1.9 million, RMB1.8 million, RMB1.9 million and RMB1.1 million, respectively, during each of FY2019, FY2020, FY2021, 3Q2022 and the period after the Track Record Period up to the Latest Practicable Date. In light of (i) the continuous repayment record during the Track Record Period; and (ii) its background as a state-owned enterprise, our Directors consider that our provision for impairment loss on trade receivables due from Customer AP is sufficient.
Customer Z	Huachen Yunxi Wan Phase I* (華晨雲溪灣一期)	Approximately RMB1.2 million, out of which approximately RMB0.9 million was past due over one year	Approximately RMB0.1 million	N/A	Customer Z is a private enterprise principally engaged in construction business in the PRC. The trade receivables due from Customer Z arose from the lease of construction machinery and equipment. After the Track Record Period and up to the Latest Practicable Date, this customer has settled approximately RMB0.9 million. In light of the subsequent settlement, our Directors consider that our provision for impairment loss on trade receivables due from Customer Z is sufficient.

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On the basis of each of the factors as assessed above and the valuation performed by the Independent Valuer on the ECL rates, our Directors considered, and the Reporting Accountants and the Sole Sponsor concurred, that the ECL allowances on our Group's trade receivables and contract assets have been adequately provided for at the end of each of the years/period comprising the Track Record Period.

Average trade and bills receivables turnover days

Average trade and bills receivables turnover days indicates the average time required for us to collect cash payments from trade and bills receivables. The table below sets out the average trade and bills receivables turnover days as at the dates indicated:

	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>	<u>3Q2022</u>
Average trade and bills receivables turnover days (<i>Note</i>)	76.9	103.9	97.3	85.1

Note: The calculation of average trade receivables turnover days is based on the average of the opening balance and closing balance of trade and bills receivables for the relevant year/period divided by revenue and multiplied by the number of days in the relevant year/period.

We had higher trade and bills receivables turnover day of 103.9 days for FY2020 when compared with that of FY2019 mainly because a number of projects have completed their settlement audit during FY2020, thus we were entitled to bill a larger amount of contract assets and our trade receivables as at 31 December 2020 were proportionately larger, leading to a higher trade and bills receivables turnover day for FY2020. For FY2020, approximately RMB848.3 million contract assets were converted to trade receivables, as compared with approximately RMB466.0 million and RMB685.8 million contract assets that were converted to trade receivables in FY2018 and FY2019.

We had lower trade and bills receivables turnover day of 97.3 days and 85.1 days for FY2021 and 3Q2022, respectively, when compared with that of 103.9 days for FY2020 as we recorded faster repayment of trade receivables from our customers in FY2021 and 3Q2022.

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In order to manage our trade receivables and contract assets position going forward, we adopted the following customer credit assessment policy and trade receivables and contract assets monitoring policy and procedures to manage recoverability of our trade receivables and contract assets:

Customer credit assessment policy

Pursuant to our customer credit assessment policy, the responsible departments and our employees shall assess the credibility of the customers in the following manner:

- credit investigation and information management system: in order to understand the background and credibility of the potential or existing customers, our marketing operation department and work safety, procurement and subcontracting department are required to (i) collect and analyse the customers' basic information, business and financial situation, industrial and commercial information, credit information and legal proceedings prior to providing services to the customers, and (ii) create a database of customers and update and maintain the aforementioned information; and
- credit management mechanism: we review and evaluate the credibility of customers so as to customise the corresponding collection arrangement for the customers based on their specific background and credibility.

Trade receivables and contract assets control policy

We have formulated a number of internal control manuals, which stipulate the regular review of the ageing of trade receivables and contract assets and relevant follow-up procedures. We designate a working group which is responsible for reminding customers of overdue or upcoming contract assets and collection of outstanding sum with an aim to clearing debts as a daily management mechanism. The working group comprises the general manager, the financial manager, the project department, and the responsible personnel of the cost and contract department of our Group.

Pursuant to the credit assessment and internal control manuals, our Group monitors the ageing of our contract assets and trade receivables through a balance sheet of contract assets and trade receivables prepared by our finance department on a monthly basis, allowing us to monitor ageing of such balances for our projects individually and for our Group collectively. The project management team under our engineering department follows up and discusses the confirmation of contract assets and collection of trade receivables reflected in the aforementioned balance sheet for

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receivables through telephone and emails, identify projects with the long outstanding contract assets and trade receivables and assesses the recoverability of outstanding sum for each project individually.

In particular, the key measures that our Group will take in relation to outstanding sum from the customers based on the period of outstanding amount due are summarised as follows:

- for outstanding amounts determined to be long outstanding, the designated person shall formulate a follow-up plan on collection of trade receivables, communicate with the customer and carry out the collection work; and
- for outstanding amounts determined to have aged significantly longer than expected, subject to the discussion among the general manager and the responsible personnel of the finance department and the engineering department, measures will be taken to suspend or slow down the project construction to promote the customers to speed up the conversion and settlement process.

The project accountants are required to provide the cost and contract department with account receivable report on a monthly basis, which lists out details of the contract assets and trade receivables. The responsible person for settlement in the cost and contract department shall complete monthly debt settlement summary after communicating with each responsible person for debt collection. Such monthly debt settlement summary includes project name, contract agreement, project status, cumulative amount of payment received, amount receivable and uncollected amount as well as status of the completion of debt clearing in the previous month and plan for the next month, which shall be reviewed by the business manager of the cost and contract department and sent to the deputy general manager of the cost and contract department, the chief financial officer and the general manager for approval.

For the debts that may not be recovered, the deputy general manager of the work safety, procurement and subcontracting department shall put forward the bad debt treatment requirements, and the responsible person for settlement of the cost and contract department shall fill in the form of bad debt treatment of trade receivable, which shall be signed and approved by the manager of the cost and contract department, the deputy general manager of the work safety, procurement and subcontracting department, the chief financial officer, the general manager and the Board of Directors, and the general accountant shall record the bad debts. In 3Q2022, we have been more proactive in expediting the receivable recovery process by taking legal actions against our debtors, therefore we had five material legal proceedings against our customers as at the Latest Practicable Date. For details of our legal proceedings, please refer to the section headed “Business — Legal and Regulatory — Legal proceedings” in this document.

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Our Directors are of the view that we have maintained an effective credit control policy and implemented effect measures to monitor and improve our liquidity and credit risks on the following bases:

- comprehensive credit investigation and information management system and credit management mechanism which enable effective and timely assessment of the customers' credibility and customised debt collection strategies in accordance with the credit assessment results;
- clear division of responsibilities between the finance department, project management team, cost and contract department and the designated credit working group; and
- detailed procedures for our staff to abide to, in particular, reporting mechanism by our cost and contract department and finance department, collection of data in relation to outstanding amount and tailored procedures for collection of outstanding amount according to the period of outstanding amount due.

Approximately RMB414.8 million, or 80.8% of our trade receivables outstanding as at 31 December 2020 was subsequently settled in FY2021. According to the F&S Report, in 2021, our industry peers in the construction industry generally received approximately 30% to 78% of the amount of their trade receivables outstanding as at 31 December 2020. Therefore, the subsequent settlement of our trade receivables outstanding as at 31 December 2020 was better than that experienced by our industry peers in 2021. As at the Latest Practicable Date, approximately RMB460.5 million, RMB474.5 million, RMB374.5 million and RMB68.9 million, or 96.2%, 92.4%, 82.7% and 17.5% of the trade receivables outstanding as at 31 December 2019, 2020 and 2021 and 30 September 2022, respectively, had been subsequently settled.

Other receivables, prepayments and deposits

Deposits and other receivables mainly represent the tender and performance guarantee due from our customers. The amount of tender deposits depends on the tender terms, contract value and relationship between our customers and us, which normally ranges from approximately 5% to 10% of the contract value (including tax). Balance of our deposits and other receivables were approximately RMB66.4 million as at 31 December 2019 and approximately RMB64.1 million as at 31 December 2020 and remained stable. It dropped to approximately RMB56.0 million as at 31 December 2021. Such decrease in FY2021 was mainly because more performance bonds were issued by our bank(s) to our customers for securing the due performance in our projects. The amount of performance bonds issued by our bank(s) as at 31 December 2020 and 2021 and the

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Latest Practicable Date was approximately RMB12.5 million, nil and nil, respectively. Balance of our deposits and other receivables remained stable at approximately RMB56.8 million as at 30 September 2022.

Prepayments mainly represent the prepayments made to suppliers of raw materials and subcontractors for our construction projects. Our prepayment amounted to approximately RMB1.3 million, RMB25.3 million and RMB18.5 million as at 31 December 2019, 2020 and 2021, respectively. Our prepayment as at 31 December 2020 increased as compared to that as at 31 December 2019 mainly because we had (i) prepaid project cost of approximately RMB17.3 million as at 31 December 2020 for the new Hainan Lixun Meilun Science and Technology Park* (海南力迅美倫科創園) project which was commenced in May 2020 to procure raw materials and devote sufficient resources at the request of Customer P in order to shorten project construction period; and (ii) prepaid [REDACTED] expenses of approximately RMB3.7 million as at 31 December 2020. Having considered that we had previously received approximately RMB51.9 million from Customer P as advance payment which was recorded in contract liabilities as at 31 December 2020, our Directors considered the arrangement is reasonable. Our prepayment as at 31 December 2021 decreased as compared to that as at 31 December 2020 mainly because the prepaid project cost for the Hainan Lixun Meilun Science and Technology Park* (海南力迅美倫科創園) project dropped from approximately RMB17.3 million as at 31 December 2020 to approximately RMB12.4 million as at 31 December 2021. Our prepayment increased to approximately RMB23.7 million mainly because of prepayment of approximately RMB11.4 million made to labour subcontractor companies for various projects.

Our impairment provision for deposits and other receivables amounted to approximately RMB5.9 million, RMB8.8 million, RMB6.6 million and RMB7.4 million as at 31 December 2019, 2020 and 2021 and 30 September 2022, respectively. The amount reflects the amount of deposits and other receivables and their recoverability.

The ECL assessment on the deposits and other receivables was performed using the probability-weighted loss default model under the general approach in accordance with HKFRS 9. Due to the nature of these receivables, there is no consistent and recurring history of default from the counterparties. The default probabilities for the deposits and other receivables were determined according to the credit rating of the counterparties, as determined by the Global Corporate Average Cumulative Default Rate (1981-2020) provided by S&P Global Fixed Income Research.

The impairment provision for the deposit and other receivables was relatively higher than that made for trade receivables and contract assets because the deposit and other receivables are unsecured and thus have higher credit exposure, whilst we are entitled to the Priority of Compensation in construction projects relating to the trading receivables and contract assets. The

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ECL for deposits and other receivables is derived from market research due to the lack of historical data on the individual line of receivables, while the ECL for trading receivables and contract assets is derived from historical aging and default patterns due to their operating nature.

Contract assets and contract liabilities

Contract assets

Contract assets represent our right to consideration for work completed at the reporting date on revenue related to the provision of construction services. Contract assets are recognised when our Group recognises revenue before being unconditionally entitled to consideration under the payment terms as set out in the contract (such as upon completion of settlement audit). Contract assets are transferred to receivables when the rights to the consideration has become unconditional which usually occurs when we bill the customers.

We recognise revenue over time with input method which is measured by the proportion of the actual costs incurred relative to the budgeted total construction costs as a percentage of the total contract value of the corresponding project. During the Track Record Period, there were no material differences between our budgeted costs and the actual costs incurred for our construction projects. Contract assets primarily relate to our Group’s rights to consideration of work completed but not yet reached the milestones for billing at the reporting date. After commencement of the project and subject to the terms of the contract, we would assess the volume of work that we have performed. Generally, during the performance of the construction works we are contractually entitled to make progress billing to our customers according to the construction schedule, based on a progress billable percentage, generally ranging from 70% to 85%, of the total value of the work performed as stipulated in the relevant construction contract (with exceptions as stated in the paragraph headed “Business — Our business operations — Operating process — Project implementation phase — Progress billing to customers” in this document). The remaining unbilled portion of value of work performed is recognised as contract assets and will be reclassified as trade receivables and recovered from customers when it becomes unconditional for billing (other than the retention money which usually accounts for 3% to 5% of the final settlement value) upon the completion of the settlement audit. According to the F&S Report, the percentage of performed work that can be billed to customers out of all work performed before settlement audit is comparable to those of our industry peers and our Group’s billing process and the timing of billing were comparable to those of our industry peers on the basis that (i) payments for the construction services are generally made upon achieving key milestones set forth in the construction services contracts; and (ii) the industry peers are generally entitled to bill the customers 50% to 90% of the total amounts of the work performed during the performance of the construction works before the settlement audit.

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Typically, qualified surveyors are engaged by our customers for, among others, confirming the progress of the construction work performed by our Group in the relevant project from time to time. Our Group would then bill the relevant customer according to the percentage of work we have completed when we have reached the milestone for billing as stated on the relevant construction contracts.

After the completion and acceptance of the construction work, we will commence the settlement audit process with our customers according to the contract terms. During the Track Record Period, the weighted average time required for us to complete the settlement audit and bill the balance of the final settlement value (excluding the 3% to 5% retention money) after completion of the project amounted to approximately 1.5 years.

According to the F&S Report, the prolonged settlement audit process is common in the construction industry in the PRC, and it was mainly due to, among other things, i) the detailed inspection by multiple responsible persons of different parties especially for large and complex projects or projects obtained from state-owned enterprises; ii) extended negotiation for the final settlement, including the determination of the scope of work done, settlement of quality issues and the discussion of adjustment in the course of the performance of the relevant contracts; iii) long internal approval process by the management and/or finance departments of the customers especially for some of the customers (e.g. Government-related Entities) due to the involvement of multiple responsible persons of different parties; and (iv) some sizable and/or complex projects which require longer time for inspection and hence resulting in longer time of the completion of the settlement audit.

Further, according to Hunan Engineering Management Society, endorsement of project progress certificate only involves ascertaining costs incurred at specific stages of a construction project and the qualified surveyors are familiar with the actual work completed at specific stages, therefore the time required to complete the endorsement of project progress certificate is relatively short. On the other hand, settlement audit is generally time-consuming, primarily attributable to the abundant information and documents to be submitted for settlement audit, including but not limited to construction contracts, construction commencement reports, tender-awarding notices, tendering documents, cost schedules and project completion inspection reports, on-site examination and verification of such information and documents, the involvement of multiple responsible persons of different parties and multiple rounds of negotiation between the construction company and its customers. The settlement audit requires the audit of the construction works of the whole project from commencement to completion, the scope of work during the settlement audit is broader than the regular endorsement of project progress certificate by qualified surveyors during the project implementation phase and hence generally takes a relatively long time to complete.

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Settlement audit generally takes six months or up to three years to complete. Such process may be further prolonged to more than five years under special circumstances, such as repeated change of personnel of the customer.

According to the F&S Report, the relatively long turnover days of trade receivables and of contract assets is common in the construction industry in the PRC, especially for some of the customers (e.g. Government-related Entities) and sizable projects, the settlement audit generally will take a long time due to long internal approval process, involvement of multiple responsible persons of different parties and extra time required for inspecting large and/or complex projects, etc.

During the Track Record Period, some of our customers were Government-related Entities which usually involve a long internal approval process by the management and/or finance departments of our customers, coupled with the submission of all the documents required for settlement and the detailed inspection by multiple responsible persons of different parties especially for large and complex projects or projects obtained from state-owned enterprises, we experienced a longer settlement period for certain major projects. In particular:

- (i) we encountered more complicated internal processes for projects where the customers are Government-related Entities, which required multiple rounds of negotiations between our Group and the customer to determine the final settlement, including the determination of scope of work done, settlement of quality issues and the discussion of adjustment made in the process of carrying out construction work. The internal approval procedure of the customer’s management and financial department was time-consuming in general and usually took around two years to complete the entire settlement process. In particular, our Group’s settlement audit process of Yueyang Wangjia River Improvement Work* (岳陽王家河治理工程) project coincided with the customer’s internal personnel change in the person in charge of the project, which further delayed the completion of the settlement audit process for more than three years;
- (ii) for some sizable and complex projects with long project duration, it would generally take a longer time for inspection and confirmation of the scope of work done of the whole project than less sizable project, and thus a longer time to complete the settlement audit (i.e. longer than the industry practice of two years). For example, for Wenzhou City-round Expressway Resettlement Housing in Lucheng Section Phase One and Two* (溫州繞城高速鹿城段安置房一、二期建安工程) project with contract sum (exclude VAT) of approximately RMB161.8 million, the project duration was more than seven years due to several adjustments on the design as requested by the customer and demolition which delayed the construction schedule for several part of the project and it took another three more years to complete the settlement audit. Nonetheless, there

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was no dispute between us and the customer during the settlement audit with a little discrepancy of only 0.5% between the settlement amount and the accumulated revenue recognised;

- (iii) for some projects with multiple variation orders, it would also take a longer time from the completion of the project up to the settlement audit. For example, Qi Bo Yuan Second-Hand Vehicles Trading Centre* (汽博園二手車交易中心) project was completed in April 2018 based on the date of completion as shown on the acceptance of project completion inspection certificate and subsequent to the completion, variation order was agreed by the parties by way of supplemental agreements in May 2018 and August 2020 and the final settlement audit was then completed in September 2021, and therefore the period between the completion of the project up to the completion of the settlement audit process is nearly three years; and
- (iv) in some projects undertaken by our Group before the Track Record Period, our Group was only involved in part of the project, such as foundation work rather than the construction of the whole building while the settlement audit would perform after the completion of whole project. As our Group has no control over the construction timing of the other parts of the project, there may be a significant delay in the settlement audit for these projects.

Therefore, despite the representatives of the qualified surveyors station at the construction sites and closely monitor the project progress, we have a longer settlement audit period (i.e. weighted average settlement period of 1.5 years for the Track Record Period) than the industry peers, which generally took around several months or up to one year to complete the settlement audit.

Our Directors acknowledged the prolonged settlement of certain projects of our Group (including some extreme cases which had taken more than three years to complete the settlement audit) and endeavoured to shorten the settlement period of the completed projects going forward. We have adopted an internal control policy on the settlement audit since 2020, which the cost and contract department of our Group will designate employees to follow up on the progress of the settlement audit for the completed projects together with the project management team, in a bid to lower the number of completed projects that have not completed settlement audit as well as shorten the settlement period of the completed projects in the long run. As a result of the adoption of such policy, the number of projects having completed settlement audit increased from 43 in FY2019 and 50 in FY2020 to 72 in FY2021. To the best knowledge of our Directors, save for the legal proceeding with Customer V which has been fully settled during the Track Record Period, details of which are set out in the paragraph headed “Trade, bills and other receivables — Ageing analysis of trade receivables — (iv) We are entitled to Priority of Compensation” in this section,

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and the legal proceedings regarding construction service fees, details of which are disclosed in the section headed “Business — Legal and Regulatory — Legal proceedings” in this document, there was no material dispute (i.e. legal proceeding or complaint filed by the customers) between us and our customers during the Track Record Period, with regards to settlement audit.

The retention money are billed by instalments during the warranty period or in full at the end of such period, which usually takes another one to two years from the acceptance of the completion of the construction, depending on the type of construction service provided. For details of the payment term of our typical construction contracts, please refer to the section headed “Business — Our business operations — Operation process — Project implementation phase — Contract signing” in this document.

The following table sets forth the breakdown of contract assets as at the dates indicated:

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contract assets arising from				
construction services	1,178,098	1,233,915	1,224,216	1,188,912
Loss allowance provision	(4,573)	(6,760)	(8,121)	(9,895)
Net contract assets	<u>1,173,525</u>	<u>1,227,155</u>	<u>1,216,095</u>	<u>1,179,017</u>

Our contract assets increased by RMB53.6 million or 4.6% from RMB1,173.5 million as at 31 December 2019 to RMB1,227.2 million as at 31 December 2020. Our contract assets decreased by RMB11.1 million or 1.0% from RMB1,227.2 million as at 31 December 2020 to RMB1,216.1 million as at 31 December 2021 and RMB1,179.0 million as at 30 September 2022..

The increase in contract asset between 31 December 2019 and 31 December 2020 was primarily because of (i) an increase in our business volume from FY2019 to FY2020; and (ii) the difference between the amounts of work performed and the amounts billed to customers during the performance of the construction works, which is to be recognised as contract assets. As the duration of some of our construction projects lasts for more than four years, there is a cumulative effect on our balance of contract assets. In particular, as the work of our largest on-going project in terms of revenue recognised during the Track Record Period, i.e. Dongfang Xin’an Homeland (Phase II)* (東方市新安家園 (二期)) project, commenced in 2016 and continued throughout the Track Record Period, the contract assets in relation to Dongfang Xin’an Homeland (Phase II)* (東方市新安家園 (二期)) project accumulated and increased from approximately RMB140.5 million as at 31 December 2019 to RMB156.0 million and RMB161.0 million as at 31 December 2020 and

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2021 respectively. Such balance (other than the retention money which represents 5% of the final settlement value) will only become unconditional for billing after completion of the project (expected to be completed in the fourth quarter of 2023) and upon the completion of the settlement audit. In addition, the new Hainan Lixun Meilun Science and Technology Park* (海南力迅美倫科學園) project was commenced in May 2020 and the contract assets in relation to this project amounted to RMB48.1 million as at 31 December 2020.

Our contract asset decreased from RMB1,227.2 million as at 31 December 2020 to RMB1,216.1 million as at 31 December 2021, mainly because of our efforts to follow up on the progress of the settlement audit. Our contract asset further decrease to RMB1,179.0 million as at 30 September 2022. We have adopted an internal control policy on the settlement audit since 2020, according to which the cost and contract department of our Group will designate employees to follow up on the progress of the settlement audit for the completed projects together with the project management team, in a bid to lower the number of completed projects that have not completed settlement audit as well as shorten the settlement period of the completed projects in the long run. As a result of the adoption of such policy, the number of projects having completed settlement audit increased from 43 in FY2019 to 50 in FY2020. We have also completed settlements audit for 72 projects in FY2021. We converted approximately RMB848.3 million and RMB724.3 million of contract assets into trade receivables for FY2020 and FY2021, respectively. For 3Q2022, we have completed settlement audit for 26 projects, and converted approximately RMB87.1 million of contract assets into trade receivables.

Our contract assets include retention money of approximately RMB22.8 million, RMB58.0 million, RMB48.5 million and RMB108.4 million as at 31 December 2019, 2020 and 2021 and 30 September 2022, respectively. Retention money is retained by our customers at a rate of approximately 3% to 5% of the contract value (including tax). The terms and conditions in relation to the release of retention money vary from contract to contract, which may be subject to the expiry of the warranty period or a pre-agreed time period.

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Ageing analysis of contract assets

As at December 2019, 2020 and 2021 and 30 September 2022, the ageing analysis of contract assets based on recognition date and classified by types of debtors are as follows:-

	As at 31 December						As at 30 September					
	2019			2020			2021			2022		
	Government-related Entities	Non-Government-related Entities	Total	Government-related Entities	Non-Government-related Entities	Total	Government-related Entities	Non-Government-related Entities	Total	Government-related Entities	Non-Government-related Entities	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within 180 days	235,165	139,797	374,962	139,649	163,862	303,511	139,272	115,032	254,304	137,480	95,510	232,990
181–365 days	87,465	70,778	158,243	90,203	75,733	165,936	78,756	64,933	143,689	129,497	57,556	187,053
1–2 years	141,282	156,152	297,434	220,106	134,600	354,706	187,952	129,224	317,176	166,412	161,917	328,329
2–3 years	78,097	79,009	157,106	102,119	83,443	185,562	120,294	109,335	229,629	138,026	100,028	238,054
3–4 years	69,658	35,818	105,476	49,639	65,375	115,014	57,366	80,043	137,409	43,272	77,999	121,271
Over 4 years	57,665	27,211	84,876	67,926	41,240	109,166	54,890	87,119	142,009	49,101	32,114	81,215
	669,332	508,765	1,178,097	669,642	564,273	1,233,915	638,530	585,686	1,224,216	663,788	525,124	1,188,912

Our Directors considered the ageing analysis of our Group’s contract assets prepared based on recognition date could reflect the duration of our construction projects and provide a clear picture of the period in which the underlying construction works were performed.

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As at 31 December 2019, 2020 and 2021 and 30 September 2022, the ageing analysis of contract assets based on first in first out (“FIFO”) and classified by types of debtors, and the subsequent billing of contract assets based on first in first out up to the Latest Practicable Date, are as follows:-

	As at 31 December										As at 30 September									
	2019					2020					2021					2022				
	Government-related Entities related	Non-Government-related Entities debtors	Total	Less: amount subsequently billed up to the Latest Practicable Date	Remaining balances up to the Latest Practicable Date	Government-related Entities related	Non-Government-related Entities debtors	Total	Less: amount subsequently billed up to the Latest Practicable Date	Remaining balances up to the Latest Practicable Date	Government-related Entities related	Non-Government-related Entities debtors	Total	Less: amount subsequently billed up to the Latest Practicable Date	Remaining balances up to the Latest Practicable Date	Government-related Entities related	Non-Government-related Entities debtors	Total	Less: amount subsequently billed up to the Latest Practicable Date	Remaining balances up to the Latest Practicable Date
Within 180 days	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
181-365 days	506,166	445,708	951,874	925,724	26,150	420,055	385,217	805,252	687,499	117,753	413,675	320,887	734,562	408,407	326,155	451,728	314,891	766,619	55,033	711,586
1-2 years	71,692	35,546	107,238	102,449	4,789	192,950	147,470	340,400	312,041	28,359	152,788	147,568	300,356	182,734	117,622	180,902	120,597	301,499	30,500	270,999
2-3 years	42,566	20,856	63,422	61,303	2,119	25,408	18,644	44,052	39,198	4,854	62,411	112,895	175,306	149,827	25,479	25,112	82,906	108,018	19,010	89,008
3-4 years	30,893	4,145	35,038	34,257	781	12,256	10,642	22,898	20,779	2,119	6,865	3,354	10,219	6,948	3,271	5,417	5,820	11,237	158	11,079
Over 4 years	12,021	1,152	13,173	13,173	—	16,150	1,915	18,065	17,284	781	2,205	436	2,641	2,305	336	185	910	1,095	137	958
	5,994	1,358	7,352	7,352	—	2,863	385	3,248	3,248	—	586	546	1,132	688	444	444	—	444	—	444
	669,332	508,765	1,178,097	1,144,258	33,839	669,642	564,273	1,233,915	1,080,049	153,866	638,550	585,686	1,224,216	750,909	473,307	663,788	525,124	1,188,912	104,838	1,084,074

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Our Directors considered the ageing analysis of our Group’s contract assets prepared based on FIFO basis provides useful information on the delay in billings of contract assets for on-going projects. The analysis of the changes in the aging pattern of our Group’s contract assets prepared based on FIFO basis is set out below:

The aging of contract assets based on FIFO as at 31 December 2021 generally aged longer than those as at 31 December 2020, as the contract assets that aged over one year increased from approximately RMB88.2 million as at 31 December 2020 to approximately RMB189.3 million as at 31 December 2021 mainly because of the delay in billing of contract assets of Dongfang Xin’an Homeland (Phase II)* (東方市新安家園(二期)) project and the Sanya City Third Ring Road* (三亞市三環路) project. The contract assets that aged over one year as at 31 December 2021 for these two projects amounted to approximately RMB104.2 million, accounting for 55.0% of all contract assets that aged over one year as at 31 December 2021.

The construction works of Dongfang Xin’an Homeland (Phase II)* (東方市新安家園(二期)) project was slowed down in FY2021 pending the clearance of certain parts of the construction site by the relevant government authority, leading to longer aging of the contract assets for this project as at 31 December 2021. For Sanya City Third Ring Road* (三亞市三環路) project, the expected completion date, hence the settlement audit and subsequent billing of contract assets was postponed due to the delay in the clearance of certain parts of the construction site to be completed by Customer T, a local government entity in Hainan Province. Such delay led to longer aging of the contract assets for this project based on FIFO as at 31 December 2021. The clearance process has already been completed in February 2022. In June 2022, we signed a supplement agreement with Customer T for additional construction works to be undertaken by us, and it is expected that Sanya City Third Ring Road* (三亞市三環路) project would be completed by December 2023. Due to the resumption of these two major projects with significant old-aged contract assets during 3Q2022, the aging of contract assets as at 30 September 2022 improved and aged shorter than that as at 31 December 2021, with the contract assets that aged over one year dropped to approximately RMB120.8 million.

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The effect of the two projects, namely Dongfang Xin'an Homeland (Phase II)* (東方市新安家園(二期)) project and Sanya City Third Ring Road* (三亞市三環路) project, on the aging of contract assets based on FIFO is illustrated in the following table:

	As at 31 December 2019			As at 31 December 2020			As at 31 December 2021			As at 30 September 2022					
	Aged within one year	Over one year	Total	Aged within one year	Over one year	Total	Aged within one year	Over one year	Total	Aged within one year	Over one year	Total			
	<i>As a</i>	<i>As a</i>		<i>As a</i>	<i>As a</i>		<i>As a</i>	<i>As a</i>		<i>As a</i>	<i>As a</i>				
	<i>percentage</i>	<i>percentage</i>	<i>RMB'000</i>	<i>percentage</i>	<i>percentage</i>	<i>RMB'000</i>	<i>percentage</i>	<i>percentage</i>	<i>RMB'000</i>	<i>percentage</i>	<i>percentage</i>	<i>RMB'000</i>			
Contract assets for:															
— Dongfang Xin'an Homeland (Phase II)* (東方市新安家園(二期)) project	100.0%	—	140,496	100.0%	—	156,046	68,264	42.4%	92,711	57.6%	160,975	23,490	73,481	75.8%	96,971
— Sanya City Third Ring Road* (三亞市三環路) project	—	0.0%	35,492	—	0.0%	39,697	29,963	72.2%	11,522	27.8%	41,485	33,049	—	—	33,049
— all other projects	88.1%	118,984	1,002,109	91.5%	88,264	1,038,171	936,689	91.7%	85,067	8.3%	1,021,756	1,011,579	95.5%	47,313	4.5%
Total contract assets	89.9%	118,984	1,178,097	92.8%	88,264	1,233,914	1,034,916	84.5%	189,300	15.5%	1,224,216	1,068,118	89.8%	120,794	10.2%

As shown in the above table, the total contract assets that aged over one year as a percentage of total contract assets increased noticeably from approximately 10.1% and 7.2% as at 31 December 2019 and 2020 to approximately 15.5% as at 31 December 2021, whereas the contract assets for projects other than the two projects that aged over one year as a percentage of total contract assets for projects other than the two projects was approximately 11.9%, 8.5%, 8.3% and 4.0% as at 31 December 2019, 2020 and 2021 and 30 September 2022 respectively, and remained relatively low throughout the Track Record Period. This therefore demonstrates that the long aged contract assets during the Track Record Period, as at 31 December 2021 in particular, was mainly attributed to the long aged contract assets of Dongfang Xin'an Homeland (Phase II)* (東方市新安家園(二期)) project and the Sanya City Third Ring Road* (三亞市三環路) project, which experienced delay in billing of contract assets in FY2021 as explained in the paragraph above. Due to the resumption of these two major projects with significant old-aged contract assets during 3Q2022, the amount of contract assets for these two projects that aged over one year dropped from approximately RMB104.2 million as at 31 December 2021 to RMB73.5 million as at 30 September 2022, leading to the improvement of overall contract assets aging position as at 30 September 2022.

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Approximately RMB1,002.9 million, RMB774.7 million, RMB106.6 million and RMB34.0 million, or 85.1%, 62.8%, 8.7% and 2.9% of our contract assets as at 31 December 2019, 2020 and 2021 and 30 September 2022 were subsequently transferred to trade receivables upon billing up to the Latest Practicable Date, respectively, resulting in a net balance of approximately RMB175.2 million, RMB459.2 million, RMB1,117.6 million and RMB1,154.9 million, respectively. All contract assets aged over one year as at 30 September 2022 remained outstanding up to the Latest Practicable Date, and there is no significant change in the ageing pattern of our contract assets.

To have a more detailed understanding on the long outstanding contract assets, set out below is the detailed breakdown of contract assets aged over one year as at 30 September 2022 and classified by types of debtors with the subsequent billing up to the Latest Practicable Date:

	Total as at 30 September 2022	Subsequent billing up to Latest Practicable Date	Remaining balances up to the Latest Practicable Date
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
(i) Completed projects			
— Non-Government-related Entities . .	13,707	—	13,707
— Government-related Entities	10,705	436	10,269
	<u>24,412</u>	<u>436</u>	<u>23,976</u>
(ii) On-going projects			
— Non-Government-related Entities . .	75,929	2,063	73,866
— Government-related Entities	20,453	16,805	3,648
	<u>96,382</u>	<u>18,868</u>	<u>77,514</u>
Total	<u>120,794</u>	<u>19,304</u>	<u>101,490</u>

Among contract assets aged over one year as at 30 September 2022, approximately RMB24.4 million were from completed projects while approximately RMB96.4 million were from on-going projects.

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(i) *Completed projects*

Non-Government-related Entities

For completed projects from non-Government-related Entities, approximately RMB13.7 million of contract assets that aged over one year as at 30 September 2022 mainly comprises retention receivables of approximately RMB13.7 million which is kept as contract assets until the end of the warranty period as our entitlement to bill and receive such sum from our customers is subject to the expiry of the warranty period and our work satisfactorily passing the inspection.

In addition, the subsequent billing of significant amounts to our customers follows the completion of settlement audit to which our customers agreed, and we confirmed, that there had been no disputes between us and the relevant customer leading to the delay in our billing.

Government-related Entities

For completed projects engaged by Government-related Entities, approximately RMB10.7 million of the contract assets as at 30 September 2022 remained unbilled as at the Latest Practicable Date because the settlement audit for Government-related Entities generally involved more complicated internal processes of the customer, including multiple rounds of negotiations between us and the customer to determine the final settlement sum and the completed scope of work and to discuss the adjustments made in the process of carrying out construction work, which generally takes a longer time to complete and for us to convert the corresponding contract assets balance into trade receivables.

However, based on our continuous follow-up with the majority of these Government-related Entities, our Directors believe that despite the delay of the completion of settlement audit, the final acceptance procedures for these completed projects are expected to be completed in or before the first half of 2023. As further confirmed by our Group, there had been no disputes between us and the relevant customer leading to the delay in our billing.

(ii) *On-going Projects*

For on-going projects, we have issued subsequent progress billing subsequently of approximately RMB2.1 million and RMB16.8 million to non-Government-related Entities and Government-related Entities, respectively, representing approximately 19.6% of the contract assets of on-going projects as at 30 September 2022 in aggregate.

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The relatively slow conversion of contract assets to trade receivables was due to the typical structure of payment terms of the construction contract which we are only able to bill up to 70% to 85% of the total value of the work performed during the project implementation phase while the remaining can only be billed upon the completion of construction and settlement audit and the expiry of warranty period. According to F&S, it is an industry norm that the construction companies may have slow billing progress of contracted assets.

For example, for Dongfang Xin'an Homeland (Phase II)* (東方市新安家園(二期)) project, one of our largest on-going construction projects in terms of total revenue recognised during the Track Record Period, we were only entitled to bill up to 70% of the total value of the work performed on a quarterly basis during project implementation phase according to its contract. As a result, up to 30% of the total value of the work performed for such project has to be booked as contract assets before completing the settlement audit. The remaining contract assets from Dongfang Xin'an Homeland (Phase II)* (東方市新安家園(二期)) project that aged over one year as at 30 September 2022 amounted to approximately RMB73.5 million, and accounted for 96.8% of remaining contract assets due from non-Government-related Entities for on-going projects that aged over one year as at 30 September 2022 of approximately RMB75.9 million. The expected completion date, hence the settlement audit of Dongfang Xin'an Homeland (Phase II)* (東方市新安家園(二期)) project was postponed because, as informed by Oriental Shouchuang Xingda Investment Co., Ltd.* (東方首創興達投資有限公司) to our Group, the clearance of the site has been delayed as the time required for negotiations with some of the land owners was longer than expected. After prolonged negotiations between the relevant government authority and the collective land owners, Oriental Shouchuang Xingda Investment Co., Ltd.* (東方首創興達投資有限公司) informed our Group in February 2022 that the negotiations are about to be completed and in light of the latest development, we and Oriental Shouchuang Xingda Investment Co., Ltd.* (東方首創興達投資有限公司) mutually agreed to extend the project completion date to October 2023.

The same applies equally to our construction projects that are engaged by Government-related Entities, for which we were also not entitled to bill the customers in relation to the remaining contract sum before completing the projects' settlement audit despite substantial construction works were performed, which causing the large contract assets balance to accumulate as at the year/period ends. For example, out of our major on-going construction projects, the contracts of Sanya City Third Ring Road* (三亞市三環路) project provide that, during the project implementation phase, their progress amount are billable monthly on the progress billable percentage of 80% of the total value of the work performed. The remaining contract assets from the aforesaid project that aged over one year as at 31 December 2021 amounted to approximately RMB8.1 million, primarily representing the remaining contract sum which we are not entitled to bill the customer until the completion of their settlement audit. For Sanya City Third Ring Road* (三亞市三環路) project, the expected completion date, hence the settlement audit was postponed due to the delay in the clearance of certain parts of the construction site which is to be completed

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by Customer T, a local government entity in Hainan Province. The clearance process has already been completed in February 2022. In June 2022, we signed a supplement agreement with Customer T for additional construction works to be undertaken by us, and it is expected that the remaining construction works of Sanya City Third Ring Road* (三亞市三環路) project would be completed by December 2023.

Based on the above, our Directors considered that, as (i) the prolonged settlement audit process for Government-related Entities for completed projects; (ii) no dispute was noted between us and the relevant customer leading to the delay in our billing; and (iii) the relatively slow conversion of contract assets for on-going projects was due to the structure of the payment terms and prescribed milestones stipulated in the relevant contracts which we are contractually obliged to bill only when achieving the milestone or completion of the acceptance and settlement procedures, the loss allowance provided against the contract assets was reasonable.

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The following tables set forth the details of our top five contract assets arising from construction services by project as at each of 31 December 2019, 2020 and 2021 and 30 September 2022:

As at 30 September 2022

Project name	Customer	Project commencement date	Expected/actual project completion date	Progress billable percentage during the construction phase	Progress billable percentage in the project completion and settlement phase	Revenue recognition in accordance with HKFRS 15				Billing in accordance with the relevant contract including any subsequent agreement up to 30 September 2022 (note 4)		Amount and date of subsequent billing of contract assets up to the Latest Practicable Date				
						Original contract sum (A)	Accumulated amount of variation orders' adjustments (B) (note 1, 2)	Percentage of completion (C) (note 3)	Accumulated value of work performed (i.e. accumulated revenue recognised) (D)=(A+B)(C) (notes 1, 3)	Progress billable percentage as at 30 September 2022 (E)	Accumulated progress amount billed (F)=(D)(E) (note 1)		Amount of contract assets offset by prepayment made by customer up to 30 September 2022 (G) (note 1)	Contract assets (excluding VAT as at 30 September 2022 (H)=(D-F-G) (notes 1, 5)	Contract assets (I) (J-H-I) (note 5)	
																RMB'000
Dongfang Xin'an Homeband Phase II*(東方新安系園(二期))	Oriental Shouchang Xingda Investment Co., Ltd.*(東方首創興達投資有限公司)	January 2016	October 2023	We are entitled to bill up to 70% of the total value of the work performed on a quarterly basis during project implementation	Remaining 25% of the final settlement value billable 5% as retention money	708,655	—	75%	533,278	70%	373,295	67,812	92,172	4,800	96,971	—
Zhongqian Lintai*(中大龍台)	Zhongqian Holdings Group	October 2020	June 2024	We are entitled to bill up to 85% of the total value of the work performed on a monthly basis during project implementation	Remaining 12% of the final settlement value billable 3% as retention money	611,102	—	84%	514,711	85%	437,504	13,111	64,096	6,949	71,044	4,953 (October 2022)
Tongdao County Sports Stadium*(連道縣體育館)	Customer U	July 2017	December 2023	We are entitled to bill up to 75% of the total value of the work performed on a monthly basis during project implementation	Remaining 20% of the final settlement value billable 5% as retention money	155,340	—	99%	153,692	75%	115,269	—	38,423	1,153	39,576	—
Sanya City Third Ring Road*(三亚市三環路)	Customer T	December 2016	December 2023	We are entitled to bill up to 80% of the total value of the work performed on a monthly basis during project implementation	Remaining 15% of the final settlement value billable 5% as retention money	177,447	110,042	86%	246,944	80%	197,555	21,089	28,299	4,750	33,049	—
Zhongyuan Guosheng Plaza Phase I*(中源國盛廣場(一期))	Customer M	November 2020	December 2023	We are entitled to bill up to 80% of the total value of the work performed on a monthly basis during project implementation	Remaining 15% of the final settlement value billable 3% as retention money	111,927	45,883	92%	143,737	80%	116,590	—	29,147	2,623	31,771	4,600 (October 2022)

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As at 31 December 2021

Project name	Customer	Project commencement date	Expected/actual project completion date	Progress billable percentage during the construction phase	Progress billable percentage in the project completion and settlement phase	Revenue recognition in accordance with HKFRS 15			Billing in accordance with the relevant contract including any subsequent agreement up to 31 December 2021 (note 4)			Amount of contract assets offset by prepayment made by customer up to 31 December 2021 (G) (note 1)	Contract assets (excluding VAT) as at 31 December 2021 (H-D, F-G) (note 1, 5)	VAT in contract assets (I) (note 5)	Contract assets (J-H-I) (note 5)	Amount and date of subsequent billing of contract assets up to the latest Practicable Date	
						Accumulated amount of variation orders/ adjustments (B) (notes 1, 2)	Percentage of completion (C) (note 3)	Accumulated value of work performed (i.e. accumulated revenue recognised) (D=(A+B)+C) (notes 1, 3)	Progress billable percentage as at 31 December 2021 (E)	Accumulated progress amount billed (F=(D+E)) (note 1)	Original contract sum (A) (note 1)						Percentage of completion (C) (note 3)
Dongfang Xin'an Homeland Phase II* (東方新安家園(二期))	Oriental Shouchang Xingda Investment Co., Ltd.* (東方首創興達投資有限公司)	January 2016	October 2023	We are entitled to bill up to 70% of the total value of the work performed on a quarterly basis during project implementation	Remaining 25% of the final settlement value billable 5% as retention money	RMB'000	74%	RMB'000	70%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	76,696 (January–September 2022)
Zhongtiao Luitai* (中大耀台)	Zhongtiao Holdings Group	October 2020	June 2024	We are entitled to bill up to 85% of the total value of the work performed on a monthly basis during project implementation	Remaining 12% of the final settlement value billable 3% as retention money	RMB'000	56%	RMB'000	85%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	51,605 (January–June 2022)
Sanya City Third Ring Road* (三亞市三環路)	Customer T	December 2016	December 2023	We are entitled to bill up to 80% of the total value of the work performed on a monthly basis during project implementation	Remaining 15% of the final settlement value billable 5% as retention money	RMB'000	96%	RMB'000	80%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	37,748 (January–September 2022)
Tongdao County Sports Stadium* (通達縣體育館)	Customer U	July 2017	December 2023	We are entitled to bill up to 75% of the total value of the work performed on a monthly basis during project implementation	Remaining 20% of the final settlement value billable 5% as retention money	RMB'000	87%	RMB'000	75%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	33,912 (January–June 2022)

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Project name	Customer	Project commencement date	Expected/actual project completion date	Progress billable percentage during the construction phase	Progress billable percentage in the project completion and settlement phase	Revenue recognition in accordance with HKFRS 15			Billing in accordance with the relevant contract including any subsequent agreement up to 31 December 2021 (note 4)			Amount and date of subsequent billing of contract assets up to the latest Practicable Date				
						Original contract sum (A)	Accumulated amount of variation orders/ adjustments (B)	Percentage of completion (C)	Accumulated value of work performed (i.e. accumulated revenue recognised) (D)=(A+B)×C	Progress billable percentage as at 31 December 2021 (E)	Accumulated progress amount billed (F)=(D×E)		Amount of contract assets offset by prepayment made by customer up to 31 December 2021 (G)	Contract assets (excluding VAT) as at 31 December 2021 (H)=(D-F-G)	VAT in contract assets (I)	Contract assets (J)=(H+I)
						RMB'000	RMB'000	(note 3)	RMB'000	(note 1)	RMB'000	RMB'000	RMB'000	RMB'000		
Jindong Daozi Lake* (金東導子湖)	Hunan Lijing Underglaze Development and Construction Co., Ltd.* (湖南醴陵地下五彩城開發建設有限公司)	August 2018	November 2021	We are entitled to claim a series of progress payment upon reaching the agreed project milestones as stipulated in the construction contract and for each progress payment, the amount we are entitled to claim varies. The first milestone being the completion of five storeys of the main structure of the building block and the basement, on which we are entitled to bill a fixed sum of RMB5 million. Upon reaching the subsequent milestones, we are entitled to bill up to 70% of the total value of work performed in respect of the relevant milestones.	Remaining 2% of the final settlement value 3% as retention money	195,140	10,818	100%	205,958	85%	175,064	—	30,894	2,804	33,698	
						RMB'000	RMB'000		RMB'000		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
						26,959	26,959	(January – October 2022)								

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As at 31 December 2020

Billing in accordance with the relevant contract including any subsequent agreement up to

31 December 2020 (note 4)

Revenue recognition in accordance with HKFRS 15

Project name	Customer	Project commencement date	Expected/actual project completion date	Progress billable percentage during the construction phase	Progress billable percentage in the project completion and settlement phase	Accumulated amount of variation orders/adjustments		Percentage of completion (C) (note 3)	Accumulated value of work performed (i.e. accumulated revenue recognised) (D)=(A+B)(C) (notes 1, 3)	Progress billable percentage as at 31 December 2020 (E)	Accumulated progress amount billed (F)=(D)(E) (note 1)	Amount of contract assets offset by prepayment made by customer up to 31 December 2020 (G) (H)=(D)-(F-G) (notes 1, 5)	VAT in contract assets (I)	Contract assets (J)=(H+I) (note 5)	Amount and date of subsequent billing of contract assets up to the Latest Practicable Date
						Original contract sum (A) (note 1)	(B) (notes 1, 2)								
Dongfang Xin'an Homeland Phase III* (東方市新安家園(二期))	Oriental Shunchiang Xingda Investment Co., Ltd.* (東方市前樂達投資有限公司)	January 2016	October 2023	We are entitled to bill up to 70% of the total value of the work performed on a quarterly basis during project implementation	Remaining 25% of the final settlement value billable 5% as retention money	70%	708,655	512,155	70%	358,509	2,210	151,436	4,610	156,046	80,833 (June 2021 – September 2022)
Hainan Lixun Meilan Science and Technology Park* (海南力迅美蘭科創園)	Customer P	May 2020	December 2023	We are entitled to bill up to 80% of the total value of the work performed on a monthly basis during project implementation	Remaining 17% of the final settlement value billable 3% as retention money	66%	334,862	220,517	80%	176,413	—	44,104	3,969	48,073	48,073 (March-May 2021)
Changjun Yulong Experimental School (Second Phase)* (長郡雲龍實驗學校(二期))	Zhuzhou Economic Development Group	January 2009	March 2021	We are entitled to bill up to 70% of the total value of the work performed on a monthly basis during project implementation capped at 75% of the original contract sum	Remaining 22% of the final settlement value billable 3% as retention money	100%	130,048	149,187	75%	111,890	—	37,297	3,371	40,668	40,668 (March-December 2021)
Sanya City Third Ring Road* (三亞市三環路)	Customer T	December 2016	December 2023	We are entitled to bill up to 80% of the total value of the work performed on a monthly basis during project implementation	Remaining 65% of the final settlement value billable 5% as retention money	91%	177,447	180,610	80%	144,488	—	36,122	3,575	39,697	39,697 (March 2021 – September 2022)
Chunging Mansion* (春城公館)	Zhongtian Holdings Group	April 2018	March 2021	We are entitled to bill up to 85% of the total value of the work performed on a monthly basis during project implementation	Remaining 23% of the final settlement value billable 3% as retention money	99%	124,679	211,734	85%	179,974	—	31,760	2,926	34,686	24,097 (March 2021 – September 2022)

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As at 31 December 2019

Project name	Customer	Project commencement date	Expected/actual project completion date	Progress billable percentage during the construction phase	Progress billable percentage in the project completion and settlement phase	Accumulated amount of variation orders/adjustments		Accumulated value of work performed (i.e. accumulated revenue recognised)		Progress billable percentage as at 31 December 2019 (E)	Accumulated progress amount billed (F=(D+E)) (note 1)	Amount of contract assets offset by prepayment made by customer up to 31 December 2019 (G) (note 1)	Contract assets (excluding VAT) as at 31 December 2019 (H=(F-G)) (notes 1, 5)	VAT in contract assets (I)	Contract assets (J=H+I) (note 5)	Amount and date of subsequent billing of contract assets up to the Latest Practicable Date
						Original contract sum (A) (note 1)	(B) (notes 1, 2)	Percentage of completion (C) (note 3)	(D)=(A+B)(C) (notes 1, 3)							
Dongfang Xiu in Homeland (Phase II)* (東方市新客園(二期))	Oriental Shouchang Xingda Investment Co., Ltd.* (東方首創興達投資有限公司)	January 2016	October 2023	We are entitled to bill up to 70% of the total value of the work performed on a quarterly basis during project implementation	Progress billable percentage in the project completion and settlement phase	Remaining 25% of the final settlement value billable 5% as retention money	708,655	—	454,680	70%	318,276	—	136,404	4,092	140,496	RMB'000 124,481 (June 2021 – September 2022)
Chuneng Village Third Phase* (春能小鎮三期)	Wugang Investment	October 2017	November 2020	We are entitled to bill up to 80% of the total value of the work performed on a monthly basis during project implementation.	Progress billable percentage in the project completion and settlement phase	Remaining 15% of the final settlement value billable 5% as retention money	196,845	84,838	99%	76% (note 7)	211,040	—	66,644	6,347	72,991	RMB'000 72,991 (March 2021 – September 2022)
Jinlong Taizi Lake* (金東馬子湖)	Hunan Liling Underglaze Development and Construction Co., Ltd.* (湖南醴陵建設有限公司)	August 2018	November 2021	We are entitled to claim a series of progress payment upon reaching the agreed project milestones as stipulated in the construction contract and for each progress payment, the amount we are entitled to claim varies. The first milestone being the completion of five storeys of the main structure of the building block and the basement, on which we are entitled to bill a fixed sum of RMB5 million. Upon reaching the subsequent milestones, we are entitled to bill up to 70% of the total value of work performed in respect of the relevant milestones.	Progress billable percentage in the project completion and settlement phase	Remaining 12% of the final settlement value billable 3% as retention money	195,140	1,643	78%	70%	107,801	—	46,300	4,196	50,396	RMB'000 50,396 (March 2020)

Billing in accordance with the relevant contract including any subsequent agreement up to 31 December 2019 (note 4)

Revenue recognition in accordance with HKFRS 15

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Project name	Customer	Project commencement date	Expected/actual project completion date	Progress billable percentage during the construction phase	Progress billable percentage in the project completion and settlement phase	Revenue recognition in accordance with HKFRS 15			Billed in accordance with the relevant contract including any subsequent agreement up to 31 December 2019 (note 4)	Amount of contract assets offset by prepayment made by customer up to 31 December 2019 (G) (note 1)	Contract assets (excluding VAT) as at 31 December 2019 (H)=(F-G) (notes 1, 5)	VAT in contract assets (I)	Contract assets (J)=(H+I) (note 5)	Amount and date of subsequent billing of contract assets up to the Latest Practicable Date
						Original contract sum (A) (note 1)	Accumulated variation orders/ adjustments (B) (notes 1, 2)	Percentage of completion (C) (note 3)						
Langfang Langfang Main Structure* (廊坊·龍江)	Langfang Real Estate	August 2018	March 2021	We are entitled to claim a series of progress payment upon reaching the agreed project milestones as stipulated in the construction contract and for each progress payment, the amount we are entitled to claim varies. The first milestone being the completion of 15 surveys of the main structure of the buildings including the foundation work of the buildings, on which we are entitled bill 50% of the total value of the work performed. Upon reaching the subsequent milestones, we are entitled to bill (on an accumulated basis) up to 80% of the total value of work performed in respect of the relevant milestones. (note 6)	Remaining 17% of the final settlement value billable 3% as retention money	136,364	1,059	99%	135,941	70%	95,159	3,733	43,461	43,461 (March 2020)- September 2020)
Changde Xiangjiang Yuedi* (常德新江悅府)	Customer Group D	June 2018	December 2021 (note 9)	We are entitled to claim a series of progress payment upon reaching the agreed project milestones as stipulated in the construction contract and for each progress payment, we are entitled bill up to 75% based on the total value of the work performed.	Remaining 22% of the final settlement value billable 3% as retention money	146,738	729	97%	142,468	75%	106,851	3,372	38,989	38,989 (March 2020)- September 2022)

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Notes:

1. The amounts do not include any VAT.
2. The amount of variation orders represents the amounts of adjustment or additional to the original contract sum as may be agreed between the parties to the original contract from time to time, and such variation orders may be in the form of supplemental agreements for additional construction works undertaken by us or modifications of the scope of work previously agreed in the original contracts.
3. Revenue from construction contract is recognised according to the percentage of completion of individual construction contract, which is measured by reference to the contract costs incurred as a proportion to the total budgeted costs.
4. Throughout the terms of the relevant construction contract, we bill our customers the amount of recognised revenue, multiplied by a billing percentage under the relevant milestone as stipulated in the relevant construction contract.
5. Our contract asset represents the accumulated amount of revenue recognised, deducted by the amount of accumulated progress billing and amount prepaid by the customers (if any), and adjusted for VAT elements in the contract asset.
6. There is no subsequent billing of contract assets for this project as the Group is only entitled to make billing towards the 15% of unbilled amount of contract assets after the settlement audit, which has not been completed as at the Latest Practicable Date.
7. We are entitled to bill such customer up to 80% of the total value of the work performed during the performance of the construction works and up to 78% of the contract sum at an accumulated basis upon the completion and acceptance of the project in accordance with the relevant construction contract. As at 31 December 2019, we had achieved 99% completion of the project but had not reached the stage of its completion and acceptance. As a result, based on its contract terms as disclosed above, the progress amount we were entitled to bill at that time had a ceiling of 80% of the contract sum at an accumulated basis. Therefore, in effect, the progress billable percentage was 76% of the total value of the work performed as at 31 December 2019.
8. The contract of this project stipulated several milestones and we are only entitled to start making progress billing after the first milestone has been reached. The detailed payment schedule and the details of the milestones for the project implementation phase prescribed in the construction contract of this project are as follows:-

	<u>Milestones</u>	<u>Billable percentage</u>
A	Upon the completion of 15 storeys of the main structure of the buildings including the foundation work of the buildings	50% of the total value of the work performed in respect of milestone A
B	Upon the completion of every additional 10 storeys of the buildings	70% of the total value of the work performed in respect of milestone B

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	<u>Milestones</u>	<u>Billable percentage</u>
C	Upon the roofing of the main structure of the buildings	<ul style="list-style-type: none"> • up to 70% (on an accumulative basis) of the total value of the work performed for milestones A and B; and • 70% of the total value of work performed for milestone C
D	Within three months after the roofing of the main structure of the buildings	<ul style="list-style-type: none"> • up to 80% (on an accumulative basis) of the total value of work performed for milestones A, B and C; and • 80% of the total value of work performed for milestone D
E	Upon the removal of external construction frames	75% (on an accumulative basis) of the contract sum

9. Although the work on Changde Xiangjiang Yuefu* (常德香江悦府) project was approximately 97% complete as at 31 December 2019, the expected completion date was extended from December 2019 to December 2021 as our Group has undertaken a variation order on this project by way of a supplemental agreement dated 13 May 2020 entered into with this customer.

Average contract assets turnover days

Average contract assets turnover days indicates the average time required for us to bill our customers and recognise trade receivables from the recognition of revenue. The table below sets out the average contract assets turnover days as at the dates indicated:

	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>	<u>3Q2022</u>
Average contract assets turnover day				
(Note)	192.3	248.7	246.0	240.2

Note:

The calculation of average contract assets turnover days is based on the average of the opening balance and closing balance of contract assets for the relevant year/period divided by revenue and multiplied by the number of days in the relevant year/period.

Our contract assets turnover day increased gradually from 192.3 days for FY2019 to 248.7 days for FY2020. This is mainly due to the work of our on-going projects continued throughout the Track Record Period, the contract assets accumulated and leading to the increase in our contract assets turnover day in FY2020. Our contract assets turnover day for FY2021 and 3Q2022 remained stable at 246.0 days and 240.2 days.

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The aggregate turnover days for trade and bills receivables and contract assets was 269.1 days, 352.6 days, 343.4 days and 325.3 days for FY2019, FY2020, FY2021 and 3Q2022, respectively. The increase in aggregate turnover days for trade and bills receivables and contract assets for FY2020, as compared to that for FY2019, and the decrease in aggregate turnover days for trade and bills receivables and contract assets for FY2021 and 3Q2022, as compared to that for FY2020 and 3Q2021, are in line with the change in the contract asset turnover day and trade and bills receivables turnover day during the periods as explained above. The longer aggregate turnover period of the trade and bill receivables and contract assets for FY2020 and FY2021 and 3Q2022, as compared to that for FY2019 was mainly due to the following factors:

(i) Projects with larger scale and higher contract value

During the Track Record Period, we undertook new projects with high original contract sum on average, with growing average original contract sum of RMB34.5 million, RMB47.7 million, RMB50.5 million and RMB81.1 million for on-going projects as at each of 31 December 2019, 2020 and 2021 and 30 September 2022 respectively. In general, a project with high contract value will result in a higher portion of the value of work performed (for contract assets) and billing (for trade receivables) by us, which in turn increase the balances of contract assets as at 31 December 2020 and 31 December 2021 and 30 September 2022 as compared with 31 December 2019 and 30 September 2021 and the aggregate trade and bill receivables and contract assets turnover period for FY2020 and FY2021 and 3Q2022 as compared with FY2019.

(iii) Sizable on-going projects with long project duration

As at 31 December 2020 and 2021 and 30 September 2022, the contract assets for on-going projects amounted to approximately RMB1,037.8 million, RMB1,011.6 million and RMB1,123.7 million respectively. There are some major on-going sizable projects with long project duration such as Dongfang Xin'an Homeland (Phase II)* (東方市新安家園(二期)) project, Sanya City Third Ring Road* (三亞市三環路) and Jindong Taozi Lake* (金東陶子湖) project with an aggregate contract asset balance of approximately RMB226.8 million as at 31 December 2020. The Jindong Taozi Lake* (金東陶子湖) project has already been completed in November 2021 and is in the process of settlement audit as at the Latest Practicable Date. The aggregate contract asset balance of the two other major on-going sizable projects Dongfang Xin'an Homeland (Phase II)* (東方市新安家園(二期)) project and Sanya City Third Ring Road* (三亞市三環路) as at 31 December 2021 and 30 September 2022 was approximately RMB202.5 million and RMB130.0 million. These two major sizable projects remain on-going as at the Latest Practicable Date. The project duration of these major projects is expected to be around or exceed three years. The aggregate contract assets of these on-going projects accounted for approximately 22%, 23% and 10.9% of the total contract assets of all on-going projects as at 31 December 2020 and 2021 and 30 September 2022 respectively.

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With the major sizable projects still under construction as at 31 December 2020 and 2021, 30 September 2022 and the Latest Practicable Date, and we are not entitled to bill their remaining contract sum upon the completion of their settlement audit and thus these amounts have to be remained as accumulated contract assets. Therefore, the time required for the contract assets of such sizable projects with long project duration to convert into trade receivables is longer than smaller projects in general and leading to higher contract assets as at 31 December 2020 and 2021 and 30 September 2022 as compared with 31 December 2019 and higher contract assets turnover period for FY2020, FY2021 and 3Q2022 as compared with FY2019.

(iv) Long settlement audit process with Government-related Entities

One of the factors for the long contract assets turnover days was due to the long settlement audit process, which the cumulative contract assets balances of some completed projects could not be converted to trade receivables without the completion of the respective settlement audit and to undergo the collection of payment process. According to the F&S Report, the relatively long turnover days of trade receivables and contract assets is common in the PRC construction industry, especially for some particular types of customers (e.g. Government-related Entities) and sizable projects. The settlement audit process generally will take a long time due to long internal approval process, involvement of multiple responsible persons of different parties and extra time required for inspecting large and/or complex projects, etc.

According to the F&S Report, the aggregate turnover days for trade and bills receivables and contract assets of our Group was approximately 352.6 days and 343.3 days in FY2020 and FY2021, respectively, which are both within the range of 72.7 days to 458.5 days of those of our industry peers in FY2020. Our Directors believe that the relatively long turnover days of trade receivables and of contract assets is common in the construction industry in the PRC, especially where the customers include Government-related Entities, which is also consistent with the F&S Report. According to the F&S Report, for projects with Government-related Entities as customers, the industry range for settlement period of trade receivables is three months to two years, and the industry range for conversion period of contract assets is approximately half year to three years depending on the scale of the projects in the construction industry in the PRC.

Our Company performed an impairment analysis at each reporting date using a provision matrix to measure expected credit losses in accordance with HKFRS 9. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases. The provision rates of contract assets are based on days past due of trade receivables appropriately grouped by similar loss pattern. The calculation reflects the probability weighted outcome, the time value of money, and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecast of future economic conditions. The loss

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allowance provision of contract assets made were RMB4.6 million, RMB6.8 million, RMB8.1 million and RMB9.9 million as at 31 December 2019, 2020 and 2021 and 30 September 2022, respectively. Save for the contractual disputes as set out in the section headed “Business — Legal and regulatory — Legal Proceedings” in this document, we had no material outstanding disputes with our customers with regard to the subsequent billing for our contract assets as at 30 September 2022. For further details of the impairment assessment of our trade receivables and contract assets, please refer to the paragraph headed “Trade, bills and other receivables” under this section.

As at the Latest Practicable Date, approximately RMB104.8 million, or 8.8% of the contract assets as at 30 September 2022 had been subsequently billed.

Contract liabilities

A contract liability represents our obligation to transfer services to a customer for which we have received consideration (or an amount of consideration is due) from the customer.

As at 31 December 2019, 2020 and 2021 and 30 September 2022, our balance of contract liabilities amounted to approximately RMB29.1 million, RMB37.2 million, RMB25.0 million and RMB50.1 million, respectively. As our Group negotiates such advance payment arrangement with our customers on a case-by-case basis, there had been no change in the payment terms of our projects, our billing process and revenue recognition policy prior to, or during the Track Record Period. Our contract liabilities increased to approximately RMB50.1 million as at 30 September 2022 mainly because of receipt of advance payment of approximately RMB11.2 million and RMB6.3 million for additional works for Huxiang Cultural City* (湖湘文化城) and Office Building of the Yangpu branch of a bank, respectively.

As at the Latest Practicable Date, approximately RMB2.5 million, or 5.0% of the contract liabilities as at 30 September 2022 had been subsequently utilised.

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Trade and bills payables

The following table sets forth the breakdown of our trade and bills payables as at the dates indicated:

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables				
— third parties	1,289,724	1,298,586	1,106,920	838,069
— related parties	9,630	21,692	37,797	14,530
	<u>1,299,354</u>	<u>1,320,278</u>	<u>1,144,717</u>	<u>852,599</u>
Bills payables	21,400	21,400	21,400	15,000
	<u>1,320,754</u>	<u>1,341,678</u>	<u>1,166,117</u>	<u>867,599</u>

Our trade and bills payables mainly comprised outstanding balances due to our suppliers and subcontractors for goods and services provided to us. We are generally granted a credit period of up to three months (if applicable) from the date of billing.

The increase in trade payables from RMB1,299.4 million as at 31 December 2019 to RMB1,320.3 million as at 31 December 2020 was primarily due to the business growth in FY2020 and the increase in trade and bills receivables which restricted our cash flow and limited our ability to settle trade and bills payables in a timely manner. The decrease in the trade payables to approximately RMB1,144.7 million and RMB867.6 million as at 31 December 2021 and 30 September 2022 was also in line with the decrease in trade and bills receivables during FY2021 and 3Q2022 and faster repayment by our Group during the period. The discrepancy between our credit periods and average turnover days of trade and bills payables of 231.7 days, 307.4 days, 281.2 days and 228.9 days for FY2019, FY2020, FY2021 and 3Q2022 is primarily because we manage the settlement of trade payables in accordance with our recovery of trade and bills receivables to manage cash flow. According to the F&S Report, it is customary in the construction industry in the PRC that general contractors would negotiate with their suppliers and subcontractors for extension of payment dates prior to receipt of payment from the relevant project owners.

To enhance our internal control on cashflow and liquidity management, our designated staff makes cashflow projection on a monthly basis and closely monitors the cashflow position. If it is anticipated that there is operating net cash outflow in the following month, our senior management

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will assess the impact and consider measures to strengthen the cashflow position. For details, please refer to the section headed “Business — Risk Management and Internal Control” in this document.

The following table sets forth the ageing analysis of trade payables based on the invoice date as at the dates indicated:

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0-90 days	515,028	327,035	293,430	146,039
91-180 days	216,810	171,980	147,400	119,726
181-365 days	250,496	197,232	169,043	223,090
1-2 years	196,172	491,110	420,920	266,039
Over 2 years	120,848	132,921	113,924	97,705
Total trade payables	<u>1,299,354</u>	<u>1,320,278</u>	<u>1,144,717</u>	<u>852,599</u>

The table below sets out the average trade and bills payables turnover days as at the dates indicated:

	FY2019	FY2020	FY2021	3Q2022
Average trade and bills payables turnover days (<i>Note</i>)	231.7	307.4	281.2	228.9

Note: The calculation of average trade and bills payables turnover days is based on the average of the opening balance and closing balance of trade and bills payables for the relevant year/period divided by cost of sales and multiplied by the number of days in the relevant year/period.

Our trade and bills payables turnover days increased from 231.7 days for FY2019 to 307.4 days for FY2020, which is in line with the changes of aggregate trade and bills receivables and contract assets turnover days during the periods as it is customary in the construction industry in the PRC that general contractors would negotiate with their suppliers and subcontractors for extension of payment dates prior to receipt of payment from customers of the relevant projects. Our trade and bills payables turnover days decreased to 281.2 days for FY2021 and 228.9 days for 3Q2022 mainly due to faster repayment by our Group during FY2021 and 3Q2022.

The trade payables as at 31 December 2020 and 2021 and 30 September 2022 aged longer than those as at 31 December 2019 as our trade payables that aged over 90 days increased from 60.4% as at 31 December 2019 to 75.2% as at 31 December 2020, 74.4% as at 31 December 2021

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and 82.9% as at 30 September 2022. This was mainly because we manage the settlement of trade payables in accordance with our recovery of trade and bills receivables and contract assets to manage cash flow by negotiating with our suppliers and subcontractors for extension of payment dates prior to receipt of payment from customers of the relevant projects. The change in ageing position of our trade payables was mainly because we had sizable on-going projects with long project duration which led to longer settlement period of the relevant trade and bills receivables and contract assets.

As at the Latest Practicable Date, approximately RMB68.9 million, or approximately 17.5% of our trade payables as at 30 September 2022 has been settled.

Our bills payables remain stable at approximately RMB21.4 million as at 31 December 2019, 2020 and 2021, respectively. Our bills payables decreased to RMB15.0 million as at 30 September 2022 as a result of repayment by our Group in 3Q2022. Our bills payables as at 31 December 2019, 2020, 2021 and 30 September 2022 were secured by properties of Hengji Real Estate and/or Puhui Commercial, which are our related parties. These securities will be released before or upon [REDACTED].

Accruals and other payables

The following table sets forth a breakdown of our accruals and other payables as at the dates indicated:

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deposits received	14,427	13,442	12,008	11,998
Other payables	79,893	95,733	93,120	83,931
Other tax payable	87,056	140,699	192,729	281,925
Accruals	4,011	4,369	4,943	4,491
	185,387	254,243	302,800	382,345

The accruals and other payables include various kinds of payables such as net VAT payable, responsibility deposits, other deposits received, safety and civilisation measures expenses payable, etc. Our accruals and other payables increased from approximately RMB185.4 million as at 31 December 2019 to approximately RMB254.2 million and RMB302.8 million as at 31 December 2020 and 31 December 2021 and further increased to RMB382.3 million. The increase in other tax payables was mainly attributable to the increase in net VAT payable from approximately RMB84.0

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million as at 31 December 2019 to approximately RMB135.6 million, RMB187.7 million and RMB276.3 million as at 31 December 2020, 31 December 2021 and 30 September 2022, respectively. The other payables of approximately RMB79.9 million, RMB95.7 million, RMB93.1 million and RMB83.9 million as at 31 December 2019, 2020 and 2021 and 30 September 2022 mainly included (i) responsibility deposits of approximately RMB32.3 million, RMB36.4 million, RMB34.8 million and RMB25.3 million respectively; and (ii) safety and civilisation measures expenses payable (安全文明措施費) of approximately RMB7.6 million, RMB12.8 million, RMB11.9 million and RMB7.5 million as at 31 December 2019, 2020 and 2021 and 30 September 2022 respectively. The balances of other payables as at 31 December 2020 increased as compared to that as at 31 December 2019 mainly due to the increase in amount of responsibility deposits received which is in line with business growth during the respective year and remained stable as at 31 December 2021.

Balances with related companies, shareholders and directors

The following table sets forth the breakdown of balances with related companies, shareholders and directors as at the dates indicated:

	As at 31 December			As at
	2019	2020	2021	30 September 2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amounts due from related companies	—	3,623	6,475	10,479
Amounts due from shareholders	3,894	12,542	9,260	2,847
Amounts due to related companies	(8,267)	(586)	(4,833)	(5,021)
Amounts due to shareholders	(56,313)	(28,080)	(14,046)	(6,777)
Amounts due to directors	(5,328)	(1,870)	(253)	(462)
	<u>(66,014)</u>	<u>(14,371)</u>	<u>(3,397)</u>	<u>1,066</u>

An amount due to related company of RMB1.9 million, nil, nil and nil as at 31 December 2019, 2020 and 2021 and 30 September 2022, respectively, are unsecured, interest bearing and repayable within one year. As advised by our PRC Legal Advisers, although the interest bearing loans from related parties do not comply with the General Rules for Loans (貸款通則) promulgated by the People’s Bank of China, they were of the view that it was not a material non-compliance given that (i) our Group as the borrower would not be subject to any administrative penalties or criminal liabilities due to the non-compliance under the General Rules for Loans; and (ii) our Group had not been subject to any administrative penalties or criminal

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liabilities under the General Rules for Loans due to non-compliance with the General Rules for Loans. For further details, please refer to the section headed “Business — Legal and Regulatory — Non-compliance Incidents” in this Document.

The amounts due to shareholders are unsecured, interest free and repayable on demand.

The remaining balances with related companies, our shareholders and our Directors are unsecured, interest free and/or repayable on demand or had no fixed terms of repayment. The balances with these related parties mainly arose from the funds advanced by related parties for our working capital needs. Our net balance due to related parties was approximately RMB66.0 million as at 31 December 2019. Our net balance due to related parties dropped to approximately RMB14.4 million as at 31 December 2020 mainly due to repayment in FY2020. Our net balance due to related parties further decreased from approximately RMB14.4 million as at 31 December 2020 to approximately RMB3.4 million as at 31 December 2021 mainly due to repayment to shareholders. The net balance due from related companies increased to approximately RMB5.5 million as at 30 September 2022 mainly because of non-trade related advances newly made to the related companies in 3Q2022. The balances of the amounts due from related companies mainly represent the deposit paid for the construction projects with the related companies as performance guarantee and advances for daily operation of the construction projects. The balances of the amounts due to related companies, shareholders and directors, in addition to the interest-bearing loan from a related company which was for the purchase of machinery and equipment, were mainly caused by the funds advanced by related parties for our working capital needs.

The balances of amounts due from shareholders represent the advances to shareholders for daily operation of the construction projects and/or their short-term use. The amounts due from shareholders increased from approximately RMB3.9 million as at 31 December 2019 to approximately RMB12.5 million as at 31 December 2020 as there was a short-term cash advance of approximately RMB7.0 million by our Group to one of our shareholders in FY2020. The amounts due from shareholders dropped to approximately RMB9.3 million and RMB2.8 million as at 31 December 2021 and 30 September 2022, respectively mainly due to net repayment from shareholders. We have enhanced our internal control procedure on the advance of fund to shareholders and each request for cash advance shall be assessed and approved on an individual basis by the Board of Directors, taking into consideration, among others, the impact on our cashflow, and shall comply with all applicable laws and regulations. Further, any amounts due from shareholders shall be fully settled before [REDACTED].

Our Directors confirmed that all the amounts due from/to related companies, shareholders and Directors are non-trade in nature and the amounts balances with related companies, shareholders and Directors as at the Latest Practicable Date and the guarantees provided by/to related parties will be fully settled or released before [REDACTED].

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INDEBTEDNESS

As at 30 September 2022, being the latest practicable date for the purpose of this indebtedness statement, save as disclosed below, our Group did not have outstanding mortgages, charges, debentures, bank overdrafts, loans or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding.

The table below sets out the breakdown of the indebtedness of our Group as at the respective dates indicated:

	As at 31 December			As at
	2019	2020	2021	30 September
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current				
Non-current portion of lease liabilities	424	28	—	—
Borrowings	233	—	—	3,855
	<u>657</u>	<u>28</u>	<u>—</u>	<u>3,855</u>
Current				
Borrowings	75,984	65,620	66,895	138,966
Amounts due to related companies . . .	8,267	586	4,833	5,021
Amounts due to shareholders.	56,313	28,080	14,046	6,777
Amounts due to directors	5,328	1,870	253	462
Current portion of lease liabilities . . .	533	467	28	191
	<u>146,425</u>	<u>96,623</u>	<u>86,055</u>	<u>151,417</u>
	<u>147,082</u>	<u>96,651</u>	<u>86,055</u>	<u>155,272</u>

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Borrowings

The following table sets forth further details of our borrowings as at the dates indicated:

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current				
— Bank loans, secured/guaranteed . . .	50,000	61,550	62,550	137,550
— Bank loans, unsecured	—	—	508	508
— Other borrowings, secured	25,984	4,070	3,837	908
	<u>75,984</u>	<u>65,620</u>	<u>66,895</u>	<u>138,966</u>
Non-current				
— Bank borrowings, secured	—	—	—	1,900
— Other borrowings, secured	233	—	—	1,955
	<u>76,217</u>	<u>65,620</u>	<u>66,895</u>	<u>142,821</u>

The following sets forth the interest rate profiles for our Group’s borrowings:

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Fixed-rate borrowings	26,217	15,620	16,895	91,821
Floating-rate borrowings	50,000	50,000	50,000	51,000
	<u>76,217</u>	<u>65,620</u>	<u>66,895</u>	<u>142,821</u>
	4.6% –	3.9% –	4.2% –	
Interest rate range per annum	<u>15.0%</u>	<u>14.0%</u>	<u>14.0%</u>	<u>3.7% – 8.6%</u>

Our bank borrowings remained stable at approximately RMB76.2 million, RMB65.6 million and RMB66.9 million as at 31 December 2019, 2020 and 2021. We raised more bank borrowings during 3Q2022 and our bank borrowings was increased significantly to approximately RMB142.8 million as at 30 September 2022 mainly to cope with our short-term financing needs.

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As generally more trade receivables are settled towards the end of a year, we typically generate less net operating cashflow in the first nine months of a year and we required more bank borrowings as at 30 September 2022.

The bank borrowings of RMB50.0 million as at 31 December 2019 was charged at floating rate at 4.6% per annum. Bank borrowings increased to approximately RMB61.6 million, RMB63.1 million and RMB140.0 million as at 31 December 2020 and 2021 and 30 September 2022 respectively, out of which, RMB50.0 million, RMB50.0 million and RMB51.0 million were charged at floating rate at 4.4% to 4.6% per annum, 4.4% to 4.6% per annum and 4.2% to 4.6% per annum as at 31 December 2020, 2021, and 30 September 2022, respectively, and the remaining RMB11.6 million as at 31 December 2020, RMB13.1 million as at 31 December 2021 and RMB89 million as at 30 September 2022 were charged at fixed rate at 3.9% to 5.5%, 4.2% to 6.5% and 3.7% to 8.6% per annum respectively.

Among our bank borrowings, (i) bank loans with principal amounts of RMB50.0 million as at 31 December 2019, 2020 and 2021 were secured by the properties of Puhui Commercial and Hengji Real Estate, our related parties; (ii) bank loans of approximately RMB6.6 million as at both 31 December 2020 were guaranteed by Zhongtian Holdings, Mr. Yang and his spouse; (iii) bank loans of approximately RMB6.6 million as at 31 December 2021 were guaranteed by Mr. Yang and his spouse; (iv) a bank loan of RMB3.0 million as at both 31 December 2020 and 31 December 2021 was guaranteed by an Independent Third Party which is a state-owned enterprise engaging in, among others, provision of financial guarantee (“**Third Party Guarantor**”), a director of Kaida Apparatus and his spouse, and counter-guaranteed by three directors of Kaida Apparatus and their spouse; (v) bank loans of RMB2.0 million and RMB1.0 million as at 31 December 2020 and 31 December 2021, respectively, were guaranteed by the Third Party Guarantor, and counter-guaranteed by four directors of Zhongtian Building and their spouse. These securities and guarantees provided by the related parties will be released before or upon [REDACTED]. We also recorded (i) a bank loan of RMB2.0 million as at 31 December 2021 was secured by fixed assets of our Group; and (ii) a bank loan of RMB0.5 million as at 31 December 2021 was unsecured.

As at 30 September 2022, our bank borrowings with aggregate principal amounts of RMB135.6 million were secured by properties and/or shares of related companies Puhui Commercial, Hengji Real Estate, Wuguang Investment and/or Hangxiao Technology, guaranteed by related companies Zhongtian Holdings and/or Puhui Commercial, our Directors Mr. Yang, Mr. Liu, their spouse and/or the Third Party Guarantor and counter-guaranteed by directors of our subsidiary(ies) and their spouse. Our bank borrowings with aggregate principal amounts of RMB4.4 million were not secured by any of related parties’ assets or guarantees.

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Our other borrowings comprised (i) term loans of approximately RMB8.9 million, RMB0.2 million, nil and RMB2.9 million as at 31 December 2019, 2020 and 2021 and 30 September 2022, respectively; and (ii) factoring loans of approximately RMB17.3 million, RMB3.8 million, RMB3.8 million and nil as at 31 December 2019, 2020 and 2021 and 30 September 2022, respectively. Other borrowings decreased from approximately RMB26.2 million as at 31 December 2019 to approximately RMB4.1 million, RMB3.8 million and RMB2.9 million as at 31 December 2020, 31 December 2021 and 30 September 2022, respectively. Our other borrowings as at 31 December 2019, 31 December 2020 and 31 December 2021 and 30 September 2022 were charged at fixed rate ranging from 8.2% to 15.0%, 8.2% to 14.0%, 14.0% and 8.6% per annum, respectively. Our other borrowings were secured by trade receivables, bills receivables and fixed asset of our Group. As at the Latest Practicable Date, we did not have any immediate plan for additional borrowings from Independent Third Parties.

The detailed breakdown of other borrowings by lenders as at the dates indicated is set out below.

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Lender A	8,331	—	—	—
Lender B	17,277	3,837	3,837	—
Lender C	609	233	—	—
Lender D	—	—	—	2,863
	26,217	4,070	3,837	2,863

The following table sets forth certain information of the lenders with respect to our other borrowings:

Lender (the “Lenders”)	Relationship with us	Background
Lender A	Independent Third Party	Lender A is a private company established in the PRC with limited liability and registered capital of approximately RMB300 million, principally engaged in the microfinance business.

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<u>Lender (the “Lenders”)</u>	<u>Relationship with us</u>	<u>Background</u>
Lender B	Independent Third Party	Lender B is a private company established in the PRC with limited liability and registered capital of approximately RMB200 million, which is principally engaged in the factoring business.
Lender C	Independent Third Party	Lender C is a private company established in the PRC with limited liability and registered capital of approximately RMB5,926.8 million, principally engaged in the financial leasing business.
Lender D	Independent Third Party	Lender D is a state-invested company established in the PRC with limited liability and registered capital of approximately USD130 million, principally engaged in, among others, financial leasing business.

Lender A, Lender B and Customer Group D has a common shareholder. The indirect holding company of Lender A and Lender B is a minority shareholder of the holding company of Customer Group D which is listed on the Shanghai Stock Exchange. According to the annual report of the aforesaid holding company of Customer Group D for 2020, it had a large number of subsidiaries which were engaged in a wide range of business segments including real estate development, property management, education, tourism, retail and wholesale, construction services, property leasing, medical services, investment, trading, exhibitions and logistics. Both the business of Lender A and Lender B is delineated from that of Customer Group D. Save as the lending made to our Group and save as the relationship between Lender A, Lender B and Customer Group D as disclosed above, our Directors confirm that none of the Lenders has any past or present relationship, including, without limitation, family, employment or business, with our Company, its subsidiaries, their shareholders, directors, senior management or any of their respective associates.

Our Group became acquainted with all of the Lenders through our business network and day-to-day operation. Our Group borrowed from such Lenders rather than from banks as it generally takes a longer time and more complicated procedures for us to obtain financing from banks, and therefore bank financing may not be able to meet our short term financing needs. The Group sought factoring loan from companies that are principally engaged in financial leasing business.

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All of our borrowings are matured within one or two years as at 31 December 2019, 2020 and 2021. Our borrowings of approximately RMB4.8 million, representing approximately 3.3% of our total borrowings as at 30 September 2022 are matured within three years. The remaining borrowings of approximately RMB138.0 million are matured with one or two years as at 30 September 2022. We had nil unutilised banking facilities as at 31 December 2019, 2020 and 2021 and 30 September 2022.

Our Directors confirmed that we had neither experienced any difficulties in obtaining or repaying, nor breached any major covenant or restriction of our bank loans or other bank facilities during the Track Record Period. Pursuant to the relevant bank borrowing agreements, our outstanding bank borrowing during the Track Record Period contained the following financial covenants that impose restrictions on our financial conditions: (i) the asset-liability ratio of Zhongtian Construction, should not exceed 90%; (ii) the current ratio of Zhongtian Construction should not be less than 0.8; (iii) the contingent liabilities of Zhongtian Construction for providing guarantees to corporations which do not belong to our Group should not exceed 30% of its net assets; and (iv) the long-term investment of Zhongtian Construction should not exceed 30% of its net assets. These financial covenants did not have a material and adverse effect on our ability to undertake additional debt or equity financing during the Track Record Period. Our Directors confirm that we were able to meet these financial covenants during the Track Record Period and up to the Latest Practicable Date. Save as disclosed above, none of our outstanding bank borrowings and facilities are subject to the fulfilment of covenants relating to financial ratio requirements or contain any other material covenants that would materially limit our ability to undertake additional debt or equity financing. Our Directors confirmed that there has not been any material change in our indebtedness or contingent liabilities since 31 December 2019 and up to the date of this document. Our Directors confirmed that as at the Latest Practicable Date, we did not have any immediate plan for additional material external debt financing.

Lease liabilities

As at 30 September 2022, our Group, as a lessee, has outstanding contractual lease payments amounting to RMB0.2 million in aggregate in relation to the remaining lease terms of certain lease contracts, which is unsecured and unguaranteed. Our lease liabilities represented the related liabilities arisen when obtaining the right to use certain properties through tenancy agreements. For further details of our lease liabilities, please refer to note 27 of the Accountants’ Report set out in Appendix I to this document.

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Amounts due to related companies, directors and shareholders

Certain loans from a related company amounting to RMB1.9 million, nil, nil and nil as at 31 December 2019, 2020 and 2021 and 30 September 2022, respectively, are unsecured and interest bearing and repayable within one year. Please refer to the paragraph headed “Discussion on selected items of consolidated statements of financial position — Balance with related companies, shareholders and directors” in this section for further information. Except for these loans, the amount due to related companies, directors and shareholders were unsecured, interest free and/or repayable on demand, had no fixed terms of repayment.

Our Directors confirmed that the non-trade related amounts due to related companies, directors and shareholders as at the Latest Practicable Date will be fully settled before [REDACTED].

Financial guarantees

As at 31 December 2019, 2020 and 2021 and 30 September 2022, our Group provided a guarantee to Hangxiao Technology, a former associate company of our Company, which became a related company of our Group upon its disposal in March 2019, in relation to Hangxiao Technology’s banking facilities up to a maximum amount of RMB120.5 million, RMB84.2 million, RMB84.2 million and RMB84.2 million, respectively. As at 31 December 2019, 2020 and 2021 and 30 September 2022, the outstanding amount of the bank loans drawn under the guarantee amounted to approximately RMB76.0 million, RMB75.0 million, RMB73.0 million and RMB72.0 million, respectively. Our Directors do not consider it probable that a claim will be made against our Group under the guarantee. The guarantee provided to Hangxiao Technology will be released before or upon [REDACTED].

Contingent liabilities

A number of lawsuits and claims arising from the normal course of business were lodged against our Group which remain outstanding as at the end of the Track Record Period. For the details of the material on-going litigation against our Group and the amount of provisions made in respect of these lawsuits, please refer to the section headed “Business — Legal and Regulatory — Legal Proceedings” in this document.

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COMMITMENTS

Capital commitments

Our Group incurred capital expenditures of approximately RMB10.6 million, RMB6.5 million, RMB5.6 million and RMB0.9 million for FY2019, FY2020, FY2021 and 3Q2022, respectively. The majority of these capital expenditures were related to purchases of machineries and equipment for our operations and were mainly funded through our internal resources. As at 31 December 2019, 2020 and 2021 and 30 September 2022, save as disclosed in note 33 to the Accountants’ Report set out in the Appendix I to the document, we did not have any significant capital commitments.

We expect to meet future capital expenditure requirements through our internal generated funds, bank and other borrowings and net [REDACTED] from the [REDACTED].

RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into some related party transactions with our related companies. For details, please refer to Notes 22 and 34 to the Accountants’ Report set out in Appendix I to this document. The following table sets forth our related party transactions for the period indicated:-

	FY2019	FY2020	FY2021	3Q2021	3Q2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest expenses	165	106	—	—	—
Rental income	111	—	—	—	—
Rental expenses	—	443	443	323	319
Purchase of materials	21,860	22,236	92,270	71,973	55,720
Subcontracting service expenses	3,216	8,008	642	—	6,571
Construction service income	328,490	312,131	367,739	294,754	223,330
Consulting service income	1,023	—	—	—	—
Consulting service expenses	1,570	337	—	—	—
Management fee expenses	339	12	—	—	—
Sale of investment properties	—	—	—	—	—
Sale of property, plant and equipment	—	—	—	—	—
Transfer of assets	57,100	—	—	—	—
Gain on disposal of an associate	935	—	—	—	—
Purchase of fixed assets from a related company	—	57	—	—	—

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Interest expenses

We incurred interest expenses amounted to approximately RMB0.2 million and RMB0.1 million as a result of our loan from a related party for purchasing of certain construction machinery and equipment for the operation of our Company in FY2019 and FY2020, respectively. The loan arrangement was discontinued after FY2020 and thus no interest expenses were incurred in FY2021 and 3Q2022.

Rental income and rental expenses

Prior to the Demerger, Zhongtian Construction leased five properties to related companies for office purpose. In order to enable us to focus on construction contracting business as our principal business, our Directors decided to transfer most of the investment properties from our Group to Puhui Commercial except for the Ningbo Properties and such income ceased after the Demerger effective in May 2019.

Among the properties transferred out to Puhui Commercial, we leased back six properties after the Demerger on 1 July 2019. For details of such properties and the tenancy agreements, please refer to section headed “Connected Transactions — Transactions entered into before the [REDACTED] which would otherwise constitute connected transactions” in this document.

Purchase of materials and subcontracting service expenses

For FY2019, FY2020, FY2021 and 3Q2022, we engaged Fangge Intelligence, Hangxiao Technology and/or Hengnai Materials to provide ancillary building services and steel construction products and processing services for such products. Relevant costs paid to the related parties in total amounted to approximately RMB25.1 million, RMB30.2 million, RMB92.9 million and RMB62.3 million for FY2019, FY2020, FY2021 and 3Q2022, respectively. For details of the procurement of material and services from Fangge Intelligence and Hangxiao Technology ongoing after [REDACTED], please refer to section headed “Connected Transactions — Non-exempt continuing connected transactions — 2. Procurement of raw materials and services under the Procurement Framework Agreements” in this document.

Construction service income

During the Track Record Period, our construction service income from related parties mainly include provision of construction services to Zhongtian Holdings Group, including Wuguang Investment, Hengji Real Estate and Hangxiao Technology for their projects namely, Dongfang Mingyuan* (東方明園), Lai Yin Village* (萊茵小鎮), Chunteng Village* (春藤小鎮), Chunteng Mansion* (春藤公館), Zhongtian Lutai* (中天•麓台), Wuguang No.8 foundation works* (武廣8號

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地塊土石方), Plot No. 3, District 33, Tianyuan District* (天元區33區3號地塊), Zhongtian Hangxiao Steel Structure Prefabricated Building Base Phase I Construction* (中天杭蕭鋼構裝配式建築基地(一期)工程) and R&D Building* (科研樓). For details of the ongoing transactions between the Group with each of Hengji Real Estate, Wuguang Investment and Hangxiao Technology, please refer to the sections headed “Connected Transactions — Non-exempt continuing connected transactions — 1. Provision of construction services under the construction services framework agreements”, “Business — Customers and suppliers — Customers” and “Business — Customers and suppliers — Overlapping of customers and suppliers” in this document.

Consulting service income

Our Group provided supporting services in administrative, business operation and financial perspective to our related companies in FY2019 amounted to approximately RMB1.0 million on a standalone basis. For details of the consulting fee income earned from the provision of such services, please refer to the section headed “Financial Information — Other income and other gains” in this document.

Consulting service expenses and management fee expenses

For FY2019 and FY2020, we engaged our related companies to provide administrative services including compiling of construction cost budgeting and management services for our projects amounted to approximately RMB1.9 million and RMB0.3 million, respectively and such service was discontinued after FY2020.

Transfer of assets

Following the Demerger resolved on 8 May 2019, certain assets including most of our investment properties were transferred from Zhongtian Construction to Puhui Commercial at their respective net book values as at 2 July 2019. For details of the assets being transferred, please refer to paragraph headed “Basis of presentation” in this section.

Gain on disposal of an associate

Zhongtian Construction transferred 75,600,000 shares in Hangxiao Technology to Zhongtian Holdings on 1 March 2019. Upon completion of the transfer, our Group ceased to hold any share in Hangxiao Technology. As a result of the transfer, we realised a gain on disposal of RMB0.9 million in FY2019. For details of the disposal, please refer to the section headed “History, Development and Reorganisation — Disposal of shares in Hangxiao Technology” and note 17 of the Accountants’ Report set out in Appendix I to this document.

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Our Directors confirm that these transactions were conducted on normal commercial terms and/or that such terms were no less favourable to us than terms available to Independent Third Parties and were fair and reasonable and in the interest of us and our Shareholders as a whole. Our Directors further confirm that these related party transactions did not distort our results of operations during the Track Record Period or made our historical results not reflective of our future performance.

The terms of our related party transactions or the comparison of the terms of our related party transactions with that those conducted with Independent Third Parties are set out below:

- In respect of the interest expenses paid to a related party, the interest rates charged by the related party to our Group, the effective interest rate for FY2019 and FY2020 were approximately 8.7% and 8.7%, respectively, which is within the range of effective interest rate charged by an Independent Third Party of approximately 5.2% to 9.3% during the Track Record Period;
- In respect of the rental expense paid to Puhui Commercial, the Independent Valuer has reviewed the relevant tenancy agreements and confirmed that, with reference to the asking rentals of comparable properties in the market and a comparison between the relevant properties and the selected comparable properties in terms of location, quality, size, asking rent and time, etc., the rents of those properties paid to Puhui Commercial were fair and reasonable and consistent with the market rent of comparable properties, and the terms of the relevant tenancy agreements are on normal commercial terms under prevailing market conditions and are considered as fair and reasonable;
- The range of prices payable by our Group to Fangge Intelligence and Hangxiao Technology for the purchase of raw materials and subcontracting services were within the range of quotations obtained from the Independent Third Party suppliers or subcontractors and the credit terms offered to our Group is generally one to three months which were similar to those offered by Independent Third Party suppliers or subcontractors;
- During the Track Record Period, we were engaged by Zhongtian Holdings Group for eight construction projects either through invitation to tender or public tender and the weighted average gross profit margins recognised in respect of these eight projects were approximately 10.7% and ranged from approximately 1.2% to 13.3%. In particular, for the provision of construction services by our Group to Wuguang Investment, Hengji Real Estate and Hangxiao Technology, the weighted average gross profit margin throughout the Track Record Period was approximately 10.7%, 9.1% and 11.4%, respectively, which was also (i) within the range of gross profit margins and close to the

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weighted average gross profit margins of our top 10 revenue generating projects for the Track Record Period not engaged by Zhongtian Holdings Group of approximately 11.7%; and (ii) close to the average gross profit margins of our Group exhibited during the Track Record Period of approximately 10.6%. We granted a credit period of approximately 10 to 30 days to Zhongtian Holdings Group, which was within the range of the credit period that was granted to other customers by our Group.

- In respect of the provision of prefabricated steel structure construction services by our Group to Hangxiao Technology, the weighted average gross profit margins throughout the Track Record Period was approximately 11.4%, which was (i) within the range of approximately 9.0% to 22.8% and close to the weighted average gross profit margins of our Group's other prefabricated steel structure construction work projects not engaged by Hangxiao Technology and Wuguang Investment of approximately 14.5% for the Track Record Period; (ii) and close to and slightly lower than the average gross profit margin for prefabricated steel construction work of approximately 14.3% among industry peers that are listed and engaged in prefabricated steel construction work in FY2021 according to the F&S Report. Our Group granted a credit period of approximately 30 days to Hangxiao Technology, which was within the range of the credit period that was granted to other customers by our Group;
- In respect of the provision of consulting services by our Group to the related parties, as our Directors would like to focus on construction related business and having considered the profitability for providing such services to be relatively low and taking into consideration the pricing basis, costs incurred and credit terms charged by our Group we discontinued the said services after FY2019;
- In respect of the management fee and consulting fee paid by our Group to related parties, our Directors considered the basis of the rate charged by the related parties to our Group which was within the range of the quotations obtained from the Independent Third Party suppliers of similar management services and consulting services;
- In respect of the transfer of certain assets from our Group to Puhui Commercial upon the Demerger as part of the Reorganisation, the assets were transferred at the net carrying value of the assets, given that there is no legal requirement in the PRC to transfer the assets at an amount based on valuation under a demerger;
- In respect of the disposal of Hangxiao Technology to Zhongtian Holdings, the consideration for such disposal was determined with reference to the registered capital of Hangxiao Technology and our Group recorded a gain on disposal of approximately RMB0.9 million in FY2019.

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Based on the above, our Directors confirm that (i) all these related party transactions were conducted on normal commercial terms and/or that such terms were no less favourable to us than terms available to Independent Third Parties and were fair and reasonable and in the interest of us and our Shareholders as a whole; and (ii) these related party transactions did not distort our results of operations during the Track Record Period or made our historical results not reflective of our future performance. Except for the connected transactions as disclosed in the section headed “Connected Transactions” in this document, all the other related party transactions have been discontinued or will be discontinued before or upon the [REDACTED].

Off-balance sheet commitments and arrangements

As at the Latest Practicable Date, we did not have any off-balance sheet commitments and arrangements.

MAJOR FINANCIAL RATIOS

The table below sets forth our major financial ratios during and as at the dates indicated:

	Year ended/As at 31 December			Nine months
	2019	2020	2021	ended/As at 30 September 2022
Profitability Ratios:				
Gross profit margin (<i>Note 1</i>)	10.1%	10.7%	10.7%	10.9%
Net profit margin (<i>Note 2</i>).	2.8%	2.8%	3.4%	3.7%
Return on assets (<i>Note 3</i>)	2.7%	2.5%	3.3%	N/A (<i>Note 11</i>)
Return on equity (<i>Note 4</i>)	29.4%	22.1%	21.7%	N/A (<i>Note 11</i>)
Liquidity Ratios:				
Current ratio (<i>Note 5</i>).	1.1 times	1.1 times	1.2 times	1.2 times
Quick ratio (<i>Note 6</i>).	1.1 times	1.1 times	1.2 times	1.2 times
Solvency Ratios:				
Interest coverage ratio (<i>Note 7</i>)	7.7 times	12.2 times	21.3 times	13.3 times
Net debt to equity ratio (<i>Note 8</i>)	N/A (<i>Note 10</i>)	N/A (<i>Note 10</i>)	N/A (<i>Note 10</i>)	4.6%
Gearing ratio (<i>Note 9</i>)	44.0%	28.5%	22.7%	41.4%

Notes:

1. Gross profit margin = gross profit ÷ revenue × 100%
2. Net profit margin = profit for the year/period ÷ revenue × 100%

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3. Return on assets = profit for the year ÷ total assets × 100%
4. Return on equity = profit for the year ÷ total equity attributable to owners of the Company × 100%
5. Current ratio = total current assets ÷ total current liabilities
6. Quick ratio = (total current assets – inventories) ÷ total current liabilities
7. Interest coverage ratio = profit before finance costs and income tax expense ÷ finance costs
8. Net debt to equity ratio = (total interest-bearing debt including borrowings and lease liabilities net of cash and cash equivalent) ÷ total equity × 100%
9. Gearing ratio = (total interest-bearing debt including borrowings and lease liabilities) ÷ total equity × 100%
10. Net debt to equity ratio is not applicable to our Group as at 31 December 2019, 2020 and 2021 as our Group recorded net cash as at 31 December 2019, 2020 and 2021.
11. Return on assets and return on equity are calculated on a full year basis.

Gross profit margin

Our gross profit margin increased from approximately 10.1% in FY2019 to approximately 10.7% in FY2020 and FY2021 and increased to approximately 10.9% in 3Q2022, respectively.

Our gross profit margin increased from approximately 10.1% in FY2019 to approximately 10.7% in FY2020 mainly because of the higher gross profit margin of municipal works and civil building construction works. The higher gross profit margin of municipal works was attributable to some projects involving decoration work. We had a higher gross profit margin of civil building construction works as we were able to lower the raw material purchase costs by purchasing in bulk or using different building materials. The main reason that leading to the further increment of our gross profit margin to approximately 10.9% was the contribution from the prefabricated steel structure work construction segment which in general exhibit a higher gross profit than the other type of construction segments. For reasons of the gross profit margin of the sub-segment, please refer to the above paragraphs headed “Description of Certain Key Items of our Results of Operations — Gross profit and gross profit margin” of this section.

Net profit margin

Our net profit margin remained stable at 2.8% in FY2019 and FY2020 and increased to 3.4% in FY2021 and 3.7% in 3Q2022.

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Our net profit margin for FY2021 increased slightly to 3.4% mainly because (i) our impairment of financial and contract assets decreased from approximately RMB7.5 million in FY2020 to approximately RMB0.5 million in FY2021 resulting from the high recovery rate of long outstanding trade receivables that lower the gross balances of trade, bills and other receivables in FY2021 despite the ECL rate adopted by our Company was higher in FY2021 compared to FY2020 based on the calculation of the Independent Valuer and for prudent sake with response to the overall market conditions in the PRC; and (ii) the decrease in [REDACTED] expense from approximately RMB10.7 million in FY2020 to approximately RMB4.5 million in FY2021, which was partially offset by the decrease in other income/gains from approximately RMB6.5 million in FY2020 to approximately RMB1.5 million in FY2021, mainly attributable to the absence of gains on disposal of investment properties of approximately RMB5.7 million in FY2021.

Our net profit margin for 3Q2022 further increased slightly to 3.7% mainly attributable to the increment in gross profits of approximately RMB4.8 million partially net-off by the increase in [REDACTED] expenses of approximately RMB0.5 million and decrease in other income of approximately RMB0.8 million.

Return on assets

For FY2020, our return on assets slightly decreased from 2.7% to 2.5% mainly resulted from our decrease in net profit for FY2020 and increment in total assets resulting from contract assets. For FY2021, our return on assets increased to 3.3% mainly resulted from the improvement in net profit by approximately 24.8% compared to FY2020 outweighed the decrement in trade, bills and other receivables and contract assets of approximately 4.9%.

Return on equity

For FY2020, our return on equity decreased to approximately 22.1% mainly due to our decrease in net profit by approximately 2.5% and increase in equity by approximately 29.2%. For FY2021, our return on equity remained relatively stable at 21.7%, mainly because the improvement in net profit in FY2021 by approximately 24.8% as compared to FY2020 was comparable to the increase in equity by approximately 26.7% between 31 December 2020 and 2021.

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Current ratio

Our current ratio remained stable at 1.1, 1.1, 1.2 and 1.2 as at 31 December 2019, 2020 and 2021 and 30 September 2022, respectively, meaning that our current assets can cover well above our current liabilities and that we had the net current assets position. For the reason for the above trend and the underlying implications, please refer to the paragraph headed “Net current assets” of this section.

Quick ratio

Our quick ratio remained stable at 1.1, 1.1, 1.2 and 1.2 as at 31 December 2019, 2020 and 2021 and 30 September 2022 respectively, meaning that we are in a stable liquidity position to settle short-term debts when they fall due. As our inventory represented less than 0.2% of our total current assets during the Track Record Period, changes in inventory level did not have a significant impact on quick ratio.

Interest coverage ratio

Our interest coverage ratio increased to approximately 12.2 times for FY2020 as we repaid borrowings of approximately RMB74.8 million and our finance costs dropped from approximately RMB8.9 million for FY2019 to approximately RMB5.3 million for FY2020. Our interest coverage ratio for FY2021 increased significantly to approximately 21.3 times for FY2021 mainly because the improvement in net profit in FY2021 by approximately 24.8% as compared to FY2020 while our finance costs also dropped to approximately RMB3.5 million in FY2021 as compared with approximately RMB5.3 million in FY2020. Our interest coverage ratio for 3Q2022 decreased to approximately 13.3 times for 3Q2022 mainly because of increase in our borrowings from approximately RMB66.9 million as at 31 December 2021 to RMB142.8 million as at 30 September 2022.

Net debt to equity ratio

Net debt to equity ratio is not applicable to our Group as at 31 December 2019, 2020 and 2021 as our Group recorded net cash as at 31 December 2019, 2020 and 2021. Our Group recorded net debt to equity ratio of 4.6% as at 30 September 2022 as generally more trade receivables would be settled close to the year end than in between the year, thus we typically generate less net operating cashflow in the first nine months period of a year and we obtained, more bank borrowings as at 30 September 2022 for improving liquidity of the Company.

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Gearing ratio

Our gearing ratio fluctuated between approximately 22.7% to 44.0% during the Track Record Period.

Our gearing ratio dropped from approximately 44.0% as at 31 December 2019 to 28.5% as at 31 December 2020 mainly because we reduced our borrowings during FY2019 and FY2020 in light of the operating cash inflow during the periods. Our gearing ratio further dropped to approximately 22.7% as at 31 December 2021 mainly due to our increase in equity by approximately 26.7% between 31 December 2020 and 2021.

Our gearing ratio increased to approximately 41.4% as at 30 September 2022 from approximately 22.7% as at 31 December 2021 mainly due to significant increase of our bank borrowings during 3Q2022.

DIVIDENDS

For FY2019, FY2020, FY2021 and 3Q2022, our Group declared dividends of RMB0.1 million, RMB0.2 million, nil and nil, respectively. All the dividends declared during the Track Record Period had been fully settled as at the Latest Practicable Date. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on, among other things, the results of our operations, cash flows, financial conditions, our Articles of Association, statutory and regulatory restrictions and other factors that it may consider relevant. There is no assurance that dividends of such amount or any amount will be declared or distributed each year or in any year.

The declaration, payment and amount of any future dividends will be subject to our constitutional documents comprising the memorandum and articles of association including, where necessary, the approval of our Shareholders. Investors should note that historical dividend distributions are not indicative of our future dividend distribution policy.

DISTRIBUTABLE RESERVES

Our Company was incorporated in the Cayman Islands and has not carried out any business since the date of its incorporation, save for investment holding and the transactions related to the Reorganisation. Accordingly, our Company has no reserve available for distribution to the Shareholders as at the Latest Practicable Date.

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[REDACTED] EXPENSES

The total estimated [REDACTED] expenses primarily consist of the estimated [REDACTED] commissions for the [REDACTED] and the [REDACTED] in addition to the professional fees paid in relation to the [REDACTED].

Assuming the [REDACTED] is not exercised and assuming an [REDACTED] of HK\$[REDACTED], being the mid-point of our indicative price range for the [REDACTED], the total [REDACTED] expenses is estimated to be RMB[REDACTED] million (equivalent to HK\$[REDACTED] million), representing approximately [REDACTED]% of the gross [REDACTED] from the [REDACTED]. [REDACTED] expenses of approximately RMB[REDACTED] million (equivalent to HK\$[REDACTED] million) is directly attributable to the issue of the [REDACTED] in the [REDACTED] which was and is expected to be accounted for as a deduction from equity in accordance with relevant accounting standards. The remaining expenses of RMB[REDACTED] million (equivalent to HK\$[REDACTED] million) were or are expected to be charged as expenses to our consolidated statements of profit or loss, of which RMB[2.4] million (equivalent to HK\$[2.6] million), RMB[10.7] million (equivalent to HK\$[11.8] million) and RMB[4.5] million (equivalent to HK\$[4.9] million) was charged for FY2019, FY2020, FY2021 and 3Q2022, respectively, while the balance of RMB[REDACTED] million (equivalent to HK\$[REDACTED] million) is expected to be charged in FY2022. The above total [REDACTED] expenses are the latest practicable estimates for reference only. The final amount to be recognised may differ from these estimates.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, as at the Latest Practicable Date, there has been no material adverse change in our financial and trading positions or prospects since 31 December 2021, being the end of the period reported on the Accountants’ Report set out in Appendix I to this document and up to the date of this document.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

For further details, see “Unaudited Pro Forma Financial Information” in Appendix II to this Document.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that, save as disclosed above, as at the Latest Practicable Date, there are no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.