Zhongtian Construction (Hunan) Group Limited
中天建設(湖南)集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2433

ANNUAL REPORT
2022

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Corporate Information

DIRECTORS

EXECUTIVE DIRECTORS:

Mr. Yang Zhongjie *(Chairman)*
Mr. Liu Xiaohong *(Chief Executive Officer)*
Mr. Min Shixiong
Mr. Shen Qiang
Mr. Chen Weiwu

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Dr. Liu Jianlong
Ms. Deng Jianhua
Mr. Lau Kwok Fai Patrick

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COMPANY'S WEBSITE

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COMPANY SECRETARY

Ms. Chan Kit Ming *(Certified Public Accountant)*

AUTHORISED REPRESENTATIVES

Ms. Chan Kit Ming *(Certified Public Accountant)*
Mr. Yang Zhongjie

AUDIT COMMITTEE

Mr. Lau Kwok Fai Patrick *(Chairperson)*
Dr. Liu Jianlong
Ms. Deng Jianhua

REMUNERATION COMMITTEE

Ms. Deng Jianhua *(Chairperson)*
Mr. Liu Xiaohong
Mr. Lau Kwok Fai Patrick

NOMINATION COMMITTEE

Mr. Yang Zhongjie *(Chairperson)*
Dr. Liu Jianlong
Ms. Deng Jianhua

AUDITORS

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LEGAL ADVISERS AS TO HONG KONG LAW

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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STOCK CODE

2433

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "**Board**") of Zhongtian Construction (Hunan) Group Limited (the "**Company**") and its subsidiaries (the "**Group**"), I am pleased to present the annual results of the Group for the year ended 31 December 2022.

I am delighted to report that our Group has achieved a profit growth in the year. This is a result of our continued commitment to delivering high-quality construction projects, as well as our focus on cost management and operational efficiency. We are proud of our team's dedication and hard work in achieving this result.

Moreover, I would like to highlight that the Company was successfully listed on the Main Board of The Hong Kong Stock Exchange Limited on 30 March 2023 (the "**Listing**"), which was a significant milestone for us. The Listing is expected to provide us with a platform to expand our business further, and we remain committed to delivering long-term value to our shareholders.

Our success is also a testament to our commitment to sustainability and community engagement. We believe that sustainability is essential to our long-term success, and we have continued to prioritize environmental responsibility and social impact in all our operations. We are committed to being a responsible corporate citizen and making a positive difference in the communities where we operate.

Finally, I would like to thank our shareholders, investors, and customers for their continued support and confidence in our Group. Our success would not have been possible without your support and trust, and we remain committed to delivering long-term value to all our stakeholders.

Yang Zhongjie
Chairman
28 April 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND OPERATION RESULTS

BUSINESS REVIEW

We are a general contracting construction group in Hunan Province with over 40 years of operating history. In the year ended 31 December 2022 ("**FY2022**"), we derived all of our revenue from our customers located in the PRC.

Currently, we primarily focus on the provision of construction services comprising (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 consist of construction of urban roads, education institutions, sports stadiums 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 building renovation and decoration construction specialised contracting. We provide comprehensive construction services to customers throughout the construction process from project procurement, management, construction to supervision and to a lesser extent, we also engage in the provision of construction machinery and equipment service.

For FY2022, our Group's revenue amounted to approximately RMB1,890.7 million, representing an increase of approximately RMB67.3 million or 3.7% from approximately RMB1,823.4 million in the year ended 31 December 2021 ("**FY2021**"). We recorded an increase in our gross profit from approximately RMB195.6 million in FY2021 to approximately RMB206.6 million in FY2022, representing a year-on-year growth of approximately 5.6%. As a result, our profit for the year increased from approximately RMB61.9 million in FY2021 to approximately RMB65.5 million in FY2022. For FY2022, our gross profit margin was approximately 10.9% and our net profit margin was approximately 3.5%, respectively.

FINANCIAL REVIEW

Revenue

Construction contracts

For FY2022, our revenue generated from construction contracts increased by approximately RMB67.3 million or 3.7% from approximately RMB1,814.1 million in FY2021 to approximately RMB1,881.4 million in FY2022. The increment was mainly due to the increase in revenue generated from municipal works construction works, which grew by approximately RMB307.3 million or 71.8% while partially net-off by the decrement in revenue generated from prefabricated steel structure construction works and foundation works of approximately RMB112.1 million or 30.3% and RMB89.9 million or 78.7% respectively.

Civil building construction

For FY2022, our revenue generated from civil building construction stayed relatively stable and decreased by approximately RMB27.4 million or 3.1% from approximately RMB885.3 million in FY2021 to RMB857.9 million in FY2022, which was mainly attributable to the decrease in revenue generated from Hainan Lixun Meilun Science and Technology Park* (海南力迅美倫科創園) project, Chaling County People's Hospital Phase II Construction Project* (茶陵縣人民醫院二期建設工程項目) 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 by approximately RMB44.4 million, RMB51.5 million and RMB47.6 million respectively from FY2021 to FY2022 as these projects are approaching its final stage of development. The decrement was partially net-off by the increment of 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 RMB105.2 million in FY2022.

Municipal works construction

Our revenue generated from municipal works construction significantly increased by approximately RMB307.3 million or 71.8% from approximately RMB427.7 million in FY2021 to RMB735.0 million in FY2022, which was mainly due to (i) revenue contributed by a road construction project in Haikou of approximately RMB60.2 million in FY2022; (ii) increment in revenue contributed by Xupu County Chengbei School Supporting Facilities Construction* (溆浦縣城北學校配套設施建設工程) project by approximately RMB78.0 million compared to FY2021 due to completion of substantial parts in FY2022; (iii) increment in revenue contributed by a new project namely Yuci Road *(玉瓷路) project by approximately RMB32.7 million in FY2022; (iv) increase in revenue of another municipal works construction work project involving an education institution in Hunan Province by approximately RMB39.7 million due to the completion of demolishment and hence the project was resumed and completed in FY2022 with additional variation order amounting to approximately RMB30.0 million engaged by the customer and (v) increased in revenue contributed by Sanya City Third Ring Road* (三亞市三環路) project by approximately RMB83.4 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 FY2022.

Foundation works

Our revenue generated from foundation works decreased by approximately RMB89.9 million or 78.7% from approximately RMB114.2 million in FY2021 to approximately RMB24.3 million in FY2022, 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 and approximately RMB33.7 million of revenue was recognised in FY2021 while no revenue was recognised in FY2022; (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 RMB4.8 million compared to FY2021; and (iii) the decrement in another foundation work project that was substantially completed in FY2021 with approximately RMB28.8 million of revenue recognised in FY2021 while no revenue was recognised in FY2022.

Prefabricated steel structure construction works

For FY2022, our revenue generated from prefabricated steel structure construction works decreased from approximately RMB369.8 million for FY2021 to approximately RMB257.7 million for FY2022, mainly due to decrement of revenue generated from Zhongtian Lutai* (中天•麓台) project by approximately RMB74.6 million compared with FY2021 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 FY2022, leading to the decrease in revenue by approximately RMB32.7 million compared with FY2021.

Other specialised contracting works

For FY2022, our revenue from other specialised contracting works decreased from approximately RMB17.2 million in FY2021 to approximately RMB6.5 million in FY2022 due to substantial portions of a number of projects were completed in FY2021 and only one new project in this segment was commenced in FY2022 generating revenue of approximately RMB1.6 million.

Provision of construction machinery and equipment service

For FY2022, our revenue from this sub-segment stayed relatively stable at approximately RMB9.2 million compared to approximately RMB9.3 million for FY2021.

Cost of sales

	FY2021		**FY2022**	
	RMB'000	%	**RMB'000**	**%**
Raw material costs	642,700	39.5	**715,675**	**42.5**
Labour costs	9,652	0.6	**7,141**	**0.4**
Labour subcontracting costs	520,137	32.0	**447,934**	**26.6**
Construction subcontracting costs	124,295	7.6	**272,414**	**16.2**
Rental of machinery and equipment costs	244,010	15.0	**157,274**	**9.3**
Other project costs	86,943	5.3	**83,663**	**5.0**
Total	1,627,737	100.0	**1,684,101**	**100.0**

Our cost of sales increased from approximately RMB1,627.7 million from FY2021 to approximately RMB1,684.1 million from FY2022 by 3.5% in line with the revenue growth of approximately 3.7%. Among the cost of sales items, raw material costs increased by approximately 11.4% from FY2021 to FY2022, which was mainly due to increment in revenue from construction contracts and 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 which required more raw materials at the latest stage of construction and hence incurred higher raw material costs in FY2022 than FY2021.

On the other hand, the aggregate labour costs and labour subcontracting costs decreased by approximately 14.1% in FY2022 as compared to FY2021, 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 FY2022 than FY2021.

The construction subcontracting costs increased from approximately RMB124.3 million in FY2021 to approximately RMB272.4 million in FY2022, mainly due 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) and Xupu County Chengbei School Supporting Facilities Construction Project* (漵浦縣城北學校配套設施建設工程) which required installation of lift and other ancillary construction services in FY2022.

Our rental of machinery and equipment costs decreased by approximately 35.5% in FY2022 as compared to FY2021 mainly due to the decrease in revenue generated from foundation works construction by approximately 78.7% and we utilised our own construction machinery and equipment for our construction works in FY2022.

Gross profit and gross profit margin

	FY2021		**FY2022**	
	Gross profit RMB'000	Gross profit margin %	**Gross profit RMB'000**	**Gross profit margin %**
Construction contracts				
— Civil building construction	95,433	10.8	**92,500**	**10.8**
— Municipal works construction	42,027	9.8	**76,415**	**10.4**
— Foundation works	7,782	6.8	**1,574**	**6.5**
— Prefabricated steel structure construction	45,293	12.2	**30,951**	**12.0**
— Other specialised contracting works	2,362	13.8	**1,854**	**28.6**
Subtotal	192,897	10.6	**203,294**	**10.8**
Provision of construction machinery and equipment service	2,750	29.7	**3,265**	**35.3**
	195,647	10.7	**206,559**	**10.9**

For FY2022, the gross profit margins of civil building construction remained relatively stable as compared to FY2021 while the gross profit margin of municipal works construction exhibited an increment of approximately 0.6% from approximately 9.8% in FY2021 to approximately 10.4% in FY2022 mainly because we recognised a larger portion of revenue in FY2022 than FY2021 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 FY2021 and a road construction in Haikou which recorded a higher gross profit margin due to tight construction schedule required by the relevant customer.

For FY2022, the gross profit margin of foundation works remained relatively stable and slightly decrease to approximately 6.5% compared with approximately 6.8% in FY2021 as the revenue from foundation works was mainly contributed by for Chaling Pioneering Park* (茶陵創業園) project in FY2022 with gross profit margin of approximately 6.2% while in FY2021 the higher gross profit margin was attributed to Changsha Zhenye City Phase V Field Leveling Earthwork* (長沙振業城五期場平土石方工程) project with gross profit margin of approximately 12.5% due to tighter schedule.

Other income and other gains

The other income and gains in FY2022 dropped by approximately RMB0.6 million as compared to FY2021 mainly due to decrease in government grants from approximately RMB1.4 million to approximately RMB0.2 million which was one-off in nature.

Administrative expenses

Our administrative expenses mainly consisted of R&D expenses, salaries and other benefits, depreciation and amortisation, repair and maintenance expenses, office administration expenses and other expenses. For FY2022, our administrative expenses stayed relatively stable and slightly increased from approximately RMB116.5 million to approximately RMB117.5 million mainly due to the increment in R&D expenses of approximately RMB5.1 million while partially net-off by the decrement in salaries and other benefits due to decrement in discretionary bonus for employees in FY2022.

Listing expenses

Listing expenses represented professional services fees incurred for the purpose of Listing. We incurred Listing expenses of approximately RMB4.5 million and RMB6.2 million for FY2021 and FY2022, respectively.

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 using a provision matrix to measure expected credit losses. For FY2021 and FY2022, our impairment on financial and contract assets was RMB0.5 million and RMB2.5 million, respectively.

For FY2022, impairment losses on financial and contract assets increased by approximately RMB2.0 million or 400% as compared to FY2021. For FY2022, we increased our average ECL rates for trade and bills receivables and contract assets from 0.97% as at 31 December 2021 to 1.27% as at 31 December 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 cost in FY2022 increased by approximately RMB3.9 million as compared to FY2021, which was in line with the increase in bank and other borrowings in FY2022.

Income tax expenses

Our income tax expenses consist principally of enterprise income tax and movements in deferred tax assets. For FY2021 and FY2022, our income tax was RMB10.1 million and RMB8.2 million, respectively, and our effective tax rate for the corresponding periods was 14.0% and 11.2%, respectively. Since 1 January 2018 and up to the Latest Practicable Date, Hunan Zhongtian Construction Group Corporation* (湖南中天建設集團股份有限公司) (“**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%, which is lower than the statutory rate of 25.0%. The preferential tax treatment in relation to the High and New Technology Enterprise Certificate (高新技術企業證書) will expire on 17 September 2024 unless the High and New Technology Enterprise Certificate (高新技術企業證書) is renewed.

Net profit

Our net profit increased by approximately RMB3.6 million in FY2022 as compared to FY2021 mainly attributable to the increment in gross profits of approximately RMB10.9 million partially net-off by the increase in Listing expenses of approximately RMB1.7 million, increase in finance costs of approximately RMB3.9 million and increase in impairment on financial and contract assets of approximately RMB2.0 million.

Analysis of key items of financial position

Net current assets

The following table sets forth a breakdown of our Group's current assets and liabilities as at the dates indicated:

	As at 31 December 2021 RMB'000	**As at 31 December 2022 RMB'000**
Current assets		
Inventories	3,018	**828**
Trade, bills and other receivables	513,270	**434,116**
Contract assets	1,216,095	**1,127,150**
Amounts due from related companies	6,475	**8,318**
Amounts due from shareholders	9,260	**4,352**
Restricted bank deposits	18,429	**17,599**
Cash and cash equivalents	89,106	**151,661**
	1,855,653	**1,744,024**
Current liabilities		
Trade and bills payables	1,166,117	**803,363**
Accruals and other payables	302,800	**420,745**
Contract liabilities	24,976	**17,267**
Amounts due to related companies	4,833	**8,618**
Amounts due to shareholders	14,046	**5,806**
Amounts due to directors	253	**748**
Lease liabilities	28	**—**
Borrowings	66,895	**136,705**
Income tax payable	9,538	**11,334**
	1,589,486	**1,404,586**
Net current assets	266,167	**339,438**

Our net current assets increased from approximately RMB266.2 million as at 31 December 2021 to approximately RMB339.4 million as at 31 December 2022, mainly due to the net profit of approximately RMB65.5 million generated for the FY2022 leading to the increase in net assets and net current assets of our Group.

Trade, bills and other receivables

Our trade, bills and other receivables comprised (i) net trade and bills receivables of approximately RMB445.4 million and RMB354.7 million as at 31 December 2021 and 2022 respectively; and (ii) net other receivables, prepayment and deposits of approximately RMB67.8 million and RMB79.4 million as at 31 December 2021 and 2022 respectively. Our net trade and bills receivables decreased by 20.4% because we put more effort to collect trade receivables from our customers during FY2022. Our net other receivables, prepayment and deposits increased because of increase in prepayments from approximately RMB18.5 million as at 31 December 2021 to approximately RMB33.6 million as at 31 December 2022.

Contract assets

Our contract asset decreased from approximately RMB1,216.1 million as at 31 December 2021 to RMB1,127.2 million as at 31 December 2022, mainly because of our efforts to follow up on the progress of the settlement audit. We have adopted an internal control policy on the settlement audit, 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.

Trade and bills payables

Our trade and bills payables decreased from approximately RMB1,166.1 million as at 31 December 2021 to approximately RMB803.4 million as at 31 December 2022 in line with the decrease in trade and bills receivables during FY2022 and is also due to the faster repayment by our Group during FY2022.

Accruals and other payables

Our accruals and other payables increased from approximately RMB302.8 million as at 31 December 2021 to approximately RMB420.7 million as at 31 December 2022, mainly due to the higher other tax payables of approximately RMB310.3 million as at 31 December 2022 as compared with RMB192.7 million as at 31 December 2021, mainly attributable to the increase in net VAT payable.

Indebtedness

The following table sets forth our Group's indebtedness as at the respective dates indicated:

	As at 31 December 2021 RMB'000	**As at 31 December 2022 RMB'000**
Non-current		
Borrowings	—	**3,425**
	—	**3,425**
Current		
Borrowings	66,895	**136,705**
Amounts due to related companies	4,833	**8,618**
Amounts due to shareholders	14,046	**5,806**
Amounts due to directors	253	**748**
Current portion of lease liabilities	28	**—**
	86,055	**151,877**
	86,055	**155,302**

Our aggregate indebtedness increased from approximately RMB86.1 million as at 31 December 2021 to approximately RMB155.3 million mainly because we raised more borrowings, mainly bank borrowings, from approximately RMB66.9 million as at 31 December 2021 to approximately RMB140.1 million as at 31 December 2022. Given that we maintained a low gearing ratio of 22.7% as at 31 December 2021, directors of our Company ("**Directors**") considered that it was appropriate to raise more bank financing for our working capital purpose while balancing our debt level in FY2022.

As at 31 December 2021 and 2022, our borrowings are denominated in Renminbi.

Key financial ratios

	FY2021 or as at 31 December 2021	**FY2022 or as at 31 December 2022**
Revenue growth	3.0%	**3.7%**
Net profit growth	24.8%	**5.8%**
Gross profit margin *(Note 1)*	10.7%	**10.9%**
Net profit margin *(Note 2)*	3.4%	**3.5%**
Return on assets *(Note 3)*	3.3%	**3.7%**
Return on equity *(Note 4)*	21.7%	**18.7%**
Current ratio *(Note 5)*	1.2 times	**1.2 times**
Quick ratio *(Note 6)*	1.2 times	**1.2 times**
Trade and bills receivables turnover days *(Note 7)*	97.3	**78.7**
Contracts assets turnover days *(Note 8)*	246.0	**228.0**
Trade and bills payables turnover days *(Note 9)*	281.2	**213.4**
Interest coverage *(Note 10)*	21.3 times	**11.0 times**
Net debt to equity ratio *(Note 11)*	N/A *(Note 13)*	**N/A *(Note 13)***
Gearing ratio *(Note 12)*	22.7%	**39.0%**

Notes:

1. Gross profit margin = gross profit ÷ revenue × 100%

2. Net profit margin = profit for the year ÷ revenue × 100%

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. 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 divided by revenue and multiplied by the number of days in the relevant year.

8. 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 divided by revenue and multiplied by the number of days in the relevant year.

9. 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 divided by cost of sales and multiplied by the number of days in the relevant year.

10. Interest coverage ratio = profit before finance costs and income tax expense ÷ finance costs

11. Net debt to equity ratio = (total interest-bearing debt including borrowings and lease liabilities net of cash and cash equivalent) ÷ total equity x 100%

12. Gearing ratio = (total interest-bearing debt including borrowings and lease liabilities) ÷ total equity × 100%

13. Net debt to equity ratio is not applicable to our Group as at 31 December 2021 and 2022 as our Group recorded net cash as at 31 December 2021 and 2022.

Revenue growth

Our revenue increased slightly from approximately RMB1,823.4 million in FY2021 to approximately RMB1,890.7 million in FY2022, representing an increase of approximately RMB67.3 million or 3.7%. Please refer to the paragraph headed "Management's Discussion and Analysis of Financial Condition and Operation Results — Financial Review — Revenue" in this report for the reasons for the increase in our revenue.

Net profit growth

Our profit and total comprehensive income increased from approximately RMB61.9 million for FY2021 to approximately RMB65.5 million for FY2022, representing an increase of approximately RMB3.6 million or 5.8%. Please refer to the paragraph headed "Management's Discussion and Analysis of Financial Condition and Operation Results — Financial Review — Net profit" in this report for the reasons for the increase in our net profit.

Gross profit margin

Our gross profit margin increased slightly from approximately 10.7% in FY2021 to approximately 10.9% in FY2022. Please refer to the paragraph headed "Management's Discussion and Analysis of Financial Condition and Operation Results — Financial Review — Revenue Gross profit and gross profit margin" in this report for the reasons for the changes in gross profit margin.

Net profit margin

Our net profit margin remained stable at 3.4% and 3.5% respectively in FY2021 and FY2022 despite our improvement in gross profit margin as the increase in gross profit is partially offset by increase in finance costs by approximately RMB3.9 million, increase in impairment on financial and contract assets of approximately RMB2.0 million and increase in Listing expenses of approximately RMB1.7 million in FY2022 as compared with FY2021. Please refer to the paragraph headed "Management's Discussion and Analysis of Financial Condition and Operation Results — Financial Review" in this report for the reasons for the changes in net profit margin.

Return on assets

Our return on assets increased slightly from 3.3% in FY2021 to 3.7% in FY2022 mainly resulted from our increase in net profit by 5.8% from FY2021 to FY2022.

Return on equity

Our return on equity decreased slightly from 21.7% in FY2021 to 18.7% in FY2022 despite our increase in net profit in FY2022 mainly because our equity increased by 22.6% from 31 December 2021 to 31 December 2022.

Current ratio

Our current ratio remained stable at 1.2 as at 31 December 2021 and 2022 respectively, meaning that our current assets can cover well above our current liabilities and that we had the net current assets position.

Quick ratio

Our quick ratio remained stable at 1.2 as at 31 December 2021 and 2022 respectively, meaning that our current assets can cover well above our current liabilities and that we had the net current assets position. As our inventory represented less than 0.2% of our total current assets as at 31 December 2021 and 2022, changes in inventory level did not have a significant impact on quick ratio.

Trade and bills receivables turnover days

We had lower trade and bills receivables turnover day of 78.7 days for FY2022 when compared with the trade and bills receivables turnover day of 97.3 days for FY2021 as we recorded faster repayment of trade receivables from our customers in FY2022.

Contract assets turnover days

Our contract assets turnover days dropped slightly from 246 days for FY2021 to 228.0 days for FY2022, mainly because of our efforts to follow up on the progress of the settlement audit and more contracts assets were billed and converted to trade receivables for FY2022.

Trade and bills payables turnover days

Our trade and bills payables turnover days decreased from 281.2 days in FY2021 to 213.4 days for FY2022 mainly due to faster repayment by our Group during FY2022.

Interest coverage

Our interest coverage ratio decreased from 21.3 times for FY2021 to 11.0 times for FY2022 mainly because of the increase in our borrowings from approximately RMB66.9 million as at 31 December 2021 to RMB140.1 million as at 31 December 2022.

Net debt to equity ratio

Net debt to equity ratio is not applicable to our Group as at 31 December 2021 and 2022 as our Group recorded net cash as at 31 December 2021 and 2022.

Gearing ratio

Our gearing ratio increased from approximately 22.7% as at 31 December 2021 to 39.0% as at 31 December 2022, mainly because we raised more bank borrowings during FY2022. Given that we maintained a low gearing ratio of 22.7% as at 31 December 2021, our Directors considered that it was appropriate to raise more bank financing for our working capital purpose while balancing our debt level in FY2022.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Our source of funds for our operations mainly comes from cash generated from our operation and bank and other borrowings. Upon the Listing, our source of funds will be a combination of internal generated funds, bank and other borrowings as well as net proceeds from the Global Offering. As at 31 December 2022, we had cash and cash equivalents of approximately RMB151.7 million (2021: RMB89.1 million).

The shares of the Company were listed on Main Board of The Stock Exchange of Hong Kong Limited on 30 March 2023. There has been no change in the capital structure of the Company since then. As at the date of this report, the capital structure of the Company comprised mainly issued share capital and reserves.

FUNDING AND TREASURY POLICY

The Group maintains a prudent funding and treasury policy. Surplus funds are maintained in the form of cash deposits with licensed banks. To manage liquidity risk, the Board of Directors closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITION AND DISPOSAL

Save as disclosed in this annual report and the prospectus of the Company dated 20 March 2023 (the "**Prospectus**"), the Group did not hold any significant investment nor did the Group carry out any material acquisition and disposal during the year.

CAPITAL COMMITMENTS

As at 31 December 2022, the Group had approximately RMB14.5 million (2021: RMB14.5 million) of capital commitments in respect of the acquisition of property, plant and equipment.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2022, the Group employed 338 employees in the PRC (2021: 359 employees). The total staff costs incurred by the Group for FY2022 was approximately RMB36.3 million compared to approximately RMB43.4 million for FY2021. Our Group's employees may be remunerated by way of fixed salary, hourly wage or on project-by-project basis, depending on their job nature. Our Group utilises an appraisal system for our employees and considers the appraisal results of individual employees when conducting their salary review and determining the amount of bonuses. Our employees are also entitled to a number of fringe benefits and welfare, including transportation allowance, health care allowance and paid leave. Our Group provides trainings to our employees, which includes induction training which is held by our human resources department, on-the-board training, and sometimes education opportunities depending on the job function of the employees. Our Group will hold seminars and events occasionally for our employees, in order for them to catch up with market trends.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the section headed "Future Plans and Use of Proceeds" of the Prospectus, as at the date of this report, the Group does not have other plans for material investments and capital assets.

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 31 December 2022, please refer to note 39 of the consolidated financial statements of this report.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The assets, liabilities and transactions of the Group are denominated in Renminbi. As at 31 December 2022, the Group has not entered into any foreign exchange contracts to hedge against the fluctuation in exchange rates and the Group did not have any foreign currency investments which have been hedged by currency borrowing and other hedging instruments. The Directors consider the impact of foreign exchange exposure to the Group is minimal.

PLEDGE OF ASSETS

As at 31 December 2022, certain plant and machinery with carrying amount of approximately RMB7,539,000 (2021: approximately RMB4,852,000) and certain trade and bills receivables arising from provision of construction services amounting to approximately RMB1,910,000 (2021: approximately RMB6,612,000) were pledged as securities for the Group's borrowings.

PURCHASE, SALE OR REDEMPTION OF OUR COMPANY'S SHARES

Since we were not yet listed on the Stock Exchange during the year ended 31 December 2022, this disclosure requirement is not applicable to us.

USE OF PROCEEDS FROM THE LISTING

The Shares were listed on the Main Board of the Stock Exchange on 30 March 2023 (the "**Listing Date**"). Net proceeds from the Listing were approximately HK$84.1 million, which, as disclosed in the Prospectus, will be used to (i) fund the Group's upfront expenditure of three projects on hand; (ii) acquire and/or replace the Group's construction machinery and equipment, (iii) fund the establishment and operations of the know-how centre and (iv) working capital and general corporate purposes.

Purpose	Intended use of net proceeds HK$' million	Expected timeline for the use of proceeds
Fund the Group's upfront expenditure of three projects on hand	42.1	Before December 2023
Acquire and/or replace the Group's construction machinery and equipment	16.8	Before December 2023
Fund the establishment and operations of the know-how centre	16.8	Before December 2024
Working capital and general corporate purposes	8.4	June 2023
Total	84.1	

From the Listing Date to the date of this annual report, the Group has not utilized any of the net proceeds from the Listing. The Directors do not anticipate that there will be any material change to the proposed use of the net proceeds from the Listing.

DIVIDEND

No dividends were paid or declared by the Company for FY2021 and FY2022.

SIGNIFICANT EVENT AFTER REPORTING PERIOD

Save as disclosed in Note 40 to the consolidated financial statements of this report, there was no significant event relevant to the business or financial performance of the Group that has come to the attention of the Directors after FY2022.

FUTURE PLANS AND PROSPECTS

We strive to attain sustainable growth and continue to leverage our market position in the competitive construction industry and seek to promote long-term shareholder value by implementing the following business strategies:

- Expand business through funding our capital needs and cash flows for upcoming projects and enhance our market presence to capture more business opportunities;
- Invest in construction machinery and equipment to enhance our technical equipment capability;
- Further strengthen our R&D capabilities to embrace the latest development trend of PRC construction industry; and
- Capture the opportunities arising from the latest development trend of EPC model and green building including prefabricated construction method in the PRC.

The Board hereby presents this corporate governance report of the Company for FY2022.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high standards of corporate governance with a view to safeguarding the interests of our shareholders.

Our Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. Since we were not yet listed on the Stock Exchange during the year ended 31 December 2022, the Corporate Governance Code ("**CG Code**") as set out in Appendix 14 to the Rules Governing the listing of securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**") was not applicable to us during such period. Since the Listing Date and up to the date of this annual report, our Group has adopted and complied with the CG Code as its own code of corporate governance.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its code of conduct regarding securities transactions by the Directors. The Company has also set guidelines, at least as strict as the Model Code, on transactions of the Company's securities for relevant employees (as defined in the Listing Rules).

As the Company was not listed on the Stock Exchange as of 31 December 2022, related rules under the Listing Rules concerning the Model Code that Directors shall observe did not apply to the Company for FY2022.

Having made specific enquiry with all the Directors, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code since the Listing Date and up to the date of this annual report.

BOARD COMPOSITION

The Board currently comprises five executive Directors and three independent non-executive Directors.

Executive Directors:

Mr. Yang Zhongjie *(Chairman)*
Mr. Liu Xiaohong *(Chief Executive Officer)*
Mr. Min Shixiong
Mr. Shen Qiang
Mr. Chen Weiwu

Independent Non-executive Directors:

Dr. Liu Jianlong
Ms. Deng Jianhua
Mr. Lau Kwok Fai Patrick

The biographical information of the Directors is set out in the section headed "Biography of Directors and Senior Management" on pages 44 to 51 of this annual report. The relationships between the members of the Board are also disclosed under the same section.

Since the Listing Date, the proportion of independent non-executive Director satisfied the requirements under Rule 3.10A, 3.10(1) and (2) of the Listing Rules whereby independent non-executive Directors of a listed issuer represent at least one-third of the Board. The three independent non-executive Directors represent more than one-third of the Board and at least one of whom has appropriate professional qualifications, or accounting or related financial management expertise. With the various experience of both the executive Directors and the independent non-executive Directors and the nature of the Group's business, the Board considered that the Directors have a balance of skills and experience for the business of the Group.

The Company has received from each of the independent non-executive directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and considered that the independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules. Upon the recommendation of the nomination committee of the Company ("**Nomination Committee**"), the Board considers all independent non-executive Directors to be independent in light of the independence guidelines set out in the said Listing Rules. None of the Independent non-executive Directors have served more than nine years as at the date of this annual report.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Code provision B.2.2 states that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Each of the executive Directors has entered into a service agreement with the Company for an initial fixed term of three years commencing from the Listing Date. The term of service shall be renewed and extended automatically by one year on the expiry of such initial term and on the expiry of every successive period of one year thereafter, unless terminated by either party thereto giving at least three months' written notice of non-renewal before the expiry of the then existing term. Each of the independent non-executive Directors has entered into an appointment letter with the Company for an initial fixed term of one year commencing from the Listing Date. The term of service shall be renewed and extended automatically by one year on the expiry of such initial term and on the expiry of every successive period of one year thereafter, unless terminated by either party thereto giving at least one month's written notice of non-renewal before the expiry of the then existing term.

In accordance with the Articles of Association, all Directors are subject to retirement by rotation and re-election at an annual general meeting ("**AGM**") at least once every three years. Any director of our Company ("**Director**") appointed by the Board to fill a casual vacancy and any Director appointed by the Board as an addition to the Board shall hold office until the first general meeting of the Company after his appointment and they will be subject to re-election at such meeting.

The procedures and process of appointment, re-election and removal of Directors are set out in the amended and restated articles of association of the Company, adopted on 10 March 2023, as amended supplemented or otherwise modified from time to time ("**Articles of Association**"). The Nomination Committee is responsible for reviewing the Board composition, monitoring the appointment, re-election and succession planning of Directors.

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

The Board is responsible for leadership and control of the Company and overseeing the Group's businesses, strategic decisions and performance and is responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board take decisions objectively in the interests of the Company.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors have full and timely access to all the information of the Company as well as the services and advice from the senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expense for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his/her responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management.

Mechanism ensuring sufficient independence views to the Board

The Board recognises Board independence is critical to good corporate governance. The Company has put in place mechanisms to ensure a strong independence element on the Board, which are summarised below:

Board Composition

The Board endeavours to ensure the appointment of at least three independent non-executive Directors and at least one-third of the Board members being independent non-executive Directors (or such higher threshold as may be required by the Listing Rules from time to time).

Apart from complying with the requirements prescribed by the Listing Rules as to the composition of certain Board committees, independent non-executive Directors will be appointed to other Board committees as far as practicable to ensure independent views are available.

Independence Assessment

The Nomination Committee shall strictly adhere to the nomination policy and the independence assessment criteria as set out in the Listing Rules with regard to the nomination and appointment of independent non-executive Directors.

Each independent non-executive Director is also required to inform the Company as soon as practicable if there is any change in his own personal particulars that may materially affect his/her independence.

The Nomination Committee is mandated to assess annually the independence of all independent non-executive Directors by reference to the independence criteria as set out in the Listing Rules to ensure that they can continually exercise independent judgement.

Decision Making

All Directors (including independent non-executive Directors) are entitled to seek further information and documentation from the management on the matters to be discussed at board meetings. They can also seek assistance from the Company's company secretary (the "**Company Secretary**") and, where necessary, independent advice from external professional advisers at the Company's expense.

All Directors (including independent non-executive Directors) shall not vote or be counted in the quorum on any board resolution approving any contract or arrangement in which such Director or any of his close associates has a material interest.

The Board had made an annual review on the implementation of the abovementioned mechanisms and was of the view that the abovementioned mechanisms had been satisfactorily implemented.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

To ensure that the Directors' contribution to the Board remains informed and relevant and in compliance with provision code C.1.4 of the Corporate Governance Code, the Company would arrange and fund suitable continuous professional development for the Directors to participate in order to develop and refresh their knowledge and skills. Before the Listing, all Directors attended an in-house training on the Listing Rules in the form of a seminar conducted by the Legal Advisers of the Company and relevant training material has been distributed to all the Directors. The training covered topics which include, the disclosure obligations in Hong Kong, the requirements of disclosable transactions and connected transactions etc. under the Listing Rules.

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website (www.hkexnews.hk) and are available to shareholders upon request.

The majority of the members of each Board committee are independent non-executive Directors.

BOARD MEETINGS AND COMMITTEE MEETINGS

The Company intends to hold Board meetings regularly and at least four times a year. Notices of not less than fourteen days will be given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting.

The Company had not been listed on the Stock Exchange during FY2022, and was only listed on the Stock Exchange on 30 March 2023. During FY2022, no board meeting was held and no general meeting or committee meetings were held. The attendance record of the Directors at the board meeting, general meetings and committee meetings will be disclosed in accordance with the Listing Rules in the subsequent annual reports of the Company.

Prior notice convening the Board meeting would be dispatched to the Directors before the Board meeting setting out the matters to be discussed. At the meeting, the Directors would be provided with the relevant documents to be discussed and approved to enable the Directors to make informed decisions. The Company Secretary would be responsible for ensuring the procedures of the Board meeting are observed and keeping minutes for the Board meeting which were sent to the Directors for records and are open for inspection at any reasonable time by any Director on reasonable notice.

AUDIT COMMITTEE

We have established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph D.3.3 of the CG Code. The Audit Committee consists of three members, namely Dr. Liu Jianlong, Ms. Deng Jianhua together with Mr. Lau Kwok Fai Patrick, our independent non-executive Director who possesses the appropriate accounting or related financial management expertise, being the chairperson of the committee.

The primary duties of the Audit Committee are to make recommendations to the Board on the appointment and re-appointment of the external auditor, approve the remuneration and terms of engagement of the external auditors, review and monitor the external auditors' independence and objectivity and effectiveness of the audit process in accordance with the application standards, monitor the integrity of the Company's financial statements, review the Company's financial controls, and risks management and internal control systems, and perform other duties and responsibilities as assigned by our Board from time to time.

There is no disagreement between the Board and the Audit Committee regarding the appointment of external auditor.

REMUNERATION COMMITTEE

We have established the Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph E.1.2 of the CG Code. The Remuneration Committee consists of three members, namely Mr. Lau Kwok Fai Patrick, Mr. Liu Xiaohong together with Ms. Deng Jianhua, our independent non-executive Director, being the chairperson of the committee.

The primary duties of the Remuneration Committee are to (i) make recommendations to the Board on the Company's policies and structure of the remuneration for our Directors and senior management; (ii) evaluate the performance of, and make recommendations on the remuneration packages of individual executive Directors and senior management; and (iii) evaluate and make recommendations on employee benefit arrangements.

Details of the Director's remuneration in the Group and the five highest paid individuals are set out in note 14 to the consolidated financial statements.

Pursuant to code provision E.1.5 of the CG Code, the remuneration paid to the members of the senior management (excluding Directors) by band during the year ended 31 December 2022 is set out below:

Remuneration band (RMB)	**Number of person(s)**
Nil to 1,000,000	3

The Remuneration Policy of Directors

Quality and committed staff are valuable assets contributing to the Group's success. To ensure the ability to attract and retain talents, the Group's remuneration policy of Directors is built upon the principles of providing equitable and market-competitive remuneration package that support the performance culture and enable the achievement of strategic business goals. The Group's remuneration policy of Directors is, therefore, aiming at providing competitive but not excessive remuneration package to the Directors.

The Directors' remuneration comprises fixed salary or service fee and variable components (such as bonus and share options), which is benchmarked against companies of comparable business or scale with reference to a mix of factors such as the prevailing market condition, the Company's performance and the qualifications, skills, experience and educational background of the Directors.

The Directors' remuneration is reviewed annually and are subject to shareholders' approval.

NOMINATION COMMITTEE

We have established the Nomination Committee with written terms of reference in compliance with paragraph B.3.1 of the CG Code. The nomination committee consists of three members, namely Ms. Deng Jianhua, Dr. Liu Jianlong, together with Mr. Yang Zhongjie, our chairman of the board, being the chairperson of the committee.

The primary functions of the Nomination Committee are to make recommendations to our Board in relation to the appointment and removal of Directors, and on matters of succession planning.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the board diversity policy adopted by the Company on 10 March 2023 (the "**Board Diversity Policy**"), including but not limited to gender, age, length of service, cultural and education background and professional experience.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the potential contributions a candidate can bring to the Board in terms of qualifications, skills, experience, independence, age, culture, ethnicity and gender diversity. The Nomination Committee should also ensure that independent views and input are available to the board.

DIRECTOR NOMINATION POLICY

The Company has adopted a director nomination policy, pursuant to which in evaluating and selecting any candidate for directorship, the following criteria should be considered:

- **Attributes Complementary to the Board:** The candidate should possess attributes that complement and expand the skill set, experience and expertise of the Board as a whole, having regard to the current structure, size, diversity profile and skills matrix of the Board and the needs of the Board.

- **Business Experience & Board Expertise and Skills:** The candidate should have the ability to exercise sound business judgment and also possess proven achievement and experience in directorship including effective oversight of and guidance to management.

- **Availability:** The candidate should be able to devote sufficient time and make contributions to the Company that are commensurate with his/her role and board responsibilities, including devoting adequate time for the preparation and participation in meetings, training and other Board or Company associated activities.

- **Motivation:** The candidate should be self-motivated and have a strong interest in the Company's businesses.

- **Integrity:** The candidate should be a person of integrity, honesty, good repute and high professional standing.

- **Independence:** INED candidates must satisfy the independence requirements under the Listing Rules. The INED candidate shall be independent in character and judgement and be able to represent and act in the best interests of all shareholders of the Company.

Nomination Procedures

The Company has put in place the following director nomination procedures:

Appointment of New and Replacement Directors

- If the Board determines that an additional or replacement Director is required, it will deploy multiple channels for identifying suitable Director candidates, including referral from Directors, shareholders, management, advisors of the Company and external executive search firms.

- Upon compilation and interview of the list of potential candidates, the Nomination Committee will shortlist candidates for consideration by the Nomination Committee and/or the Board based on the selection criteria and such other factors that it considers appropriate. The Board has the final authority on determining suitable Director candidate for appointment.

Re-election of Directors and Nomination from Shareholders

- Where a retiring Director, being eligible, offers himself for re-election, the Nomination Committee and/or the Board shall consider and, if consider appropriate, recommend such retiring Director to stand for re-election at a general meeting. A circular containing the requisite information on such retiring Director will be sent to shareholders prior to a general meeting in accordance with the Listing Rules.

- Any shareholder of the Company who wishes to nominate a person to stand for election as a Director at a general meeting must lodge with the company secretary of the Company within the lodgement period specified in the relevant shareholder circular (a) a written nomination of the candidate, (b) written confirmation from such nominated candidate of his willingness to stand for election, and (c) biographical details of such nominated candidate as required under the Listing Rules. Particulars of the candidate so proposed will be sent to all shareholders for information by a supplementary circular.

BOARD DIVERSITY POLICY

The Board recognises and embraces the benefits of having a diverse board with a view to enhancing its effectiveness and achieving a high standard of corporate governance. Therefore, the Company has adopted the Board Diversity Policy to ensure that candidates to the Board will be selected based on a range of diverse perspectives, including but not limited to gender, age, length of service, cultural and education background and professional experience. The ultimate decision of the appointment will be based on merit and the contribution which the selected candidates will bring to the Board.

The Company is conscious of maintaining Board diversity with an appropriate level of female members on the Board, which shall not be less than one member with immediate effect and may further increase in the next five years. Since the Listing Date and as at the date of this annual report, the Board comprised one female Board member, in which case the Board considered gender diversity has been achieved. While conscious efforts are being taken by the Company to fulfil its Board Diversity Policy, all appointments are ultimately made on a merit basis taking into account available and suitable candidates.

The Nominations Committee will review the implementation of the Board Diversity Policy at least annually and make recommendation on any proposed changes to the Board for the Board's review and approval to ensure its continued appropriateness and effectiveness. The Board and the Nomination Committee had reviewed the implementation and effectiveness of the board diversity policy and was of the view that the board diversity policy and its implementation was sufficient and effective.

For recruiting potential successors to the Board to achieve Board diversity including gender diversity, the Board would prepare a list of desirable skills, experience, qualifications, gender or perspectives which the candidate should have. If the Board determines that an additional or replacement Director is required, it will deploy multiple channels for identifying suitable director candidates, including referral from Directors, shareholders, management, advisors of the Company and external executive search firms.

Workforce Diversity

As at 31 December 2022, the gender ratio (male to female) in the workforce (including senior management) of the Company is 279:59. The Company recognises the importance of gender diversity and endeavours to take steps to promote gender diversity at all levels of the Company (including the Board).

The Group strictly adheres to fair and appropriate employment practices and labour standards. The Group provides job applicants and employees with equal opportunities of employment and promotion, and prohibits all forms of discrimination on gender, religion, race, disability or age. The Board considered that gender diversity of the workforce of the Group has been well maintained during FY2022. As such, the plan for the Group in terms of gender diversity in workforce is to maintain the current balance of gender diversity in the foreseeable future.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in the code provision A.2.1 of the CG Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2022.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 52 to 56 of this annual report.

AUDITOR'S REMUNERATION

The remuneration paid/payable to BDO Limited, the external auditor of the Company in respect of the audit and non-audit services related to the Listing amounted to RMB1,630,000.

During FY2022, the total fee paid/payable in respect of services (excluding listing relating services) provided by BDO Limited is set out below:

Service category	**Fees paid/ payable** RMB'000
Audit services	780

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for evaluating and determining the nature and extent of the risks to take in achieving the Group's strategic objectives. The Group has not established a separate internal audit department; however, procedures are in place to provide adequate resources and qualified personnel to carry out the duties of the internal audit function, including annual review of the effectiveness of risk management and internal control. The Group has engaged an external independent internal control consultant to conduct a review on the internal control and risk management systems of the Group for the Listing and to report their findings to the Audit Committee and the Board. The scope of review covered overall management control, risk assessment and management, control procedures for revenue, purchasing, property, plant and equipment and human resource management.

Based on review and procedures conducted, the Board considers that the Group's risk management and internal control systems are effective and adequate. However, the risk management and internal control systems of the Group are designed to manage rather than to eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

COMPANY SECRETARY

The Company Secretary is Ms. Chan Kit Ming whose biographical details are set out in the section headed "Biography of Directors and Senior Management" in this annual report.

Mr. Yang Zhongjie, the Chairman and executive Director, is the primary corporate contact person of the Company with the Company secretary. Ms. Chan Kit Ming has confirmed that she had attained no less than 15 hours of relevant professional training during FY2022 as required by Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

To safeguard shareholders interests and rights, separate resolution will be proposed for each substantially separate issue at general meetings, including the election of individual Directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

CONVENING AN EXTRAORDINARY GENERAL MEETING

Pursuant to Article 64 of the Articles of Association, any one or more Shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

PUTTING FORWARD ENQUIRIES TO THE BOARD

For putting forward any enquiries to the Board of the Company, Shareholders may send written enquiries to the Company by post to the principal place of business of the Company in Hong Kong for the attention of the Company Secretary. The Company will not normally deal with verbal or anonymous enquiries.

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the principal place of business of the Company in Hong Kong and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Shareholders may also make enquiries with the Board at the general meetings of the Company.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an ongoing dialogue with Shareholders and in particular, through AGMs and other extraordinary general meetings.

At the annual general meeting ("**AGM**"), Directors (or their delegates as appropriate) are available to meet the shareholders and answer their enquiries. The Company maintains a website at www.ztcon.com as a communication platform with the Shareholders and investors, where the financial information and other relevant information of the Company are available for public access.

The Shareholders' Communication Policy

The Company has adopted a shareholders' communication policy, details of which is summarised below:

Shareholders' Meetings

- The annual general meetings and other general meetings of the Company are the primary communication forum between the Company and its shareholders. Shareholders are encouraged to participate in general meetings physically or to appoint proxies to attend and vote at such meetings for and on their behalf if they are unable to attend.

- Notices of the general meetings, related circulars and forms of proxy are provided within a prescribed time prior to the general meetings on Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.ztcon.com) and by post to the shareholders.

- The Directors, in particular, the chairman of the Board committees or their delegates, appropriate senior executives and external auditor will attend the general meetings to answer the shareholders' questions.

- The chairman of the general meetings will propose to vote the resolutions (except resolutions which relate purely to procedural or administrative matters) by poll in accordance with the Articles of Association. Scrutineer will be appointed for the vote-taking at the general meetings and the voting results will be published on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.ztcon.com) subsequent to the close of the general meetings.

Corporate Communications

- The Company will send (by post or by electronic means as permitted by the Articles of Association or the Listing Rules) corporate communications of the Company, which include annual reports, interim reports, notices of shareholders' meeting, listing documents, circulars, and proxy forms, to the shareholders.

- Shareholders are encouraged to provide their up-to-date contact details to the Hong Kong branch share registrar of the Company ("**Hong Kong Share Registrar**"), Boardroom Share Registrars (HK) Limited, in order to facilitate timely and effective communications.

Company's Website

- The Company's website (www.ztcon.com) provides the shareholders with corporate information on the Group. It also provides information on corporate governance of the Group and the compositions and functions of the Board and the committees of the Board.

- In addition to the "Investor Relations" section in which corporate communications of the Company are posted as soon as practicable following their release on the Stock Exchange's website (www.hkexnews.hk), press releases and newsletters issued by the Company from time to time are also available on the Company's website to facilitate communication between the Company, shareholders and investment community.

- Information on the Company's website is updated on a regular basis.

Communication with the Company

Shareholders may raise questions, request for publicly available information and provide comments and suggestions to the Directors and management of the Company. Such questions, requests, comments and suggestions can be addressed to the Company by post to Unit E, 17th Floor, 8 Hart Avenue, Tsim Sha Tsui, Kowloon, Hong Kong.

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available.

The Company highly values the views and comments of shareholders' and relevant stakeholders to the Company and would invite the shareholders' and relevant stakeholders to communicate with the Company by employing the abovementioned means.

The Board is of the view that the shareholders' communication policy implemented since the Listing Date and up to the date of this annual report was sufficient and effective.

CONSTITUTIONAL DOCUMENTS

The amended and restated memorandum and articles of association of the Company for the purpose of the Listing was adopted by the Company on 10 March 2023. There was no change in the constitutional documents of the Company since the Listing Date and up to the date of this annual report.

The amended and restated memorandum and articles of association of the Company are available on the respective websites of the Stock Exchange and the Company.

DIRECTORS' REPORT

The Board is pleased to present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2022.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is principally engaged in general contracting construction in the PRC. There was no significant change in the Group's principal activities during FY2022.

PRINCIPAL PLACE OF BUSINESS

The Company is an exempted company incorporated in the Cayman Islands on 27 March 2020 with limited liability. The registered office of the Company is located at 71 Fort Street, PO Box 500, George Town, Grand Cayman, KY1-1106, Cayman Islands. The principal place of business of the Company in Hong Kong is located at Unit E, 17th Floor, 8 Hart Avenue, Tsim Sha Tsui, Kowloon, Hong Kong and the headquarters and principal place of business of the Company in the PRC is located at No. 1197, East Xinhua Road, Hetang District, Zhuzhou City, Hunan Province, PRC.

CORPORATE REORGANISATION AND GLOBAL OFFERING

The Company was incorporated in the Cayman Islands on 27 March 2020.

In preparation for the Listing, the Group underwent a reorganisation (the "**Reorganisation**"), details of which are set out in the section headed "History, Development and Reorganisation — Reorganisation" in the Prospectus.

The Company's shares were listed on the Main Board of the Stock Exchange on 30 March 2023.

SEGMENT INFORMATION

An analysis of the Group's performance for FY2022 by operating segment is set out in note 6 to the consolidated financial statements.

RESULTS AND DIVIDEND

The results of the Group for FY2022 are set out in the consolidated statement of profit or loss and other comprehensive income on page 57.

The Board did not recommend the payment of a final dividend for FY2022. There is no arrangement under which a Shareholder has waived or agreed to waive any dividends.

DIVIDEND AND DIVIDEND POLICY

In considering the payment of dividends, the Board endeavours to strike a balance between the Shareholders' interests and prudent capital management. In deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, inter alia:-

a) results of operations of the Group;

b) financial condition of the Group;

c) profitability of the Group;

d) business development of the Group;

e) prospects of the Group;

f) capital and debt level of the Group;

g) working capital of the Group;

h) capital requirements of the Group;

i) future cash requirements and availability for business operations, business strategies and future development needs;

j) any restrictions on payment of dividends that may be imposed by the Group's lenders;

k) the general market conditions and economic outlook; and

l) any other factors that the Board considers appropriate.

CLOSURE OF REGISTER OF MEMBERS

The forthcoming AGM is scheduled to be held on 25 May 2023 (the "**2023 AGM**"). For determining the entitlement to attend and vote at the 2023 AGM, the register of members of the Company will be closed from 19 May 2023 to 25 May 2023, both days inclusive, during which period no transfer of shares will be registered. All transfers of shares accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the Hong Kong Share Registrar at Room 2103B, 21st Floor, 148 Electric Road, North Point, Hong Kong, for registration no later than 4:30 p.m. on 18 May 2023.

BUSINESS REVIEW

The review of the Group's business for FY2022 is set out in the sections headed "Management Discussion and Analysis" on pages 5 to 16 of this annual report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

As far as the Board is aware, the Group has complied with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During FY2022, these was no material breach or non-compliance with the applicable laws and regulations by the Group.

RELATIONSHIP WITH SUPPLIERS, CUSTOMERS AND OTHER STAKEHOLDERS

The Group understands the importance of maintaining good relationships with its suppliers, customers and other stakeholders to meet its immediate and long-term goals. During FY2022, there were no material and significant dispute between the Group and its suppliers, customers and/or stakeholders.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during FY2022 are set out in note 15 to the consolidated financial statements.

BANK BORROWINGS

Details of movements in the bank borrowings of the Group during FY2022 are set out in note 26 to the consolidated financial statements.

SHARE CAPITAL

Details of movement in the Company's share capital during FY2022 are set out in note 27 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during FY2022 are set out on page 60 and in the consolidated statement of changes in equity respectively.

As of 31 December 2022, the Company had no reserves available for distribution.

Directors

The Directors of the Company during FY2022 and up to the date of this annual report were as follow:

Executive Directors:
Mr. Yang Zhongjie *(Chairman)*
Mr. Liu Xiaohong *(Chief Executive Officer)*
Mr. Min Shixiong
Mr. Shen Qiang
Mr. Chen Weiwu

Independent Non-executive Directors:
Dr. Liu Jianlong (appointed on 10 March 2023)
Ms. Deng Jianhua (appointed on 10 March 2023)
Mr. Lau Kwok Fai Patrick (appointed on 10 March 2023)

The Directors' biographical details are set out in the section headed "Biography of Directors and Senior Management" in this annual report. Information regarding Directors' emoluments are set out in note 14 to the consolidated financial statements.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual written confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company considers all of the independent non-executive Directors to be independent.

SERVICE CONTRACTS OF THE DIRECTORS

Each of the executive Directors has entered into a service agreement with the Company for an initial fixed term of three years commencing from the Listing Date. The term of service shall be renewed and extended automatically by one year on the expiry of such initial term and on the expiry of every successive period of one year thereafter, unless terminated by either party thereto giving at least three months' written notice of non-renewal before the expiry of the then existing term. Each of the independent non-executive Directors has entered into an appointment letter with the Company for an initial fixed term of one year commencing from the Listing Date. The term of service shall be renewed and extended automatically by one year on the expiry of such initial term and on the expiry of every successive period of one year thereafter, unless terminated by either party thereto giving at least one month's written notice of non-renewal before the expiry of the then existing term.

DIRECTORS' RETIREMENT AND RE-ELECTION

In accordance with Article 112 of the Articles of Association, each of the Directors will hold office until the forthcoming AGM and will then be eligible for re-election. None of the Directors proposed for re-election at the forthcoming AGM has a service contract with any member of the Group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

EMOLUMENT POLICY

In order to attract and retain high quality staff and to enable smooth operation within the Group, the Group offered competitive remuneration packages (with reference to market conditions and individual qualification, position, seniority and experience) and various in-house training courses. Share options may also be granted to eligible employees. The remuneration packages are subject to review on a regular basis.

The Remuneration Committee is responsible for making recommendations to the Board on the Company's policy and structure for all Directors and senior management remuneration, having regard to market competitiveness, individual performance and achievement. The Company has conditionally adopted a share option scheme on 10 March 2023 (the "**Share Option Scheme**"), details of which are set out in the paragraph headed "D. Share Option Scheme" in Appendix V to the Prospectus, as an incentive to Directors and the relevant eligible participants.

DIRECTORS' MATERIAL INTERESTS IN CONTRACTS

Save as disclosed in this annual report, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which the Director or an entity connected the Director had a material interest, whether directly or indirectly, subsisted at any time during the year ended 31 December 2022.

COMPETING INTERESTS

During FY2022, none of the Directors, controlling shareholder of the Company, Hunan Zhongtian Holdings Group Company Limited* (湖南中天控股集團股份有限公司) ("**Zhongtian Holdings**") and their respective close associates had any business or interest that competes or may compete with the business of the Group nor had any other conflicts of interest with the Group.

A deed of non-competition dated 17 March 2023 has been entered into by ZT (A) Limited ("**ZT (A)**"), the controlling shareholder of the Company within the meaning of the Listing Rules, and Zhongtian Holdings (collectively the "**Covenantors**") in favour of the Company regarding certain non-competition undertakings given by the Covenantors in favour of the Company. The details of this deed of non-competition have been disclosed in the section headed "Relationship with our Controlling Shareholder" in the Prospectus.

CONTINUING CONNECTED TRANSACTIONS

Zhongtian Holdings is a company established in the PRC with limited liability and is an investment holding company. Zhongtian Holdings was the holding company which held approximately 74.97% of the share capital of Zhongtian Construction immediately before the Reorganisation in preparation for the Listing. The shareholding of the shareholders of ZT (A) is proportional to their respective shareholding in Zhongtian Holdings immediately before the Reorganisation. In order to ensure the interests of our shareholders as a whole are taken into account when we enter into transactions with Zhongtian Holdings and its associates after the Listing, we voluntarily deemed Zhongtian Holdings and its associates as our connected persons which include the following entities and comply with Chapter 14A of the Listing Rules since the Listing:

- Hunan Hengji Real Estate Development Company Limited* (湖南中天恒基房地產開發有限公司) ("**Hengji Real Estate**") is a company established in the PRC with limited liability and principally engages in property development, which was owned by Zhongtian Holdings as to approximately 85.82%.

- Zhuzhou Wuguang New Milestone Investment Development Company Limited* (株洲武廣新里程投資發展有限責任公司) ("**Wuguang Investment**") is a company established in the PRC with limited liability and principally engages in property development, which was wholly-owned by Hengji Real Estate.

- Hunan Fangge Intelligence Technology Company Limited* (湖南方格智能節能科技股份有限公司) ("**Fangge Intelligence**") is a company limited by shares established in the PRC and principally engages in the provision of ancillary building services and computer software, which was owned by Zhongtian Holdings as to 70.00%.

- Hunan Zhongtian Hangxiao Structural Technology Company Limited* (湖南中天杭蕭鋼構科技股份有限公司) ("**Hangxiao Technology**") is a company limited by shares established in the PRC and principally engages in the design and manufacture of steel structure, which was owned by Zhongtian Holdings as to 68.29%.

The following transactions constituted continuing connected transactions of the Group since the Listing Date, which are subject to the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules:

1. Provision of construction services under the Construction Services Framework Agreements

On 10 March 2023, Zhongtian Construction entered into a construction services framework agreement (collectively the "**Construction Services Framework Agreements**") with each of Hengji Real Estate, Wuguang Investment and Hangxiao Technology, respectively, pursuant to which Zhongtian Construction agreed to provide general building construction services and renovation and decoration building services to Hengji Real Estate, Wuguang Investment and Hangxiao Technology. The term of the Construction Services Framework Agreements shall commence on the Listing Date and end on 31 December 2025. Zhongtian Construction will enter into separate construction contracts with Hengji Real Estate, Wuguang Investment or Hangxiao Technology (as the case may be) which specify and record the terms and provisions of the specific project to be carried out in accordance with the principles and terms of the Construction Services Framework Agreements in all material aspects.

The annual caps for construction services fee to be paid by Hengji Real Estate, Wuguang Investment and Hangxiao Technology in relation to the construction services under the Construction Services Framework Agreements for each of the years ending 31 December 2023 ("**FY2023**"), 2024 ("**FY2024**") and 2025 ("**FY2025**") are set out as follows:

	FY2023 **RMB'000**	**FY2024** **RMB'000**	**FY2025** **RMB'000**
Hengji Real Estate	50,000	30,000	50,000
Wuguang Investment	330,000	330,000	330,000
Hangxiao Technology	10,500	6,000	6,000
Total	390,500	366,000	386,000

2. Procurement of raw materials and services under the Procurement Framework Agreements

On 10 March 2023, Zhongtian Construction entered into a procurement framework agreement (collectively the "**Procurement Framework Agreements**") with each of Fangge Intelligence and Hangxiao Technology, respectively, pursuant to which (i) Fangge Intelligence agreed to provide ancillary building services in relation to insulation, installation of surveillance system and intelligent system etc. to Zhongtian Construction; and (ii) Hangxiao Technology agreed to provide prefabricated steel structure products and processing services for prefabricated steel structure products to Zhongtian Construction. The term of the Procurement Framework Agreements shall commence on the Listing Date and end on 31 December 2025. Zhongtian Construction will enter into separate contracts with Fangge Intelligence or Hangxiao Technology (as the case may be) which specify and record the terms and provisions of the specific procurement transaction to be carried out in accordance with the principles and terms of the Procurement Framework Agreements in all material aspects.

The annual caps for procurement of raw materials and services from Fangge Intelligence and Hangxiao Technology under the Procurement Framework Agreements for each of FY2023, FY2024 and FY2025 are set out as follows:

	FY2023 RMB'000	FY2024 RMB'000	FY2025 RMB'000
Fangge Intelligence	10,000	10,000	10,000
Hangxiao Technology	150,000	150,000	150,000
Total	160,000	160,000	160,000

As the Company was listed on 30 March 2023, the aforementioned continuing connected transactions only commenced on the Listing Date. The Company will comply with the reporting and annual review requirements in accordance with the Listing Rules in its subsequent annual report.

We have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with the announcement and independent Shareholders' approval requirements of the Listing Rules in respect of the continuing connected transactions under each of the (i) Construction Services Framework Agreements and (ii) Procurement Framework Agreements, subject to the condition that the aggregate amounts of each of the (i) Construction Services Framework Agreements and (ii) Procurement Framework Agreements for each of the three years ending 31 December 2025 will not exceed their respective annual caps.

For details of the above continuing connected transactions, please refer to the section headed "Connected Transactions" in the Prospectus.

TRANSACTIONS ENTERED INTO BEFORE THE LISTING WHICH WOULD OTHERWISE CONSTITUTE CONNECTED TRANSACTIONS

Zhuzhou Puhui Commercial Management Company Limited* (株洲普惠商業管理股份有限公司) ("**Puhui Commercial**") is a company limited by shares established in the PRC, which was owned by Zhongtian Holdings as to approximately 74.97%. We have entered into certain tenancy agreements with Puhui Commercial ("**Tenancy Agreements**"). These transactions with Puhui Commercial were entered into before the Listing and are accounted as one-off in nature under HKFRS 16. If these transactions were entered into after the Listing, such transactions would have constituted connected transactions of our Group. Details of such transactions are set out below in order to facilitate potential investors to anticipate that we have, before the Listing, entered into transactions which would otherwise be considered as connected transactions should our Company be listed on the Stock Exchange at the time of the relevant transactions.

Date of tenancy agreements	Property address	Parties	Gross floor area under the current tenancy agreement (sq.m.)	Total rental per year (RMB)	Term	Use of the property
1. (a) 18 December 2021 (b) 20 November 2022	1st Floor Office Area, Block 10, Dongfang Mingyuan, No. 1197, East Xinhua Road, Hetang District, Zhuzhou City, Hunan Province, PRC	**Landlord:** Puhui Commercial **Tenant:** Zhongtian Construction	78.54	45,240	(a) 1 January 2022 to 31 December 2022 (b) 1 January 2023 to 31 December 2023	Office

Date of tenancy agreements	Property address	Parties	Gross floor area under the current tenancy agreement (sq.m.)	Total rental per year (RMB)	Term	Use of the property
2. (a) 18 December 2021 (b) 20 November 2022	Portion of the 2nd Floor, Block 10, Dongfang Mingyuan, No. 1197, East Xinhua Road, Hetang District, Zhuzhou City, Hunan Province, PRC	**Landlord:** Puhui Commercial **Tenant:** Zhongtian Construction	37.29	8,052	(a) 1 January 2022 to 31 December 2022 (b) 1 January 2023 to 31 December 2023	Office
3. (a) 18 December 2021 (b) 20 November 2022	Portion of the 2nd Floor, Block 10, Dongfang Mingyuan, No. 1197, East Xinhua Road, Hetang District, Zhuzhou City, Hunan Province, PRC	**Landlord:** Puhui Commercial **Tenant:** Zhongtian Construction	72.64	15,696	(a) 1 January 2022 to 31 December 2022 (b) 1 January 2023 to 31 December 2023	Office
4. (a) 18 December 2021 (b) 20 November 2022	Portion of the 2nd Floor, Block 10, Dongfang Mingyuan, No. 1197, East Xinhua Road, Hetang District, Zhuzhou City, Hunan Province, PRC	**Landlord:** Puhui Commercial **Tenant:** Zhongtian Construction	197.69	42,696	(a) 1 January 2022 to 31 December 2022 (b) 1 January 2023 to 31 December 2023	Office
5. (a) 18 December 2021 (b) 20 November 2022	Portion of the 2nd Floor, Block 10, Dongfang Mingyuan, No. 1197, East Xinhua Road, Hetang District, Zhuzhou City, Hunan Province, PRC	**Landlord:** Puhui Commercial **Tenant:** Hunan Zhongtian Building Safety Technology Company Limited* (湖南中天建築安全科技有限公司)	200	43,200	(a) 1 January 2022 to 31 December 2022 (b) 1 January 2023 to 31 December 2023	Office
6. (a) 18 December 2021 (b) 20 November 2022	Portion of the 2nd Floor and 3rd Floor Office Area, Block 10, Dongfang Mingyuan, No. 1197, East Xinhua Road, Hetang District, Zhuzhou City, Hunan Province, PRC	**Landlord:** Puhui Commercial **Tenant:** Zhongtian Construction	1,372.78	296,520	(a) 1 January 2022 to 31 December 2022 (b) 1 January 2023 to 31 December 2023	Office

As the leasing of the Properties were entered into within a 12-month period and the landlord was Puhui Commercial, the transactions contemplated under the Tenancy Agreements are required to be aggregated pursuant to Rules 14.22 and 14A.81 of the Listing Rules. As each of the relevant percentage ratios calculated for the purpose of Chapter 14A of the Listing Rules in respect of the aggregated value of the right-of-use of the Properties was less than 5% and the aggregated value of the right-of-use was less than HK$3.0 million, the relevant transactions would constitute de minimis connected transactions under Rules 14A.76 of the Listing Rules and would be fully exempt from the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules should our Company be listed on the Stock Exchange at the time of the relevant transactions.

RELATED PARTY TRANSACTIONS

Related party transactions during FY2022 are disclosed in note 34 to the consolidated financial statements in this annual report. As the Company was listed on 30 March 2023, none of these related party transactions constituted connected transaction or continuing connected transaction under the Listing Rules for FY2022.

MANAGEMENT CONTRACTS

The Company did not enter into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Group during FY2022.

SHARE OPTION SCHEME

The Share Option Scheme was conditionally adopted by the written resolutions of the Company's shareholders passed on 10 March 2023 (the "**Adoption Date**"). Since the Listing Date and up to the date of this report, no option had been granted, agreed to be granted, exercised, cancelled or lapsed under the Scheme. In line with the amended Chapter 17 of the Listing Rules, which was effective from 1 January 2023, a summary of the terms of the Share Option Scheme is set out below:

1) Purpose

The purpose of the Share Option Scheme is to enable our Group to grant options to the eligible participants as incentive or rewards for their contribution to our Group and/or to enable our Group to recruit and retain high-calibre employees and attract human resources that are valuable to our Group.

2) Qualifying participants

Subject to the provisions in the Share Option Scheme, the Board shall be entitled at any time and from time to time within the period of ten years after the date of adoption of the Scheme to make an offer to any of the following classes of persons:

(i) any Directors and employees of our Group (including persons who are granted options under the Share Option Scheme as an inducement to enter into employment contracts with any member of our Group) ("**Employee Participants**");

(ii) directors and employees of the holding companies, fellow subsidiaries or associated companies of our Company; and

(iii) persons who provide services to our Group on a continuing or recurring basis in its ordinary and usual course of business which are in the interests of the long term growth of our Group, which may include persons who work for the member of our Group as independent contractors where the continuity and frequency of his/her service is akin to those of employees ("**Service Providers**"), but excluding any (i) placing agents or financial advisers providing advisory services for fundraising, mergers or acquisitions and (ii) professional service providers such as auditors or valuers who provide assurance, or are required to perform their services with impartiality and objectivity.

3) Maximum number of the Shares

The total number of Shares which may be allotted and issued in respect of all options to be granted under the Share Option Scheme and any other share option schemes and share award schemes of our Group shall not in aggregate exceed 10% of the total number of Shares in issue at the time dealings in our Shares first commence on the Stock Exchange, being 48,000,000 Shares ("**Scheme Mandate Limit**") unless our Company obtains an approval from our Shareholders pursuant to the terms of the Share Option Scheme. The options which are cancelled or lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme(s) or share award scheme(s) of our Company shall be regarded as utilised for the purpose of calculating the Scheme Mandate Limit.

Subject to paragraph Scheme Mandate Limit, the total number of Shares which may be allotted and issued in respect of all Options to be granted under the Share Option Scheme and any other share option scheme(s) and share award scheme(s) of our Group to Service Providers shall be within the Scheme Mandate Limit and must not in aggregate exceed one (1) per cent of the total number of Shares in issue at the time dealings in the Shares first commence on the Stock Exchange, being 4,800,000 Shares ("**Service Provider Sublimit**") unless our Company obtains an approval from our Shareholders pursuant to the terms of the Share Option Scheme.

As at the Listing Date and the date of this report, no Share options has been granted by the Company and the outstanding number of Share options available for grant under the Share Option Scheme is 48,000,000 Share options to subscribe for the Shares, representing approximately 10% of the issued share capital of the Company, out of which the outstanding number of Share options available for grant under the Service Provider Sublimit is 4,800,000 Shares options to subscribe for the Shares, representing approximately 1% of the issued share capital of the Company.

4) Limit for each participant

The total number of Shares issued and which may fall to be issued upon exercise of any option which may be granted under the Share Option Scheme and any option or awards which may be granted under any other share option scheme and share award scheme of our Group (including both exercised or outstanding options but excluding any options and awards lapsed in accordance with the terms of the scheme) to each grantee in any 12-month period up to and including the date of such grant shall not exceed 1% of the issued share capital of our Company for the time being ("**1% Individual Limit**"). Where any further grant of options under the Share Option Scheme to a grantee under the Share Option Scheme would result in the Shares issued and to be issued upon exercise of all options and awards granted and proposed to be granted to such person (including exercised, cancelled and outstanding options but excluding any options and awards lapsed in accordance with the terms of the scheme) under the Share Option Scheme and any other share option schemes and share award scheme of our Group in the 12-month period up to and including the date of such further grant exceeding the 1% Individual Limit, such further grant must be separately approved by our Shareholders in a general meeting with such grantee and their close associates (or his associates if the participant is a connected person) abstaining from voting. The number and terms of the options to be further granted to such Grantee must be fixed before shareholders' approval. In respect of any options to be further granted, the date of the board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

5) Exercise of an option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Directors to the grantee but in any event shall not be more than ten (10) years from the offer date of that option.

6) **Vesting Period and performance targets**

The vesting period for Options shall be determined by the Board and in any case, shall not be less than twelve (12) months. A shorter vesting period may be granted to an Employee Participant at the discretion of the Board in the following circumstances:

(i) grants of "make-whole" options to new joiners to replace the share awards they forfeited when leaving the previous employer;

(ii) grants of options to an Employee Participant whose employment is terminated due to death or disability or occurrence of any out of control event;

(iii) grants of options with performance-based vesting conditions in lieu of time-based vesting criteria;

(iv) grants of options that are made in batches during a year for administrative and compliance reasons;

(v) grants of options with a mixed or accelerated vesting schedule such as where the option may vest evenly over a period of 12 months; and

(vi) grants of options with a total vesting and holding period of more than 12 months.

The Board may determine and set any performance targets, which shall be stated in the offer to the grantee, to be attained before the exercise of an option granted to the grantee as the Board may think fit. Such performance targets may include: (i) aggregate amount of revenue or business generated by the specific grantee during a financial year; (ii) annual growth on the revenue of our Group as compared to the immediately preceding financial year; or (iii) any measurable performance benchmark which the Board considers is relevant to the grantee.

7) **Acceptance and payment on acceptance**

The options granted under the Share Option Scheme shall remain open for acceptance for a period of up to 21 days from the date on which the options are offered to an eligible person. Upon acceptance of the option, the eligible person shall pay HK$1 to the Company as consideration for the grant.

8) **Subscription price**

The subscription price in respect of any option shall, subject to any adjustments made pursuant to paragraph(s) below, be at the discretion of our Directors, provided that it shall not be less than the highest of: (i) the closing price of our Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the offer date; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the offer date; and (iii) the nominal value of a Share.

9) **Remaining life of the Scheme**

The Share Option Scheme will remain valid and effective for a period of 10 years commencing from the Adoption Date (which will be on 9 March 2033) after which no further option shall be granted.

TAX RELIEF

The Company is not aware of any relief on taxation available to the Shareholders by reason of their holdings of the shares. If the Shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in or exercising of any rights in relation to the shares, they are advised to consult their professional advisers.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and to the best knowledge of the Directors, at least 25% of the Company's total issued shares, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, was held by the public at all times from the Listing date and up to the date of this annual report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As the Company was not listed on the Stock Exchange as at 31 December 2022, Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the "**SFO**") and section 352 of the SFO were not applicable to the Directors or chief executive of the Company as at 31 December 2022.

As at the date of this annual report, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix 10 of the Listing Rules, were as follows:

(i) Interest in our Shares

Name of Director/ chief executive	Capacity/Nature of interest directly and indirectly held	Relevant company	Number of Shares (Note 1)	Approximate percentage of shareholding
Mr. Yang Zhongjie ("**Mr. Yang**")	Interest in a controlled corporation/Interest of spouse (Note 2)	ZT (E) Limited ("**ZT (E)**")	13,164,000 (L)	2.74%
Mr. Liu Xiaohong ("**Mr. Liu**")	Interest in a controlled corporation (Note 3)	ZT (F) Limited ("**ZT (F)**")	3,376,000 (L)	0.70%
Mr. Chen Weiwu ("**Mr. Chen**")	Interest in a controlled corporation/Interest of spouse (Note 4)	ZT (H) Limited ("**ZT (H)**")	1,770,000 (L)	0.37%
Mr. Shen Qiang ("**Mr. Shen**")	Interest in a controlled corporation (Note 5)	ZT (I) Limited ("**ZT (I)**")	1,314,000 (L)	0.27%
Mr. Min Shixiong ("**Mr. Min**")	Interest in a controlled corporation (Note 6)	ZT (K) Limited ("**ZT (K)**")	812,000 (L)	0.17%

Notes:

(1) The letter "L" denotes a person's "long position" (as defined under Part XV of the SFO) in such Shares.

(2) ZT (E) is owned as to approximately 77.93% by Mr. Yang and 22.07% by Ms. Gan Yinghua (甘映華). Ms. Gan Yinghua is the spouse of Mr. Yang. Mr. Yang is deemed to be interested in all the Shares held by Ms. Gan Yinghua by virtue of the SFO. Under the SFO, Mr. Yang is deemed to be interested in 100% of the Shares held by ZT (E).

(3) ZT (F) is wholly-owned by Mr. Liu. Under the SFO, Mr. Liu is deemed to be interested in all the Shares held by ZT (F).

(4) ZT (H) is owned as to approximately 94.97% by Mr. Chen and 5.03% by Ms. Yang Zhonghua (楊中華). Ms. Yang Zhonghua is the spouse of Mr. Chen. Mr. Chen is deemed to be interested in all the Shares held by Ms. Yang Zhonghua by virtue of the SFO. Under the SFO, Mr. Chen is deemed to be interested in 100% of the Shares held by ZT (H).

(5) ZT (I) is wholly-owned by Mr. Shen. Under the SFO, Mr. Shen is deemed to be interested in all the Shares held by ZT (I).

(6) ZT (K) is wholly-owned by Mr. Min. Under the SFO, Mr. Min is deemed to be interested in all the Shares held by ZT (K).

(ii) Interest in our Company's associated corporations

Name of Director/ chief executive	Name of associated corporation	Capacity/Nature of interest directly and indirectly held	Number of shares of/capital contribution in associated corporation (Note 1)	Approximate percentage of shareholding/ equity interest of associated corporation
Mr. Yang	ZT (A) (Note 2)	Beneficial owner/Interest of spouse (Note 3)	21,831 (L)	29.12%
Mr. Liu	ZT (A) (Note 2)	Beneficial owner	4,621 (L)	6.16%
Mr. Chen	ZT (A) (Note 2)	Beneficial owner	2,195 (L)	2.93%
Mr. Min	ZT (A) (Note 2)	Beneficial owner/Interest of spouse (Note 4)	1,253 (L)	1.67%
Mr. Shen	ZT (A) (Note 2)	Beneficial owner	985 (L)	1.31%
Mr. Yang	Zhongtian Construction (Note 5)	Beneficial owner	108,049 (L)	0.17%
Mr. Liu	Zhongtian Construction (Note 5)	Beneficial owner	35,550 (L)	0.06%
Mr. Chen	Zhongtian Construction (Note 5)	Beneficial owner	17,681 (L)	0.03%
Mr. Shen	Zhongtian Construction (Note 5)	Beneficial owner	13,834 (L)	0.02%
Mr. Min	Zhongtian Construction (Note 5)	Beneficial owner	8,554 (L)	0.01%
Mr. Min	Zhuzhou Kaida Lifting Apparatus Leasing Company Limited ("**Kaida Apparatus**") (Note 6)	Beneficial owner	RMB76,000 (L)	1.17%

Notes:

(1) The letter "L" denotes a person's "long position" (as defined under Part XV of the SFO) in such Shares.

(2) Our Company will be owned as to approximately 55.62% by ZT (A) immediately after completion of the Capitalisation Issue and the Global Offering (without taking into account any Share that may be allotted and issued upon the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme). Under the SFO, ZT (A) is an associated corporation of our Company.

(3) ZT (A) is owned as to approximately 25.24% by Mr. Yang and 3.88% by Ms. Gan Yinghua. Ms. Gan Yinghua is the spouse of Mr. Yang. Mr. Yang is deemed to be interested in all the Shares held by Ms. Gan Yinghua by virtue of the SFO.

(4) ZT (A) is owned as to approximately 1.30% by Mr. Min and 0.37% by Ms. Yang Bingquan (楊冰泉). Ms. Yang Bingquan is the spouse of Mr. Min. Mr. Min is deemed to be interested in all the Shares held by Ms. Yang Bingquan by virtue of the SFO.

(5) Zhongtian Construction is owned as to approximately 99.5% by Hangxiao Materials, which is owned as to approximately 99.99% by Zhaolin Trading, which is an indirect wholly-owned subsidiary of our Company. Under the SFO, Zhongtian Construction is an associated corporation of our Company.

(6) Kaida Apparatus is owned as to approximately 56.99% by Zhongtian Construction. Under the SFO, Kaida Apparatus is an associated corporation of our Company.

Save as disclosed above, as at the date of this annual report, none of the Directors nor chief executive of the Company has registered an interests and short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES

As the Company was not listed on the Stock Exchange as at 31 December 2022, Divisions 2 and 3 of Part XV of the SFO and section 352 of the SFO were not applicable to the substantial shareholders and other persons of the Company as at 31 December 2022.

So far as the Directors are aware, as at the date of this annual report, the following persons (not being Directors or chief executive of the Company) have or are deemed or taken to have an interest or short position in the Shares or the underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register required to be kept under section 336 of the SFO:

Name of Shareholder	**Capacity/Nature of interest**	**Number of Shares held** (Note 1)	**Percentage of interest**
ZT (A) (Note 2)	Beneficial owner	266,965,000 (L)	55.62%
ZT (M) Limited ("**ZT (M)**") (Note 3)	Beneficial owner	27,814,000 (L)	5.79%

Notes:

1. The letter "L" denotes a person's/corporation's "long position" (as defined under Part XV of the SFO) in the Shares.

2. ZT (A) is owned by 79 individual shareholders including 12 individuals who are directors or senior management members of our Group or their associates as to approximately 49.04% and 67 individuals who are Independent Third Parties including our employees as to approximately 50.96%, and none of such individual shareholders, together with his/her respective close associates, controls one-third or more of the voting power at the general meetings of ZT (A).

3. ZT (M) was held by 25 Independent Third Parties including our employees and ex-employees, with each of the Independent Third Parties holding approximately 0.04% to 20.42%, and none of such individual shareholders, together with his/her respective close associates, controls one-third or more of the voting power at the general meetings of ZT (M).

Save as disclosed above, as at the date of this annual report, the Directors were not aware of any other persons who had or deemed or taken to have any interests or short positions in the Shares, underlying Shares or debentures of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of interests required to be kept by the Company under Section 336 of the SFO.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than shareholdings disclosed above, at no time during FY2022 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2022, the Group's five largest customers in aggregate and the single largest customer accounted for approximately 37.0% (2021: 46.4%) and 14.0% (2021: 20.2%) of the Group's total revenue respectively.

During the year ended 31 December 2022, the Group's five largest suppliers in aggregate and the single largest supplier accounted for approximately 21.9% (2021: 29.2%) and 6.1% (2021: 9.7%) of the Group's total purchases respectively.

Hengji Real Estate, Hangxiao Technology and Fangge Intelligence are owned by Zhongtian Holdings as to 85.82%, 68.29% and 70.00% and Wuguang Investment is wholly-owned by Hengji Real Estate. ZT (A), the controlling shareholder of the Company, is owned by the same group of shareholders of Zhongtian Holdings proportional to their respective shareholdings (subject to rounding) in Zhongtian Holdings immediately before the Reorganisation. Hengji Real Estate, Wuguang Investment, Hangxiao Technology and Fangge Intelligence are deemed connected persons of our Company. For details of the relationship and transactions between our Group and Hengji Real Estate, Wuguang Investment, Hangxiao Technology and Fangge Intelligence, please refer to the section headed "Continuing Connected Transactions" in this annual report. To the best knowledge of our Directors, save for the indirect interest of the shareholders of ZT (A) in Hengji Real Estate, Wuguang Investment, Hangxiao Technology and Fangge Intelligence, none of the Directors, their respective close associates or any shareholder of the Company, who owns more than 5% of the issued share capital of the Company, had any interest in any of the top five customers and top five suppliers of the Group for the year ended 31 December 2022.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles or the laws of Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities since the Listing Date.

PERMITTED INDEMNITY PROVISION

Every director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities secured or sustained by him as a director in defending any proceedings, whether civil or criminal, in which judgement is given in his favour, or in which he is acquitted.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 17 to 27 of this annual report.

AUDITOR

The consolidated financial statements of the Group for FY2022 have been audited by BDO Limited, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM. A resolution for their re-appointment as the auditor of the Company will be proposed at the forthcoming AGM.

On behalf of the Board
Mr. Yang Zhongjie
Chairman

Biography of Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Yang Zhongjie (楊中杰先生), whose former Chinese name was 楊忠杰, aged 54, was appointed as our Director on 27 March 2020 and was re-designated as our executive Director on 3 April 2020. He also serves as chairman of our Board. He is primarily responsible for the overall management and formulation of business strategies of our Group. He is also a director of four of our subsidiaries, namely Head Sage Limited, Zhongtian Holdings (Hong Kong) Limited, Zhuzhou Zhaolin Trading Company Limited and Zhongtian Construction.

He is the chairperson of our nomination committee.

Mr. Yang has over 25 years of experience in the construction industry and has been serving the management of our Group for over 15 years. Mr. Yang joined our Group in July 1990. From July 1990 to August 2001, he served in various positions in Zhongtian Construction including (i) office secretary responsible for handling office administrative matters; (ii) deputy director responsible for overseeing publications and administrative matters; (iii) production management manager responsible for overseeing the operation of the production management department; and (iv) the chief economist responsible for overseeing operations, bidding and contract management.

Mr. Yang rejoined our Group in March 2004 as the chairman of Zhongtian Construction. Mr. Yang was also the general manager of Zhongtian Construction from March 2004 to January 2013, where he was responsible for overseeing the day-to-day management of Zhongtian Construction. For Mr. Yang's directorship in businesses not forming part of our Group, please refer to the section headed "Relationship with our Controlling Shareholder" in the Prospectus.

Mr. Yang graduated from Southwest Jiaotong University (西南交通大學) in December 2003 with a master's degree in business administration. Mr. Yang was the visiting scholar at San Francisco State University from July 2015 to July 2016. Mr. Yang graduated from Central South University (中南大學) in June 2020 with a doctorate degree in civil engineering planning and management. Mr. Yang was accredited as a first-grade certified constructor (一級建造師) by the Ministry of Housing and Urban-rural Development of the PRC (中華人民共和國住房和城鄉建設部) ("**MOHURD**") in April 2008, a senior economist (高級經濟師) by the Personnel Department of Hunan Province (湖南省人事廳) in September 2008 and a professional senior economist (正高級經濟師) by the Hunan Human Resources and Social Security Office* (湖南省人力資源和社會保障廳) in December 2021.

Mr. Yang was awarded the "Outstanding Businessman of Zhuzhou in 2005" (二零零五年度株洲市優秀企業家) by the Zhuzhou Economy Committee* (株洲市經濟委員會) and Zhuzhou Entrepreneur Association* (株洲市企業家協會).

Mr. Yang is the brother-in-law of Mr. Chen, our executive Director.

Save as disclosed above, he was not a director in any other listed companies for the last three preceding years.

Mr. Liu Xiaohong (劉小紅先生), aged 48, was appointed as our executive Director on 3 April 2020. He is primarily responsible for the supervision of the operation of our Group. Mr. Liu is the chief executive officer of our Group and general manager of Zhongtian Construction. He is also a director of one of our subsidiaries, namely Zhongtian Construction. He is a member of our remuneration committee.

Mr. Liu has over 25 years of experience in the construction industry. Mr. Liu joined our Group in July 1994. He served in Zhongtian Construction as (i) technician and construction worker responsible for handling technical issues of construction projects and on-site project management from July 1994 to February 1999; and (ii) technical manager responsible for coordinating technical operation of construction projects, deputy director of engineering team responsible for overseeing construction management of projects, quality control manager responsible for managing quality and safety inspection of projects, and project manager responsible for project management from March 1999 to February 2004. He was promoted to the head of market operations in March 2004 and was further promoted to deputy general manager in April 2008. Mr. Liu was later promoted as a director and executive deputy general manager in January 2010, where he was responsible for supervising the overall management and operation of Zhongtian Construction. He has been acting as the vice chairman and general manager of Zhongtian Construction since February 2013.

Mr. Liu obtained a professional diploma in industrial and civil architecture (工業與民用建築專業) from the Hunan Province School of Architecture* (湖南省建築學校) (currently known as the Hunan Urban Construction College* (湖南城建職業技術學院)) in July 1994. Mr. Liu studied civil engineering at Wuhan University of Technology (武漢理工大學) through distance learning and graduated in January 2014. Mr. Liu was accredited as a first-grade certified constructor by MOHURD in January 2011. Mr. Liu was also accredited as an engineer and senior engineer by the Human Resources and Social Security Department of Hunan Province (湖南省人力資源和社會保障廳) in December 1999 and December 2011, respectively.

Mr. Liu was named as the "Outstanding Individual in Construction Project Quality and Safety Management in 2012" (2012年度建設工程質量安全管理工作先進個人) by ZHURD in March 2013. He was awarded the "Outstanding Businessman in Construction Industry of Zhuzhou in 2017" (二零一七年度株洲市建築業優秀企業家) by the Zhuzhou Construction Industry Association (株洲市建築業協會) in February 2018. He was awarded the "Outstanding Businessman of Zhuzhou" (株洲市優秀企業家) by the Zhuzhou Entrepreneur Association (株洲市企業家協會) and Zhuzhou Enterprise Federation (株洲市企業聯合會) in December 2018. Mr. Liu was awarded the "Outstanding Business Manager in Construction Industry of Zhuzhou in 2019" ((二零一九年度)株洲市建築業優秀企業經理) by the Zhuzhou Construction Industry Association (株洲市建築業協會).

Save as disclosed above, he was not a director in any other listed companies for the last three preceding years.

Mr. Min Shixiong (閔世雄先生), aged 50, was appointed as our executive Director on 3 April 2020. He is primarily responsible for the supervision of the operation of our Group. Mr. Min is the deputy general manager of Zhongtian Construction. He is also a director of two of our subsidiaries, namely Zhongtian Construction and Kaida Apparatus.

Mr. Min has over 20 years of experience in the construction industry. Mr. Min joined our Group in June 1995. From June 1995 to March 2004, he served in various positions in Zhongtian Construction, including construction worker responsible for on-site project management; and technician of construction department responsible for technical guidance and management for construction projects. From March 2004 to February 2013, he served as a project manager of Zhongtian Construction, where he was responsible for overseeing management of construction projects. He was promoted to deputy general manager in February 2013, where he was responsible for overseeing the quality and safety department, and was later promoted to director of Zhongtian Construction in May 2016. From February 2013 to May 2019, Mr. Min was the director of Hunan Zhongtian Building Safety Technology Company Limited* (湖南中天建築安全科技有限公司). Since February 2013, Mr. Min has been the director of Kaida Apparatus.

Mr. Min graduated from Zhuzhou College of Engineering* (株洲工學院) (currently known as Hunan University of Technology (湖南工業大學)) majoring in urban construction in July 1995.

Mr. Min was accredited as a first-grade certified constructor (一級建造師) by MOHURD in April 2008. Mr. Min was also accredited as a senior engineer by the Human Resources and Social Security Department of Hunan Province (湖南省人力資源和社會保障廳) in December 2015.

A construction project managed by Mr. Min received the Award for outstanding construction project in Hunan (湖南省優質工程) from Hunan Construction Industry Association (湖南省建築業協會) in June 2013.

Save as disclosed above, he was not a director in any other listed companies for the last three preceding years.

Mr. Shen Qiang (沈强先生), aged 49, was appointed as our executive Director on 3 April 2020. He is primarily responsible for the supervision of the operation and the costs control of our Group. Mr. Shen is the deputy general manager of Zhongtian Construction. He is also a director of one of our subsidiaries, namely Zhongtian Construction.

Mr. Shen has over 20 years of experience in financial management in the construction industry. Prior to joining our Group, he worked in Zhongtie Zhuzhou Bridge Company Limited* (中鐵株洲橋樑有限公司), a company primarily engaging in railway special track laying and bridge prefabrication, from July 1995 to May 2008 with his last position being the head of financial department of branch office, where he was responsible for overseeing the financial management of branch office. Mr. Shen joined our Group as financial personnel of Zhongtian Construction in June 2008, where he was responsible for financial management of branch offices. He was promoted to the head of financial department in February 2013, where he was responsible for overseeing financial department. He was later promoted to chief accountant in February 2016, where he was responsible for supervising overall financial operation. Mr. Shen was the finance director of Zhongtian Construction from May 2016 to August 2022. He has been the deputy general manager of Zhongtian Construction since August 2022.

Mr. Shen graduated from the Hunan Network Engineering Vocational College* (湖南廣播電視大學) majoring in accounting and computer in July 1995. He studied accounting at Open University of China (國家開放大學) and graduated in January 2016. Mr. Shen was accredited as an intermediate accountant by the Ministry of Finance of the PRC (中華人民共和國財政部) and senior accountant by the Human Resources and Social Security Department of Hunan Province (湖南省人力資源和社會保障廳) in May 2006 and December 2016, respectively.

Save as disclosed above, he was not a director in any other listed companies for the last three preceding years.

Mr. Chen Weiwu (陳衛武先生), aged 48, was appointed as our executive Director on 3 April 2020. He is primarily responsible for the supervision of the operation of our Group. He is also a director of one of our subsidiaries, namely Zhongtian Construction.

Mr. Chen has over 25 years of experience in the construction industry. Mr. Chen joined Zhongtian Construction in June 1993 as a project manager, where he was responsible for management of construction projects. He was promoted to branch office manager, where he was responsible for overseeing management of the branch office, in May 2016. Mr. Chen was appointed as merchandising evaluation expert of the Hunan Provincial Government (湖南省政府採購評審專家庫專家) by the Hunan Provincial Department of Finance (湖南省財政廳) in September 2018 and comprehensive evaluation expert of Hunan Province by the People's Government of Hunan Province in January 2019 for various areas, including construction and municipal public works. Mr. Chen was appointed as safety and technical expert for building construction (建築施工安全技術專家庫專家) of Hunan Province by the Department of Housing and Urban-Rural Development of Hunan Province (湖南省住房和城鄉建設廳) in July 2019.

Mr. Chen studied civil engineering at Hunan University of Technology (湖南工業大學) and graduated in July 2006. He obtained a master's degree in business administration for senior management from Hunan University (湖南大學) through distance learning in June 2015. He was also accredited as a first-grade certified constructor (一級建造師) by MOHURD in April 2008. He was accredited as an engineer and a senior engineer by the Human Resources and Social Security Department of Hunan Province (湖南省人力資源和社會保障廳) in December 2001 and December 2016, respectively.

From 2008 to 2019, various construction projects managed by Mr. Chen received the outstanding construction project in Hunan (湖南省優質工程) granted by the Hunan Construction Industry Association (湖南省建築業協會). A construction project managed by Mr. Chen obtained the Furong Prize (芙蓉獎) in December 2017, which is the highest honour for construction quality in Hunan awarded by Hunan Association of Construction Industry.

Mr. Chen is the brother-in-law of Mr. Yang, our executive Director and chairman of our Board.

Save as disclosed above, he was not a director in any other listed companies for the last three preceding years

Independent non-executive Directors

Dr. Liu Jianlong (劉建龍博士), aged 49, was appointed as our independent non-executive Director on 10 March 2023. He is a member of the Audit Committee and Nomination Committee.

Dr. Liu has over 15 years of experience in the construction industry. He has been teaching at Hunan University of Technology since September 2002 and was accredited as a professor in civil engineering by the Human Resources and Social Security Department of Hunan Province (湖南省人力資源和社會保障廳) in December 2015. Dr. Liu was appointed as the prefabricated copper pipe consultant by Zhejiang Aozheng Pipe Industry Co., Ltd.* (浙江奧錚管業有限公司) in September 2019. Dr. Liu was appointed as merchandising evaluation expert of the People's Government of Hunan Province (湖南省政府採購評審專家庫專家) by the Hunan Provincial Department of Finance in September 2018 and comprehensive evaluation expert of Hunan Province (湖南省綜合評標專家庫評標專家) by the People's Government of Hunan Province (湖南省人民政府) in January 2019 for various areas, including ventilation and air-conditioning. Dr. Liu also holds various positions in institutions related to the construction industry, including secretary-general of Zhuzhou Construction Technology and Energy-saving Construction Association* (株洲市建設科技與建築節能協會) and director of Energy-saving Construction and Green Building Research Institute of Hunan University of Technology* (湖南工業大學建築節能與綠色建築研究所).

Dr. Liu graduated from Wuhan University of Metallurgy and Technology (武漢冶金科技大學) (currently known as Wuhan University of Science and Technology (武漢科技大學)) with a bachelor's degree in engineering safety in June 1998. He obtained a master's degree and doctor's degree in heating, gas, ventilation and air-conditioning engineering from Hunan University in July 2001 and March 2008, respectively.

Dr. Liu was accredited as a registered safety engineer by the State Administration of Work Safety (國家安全生產監督管理總局) in July 2010. He was accredited as a senior energy-saving evaluator (高級節能評估師) by the China Association of Staff and Workers Education and Vocational Training (中國職工教育和職業培訓協會) in December 2012. Dr. Liu was accredited as a utilities engineer (heating, ventilation and air-conditioning) (註冊公用設備工程師(暖通空調)) by MOHURD in January 2015.

Dr. Liu engages in R&D in relation to construction technology and indoor quality management, etc. and received various awards, including the 2006 Huaxia Construction Science and Technology Third Prize Certificate* (華夏建設科學技術獎勵證書三等獎) by Huaxia Construction Science and Technology Award Committee* (華夏建設科學技術獎勵委員會) in January 2007 as a recognition of his contribution to promote the scientific and technology development in the construction industry.

Save as disclosed above, he was not a director in any other listed companies for the last three preceding years.

Ms. Deng Jianhua (鄧建華女士), aged 55, was appointed as our independent non-executive Director on 10 March 2023. She is the chairperson of the Remuneration Committee and a member of the Audit Committee and Nomination Committee.

Ms. Deng has over 30 years of experience in auditing and accounting. Ms. Deng served in various positions in Pan-China Certified Public Accountants LLP (天健會計師事務所) from July 1991 to April 2007, including senior project manager, deputy director of auditing department and partner, where she was responsible for audit for IPO projects and listed companies. Ms. Deng joined CAC CPA Limited Liability Partnership (中審華會計師事務所(特殊普通合夥)) in May 2007 as partner of main office and deputy head of Hunan branch office, where she is responsible for audit for IPO projects and listed companies. Ms. Deng was appointed as an external supervisor of Zhuzhou Water Investment Group Co., Ltd. (株洲市水務投資集團有限公司) and Zhuzhou City Public Transportation Co., Ltd. (株洲市公共交通責任公司) by the Hunan Municipal People's Government State-owned Assets Supervision and Administration Commission (株洲市人民政府國有資產監督管理委員會) from January 2019 to January 2022. She has been appointed as a postgraduate external instructor of the master of accountancy programme of the Hunan Agricultural University (湖南農業大學) in July 2019. She has been an independent director of Zhuzhou Qianjin Pharmaceutical Company Limited (株洲千金藥業股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600479) from November 2020 to March 2022.

Ms. Deng graduated from Hunan University of Finance and Economics* (湖南財經學院) (currently known as Hunan University) with a bachelor's degree in accounting in July 1991. Ms. Deng was accredited as Certified Public Accountant by the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) in April 2000. She was further accredited as a senior accountant by the Personnel Department of Hunan Province in December 2006.

Save as disclosed above, she was not a director in any other listed companies for the last three preceding years.

Mr. Lau Kwok Fai Patrick (劉國煇先生), aged 50, was appointed as our independent non-executive Director on 10 March 2023. He is the chairperson of the Audit Committee and a member of the Remuneration Committee.

Mr. Lau has over 20 years of experience in auditing, accounting, financial advisory and corporate governance. He served as an auditor in Baker Tilly Hong Kong (formerly known as Glass Radcliffe Chan & Wee Certified Public Accountants) from September 1996 to November 1997 and was mainly responsible for statutory audit. Mr. Lau served as an associate in PricewaterhouseCoopers Ltd from December 1997 to April 1999, where he was mainly responsible for statutory audit, internal control review and enterprise listing audit. Mr. Lau worked at KPMG from October 1999 to June 2011, with his last position as a manager, mainly responsible for financial due diligence, corporate reorganisation and liquidation, analysis for corporate acquisitions, financial modelling and financial advisory services. Mr. Lau has been/was a director/senior management of the following listed companies:

Period	Company	Position(s)	Responsibilities
From July 2011 to June 2016	China City Railway Transportation Technology Holdings Company Limited (now known as BII Railway Transportation Technology Holdings Company Limited), a company listed on the Stock Exchange (stock code: 1522)	Deputy general manager, financial controller and company secretary	Primarily responsible for the company's listing, financial, company secretarial and compliance matters

Period	Company	Position(s)	Responsibilities
From July 2016 to October 2019 and from May 2018 to October 2019	International Alliance Financial Leasing Co., Ltd., a company listed on the Stock Exchange (stock code: 1563)	Chief financial officer and company secretary	Mainly responsible for the corporate financial function of the company and matters relating to corporate governance, compliance and investor relations
From September 2017 to July 2020	Jinhai International Group Holdings Limited (formerly known as Kakiko Group Limited), a company listed on the Stock Exchange (stock code: 2225)	Independent non-executive director	Providing independent advice to the board of directors
From January 2018 to the Latest Practicable Date	FDB Holdings Limited (formerly known as Dafy Holdings Limited and Steering Holdings Limited), a company listed on the Stock Exchange (stock code: 1826)	Independent non-executive director	Providing independent advice to the board of directors
From February 2020 to the Latest Practicable Date	Ximei Resources Holding Limited, a company listed on the Stock Exchange (stock code: 9936)	Independent non-executive director	Providing independent advice to the board of directors
From December 2020 to the Latest Practicable Date	Sundy Service Group Co. Ltd., a company listed on the Stock Exchange (stock code: 9608)	Independent non-executive director	Providing independent advice to the board of directors

Mr. Lau obtained an honours diploma in accounting from Hong Kong Shue Yan College (now known as Hong Kong Shue Yan University) in July 1996. He obtained his HKICPA Diploma in Insolvency awarded by HKICPA in June 2004. He later obtained a master's degree in Corporate Governance and Directorship (Distinction) from Hong Kong Baptist University in November 2014.

Mr. Lau has been an associate of HKICPA and a fellow member of the Association of Chartered Certified Accountants since July 2003 and December 2007, respectively. He has also been a member of Beta Gamma Sigma Hong Kong Baptist University Chapter since April 2014.

Save as disclosed above, he was not a director in any other listed companies for the last three preceding years.

Biography of Directors and Senior Management

SENIOR MANAGEMENT

Mr. Chen Peirun (陳培潤先生), aged 57, is the deputy general manager of Zhongtian Construction, responsible for R&D and quality management of our Group.

Mr. Chen has over 30 years of experience in the construction industry. Prior to joining our Group, he worked as a technician from July 1987 to November 1990 in Zhuzhou City Internal Combustion Engine and Accessories Factory* (株洲市內燃機配件廠) (currently known as Zhuzhouxiang Torch Machinery Manufacturing Company Ltd.* (株洲湘火炬機械製造有限責任公司)), a company primarily engaging in production of internal combustion engine parts, where he was responsible for production technical matters. Mr. Chen joined Zhongtian Construction in December 1990 and was promoted to deputy general manager in May 2016.

Mr. Chen obtained a professional diploma in industrial and civil architecture from Zhuzhou Metallurgy Industrial College* (株洲冶金工業學校) (currently known as Hunan University of Technology) in August 1987. He studied construction and civil engineering at Xi'an University of Architecture and Technology (西安建築科技大學) and graduated in December 1994. He further studied civil engineering at Xiangtan University (湘潭大學) and graduated in June 2010.

Mr. Zhou Ping (周平先生), aged 48, is the deputy general manager and board secretary of Zhongtian Construction, responsible for administrative and human resources matters of our Group.

Mr. Zhou has over 15 years of experience in business administration. Before joining our Group, Mr. Zhou has worked in various companies in different industries, including as (i) assistant to general manager in Miluo Tianmei Furniture Factory* (湖南省汨羅市天美傢俬廠) from October 2001 to August 2003, where he was responsible for handling administration and logistics matters; (ii) administrative manager in Zhuzhou Xinya Guangkelong Supermarket* (株洲新亞廣客隆超級市場) from August 2005 to March 2006, where he was responsible for administration and human resources; and (iii) as project officer in Zhuzhou Xiangyin Real Estate Development Company Ltd* (株洲湘銀房地產開發有限公司) (currently known as Xiangyin Real Estate Company Ltd.* (湘銀房地產股份有限公司)) from April 2006 to March 2008, where he was responsible for project management and coordination. Mr. Zhou worked as project manager in Hengji Real Estate from April 2008 to January 2011, where he was responsible for project management and coordination.

He joined Zhongtian Holdings in February 2011 as deputy manager of the investment department and was later promoted and worked as manager of the investment department until January 2016, where he was responsible for collection of industry information and investment project feasibility analysis. He joined our Group as the board secretary of Zhongtian Construction in February 2016, where he was responsible for coordinating and organising shareholders' meetings, board meetings and meetings of senior management. Mr. Zhou has also been the deputy general manager of Zhongtian Construction since January 2018.

Mr. Zhou graduated from Central South University with a master's degree in analytical chemistry in June 2001. He obtained a master's degree in business administration from Jilin University (吉林大學) in June 2005.

Mr. Long Biwen (龍必文先生), aged 41, is the financial director of Zhongtian Construction, responsible for the supervision of the overall financial management of Zhongtian Construction.

Mr. Long has over 15 years of experience in accounting and financial management. He joined our Group in July 2006 as accountant and has been working in our finance department since then.

In May 2016, he was promoted as manager of our finance department. In January 2022, Mr. Long was promoted as our deputy chief accountant. Since August 2022, he has been the financial director of Zhongtian Construction.

Mr. Long graduated from Hunan Agricultural University with a bachelor's degree in management majoring in accounting in June 2006. In May 2010, Mr. Long was accredited as an intermediate accountant by the Ministry of Finance of the PRC (中華人民共和國財政部) and the Human Resources and Social Security Department of Hunan Province. He was also accredited as a grade 2 architect of the PRC* (中華人民共和國二級建造師) by Department of Housing and Urban-Rural Development of Hunan Province (湖南省住房和城鄉建設廳) in February 2020. In December 2021, Mr. Long was accredited as a senior accountant by the Human Resources and Social Security Department of Hunan Province.

Save as disclosed above, each of the senior management has not held any directorship in the last three years in any public company the securities of which are listed on any securities market in Hong Kong or overseas.

COMPANY SECRETARY

Ms. Chan Kit Ming (陳潔明女士), aged 37, was appointed as our company secretary on 3 April 2020.

Ms. Chan has over 9 years of experience in auditing and accounting. Ms. Chan served in SHINEWING (HK) CPA Limited from January 2011 to July 2012, with her last position as semi-senior accountant. Ms. Chan served in Kerry Properties Limited, a company listed on the Stock Exchange (stock code: 0683), from August 2012 to June 2018, with her last position as senior internal auditor. Ms. Chan joined Global Vision CPA Limited, a professional accounting firm, in July 2018 as auditor.

Ms. Chan graduated from The Hong Kong Polytechnic University with a bachelor's degree of business administration in accounting in October 2008. She became a member of the Hong Kong Institute of Certified Public Accountants in January 2013.

Ms. Chan Kit Ming was nominated by an external service provider engaged by us to act as our company secretary pursuant to an engagement letter entered into between our Company and such external service provider. She is supported by other staff of the external service provider in providing the corporate secretarial services to our Company.

Independent Auditor's Report

TO THE SHAREHOLDERS OF ZHONGTIAN CONSTRUCTION (HUNAN) GROUP LIMITED
(incorporated in Cayman Islands with limited liability)

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Zhongtian Construction (Hunan) Group Limited (the "**Company**") and its subsidiaries (together the "**Group**") set out on pages 57 to 111, which comprises the consolidated statement of financial position as at 31 December 2022 and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recognition of revenue from construction contracts

Refer to note 4.5 in the significant accounting policies, note 7 to the consolidated financial statements.

For the year ended 31 December 2022, revenue from construction contracts amounted to RMB1,881,417,000. The Group has recognised revenue from construction contracts over time by reference to the Group's efforts or inputs to the satisfaction on a performance obligation relative to the total expected inputs to the satisfaction of the performance obligation.

Construction contract revenue is recognised according to the percentage of completion of individual construction contract, which is measured by reference to the contract costs incurred to date as a proportion to total estimated contract cost. We identified the recognition of revenue from construction contracts as a key audit matter as it is quantitatively significant to the consolidated financial statements as a whole.

Our response:

We performed audit procedures in relation to management's recognition of revenue from construction contracts which included:

— obtained an understanding of the management's internal control and assessment processes, assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors, such as subjectivity of assumptions and susceptibility to management bias or fraud;

— understood, evaluated and validated key controls over revenue recognition on construction contracts;

— inspected the signed contracts and correspondence with the customers to obtain audit evidence on contract sum and terms from customers, on a sample basis, and reviewed the contracts for any specific or special performance obligations and conditions during the financial period;

— tested the total costs incurred as at the end of the reporting period and performed cut-off testing, on a sample basis, by checking to the underlying documents supporting these costs (including good receiving notes and invoices of material costs, subcontractor costs);

— examined the budgeted cost of construction contracts prepared by the project managers by comparing the key components in budgeted cost with supporting documents including, but not limited, to price quotations of suppliers and subcontractors, on a sample basis;

— tested the calculation of the percentage of completion based on the latest budgeted cost and total actual cost incurred; and

— tested mathematical accuracy of the calculations of contract revenue and costs.

Expected credit losses on trade receivables and contract assets

Refer to Note 4.12(b) in the significant accounting policies and disclosure of impairment on trade receivables and contract assets in Note 18, Note 19 and Note 37(b) to the consolidated financial statements.

As at 31 December 2022, the Group had gross trade receivables and contract assets of approximately RMB363,027,000 and RMB1,137,691,000 respectively and provision of impairment of approximately RMB8,654,000 and RMB10,541,000 respectively.

The impairment assessment of trade receivables and contract assets are estimated based on an expected credit loss ("**ECL**") model as required under HKFRS 9 Financial Instruments. Loss allowance for trade receivables and contract assets are measured with lifetime ECL which result from all possible default events over the expected life of the trade receivables. Impairment assessment of these receivables is a subjective area as management requires application of judgement. Judgement is applied in considering the credit profile of these receivables, including default or delay in payments, historical settlement records and ageing analysis. The management also considered forward-looking factors specific to the debtors and the economic environment.

We focused on this area due to the fact that the impairment assessment of trade receivables and contract assets under the expected credit losses model involved the use of significant management judgement and estimates.

Our response:

We performed audit procedures in relation to management's impairment assessment of trade receivables and contract assets which included:

— obtained an understanding of how impairment is estimated by the management, including an evaluation of management judgements and creditworthiness of the customers by assessing, on a sample basis, the available information, such as background information of the customers, the customers' payment records during the current year and subsequent to the end of the reporting period;

— evaluated the competence, experience, capability and objectivity of the external valuer engaged by management to perform the assessment of ECL;

— assessed the measurement of ECL of these receivables by obtaining the understanding of approach being adopted by the Group;

— checked the ageing analysis of the trade receivables, on a sample basis, to the source documents;

— engaging external independent valuation specialist, in which we have evaluated their competence, capabilities and objectivity, to assist us in evaluating and assessing the ECL calculations;

— reviewed the reasonableness of the use of ageing profile, historical settlement pattern, historical default rates, forecast economic conditions and other forward-looking information in the ECL model; and

— checked the accuracy and the relevance of the input data being used in the ECL model.

Other Information in the Annual Report

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibilities for the Consolidated Financial Statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

Auditor's Responsibilities for Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BDO Limited
Certified Public Accountants
Wan Che Bun
Practising Certificate Number: P05804
Hong Kong, 28 April 2023

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
Revenue	7	**1,890,660**	1,823,384
Cost of sales		**(1,684,101)**	(1,627,737)
Gross profit		**206,559**	195,647
Other income and other gains, net	8	**850**	1,456
Administrative expenses		**(117,546)**	(116,526)
Listing expenses		**(6,181)**	(4,513)
Impairment on financial and contract assets, net		**(2,543)**	(500)
Finance costs	9	**(7,408)**	(3,549)
Profit before taxation	10	**73,731**	72,015
Income tax expense	11	**(8,243)**	(10,112)
Profit and total comprehensive income for the year		**65,488**	61,903
Profit and total comprehensive income for the year attributable to			
Owners of the Company		**64,471**	60,570
Non-controlling interests		**1,017**	1,333
		65,488	61,903
Earnings per share attributable to owners of the Company			
Basic and diluted (expressed in RMB cents per share)	13	**17.91**	16.83

Consolidated Statement of Financial Position

As at 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	**19,566**	24,156
Deferred tax assets	16	**4,107**	3,797
Intangible assets		**45**	48
		23,718	28,001
Current assets			
Inventories	17	**828**	3,018
Trade, bills and other receivables	18	**434,116**	513,270
Contract assets	19	**1,127,150**	1,216,095
Amounts due from related companies	20	**8,318**	6,475
Amounts due from shareholders	20	**4,352**	9,260
Restricted bank deposits	21	**17,599**	18,429
Cash and cash equivalents	22	**151,661**	89,106
		1,744,024	1,855,653
Current liabilities			
Trade and bills payables	23	**803,363**	1,166,117
Accruals and other payables	24	**420,745**	302,800
Contract liabilities	19	**17,267**	24,976
Amounts due to related companies	20	**8,618**	4,833
Amounts due to shareholders	20	**5,806**	14,046
Amounts due to directors	20	**748**	253
Lease liabilities	25	**–**	28
Borrowings	26	**136,705**	66,895
Income tax payable		**11,334**	9,538
		1,404,586	1,589,486
Net current assets		**339,438**	266,167
Total assets less current liabilities		**363,156**	294,168
Non-current liabilities			
Borrowings	26	**3,425**	—
		3,425	—
NET ASSETS		**359,731**	294,168

	Notes	2022 RMB'000	2021 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	27	**1**	1
Reserves	28	**349,807**	285,261
		349,808	285,262
Non-controlling interests	29	**9,923**	8,906
TOTAL EQUITY		**359,731**	294,168

The consolidated financial statements were approved and authorised for issue by the board of the directors of the Company on 28 April 2023 and are signed on its behalf by:

Yang Zhongjie
Executive director

Liu Xiaohong
Executive director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

	Share capital RMB'000 (Note 27)	Other reserve RMB'000 (Note 28(a))	Statutory special reserve RMB'000 (Note 28(b))	Statutory reserve RMB'000 (Note 28(c))	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2021	1	79,673	549	16,011	128,380	224,614	7,573	232,187
Profit and total comprehensive income for the year	–	–	–	–	60,570	60,570	1,333	61,903
Appropriation to statutory reserve	–	–	–	6,218	(6,218)	–	–	–
Transfer to special reserve	–	–	37,612	–	–	37,612	–	37,612
Utilisation of special reserve	–	–	(37,534)	–	–	(37,534)	–	(37,534)
Balance at 1 January 2022	**1**	**79,673**	**627**	**22,229**	**182,732**	**285,262**	**8,906**	**294,168**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**64,471**	**64,471**	**1,017**	**65,488**
Appropriation to statutory reserve	**–**	**–**	**–**	**6,508**	**(6,508)**	**–**	**–**	**–**
Transfer to special reserve	**–**	**–**	**36,287**	**–**	**–**	**36,287**	**–**	**36,287**
Utilisation of special reserve	**–**	**–**	**(36,212)**	**–**	**–**	**(36,212)**	**–**	**(36,212)**
Balance at 31 December 2022	**1**	**79,673**	**702**	**28,737**	**240,695**	**349,808**	**9,923**	**359,731**

Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	2022 RMB'000	2021 RMB'000
Cash flows from operating activities		
Profit before taxation	**73,731**	72,015
Adjustments for:		
Depreciation of property, plant and equipment	**5,441**	6,546
Amortisation of intangible assets	**3**	3
Finance costs	**7,408**	3,549
Interest income	**(502)**	(222)
Loss on disposal of property, plant and equipment	**—**	200
Impairment on financial and contract assets, net	**2,543**	500
Operating profit before working capital changes	**88,624**	82,591
Decrease in inventories	**2,190**	255
Decrease in trade, bills and other receivables	**78,199**	79,872
Decrease in contract assets	**86,525**	9,699
Decrease in trade and bills payables	**(362,754)**	(175,561)
Increase in accruals and other payables	**118,020**	49,889
Decrease in contract liabilities	**(7,709)**	(12,202)
Increase in amounts due from related companies	**(1,856)**	(2,860)
Decrease in amounts due from shareholders	**5,753**	1,533
Decrease in restricted bank deposits	**830**	7,727
Cash generated from operations	**7,822**	40,943
Income tax paid	**(6,757)**	(9,350)
Net cash generated from operating activities	**1,065**	31,593

Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	2022 RMB'000	2021 RMB'000
Cash flows from investing activities		
Purchase of property, plant and equipment	**(481)**	(5,569)
Proceeds on disposal of property, plant and equipment	**—**	167
Interest received	**502**	222
Net cash generated from/(used in) investing activities	**21**	(5,180)
Cash flows from financing activities		
Proceeds from new borrowings	**139,393**	60,058
Repayments of borrowings	**(66,158)**	(58,783)
Interest paid	**(7,408)**	(3,549)
Repayments of lease liabilities	**(398)**	(467)
Repayments to related companies	**3,785**	4,247
Repayments to shareholders	**(8,240)**	(14,034)
Advances from/(repayments to) directors	**495**	(1,617)
Net cash generated from/(used in) financing activities	**61,469**	(14,145)
Net increase in cash and cash equivalents	**62,555**	12,268
Cash and cash equivalents at the beginning of the year	**89,106**	76,838
Cash and cash equivalents at the end of the year	**151,661**	89,106

1. GENERAL INFORMATION

Zhongtian Construction (Hunan) Group Limited (the "**Company**") is a limited liability company incorporated in the Cayman Islands on 27 March 2020. The Company's registered office is located at 71 Fort Street, P.O. Box 500, George Town, Grand Cayman, KY1-1106, Cayman Islands. The principal place of business of the Company is located in the People's Republic of China (the "**PRC**").

The Company, an investment holding company, and its subsidiaries (collectively referred as the "**Group**") are principally engaged in the provision of construction services in the PRC.

In the opinion of the directors, as at the date of this report, the ultimate holding company is ZT(A) Limited, a company incorporated in BVI.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations (hereinafter collectively referred to as the "**HKFRSs**") issued by the HKICPA. In addition, the consolidated financial statements include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

The HKICPA has issued a number of new and amended HKFRSs which are relevant to the Group and became effective during the reporting period. For the purpose of preparing and presenting the consolidated financial statements for the reporting period, the Group has adopted all new and amended HKFRSs that are effective during the reporting period and has applied them consistently throughout the reporting period.

3. NEW OR REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE

The following new or revised HKFRSs, potentially relevant to the consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current[3]
Amendments to HKAS 1	Non-current liabilities with Covenants[3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[2]
Amendments to HKAS 8	Definition of Accounting Estimate[2]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[2]
HK Interpretation 5 (Revised)	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[3]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[3]
HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts and related amendments[2]

1 Effective for annual periods beginning on or after a date to be determined
2 Effective for annual periods beginning on or after 1 January 2023
3 Effective for annual periods beginning on or after 1 January 2024

The management of the Group does not anticipate that the adoption of the new/revised HKFRSs in future periods will have any material impact on the Group's consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

It should be noted that accounting estimates and assumptions are used in the preparation of the consolidated financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may be ultimately different from those estimates. The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

4.2 Functional and presentation currency

The consolidated financial statements is presented in Renminbi ("**RMB**"), which is the same as the functional currency of the Company.

4.3 Basis of consolidation

The consolidated financial statements incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries) comprising the Group for the reporting period. Control is achieved where the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.3 Basis of consolidation *(Continued)*

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intra-group transactions, balances and unrealised gains on transactions have been eliminated in full on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Adjustments are made to the financial statements of subsidiaries where necessary to ensure consistency with the policies adopted by the Group.

4.4 Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

4.5 Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.5 Revenue recognition *(Continued)*

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(i) Construction services

The Group engages in the provision for construction services of civil building, municipal works, foundation works, prefabricated steel structure and other specialised works. The Group's performance creates or enhances an asset or work in progress that the customer controls as the asset is created or enhanced, thus the Group satisfies a performance obligation and recognises revenue over time, by reference to completion to the contract costs incurred to date as a proportion to the total estimated contract costs while the contract costs and contract progress are highly correlated for the contracts. Invoices are issued according to contractual terms and are usually payable upon the date of issuance. Uninvoiced amounts are presented as contract assets.

When the outcome of a performance obligation in a contract can be reasonably measured, contract revenue and the associated contract costs are recognised over time based on the progress of the respective contract at the end of the reporting period. The progress toward complete satisfaction of the performance obligation of the contract is determined by reference to the contract costs incurred to date as a proportion of the total estimated contract costs.

When the outcome of a performance obligation in a contract cannot be reasonably measured, revenue is recognised only to the extent of contract costs incurred that are expected to be recovered.

Contract modification (e.g. variation order) are recognised when they are approved by customer. Generally, modification to a contract is not accounted for as a separate contract. Contract modification is accounted for as if it were a part of the existing contract and, therefore, form part of a single performance obligation that is partially satisfied at the date of the contract modification. The effect that the contract modification has on the transaction price, and on the measure of progress towards complete satisfaction of the performance obligation, is recognised as an adjustment to revenue (either as an increase in or a reduction of revenue) at the date of the contract modification (i.e. the adjustment to revenue is made on a cumulative catch-up basis). For approved modifications where a change in price has not been agreed and other claims, they are accounted for following the requirements in relation to variable consideration, that is to include in the transaction price to the extent that it is highly probable that a significant reversal in the amount of revenue recognised will not occur.

If at any time, the costs to complete the contract are estimated to exceed the remaining amount of the consideration under the contract, a provision is recognised in accordance with the accounting policy for onerous contracts as set out in Note 4.20.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.5 Revenue recognition *(Continued)*

(ii) Other income

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

(iii) Contract assets and contract liabilities

A contract asset represents the Group's right to consideration in exchange for services that the Group has transferred to a customer that is not yet unconditional. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due. Contract asset is recognised when (i) the Group completes the construction works under such service contracts but yet certified by architects, surveyors or other representatives appointed by customers; or (ii) the customers retain retention money to secure the due performance of the contracts. Contract assets are assessed for expected credit losses in accordance with the policy set out in Note 4.12(b). Loss allowance for contract assets is measured at an amount equal to lifetime expected credit losses. Expected credit losses on contract assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the customers and an assessment of both the current and forecast general economic conditions at the reporting date. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which the milestones are reached. If the considerations (including advances received from customers) exceeds the revenue recognised to date under the input method, then the Group recognises a contract liability for the difference.

A contract liability represents the Group's obligation to transfer services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

(iv) Contract costs

The Group recognises an asset from the costs incurred to fulfil a contract when those costs meet all of the following criteria:

(a) the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify;

(b) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

(c) the costs are expected to be recovered.

The asset recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the cost relate. The asset is subject to impairment review.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.6 Property, plant and equipment

Property, plant and equipment held for use in the production or supply of services, or for administrative purposes as described below, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs such as repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their costs net of estimated residual values over their estimated useful lives on straight-line method. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Right-of-use assets	Over the lease terms
Plant and machinery	8–10 years
Motor vehicles	5 years
Furniture, Fixtures and office equipment	3 years
Leasehold improvement	Over the shorter of the lease terms or 5 years
Tools	3–5 years

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

4.7 Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in first out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.8 Leases

All leases are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases; and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term of 12 months or less and do not contain purchase option. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

Accounting as a lessee

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. For right-of-use asset that meets the definition of an investment property, they are carried at depreciated cost. The right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease terms.

The Group accounts for leasehold land and buildings that are held for rental or capital appreciation purpose under HKAS 40 and are carried at cost less accumulated depreciation. Other than the above right-of-use assets, the Group also has leased a number of properties under tenancy agreements which the Group exercises its judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. As a result, the right-of-use assets arising from the properties under tenancy agreements are carried at depreciated cost.

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

The following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.8 Leases *(Continued)*

Accounting as a lessee *(Continued)*

Lease liability (Continued)

Subsequent to the commencement date, a lessee measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Accounting as a lessor

The Group has leased out its investment properties to a number of tenants. Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

4.9 Intangible assets and research and development costs

Intangible assets

Intangible assets representing an invention patent for technology with definite useful lives of 20 years acquired and initially recognised at cost. The finite useful lives is based over the period stated on the patent certificate. After initial recognition, patents are carried at cost less any subsequent accumulated amortisation and accumulated impairment losses. Intangible assets are tested for impairment as described in Note 4.10.

Research and development costs

Costs associated with research activities are expensed in profit or loss as they occur. Costs that directly attributable to the development activities are recognised as intangible assets provided they meet the following recognition requirements:

(i) demonstration of technical feasibilities of the prospective product internal use or sale;

(ii) sufficient technical, financial and other resources are available for completion;

(iii) there is intention to complete the intangible asset and use or sell it;

(iv) the Group's ability to use or sell the intangible asset is demonstrated;

(v) the intangible asset will generate probable economic benefits through internal use or sale; and

(vi) the expenditure attributable to the intangible asset can be reliably measured.

Capitalised development costs are amortised over the periods the Group expects to benefit from using or selling the products developed.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are expensed as incurred.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.10 Impairment of other assets

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- Property, plant and equipment;
- Investment properties;
- Investments in subsidiaries; and
- Intangible assets.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash generating unit).

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash generating units are allocated to reduce the carrying amount of the assets in the cash generating unit (or group of units) on a pro rata basis, except that the carrying amount of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use, (if determinable).

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

4.11 Cash and cash equivalents

Cash and cash equivalents include cash at banks and on hand as well as short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.12 Financial Instruments

(a) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

Fair value through other comprehensive income ("**FVOCI**"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Debt investments at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Fair value through profit or loss ("**FVTPL**"): Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVTPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.12 Financial Instruments *(Continued)*

(a) *Financial assets* *(Continued)*

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at FVOCI are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

(b) *Impairment loss on financial assets*

The Group recognises loss allowances for expected credit loss ("**ECLs**") on trade receivables, contract assets and financial assets measured at amortised cost and debt investments measured at FVOCI. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group measures loss allowances for trade receivables and contract assets using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The ECLs rates adopted by the Group are determined that having considered that, among others, the Group has the priority of compensation to the proceeds from selling off or auctioning the underlying property projects for the contracted work in settling the debts owed and the Company has assessed the market value of the underlying properties corresponding to the account receivables. 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 the Group 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).

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.12 Financial Instruments *(Continued)*

(b) *Impairment loss on financial assets* (Continued)

For other debt financial assets, the ECLs are based on the 12 months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 60 days past due as the delay in payment is because of administrative oversight rather than financial difficulty of the counterparties and historical information suggests significant increases in credit risk only occur when payments are more than 60 days past due.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- a breach of contract, such as a default or past due event.

In addition, the Group considers that an event of default occurs when there is a breach of financial covenants by the counterparty; or information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group). Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets, interest income is calculated based on the gross carrying amount.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.12 Financial Instruments *(Continued)*

(b) *Impairment loss on financial assets* (Continued)

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account. The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(c) *Financial liabilities*

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and bills payables, accruals and other payables, borrowings, amounts due to related companies/shareholders/directors are initially recognised at fair value, net of transaction costs incurred, and subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Borrowings

Borrowings are recognised initially at fair value, net of directly attributable transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Lease liabilities

Lease liabilities are measured at present value less lease repayments (see Note 4.11).

(d) *Effective interest method*

Effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the Track Record period. Effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(e) *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.12 Financial Instruments *(Continued)*

(f) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

4.13 Foreign currency translation

Transactions entered into by the group entities in currencies other than the functional currency are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

On consolidation, income and expense items of foreign operations are translated into RMB at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve. Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

4.14 Income tax

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.14 Income tax *(Continued)*

Income taxes are recognised in profit or loss, except when they relate to items recognised in other comprehensive income or directly in equity in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

4.15 Employee benefits

(a) Defined contribution retirement plan

Pursuant to the relevant regulations of the PRC government, the Group participates in a central pension scheme operated by the local municipal government (the "**Scheme**"), whereby the Group is required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the Group. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme. Contributions under the Scheme are charged to profit or loss as incurred. There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions.

(b) Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short-term employee benefits are recognised in the year when the employees render the related service.

(c) Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

4.16 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive director are determined following the Group's service lines.

For the purposes of assessing segment performance and allocating resources between segments, the directors assess segment profit or loss by gross profit or loss as measured in HKFRS financial statements.

For the purpose of presenting geographical location of the Group's revenue from external customers and the Group's non-current assets, country of domicile is determined by reference to the country where the majority of Group's subsidiaries operate.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.17 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefit is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Onerous contracts

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

4.18 Borrowings costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Income earned on temporary investments of specific borrowings pending their expenditure on qualifying assets is deducted from borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4.19 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

4.20 Financial guarantees issued

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

- the amount determined in accordance with the expected credit loss model under HKFRS 9 Financial Instruments; and

- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of HKFRS 15 Revenue from Contracts with Customers.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.20 Financial guarantees issued *(Continued)*

Where guarantees in relation to loans or other payables of subsidiaries are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

4.21 Related parties

For the purposes of the consolidated financial statements, a party is considered to be related to the Group if:

(a) A person or a close member of that person's family is related to the Group if that person:

   (i) has control or joint control over the Group;

   (ii) has significant influence over the Group; or

   (iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

   (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

   (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

   (iii) Both entities are joint ventures of the same third party.

   (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

   (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

   (vi) The entity is controlled or jointly controlled by a person identified in (a).

   (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

   (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or the Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of financial and contract assets

The measurement of the ECLs allowance for financial assets measured at amortised cost and contract assets 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. Details about the judgements and assumptions used in measuring ECLs is set out in Note 4.12(b) and Note 37(b) to the consolidated financial statements. 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 according to the percentage of completion of individual construction contract, which is measured by reference to the contract costs incurred to date as a proportion to total estimated contract cost. 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 the Company. 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 over-runs, 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 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 the directors.

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.

6. SEGMENT INFORMATION

(a) Operating segment information

The Group has identified its operating segments and prepared segment information based on the regular internal financial information reported to the Group's executive directors for their decisions about resources allocation to the Group's business components and review of these components' performance.

Management has determined the operating segments based on the reports reviewed by chief operating decision maker (the "**CODM**"). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors of the Company.

The Group is principally engaged in the provision of construction services in the PRC. Management reviews the operating results of the business as one operating segment to make decisions about resources to be allocated. Therefore, the CODM of the Company regards that there is only one segment which is used to make strategic decisions.

The major operating entities of the Group is domiciled in the PRC. Accordingly, all of the Group's revenue were derived in the PRC during the reporting period.

As at 31 December 2022 and 2021, all of the non-current assets were located in the PRC.

(b) Information about major customers

Revenue from major customers, each of them accounting for 10% or more of the Group's revenue for the reporting period, is set out below:

	2022	2021
	RMB'000	RMB'000
Zhongtian Holdings Group	**265,507**	367,739

7. REVENUE

Revenue represents the revenue from construction contracts and provision of construction machinery and equipment for construction projects.

	2022	2021
	RMB'000	RMB'000
Revenue from construction contracts		
Civil building construction	**857,897**	885,259
Municipal works construction	**735,037**	427,745
Foundation works	**24,325**	114,195
Prefabricated steel structure construction works	**257,670**	369,761
Other specialised contracting works	**6,488**	17,170
Revenue from provision of construction machinery and equipment service	**9,243**	9,254
	1,890,660	1,823,384

7. REVENUE *(Continued)*

Timing of revenue recognition:

	2022 RMB'000	2021 RMB'000
— Transferred over time	**1,890,660**	1,823,384

The following table provides information about the geographical areas of the revenue derived from customers:

	2022 RMB'000	2021 RMB'000
Hunan	**1,256,937**	1,461,263
Hainan	**569,529**	306,886
	1,826,466	1,768,149
Others	**64,194**	55,235
	1,890,660	1,823,384

The following table provides information about trade receivables, contract assets and contract liabilities from contracts with customers.

	2022 RMB'000	2021 RMB'000
Trade receivables (Note 18)	**354,373**	444,386
Contract assets (Note 19(a))	**1,127,150**	1,216,095
Contract liabilities (Note 19(b))	**17,267**	24,976

The contract assets primarily relate to the Group's rights to consideration for work completed at the reporting date on revenue related to the provision of construction services. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it becomes unconditional and the milestones are reached.

The contract liabilities mainly relate to the advance consideration received from customers.

(i) Revenue recognised in relation to contract liabilities at the beginning of the reporting period

The following table shows the amounts of the revenue recognised during the reporting period relates to carried forward contract liabilities:

	2022 RMB'000	2021 RMB'000
Revenue recognised during the year	**12,789**	20,830

7. REVENUE *(Continued)*

(ii) Transaction price allocated to the remaining performance obligations

The following table shows the amounts of the unsatisfied performance obligation in the reporting period.

	2022 RMB'000	2021 RMB'000
Partially unsatisfied performance obligation	**968,450**	1,351,916

As at 31 December 2022, there is unsatisfied performance obligation amounted to approximately RMB1,304,590,000 (2021: approximately RMB776,881,000), which represents the wholly unperformed revenue contracts. These amounts represent revenue expected to be recognised in the future from long-term construction contracts. The Group will recognise the expected revenue in future when or as the work is completed, which is expected to occur in the next 1 to 23 months.

8. OTHER INCOME AND OTHER GAINS, NET

	2022 RMB'000	2021 RMB'000
Interest income on bank deposits	**502**	222
Government grants (Note)	**211**	1,435
Loss on disposal of property, plant and equipment	**—**	(200)
Others	**137**	(1)
	850	1,456

Note:

These represented grants to incentivise the development of the Group, of which the entitlement was unconditional and one-off in nature.

9. FINANCE COSTS

	2022 RMB'000	2021 RMB'000
Interest charge on lease liabilities	**5**	6
Interest charge on borrowings	**7,403**	3,543
	7,408	3,549

10. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging the followings:

	2022	2021
	RMB'000	RMB'000
Cost of inventories	**715,675**	642,700
Auditors' remuneration	**19**	98
Depreciation of property, plant and equipment owned	**5,043**	6,041
Depreciation of right-of-use assets	**398**	505
Amortisation of intangible assets	**3**	3
Research and development costs	**61,821**	56,726
Short-term leases expenses		
— Office premises	**59**	67
— Machinery and equipment	**143,595**	199,353
Staff costs (including directors' emoluments (Note 14)):		
— Salaries and wages	**30,098**	39,224
— Retirement scheme contributions	**6,164**	4,193
Listing expenses	**6,181**	4,513

11. INCOME TAX EXPENSE

Provision for the PRC Enterprise Income Tax ("**EIT**") for the reporting period was made based on the estimated assessable profits calculated in accordance with the relevant income tax laws, and regulations applicable to the subsidiaries operated in the PRC.

	2022	2021
	RMB'000	RMB'000
PRC Enterprise Income Tax		
Current year	**8,553**	10,179
Deferred tax (Note 16)	**(310)**	(67)
	8,243	10,112

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulations of the EIT Law, the tax rate of the Group is 25% for the year ended 31 December 2022 (2021: Same), except for the following subsidiaries:

A subsidiary of the Company has been certified as new high technology enterprise in the PRC and enjoyed a preferential enterprise income tax rate of 15% for the year ended 31 December 2022 (2021: Same).

Two subsidiaries of the Company were qualified as small enterprise and are eligible for preferential tax rate for the year ended 31 December 2022 (2021: Same).

11. INCOME TAX EXPENSE *(Continued)*

The income tax expense for the reporting period can be reconciled to the profit before taxation per the consolidated statements of profit or loss and other comprehensive income as follows:

	2022 **RMB'000**	2021 RMB'000
Profit before taxation	**73,731**	72,015
Tax calculated at the rates applicable to profits in the tax jurisdictions concerned	**18,433**	18,004
Tax effect of non-deductible Items	**1,720**	712
Effect of additional deduction of research and development costs	**(2,243)**	(1,854)
Tax effect of preferential tax rate	**(9,667)**	(6,750)
Income tax expense	**8,243**	10,112

12. DIVIDENDS

No dividends were paid or declared by the Company for both years.

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2022	2021
Profit and total comprehensive income for the year attributable to owners of the Company (RMB'000)	**64,471**	60,570
Weighted average number of shares in issue (Note)	**360,000,000**	360,000,000
Basic earnings per share (RMB cents)	**17.91**	16.83

Note:

Weighted average of 360,000,000 ordinary shares for the years ended 31 December 2022 and 2021, being the number of ordinary shares in issue immediately after the completion of capitalisation issue in March 2023 as detailed in Note 40(b), deemed to have been issued throughout the years ended 31 December 2022 and 2021, immediately before the completion of the placing of the Company's new ordinary shares.

Diluted earnings per share presented is the same as the basic earnings per share as there was no potentially dilutive ordinary share outstanding as at 31 December 2022 (2021: Same).

14. DIRECTORS' EMOLUMENTS AND THE FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

Details of directors' remuneration during the reporting period are as follows:

	Fees RMB'000	Salaries RMB'000	Allowance and other benefits RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Year ended 31 December 2022					
Executive directors					
Yang Zhongjie	–	149	–	52	201
Liu Xiaohong	–	86	57	50	193
Min Shixiong	–	79	53	46	178
Shen Qiang	–	69	46	39	154
Chen Weiwu	–	72	48	46	166
	–	455	204	233	892
Non-executive directors					
Liu Jianlong (Note)	–	–	–	–	–
Deng Jianhua (Note)	–	–	–	–	–
Lau Kwok Fai Patrick (Note)	–	–	–	–	–
	–	–	–	–	–

	Fees RMB'000	Salaries RMB'000	Allowance and other benefits RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Year ended 31 December 2021					
Executive directors					
Yang Zhongjie	–	149	–	36	185
Liu Xiaohong	–	86	57	34	177
Min Shixiong	–	79	54	32	165
Shen Qiang	–	69	45	27	141
Chen Weiwu	–	132	–	17	149
	–	515	156	146	817
Non-executive directors					
Liu Jianlong (Note)	–	–	–	–	–
Deng Jianhua (Note)	–	–	–	–	–
Lau Kwok Fai Patrick (Note)	–	–	–	–	–
	–	–	–	–	–

Note: Appointed as non-executive director since 10 March 2023.

14. DIRECTORS' EMOLUMENTS AND THE FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

(b) The five highest paid individuals

The five highest paid individuals of the Group during the reporting period are analysed as follows:

	2022	2021
	RMB'000	RMB'000
Directors	**4**	4
Non-director, the highest paid individuals	**1**	1

Details of the remuneration of the above non-director, the highest paid individuals during the reporting period are as follows:

	2022	2021
	RMB'000	RMB'000
Salaries and other emoluments	**71**	69
Discretionary bonuses	**57**	46
Retirement scheme contribution	**26**	39
	154	154

The number of the highest paid non-director individuals fell within the following emolument band:

	2022	2021
	Number of individuals	Number of individuals
Nil to HK$1,000,000	**1**	1

During the reporting period, no emoluments were paid by the Group to any director or any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. There were no arrangements under which a director waived or agreed to waive any emolument during the reporting period.

15. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Tools RMB'000	Total RMB'000
Cost						
At 1 January 2021	2,917	36,939	6,207	816	10,962	57,841
Additions	–	5,259	–	41	269	5,569
Disposals	–	(900)	–	–	(583)	(1,483)
At 31 December 2021 and 1 January 2022	**2,917**	**41,298**	**6,207**	**857**	**10,648**	**61,927**
Additions	**370**	**247**	**–**	**–**	**234**	**851**
At 31 December 2022	**3,287**	**41,545**	**6,207**	**857**	**10,882**	**62,778**
Accumulated depreciation						
At 1 January 2021	(2,384)	(20,027)	(3,954)	(561)	(5,415)	(32,341)
Charge for the year	(505)	(3,600)	(797)	(134)	(1,510)	(6,546)
Disposals	–	873	–	–	243	1,116
At 31 December 2021 and 1 January 2022	**(2,889)**	**(22,754)**	**(4,751)**	**(695)**	**(6,682)**	**(37,771)**
Charge for the year	**(398)**	**(3,592)**	**(788)**	**(93)**	**(570)**	**(5,441)**
At 31 December 2022	**(3,287)**	**(26,346)**	**(5,539)**	**(788)**	**(7,252)**	**(43,212)**
Net carrying value						
At 31 December 2022	**–**	**15,199**	**668**	**69**	**3,630**	**19,566**
At 31 December 2021	28	18,544	1,456	162	3,966	24,156

The above items of property, plant and equipment are depreciated on a straight line basis over their estimated useful lives or lease terms and after taking into account of their estimated residual values.

As at 31 December 2022, certain plant and machinery with carrying amount of approximately RMB7,539,000 (2021: approximately RMB4,852,000) were pledged as securities for the Group's borrowings (Note 26).

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The carrying amounts of right-of-use assets at the end of each reporting period and the depreciation by classes of right-of-use assets are set out as below:

	2022 **RMB'000**	2021 RMB'000
Carrying amounts		
— Other properties leased for own use	**–**	28

	2022 **RMB'000**	2021 RMB'000
Depreciation charge		
— Other properties leased for own use	**(398)**	(505)

16. DEFERRED TAX ASSETS

Deferred tax assets recognised and movements during the reporting period are as follows:

	Impairment losses on financial and contract assets RMB'000
At 1 January 2021	3,730
Credited for the year (Note 11)	67
At 31 December 2021 and 1 January 2022	**3,797**
Credited for the year (Note 11)	**310**
At 31 December 2022	**4,107**

17. INVENTORIES

	2022 **RMB'000**	2021 RMB'000
Raw materials	**826**	3,015
Consumables	**2**	3
	828	3,018

18. TRADE, BILLS AND OTHER RECEIVABLES

	2022 RMB'000	2021 RMB'000
Trade receivables		
— Related parties	**21,794**	36,060
— Third parties	**341,233**	416,661
	363,027	452,721
Bills receivables	**300**	1,050
Impairment provision for		
— Trade receivables	**(8,654)**	(8,335)
— Bills receivables	**(3)**	(7)
	(8,657)	(8,342)
Trade and bills receivables, net	**354,670**	445,429
Deposits and other receivables	**53,092**	56,001
Prepayments	**33,608**	18,453
Impairment provision for deposits and other receivables	**(7,254)**	(6,613)
Other receivables, prepayments and deposits, net	**79,446**	67,841
	434,116	513,270

Included in trade receivables are trade debtors (net of impairment losses) with the following ageing analysis, based on invoice dates, as of the end of each reporting period:

	2022 RMB'000	2021 RMB'000
Trade receivables, aged		
0–90 days	**180,116**	216,064
91–180 days	**17,477**	59,846
181–365 days	**66,231**	61,334
1–2 years	**70,153**	65,467
2–3 years	**3,729**	15,816
Over 3 years	**16,667**	25,859
	354,373	444,386

18. TRADE, BILLS AND OTHER RECEIVABLES *(Continued)*

Included in trade receivables are trade debtors (net of impairment losses) with the following ageing analysis, based on due dates, as of the end of the reporting period:

	2022	2021
	RMB'000	RMB'000
Trade receivables, aged		
Not yet past due	**234,063**	211,004
0–90 days	**18,225**	60,927
91–180 days	**15,936**	74,906
181–365 days	**49,773**	77,400
1–2 years	**17,674**	2,184
2–3 years	**2,035**	953
Over 3 years	**16,667**	17,012
	354,373	444,386

The Group recognised impairment loss based on the accounting policy stated in Note 4.12(b). Trade receivables are generally due within 10 to 90 days from the date of billing.

Further details on the Group's credit policy and credit risk analysis arising from trade, bills and other receivables are set out in Note 37(b).

As at 31 December 2022, certain trade and bills receivables arising from provision of construction services amounting to approximately RMB1,910,000 (2021: approximately RMB6,612,000) were pledged as securities for the Group's borrowings (Note 26).

19. CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	2022	2021
	RMB'000	RMB'000
Contract assets arising from construction services:		
— Related parties	**130,781**	140,237
— Third parties	**1,006,910**	1,083,979
	1,137,691	1,224,216
Less: Loss allowance provision	**(10,541)**	(8,121)
	1,127,150	1,216,095

19. CONTRACT ASSETS AND CONTRACT LIABILITIES *(Continued)*

(a) Contract assets *(Continued)*

Movements in contract assets are as follows:

	2022 **RMB'000**	2021 RMB'000
At the beginning of the year	**1,224,216**	1,233,915
New contract assets during the year	**1,331,576**	714,640
Amounts recognised as trade receivables during the year	**(1,418,101)**	(724,339)
At the end of the year	**1,137,691**	1,224,216
Less: Loss allowance provision	**(10,541)**	(8,121)
	1,127,150	1,216,095

The Group's construction contracts include payment schedules, which require stage payments over the construction period once milestones are reached. Additionally, the Group typically agrees a 2 months to 2 years retention period for 3–5% of the contract sum, which is kept in contract assets until the end of the retention period as the Group's entitlement to it is conditional on the Group's work satisfactorily passing inspection. No contracts has significant financing component.

The expected timing of recovery or settlement for contract assets as at each of the reporting period is as follows:

For retention receivables:

	2022 **RMB'000**	2021 RMB'000
Due within one year	**28,533**	12,038
Due after one year	**80,156**	36,442
	108,689	48,480

The remaining contract assets of RMB1,018,461,000 as at 31 December 2022 (2021: RMB1,167,615,000) are generally expected to be settled within the next 2 years upon completion of services and acceptance by the customers.

Further details on the Group's credit policy and credit risk analysis arising from contract assets are set out in Note 37(b).

19. CONTRACT ASSETS AND CONTRACT LIABILITIES *(Continued)*

(b) Contract liabilities

	2022 **RMB'000**	2021 RMB'000
Contract liabilities arising from construction services:		
— Related parties	**–**	166
— Third parties	**17,267**	24,810
	17,267	24,976

Where discrepancies arise between the milestone payments and the Group's assessment of the stage of completion, contract liabilities can arise.

Movements in contract liabilities are as follows:

	2022 **RMB'000**	2021 RMB'000
At 1 January	**24,976**	37,178
Amounts recognised as revenue during the year	**(40,018)**	(20,830)
New contract liabilities as a result of billing in advance of construction activities	**32,309**	8,628
At 31 December	**17,267**	24,976

20. AMOUNTS DUE FROM/(TO) RELATED COMPANIES/SHAREHOLDERS/DIRECTORS

(a) Amounts due to directors

Details of amounts due to directors are as follows:

	2022 **RMB'000**	2021 RMB'000
Liu Xiaohong	**735**	240
Min Shixiong	**13**	13
	748	253

As at 31 December 2022, the amounts due to directors are unsecured, interest free and repayable on demand.

The amounts due to directors were not trade related and the balances will be fully settled before or upon Listing.

20. AMOUNTS DUE FROM/(TO) RELATED COMPANIES/SHAREHOLDERS/DIRECTORS *(Continued)*

(b) Amounts due from/(to) related companies/shareholders

As at 31 December 2022, the amounts due from/(to) related companies/shareholders are unsecured, interest free and repayable on demand.

The amounts due from/(to) related companies/shareholders were not trade related and the balances will be fully settled before Listing.

Further details on the Group's credit policy and credit risk analysis arising from amounts due from related companies/shareholders are set out in Note 37(b).

21. RESTRICTED BANK DEPOSITS

Bank deposits were restricted for the deposit of the construction projects, by court orders due to ongoing legal cases and guaranteed deposits placed in the banks in the PRC as securities for the Group's bills payables and loan.

22. CASH AND CASH EQUIVALENTS

The Group's cash and cash equivalents comprise bank deposits carrying interest at floating rates based on daily bank deposit rates and short-term bank deposits carrying interests at prevailing market interest rate. The director considers that the carrying value of the deposits at the end of each of the reporting period approximate to their fair value.

As at the end of the reporting period, all of the Group's cash at banks and on hands are denominated in RMB and placed in the PRC. RMB is not a freely convertible currency. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group and the Company are permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

23. TRADE AND BILLS PAYABLES

	2022	2021
	RMB'000	RMB'000
Trade payables		
— Third parties	**767,508**	1,106,920
— Related parties	**20,855**	37,797
	788,363	1,144,717
Bills payables (Note 26)	**15,000**	21,400
	803,363	1,166,117

23. TRADE AND BILLS PAYABLES *(Continued)*

A credit period of up to 3 months from the date of billing is generally granted by the Group's trade suppliers. Based on the receipt of services and goods, which normally coincided with the invoice dates, the ageing analysis of the Group's trade payables as at the end of each of the reporting period is as follows:

	2022 **RMB'000**	2021 RMB'000
0–90 days	**223,588**	293,430
91–180 days	**116,288**	147,400
181–365 days	**252,924**	169,043
1–2 years	**92,018**	420,920
Over 2 years	**103,545**	113,924
	788,363	1,144,717

24. ACCRUALS AND OTHER PAYABLES

	2022 **RMB'000**	2021 RMB'000
Deposits received	**13,148**	12,008
Other payables	**92,517**	93,120
Other tax payables	**310,343**	192,729
Accruals	**4,737**	4,943
	420,745	302,800

25. LEASE LIABILITIES

The Group leases properties to operate its business. These leases are typically made for fixed terms of 1 to 15 years. Lease terms are negotiated on an individual basis and contain different payments and conditions. These lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purpose.

The Group also leases properties with term of less than one year. These leases are short term and the Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

Present value of future lease payments of the Group's leases is analysed as follows:

	2022 **RMB'000**	2021 RMB'000
Current	**–**	28

25. LEASE LIABILITIES *(Continued)*

Movement of the Group's lease liabilities is analysed as follows:

	2022 RMB'000	2021 RMB'000
At the beginning of the year	**28**	495
Addition of new leases	**370**	—
Interest expenses	**5**	6
Interest element of lease payments	**(5)**	(6)
Capital element of lease payments	**(398)**	(467)
At the end of the year	**—**	28

Total cash outflows in respect of the capital element of lease liabilities for the year ended 31 December 2022 were RMB398,000 (2021: RMB467,000) respectively.

The future lease payments of the Group's leases (excluding short-term leases) were scheduled to repay as follows:

	Minimum lease payments RMB'000	Interest RMB'000	Present value RMB'000
As at 31 December 2022			
— within 1 year	**—**	**—**	**—**
— 1 to 2 years, inclusive	**—**	**—**	**—**
— 3 to 5 years, inclusive	**—**	**—**	**—**
— over 5 years	**—**	**—**	**—**
	—	**—**	**—**
As at 31 December 2021			
— within 1 year	31	(3)	28
— 1 to 2 years, inclusive	—	—	—
— 3 to 5 years, inclusive	—	—	—
— over 5 years	—	—	—
	31	(3)	28

26. BORROWINGS

	2022 RMB'000	2021 RMB'000
Current		
— Bank borrowings, secured/guaranteed	**135,560**[2]	62,550[1]
— Bank borrowings, unsecured	**—**	508
— Other borrowings, secured	**1,145**	3,837
	136,705	66,895
Non-current		
— Bank borrowings, secured	**1,885**[2]	—
— Other borrowings, secured	**1,540**	—
	3,425	—
	140,130	66,895

Bank borrowings were repayable as follows:

	2022 RMB'000	2021 RMB'000
Within 1 year	**135,560**	63,058
1–2 years	**10**	—
2–5 years	**1,875**	—

Other borrowings were repayable as follows:

	2022 RMB'000	2021 RMB'000
Within 1 year	**1,145**	3,837
1–2 years	**1,145**	—
2–5 years	**395**	—

26. BORROWINGS *(Continued)*

The interest rate profiles for the Group's borrowings were as follows:

	2022 **RMB'000**	2021 RMB'000
Fixed-rate borrowings	**90,130**	16,895
Floating-rate borrowings	**50,000**	50,000
	140,130	66,895
Interest rate range per annum	**3.7%–8.6%**	4.2%–14.0%

The borrowings were secured by the following assets:

	2022 **RMB'000**	2021 RMB'000
Property, plant and equipment (Note 15)	**7,539**	4,852
Trade and bills receivables (Note 18)	**1,910**	6,612
	9,449	11,464

1) As at 31 December 2021, the Group's bank borrowings with principal amounts of RMB50,000,000, bills payables of RMB21,400,000 (Note 23) were secured by the properties of related companies; bank loans with principal amount of RMB6,550,000 were guaranteed by a director and his spouse of the Company; bank loans with principal amount of RMB3,000,000 were guaranteed by an independent third party, a guarantee company, and counter-guaranteed by three directors and their spouse of a subsidiary; bank loans of RMB1,000,000 were guaranteed by an independent third party, a guarantee company, and counter-guaranteed by four directors and their spouse of a subsidiary; and bank loans of RMB2,000,000 were secured by the properties of the Group.

2) As at 31 December 2022, the Group's bank borrowings with principal amounts of RMB50,000,000, bills payables of RMB15,000,000 (Note 23) and performance bonds issued by bank in favour of certain customers of the Group's construction projects with the aggregate value of RMB2,459,000 were secured by the properties of related companies; bank loans with principal amount of RMB6,550,000 were guaranteed by a director and his spouse of the Company; bank loans with principal amount of RMB2,000,000 were guaranteed by an independent third party, a guarantee company, and counter-guaranteed by one director and his spouse of a subsidiary; bank loans with principal amount of RMB2,000,000 were secured by the properties of the Group; bank loans with principal amount of RMB60,000,000 were secured by the properties of related companies and equity share of a related company, guaranteed by related companies, a director and his spouse of the Company; bank loans with principal amount of RMB8,000,000 were secured by the properties of related companies, and guaranteed by a related company, a director and his spouse of the Company; bank loans with principal amount of RMB1,895,000 were secured by bank deposits; and bank loans with principal amount of RMB7,000,000 were secured by trade receivables and guaranteed by a related company, four directors of a subsidiary and a director and his spouse of the Company. The securities and guarantees listed above will be released before or upon Listing.

27. SHARE CAPITAL

The Company was incorporated in the Cayman Islands on 27 March 2020 as an exempted company with limited liability, with authorised share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 each and issued 101,100 shares of HK$0.01 each.

28. RESERVES

The Group's reserves and the movements therein for the year ended 31 December 2022 are presented in the consolidated statement of changes in equity.

(a) Other reserve

The other reserve of the Group represents the issued capital of the then holding company of the companies now comprising the Group and the capital contributions from the equity holders of certain subsidiaries now comprising the Group before the completion of the Reorganisation.

(b) Statutory special reserve

In the preparation of the consolidated financial statements, the Group has appropriated a certain amount of retained earnings to a special reserve funds for the year ended 31 December 2022, for safety production expense purposes as required by directives issued by the relevant PRC government authorities. The Group charged the safety production expense to profit or loss when such expense was incurred, and at the same time such special reserve fund was utilised and transferred back to retained earnings until such special reserve was fully utilised.

(c) Statutory reserve

In accordance with the PRC Company Law and the articles of association of the subsidiaries established in the PRC, the Group is required to appropriate 10% of its net profits after tax, as determined under PRC GAAP, to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital. Subject to certain restrictions set out in the relevant PRC regulations and in the articles of association of the Group, the statutory surplus reserve may be used either to offset losses, or to be converted to increase share capital provided that the balance after such conversion is not less than 25% of the registered capital of the Group. The reserve cannot be used for purposes other than those for which it is created and is not distributable as cash dividends.

29. NON-CONTROLLING INTERESTS

	2022	2021
	RMB'000	RMB'000
At the beginning of the year	**8,906**	7,573
Profit for the year	**1,017**	1,333
At the end of the year	**9,923**	8,906

30. NOTES SUPPORTING TO CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of liabilities arising from financing activities

The table below shows the details changes in the Group's liabilities arising from financing activities. Liabilities arising from financing activities are those for which each cash flows were, or future cash flows will be, classified in the Group's consolidated statements of cash flows from financing activities.

	Borrowings RMB'000	Lease liabilities RMB'000	Amounts due to related companies RMB'000	Amounts due to shareholders RMB'000	Amounts due to directors RMB'000	Total RMB'000
At 1 January 2022	66,895	28	4,833	14,046	253	86,055
Changes from cash flows:						
Proceeds from new borrowings	139,393	–	–	–	–	139,393
Repayments of borrowings	(66,158)	–	–	–	–	(66,158)
Interest paid	(7,403)	(5)	–	–	–	(7,408)
Repayments of lease liabilities	–	(398)	–	–	–	(398)
Advances from related companies	–	–	3,785	–	–	3,785
Repayments to shareholders	–	–	–	(8,240)	–	(8,240)
Advances from directors	–	–	–	–	495	495
Total changes from financing cash flow	65,832	(403)	3,785	(8,240)	495	61,469
Other changes:						
Interest expenses	7,403	5	–	–	–	7,408
New lease	–	370	–	–	–	370
Total other changes	7,403	375	–	–	–	7,778
At 31 December 2022	140,130	–	8,618	5,806	748	155,302

30. NOTES SUPPORTING TO CONSOLIDATED STATEMENTS OF CASH FLOWS *(Continued)*

	Borrowings RMB'000	Lease liabilities RMB'000	Amounts due to related companies RMB'000	Amounts due to shareholders RMB'000	Amounts due to directors RMB'000	Total RMB'000
At 1 January 2021	65,620	495	586	28,080	1,870	96,651
Changes from cash flows:						
Proceeds from new borrowings	60,058	–	–	–	–	60,058
Repayments of borrowings	(58,783)	–	–	–	–	(58,783)
Interest paid	(3,543)	(6)	–	–	–	(3,549)
Repayments of lease liabilities	–	(467)	–	–	–	(467)
Advances from related companies	–	–	4,247	–	–	4,247
Repayments to shareholders	–	–	–	(14,034)	–	(14,034)
Repayments to directors	–	–	–	–	(1,617)	(1,617)
Total changes from financing cash flow	(2,268)	(473)	4,247	(14,034)	(1,617)	(14,145)
Other changes:						
Interest expenses	3,543	6	–	–	–	3,549
Total other changes	3,543	6	–	–	–	3,549
At 31 December 2021	66,895	28	4,833	14,046	253	86,055

31. CAPITAL COMMITMENT

	2022 RMB'000	2021 RMB'000
Commitments for the acquisition of property, plant and equipment: Contracted for but not provided	**14,542**	14,542

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	**2022** **RMB'000**	2021 RMB'000
ASSETS AND LIABILITIES			
Non-Current assets			
Investment in a subsidiary		**—***	—*
Current assets			
Amounts due from shareholders	20	**1**	1
Current liabilities			
Amount due to a subsidiary		**—***	—*
Net current assets		**1**	1
Net assets		**1**	1
EQUITY			
Share capital	27	**1**	1
TOTAL EQUITY		**1**	1

* The amount is less than RMB1,000.

33. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries are as follows:

Name of subsidiaries#	Notes	Date and place of incorporation/ establishment and operation	Issued and fully paid capital/ Registered capital	Percentage of effective equity interest attributable to the Company	Principal activities
Interests held directly					
Head Sage Limited ("**Head Sage**")	(1)	23 December 2019, BVI	US$1	100.00%	Investment holding
Interests held indirectly					
Zhongtian Holdings (Hong Kong) Limited ("**Zhongtian HK**")	(2)	6 April 2020, Hong Kong	HK$1	100.00%	Investment holding
株洲兆麟貿易有限公司 ("**Zhaolin Trading**")	(1)	21 April 2020, the PRC	Registered capital of HK$10,000,000	100.00%	Investment holding
株洲集采商貿有限公司^ ("**Jicai Trading**")#	(1)	9 July 2018, the PRC	Registered capital of RMB10,000,000	100.00%	Investment holding
株洲杭蕭材料貿易有限公司^ ("**Hangxiao Materials**")#	(1)	31 July 2019, the PRC	Registered capital of RMB1,000,000	100.00%	Investment holding
湖南中天建設集團股份有限公司^ ("**Zhongtian Construction**")#	(3)	1 March 1979, the PRC	Registered capital of RMB61,600,000	99.50%	Provision of construction contracting business
湖南中天建築安全科技有限公司^ (Formerly known as "**株洲永安建設勞務有限公司**") ("**Zhongtian Building**")#	(3)	13 March 2006, the PRC	Registered capital of RMB5,000,000	61. 09%	Subcontracting of construction projects
株洲凱大起重設備安裝工程有限公司^ ("**Kaida Apparatus**")#	(3)	28 April 2004, the PRC	Registered capital of RMB6,500,000	56.70%	Installation of construction lifting facilities, renovation works and rental of construction machinery, pipe racks and fasterners
湖南中天杭蕭鋼構建設有限公司^ ("**Zhongtian Steel Structure Construction**")#	(1)	22 October 2021, the PRC	Registered capital of RMB35,000,000	99.50%	Engaging in steel structure construction business

The English names of all subsidiaries established in the PRC are translated for identification purpose only.

* This subsidiary is a company limited by shares.

^ These entities are established in the PRC in the form of domestic limited liability company.

34. RELATED PARTY TRANSACTIONS

(a) The Group entered into the following related party transactions with related companies during the reporting periods:

	2022	2021
	RMB'000	RMB'000
Rental expenses paid/accrued to a related company	**431**	443
Purchase of materials from related companies	**70,687**	92,270
Construction services income earned from related companies	**265,510**	367,739
Sub-contracting service fee paid to related companies	**6,571**	642

The terms of the related party transactions carried out during the reporting period were mutually agreed by the Group and the related companies.

(b) Compensation of key management personnel of the Group

The compensation of key management personnel of the Group during the reporting period represented the directors' emoluments as disclosed in Note 14(a) to the consolidated financial statements.

35. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net debt, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings, respectively.

The director reviews the capital structure on a continuous basis taking into account the cost of capital and the risk associated with the capital. The Group will balance its overall capital structure through the payment of dividends, new shares issue and share buy back as well as the issue of new debts or redemption of existing debt, if necessary.

Management regards total equity as capital. The amount of capital as at 31 December 2022 amounted to RMB359,731,000 (2021: approximately RMB294,168,000), which the management considers as optimal having considered the projected capital expenditures and the projected strategic investment opportunities.

36. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The following table shows the carrying amounts of financial assets and liabilities:

	2022 RMB'000	2021 RMB'000
Financial assets		
Financial assets at amortised costs:		
Trade, bills and other receivables	**400,508**	494,817
Amounts due from related companies	**8,318**	6,475
Amounts due from shareholders	**4,352**	9,260
Restricted bank deposits	**17,599**	18,429
Cash and cash equivalents	**151,661**	89,106
	582,438	618,087
Financial liabilities		
Financial liabilities measured at amortised cost		
Trade and bills payables	**803,363**	1,166,117
Accruals and other payables	**110,402**	110,071
Amounts due to related companies	**8,618**	4,833
Amounts due to shareholders	**5,806**	14,046
Amounts due to directors	**748**	253
Lease liabilities	**—**	28
Borrowings	**140,130**	66,895
	1,069,067	1,362,243

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Group's financial instruments in the normal course of the Group's business are interest rate risk, credit risk and liquidity risk. These risks are limited by the Group's financial management policies and practices described below. Generally, the Group introduces conservative strategies on its risk management. The Group has not used any derivatives and other instruments for hedging purposes nor does it hold or issue derivative financial instruments for trading purposes.

(a) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to interest rate risk primarily arising from borrowings. Certain of the borrowings is arranged at variable rates which expose the Group to cash flow interest rate risk. The interest rates and repayment terms of borrowings outstanding at the end of each of the reporting period are disclosed in Note 26.

The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(a) Interest rate risk *(Continued)*

The following table illustrates the sensitivity of the net profit for the reporting period and retained earnings to a change in interest rates of +50 basis point and -50 basis point with effect from the beginning of each reporting period. The calculations are based on the Group's borrowings held at the end of each of reporting period. All other variables are held constant.

	2022	2021
	RMB'000	RMB'000
If interest rates were 50 basis points higher		
Net profit for the year and retained earnings would decrease by:	**(701)**	(334)
If interest rates were 50 basis points lower		
Net profit for the year and retained earnings would increase by:	**701**	334

The policies to manage interest rate risk have been followed by the Group and are considered to be effective.

(b) Credit risk

The Group's credit risk is primarily attributable to its trade, bills and other receivables and contract assets. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables and contract assets, individual credit evaluations are performed on all customers. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade customers and, where appropriate, credit guarantee insurance cover is purchased. Trade receivables are due from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. 5.6% (2021: 14.8%) and 23.6% (2021: 26.7%) of the of the Group's trade, bills and other receivables and contract assets was due from the Group's largest customer and the five largest customers respectively within the construction business segment as at 31 December 2022.

(i) Trade and bills receivables/Contract assets

The Group measures loss allowances for trade and bills receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer bases, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Credit risk *(Continued)*

(i) ***Trade and bills receivables/Contract assets*** *(Continued)*

The following table provides information about the Group's exposure to credit risk and ECLs for trade and bills receivables and contract assets as at the end of each reporting period:

	Current	1–90 days	91–180 days	181–365 days	1–2 years	2–3 years	Over 3 years	Total
At 31 December 2022								
Expected loss rate (%)	**0.93%**	**0.93%**	**4.50%**	**5.41%**	**6.59%**	**7.19%**	**7.19%**	
Gross carrying amount (RMB'000)	**1,374,243**	**18,395**	**16,687**	**52,620**	**18,921**	**2,193**	**17,959**	**1,501,018**
Loss allowance (RMB'000)	**12,733**	**170**	**751**	**2,847**	**1,247**	**158**	**1,292**	**19,198**
At 31 December 2021								
Expected loss rate (%)	0.66%	0.66%	3.16%	3.75%	4.46%	4.99%	5.03%	
Gross carrying amount (RMB'000)	1,437,679	61,334	77,353	80,419	2,286	1,003	17,913	1,677,987
Loss allowance (RMB'000)	9,537	407	2,447	3,019	102	50	901	16,463

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the reporting period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Movements in the loss allowance for impairment of trade and bills receivables are as follows:

	2022 RMB'000	2021 RMB'000
At 1 January	**8,342**	8,789
Provision for/(Reversal of) loss allowance	**315**	(447)
At 31 December	**8,657**	8,342

Change in loss allowance for impairment of trade and bills receivables during the reporting period was mainly contributed from the followings:

— For the year ended 31 December 2021, decrease in past due trade and bills receivables resulted in a decrease in loss allowance of RMB477,000; and

— For the years ended 31 December 2022, increase in past due trade and bills receivables resulted in an increase in loss allowance of RMB315,000.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Credit risk *(Continued)*

(i) Trade and bills receivables/Contract assets *(Continued)*

Movements in the loss allowance for impairment of contract assets are as follows:

	2022	2021
	RMB'000	RMB'000
At 1 January	**8,121**	6,760
Provision for loss allowance	**2,420**	1,361
At 31 December	**10,541**	8,121

The change in loss allowance for impairment of contract assets during the reporting period was mainly due to origination of new contract assets net of those settled, which resulted in an increase in loss allowance of RMB2,420,000 (2021: RMB1,361,000) for the year ended 31 December 2022.

(ii) Deposits and other receivables/Amounts due from related companies/shareholders

In respect of deposits and other receivables, and amounts due from related companies/shareholders, the Group has applied the general approach prescribed by HKFRS 9, by measuring loss allowance at an amount equal to 12-month ECLs for deposits and other receivables, and amounts due from related companies/shareholders. To measure the ECLs, deposits and other receivables, and amounts due from related companies/shareholders have been grouped based on shared credit risk characteristics, ECLs are estimated based on historical credit loss experience, adjusted for factors that are specific to the debtors and general economic conditions.

As at the end of each of reporting period, all deposits and other receivables, and amounts due from related companies/shareholders are measured at an amount equal to 12-month ECLs. The following table provides information about the Group's exposure to credit risk and ECLs for deposits and other receivables, and amounts due from related companies/shareholders:

	2022	2021
	RMB'000	RMB'000
Gross carrying amount		
— Deposits and other receivables	**53,092**	56,001
— Amounts due from related companies	**8,354**	6,498
— Amounts due from shareholders	**5,491**	11,245
	66,937	73,744
Loss allowance		
— Deposits and other receivables	**7,254**	6,613
— Amounts due from related companies	**36**	23
— Amounts due from shareholders	**1,139**	1,985
	8,429	8,621

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Credit risk *(Continued)*

(ii) Deposits and other receivables/Amounts due from related companies/shareholders (Continued)

Movements in the loss allowance account for impairment of deposits and other receivables, and amounts due from related companies/shareholders during the reporting period is as follows:

	2022	2021
	RMB'000	RMB'000
At 1 January	**8,621**	9,035
Reversal of loss allowance	**(192)**	(414)
At 31 December	**8,429**	8,621

Change in loss allowance for impairment of deposits and other receivables, and amounts due from related companies/shareholders during the reporting period was mainly contributed from the followings:

— For the year ended 31 December 2021, decrease in the ending balances of deposits and other receivables, and amounts due from related companies resulted in a decrease in loss allowance of RMB414,000; and

— For the year ended 31 December 2022, decrease in the ending balances of deposits and other receivables, and amounts due from related companies/shareholders resulted in a decrease in loss allowance of RMB192,000.

In respect of the Group's cash and cash equivalents and restricted bank deposits, the directors consider the probability of default is low on these balances since the counterparties are financial institutions with high credit ratings or with good reputation.

(c) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the directors, which has built an appropriate liquidity risk management framework for the management of the Group's short-, medium-and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(c) Liquidity risk *(Continued)*

The following tables detail the Group's remaining contractual maturity for its non derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are at floating rate, the undiscounted amounts are derived from current interest rate at the end of each reporting period.

	Carrying amount RMB'000	Total contractual undiscounted cash flows RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
As at 31 December 2022						
Trade and bills payables	**803,363**	**803,363**	**803,363**	**–**	**–**	**–**
Accruals and other payables	**110,402**	**110,402**	**110,402**	**–**	**–**	**–**
Amounts due to related companies	**8,618**	**8,618**	**8,618**	**–**	**–**	**–**
Amounts due to shareholders	**5,806**	**5,806**	**5,806**	**–**	**–**	**–**
Amounts due to directors	**748**	**748**	**748**	**–**	**–**	**–**
Borrowings	**140,130**	**147,981**	**144,218**	**1,383**	**2,380**	**–**
Lease liabilities	**–**	**–**	**–**	**–**	**–**	**–**
	1,069,067	**1,076,918**	**1,073,155**	**1,383**	**2,380**	**–**
Financial guarantee issued — Maximum outstanding guarantee (Note 38)	**–**	**77,424**	**12,200**	**12,763**	**52,461**	**–**

	Carrying amount RMB'000	Total contractual undiscounted cash flows RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
As at 31 December 2021						
Trade and bills payables	1,166,117	1,166,117	1,166,117	–	–	–
Accruals and other payables	110,071	110,071	110,071	–	–	–
Amounts due to related companies	4,833	4,833	4,833	–	–	–
Amounts due to shareholders	14,046	14,046	14,046	–	–	–
Amounts due to directors	253	253	253	–	–	–
Borrowings	66,895	67,737	67,737	–	–	–
Lease liabilities	28	31	31	–	–	–
	1,362,243	1,363,088	1,363,088	–	–	–
Financial guarantee issued — Maximum outstanding guarantee (Note 38)	–	85,455	8,031	12,200	65,224	–

38. FINANCIAL GUARANTEE

As at 31 December 2022, the Group provided guarantee to a former associate, which became a related company of the Group upon disposal, in relation to the related company's banking facilities up to a maximum amount of RMB84,200,000 (2021: RMB84,200,000). As at 31 December 2022, the outstanding amount of the bank loans drawn under the guarantee amounted to approximately RMB68,500,000 (2021: approximately RMB73,000,000). The directors do not consider it probable that a claim will be made against the Group under the guarantee. The Group has not recognised any deferred income nor loss allowance for expected credit loss in respect of the financial guarantee as its fair value and the amount of expected credit loss was considered insignificant.

39. LITIGATION

A number of lawsuits and claims arising from the normal course of business were lodged against the Group which remain outstanding as at the end of the reporting period. Based on the legal opinion of PRC lawyers, in the opinion of the directors, the related construction payables may arisen for these lawsuits and claims have been made and recognised on the consolidated financial statements of the Group.

40. EVENTS AFTER THE END OF THE REPORTING PERIOD

(a) On 10 March 2023, the shareholders further resolved to increase the authorised share capital to HK$50,000,000 divided into 5,000,000,000 Shares with a par value of HK$0.01 each by the creation of additional 4,962,000,000 new shares, each ranking pari passu with the shares then in issue in all respects.

(b) Pursuant to another resolutions of the shareholders passed on 28 March 2023, subject to the share premium account of the Company being credited as a result of the global offering, the directors were authorised to allot and issue a total of 359,898,900 shares credited as fully paid at par to the holders of the shares on the register of members of the Company at the close of business on 10 March 2023 in proportion to their shareholdings by way of capitalisation of the sum of HK$3,598,989 (equivalent to approximately RMB2,518,000) standing to the credit of the share premium account of the Company (the "**Capitalisation Issue**"). The shares allotted and issued rank pari passu in all respects with the existing issued shares.

(c) On 30 March 2023, the Company issued 120,000,000 shares at HK$1.18 each through an initial public offering of shares and raised gross cash proceeds of approximately HK$141,600,000 (equivalent to approximately RMB123,890,000) (before listing expenses). The Company's shares were listed on the Main Board on 30 March 2022.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2022 were approved and authorised for issue by the Directors on 28 April 2023.

Four-Year Financial Summary

The summary of the consolidated results and assets and liabilities of the Group for the last four financial years as extracted from the audited financial statements is set out below. This summary does not form part of the audited financial statements.

CONSOLIDATED RESULTS

	FY2022	FY2021	FY2020	FY2019
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**1,890,660**	1,823,384	1,769,900	1,821,916
Gross profit	**206,559**	195,647	189,114	183,443
Profit and total comprehensive income for the year	**65,488**	61,903	49,599	50,860
Profit and total comprehensive income for the year/period attributable to				
Owners of the Company	**64,471**	60,570	48,533	49,778
Non-controlling interest	**1,017**	1,333	1,066	1,082
	65,488	61,903	49,599	50,860

CONSOLIDATED ASSETS, LIABILITIES AND EQUITY

		As at 31 December		
	2022	2021	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES				
Non-current assets	**23,718**	28,001	29,281	35,295
Current assets	**1,744,024**	1,855,653	1,940,111	1,830,814
Current liabilities	**1,404,586**	1,589,486	1,737,177	1,685,707
Non-current liabilities	**3,425**	—	28	657
EQUITY				
Equity attributable to owners of the Company	**349,808**	285,262	224,614	173,261
Non-controlling interests	**9,923**	8,906	7,573	6,484
TOTAL EQUITY	**359,731**	294,168	232,187	179,745