You should read the following discussion and analysis in conjunction with consolidated financial statements, including the notes thereto set out in "Appendix I—Accountants' Report" to this **[REDACTED]** ***and the selected historical financial information presented elsewhere in this*** **[REDACTED]*****. Our consolidated financial statements were prepared in accordance with HKFRSs.***

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

OVERVIEW

We are one of the leading equipment operation service providers in China, with comprehensive equipment offerings and strong service capacities. According to the F&S Report, we were the largest equipment operation service provider in China in terms of revenue in 2021. Leveraging our equipment operation service capabilities, we provide comprehensive and multi-dimensional services covering the full cycle of projects. Our major brands include Horizon Construction Development (宏信建發), Horizon Equipment (宏信設備) and Hongjin Equipment (宏金設備).

In addition, we are one of the leaders in aerial work platform operation, neo-excavation support system operation and neo-formwork system operation service markets. According to the F&S Report, we are ranked first in all of the three markets in terms of equipment volume owned in China in 2021. We believe that our comprehensive and multi-dimensional services covering the full cycle of projects and leveraging the synergies among our various product lines and diversified service categories enable us to enhance our market competitiveness and customer stickiness. As a result, we have fostered a diverse, blue chip, loyal and high-quality customer base to ensure our operational stability and sustainable growth. Moreover, we have established a nationwide service outlet network consisting of 349 service outlets as of December 31, 2022, covering 187 cities in China. Furthermore, our proven digitalization capabilities continuously enhance our operational efficiency and customer service capabilities.

Our service portfolio consists of (i) operating lease services, (ii) engineering and technical services, and (iii) platform and other services. We generally receive lease payments under operating leases, and our price is mainly determined by type of equipment and length of rental period. For engineering and technical services, we receive payments for one-stop solutions we provided in accordance with the price as stipulated in the contracts. For platform services, we follow the same business model as that of our operating lease services and derive our profit from the pricing difference between the price we charge our customers and the price we pay to equipment and/or materials providers. For our sales of equipment, materials and spare parts, pricing is primarily benchmarked to the prevailing market rate of relevant equipment, materials or spare parts.

We have achieved strong financial performance during the Track Record Period. Our revenue increased from RMB3,663.6 million in 2020 to RMB7,877.6 million in 2022, representing a CAGR of 46.6%. Our EBITDA (a non-HKFRS measure) increased from RMB1,884.7 million in 2020 to RMB4,080.7 million in 2022, representing a CAGR of 47.1%. Our adjusted net profit (a non-HKFRS measure) increased from RMB504.2 million in 2020 to RMB944.8 million in 2022, representing a CAGR of 36.9%.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

We believe that the following are the key factors affecting our results of operations.

Our performance is dependent on the development of the construction and infrastructure industries in the PRC, which in turn, largely depends on the general economic conditions in the PRC.

We derived a large portion of our revenue from the provision of operating lease services in the PRC during the Track Record Period. The demand for our operating lease services is closely related to the level of government spending on urbanization and infrastructure in the PRC, which in turn, largely depends on the PRC general economic conditions and governmental policies. According to the F&S Report, from 2018 to 2022, underpinned by the ever-increasing investment in the infrastructure industry and expansion of urbanization, the total output value of China's construction industry increased from RMB23.5 trillion in 2018 to RMB31.2 trillion in 2022 with a CAGR of 7.3%. As a result, the equipment operation services in the PRC demonstrated rapid growth in the past five years. The market size of the equipment operation services in China increased from RMB607.0 billion in 2018 to RMB935.4 billion in 2022 with a CAGR of 11.4%. Further, according to the F&S Report, the total output value of the construction industry in the PRC is expected to achieve continuous growth in light of the stable development of China's macro economy, the strategies of regional economic integration and new-type urbanization and the proposal in the construction of new infrastructure. The total output value of China's construction industry is expected to reach approximately RMB41.1 trillion in 2027, according to the F&S Report.

Although the current political trend seems to be in favor of the construction industry in the PRC due to the rapid urbanization progress, which in turn, benefits the PRC operating lease services market and hence, benefits us in terms of numerous project opportunities, we cannot assure you that there will not be any adverse change in the government spending or policies towards the construction industry. Thus, the PRC operating lease services market which we operate in will be affected, which in turn, will affect the number and/or value of the construction projects in the PRC and correspondingly affect the demand for our operating lease services.

Our performance may be affected by intensive competition in the aerial work platform, excavation support system and formwork system operation service markets in the PRC.

Our competition mainly comes from few major equipment operation service providers in the PRC which also target service provisions to large central enterprises, local SOEs, public entities, private companies and individuals from various industries, such as manufacturing, entertainment, agricultural, shipping, environmental, real estate, industrial, infrastructure and construction industries. Some of these competitors may have advantages over us in terms of capacity, access to capital, operational and managerial expertise, pricing or customer contacts. According to the F&S Report, new players may also enter the industry if they possess relevant expertise, advanced skills and/or technologies, relationship with customers and sufficient equipment and capital. If there is an increase in the number of competitors in the industry without a corresponding increase in projects that require our services, competition within the operating lease service industry would intensify. For details, see "Risk Factors—Risk Relating to Our Business and Industry—Fierce competition of the equipment operation service industry may adversely affect our business and financial condition and we may not be able to compete successfully against existing and new competitors".

Our performance and business expansion are subject to our financing capabilities and funding sources.

Our capabilities and sources of funding are important factors in determining the success of our business expansion. As our business operations require a significant amount of capital, we need adequate and timely sources of funding to maintain and further develop our business. Our major funding sources including cash generated from business operation and borrowings.

As of December 31, 2020, 2021 and 2022, our interest-bearing bank and other borrowings amounted to RMB7,817.5 million, RMB17,697.8 million and RMB21,212.1 million. As of December 31, 2022, we had banking facilities of RMB38,216 million in aggregate from banks and finance lease companies, among which RMB10,884 million were unutilized and unrestricted.

The level of our indebtedness and the amount of our interest payments could limit our ability to obtain the necessary additional financing or obtain favorable terms for the financing for future capital expenditures and working capital. In addition, our ability to obtain adequate funding for our operations and expansion plans depends on a number of factors, including but not limited to PRC and global macroeconomic environments, fluctuations in capital markets, credit availability from banks and other lenders, investor confidence and new requirements that affect our funding sources directly. As a result, our business, financial position and results of operations may be affected.

Our performance and future business expansion are subject to our ability to effectively manage our equipment volume and the corresponding utilization rate.

During the Track Record Period, we derived a large portion of revenue from our operating lease services. For the years ended December 31, 2020, 2021 and 2022, revenue derived from operating lease services amounted to RMB2,484.6 million, RMB4,463.3 million and RMB5,189.9 million, respectively, accounting for 67.8%, 72.7% and 65.9%, of our revenue for the corresponding years, respectively. As a result, our performance and future business expansion are subject to our ability to effectively manage our equipment volume and the corresponding utilization rate. For detailed analysis of the utilization rates for our major equipment, see "Business—Our Equipment Portfolio—Utilization of Our Equipment".

Our financial performance is subject to our ability to grow customer base, drive customer engagement and timely settlement by our customers

Attributable to our comprehensive and multi-dimensional service model covering the full cycle of projects, we have fostered a loyal and high-quality customer base over the years, which primarily include large central enterprises, local SOEs, public entities, private companies and individuals. The number of our customers, which come from various industries, continued to increase during the Track Record Period. We believe that our financial growth is subject to our ability to continue to grow our customer base, drive customer engagement and timely settlement by our customers.

Due to the business nature of our operating lease services, we provide our services on a daily, weekly, monthly, yearly or project-by-project basis based on customers' needs. Rental income is recognized on a time proportion basis over the lease terms. Thus, our operating and financial performances are affected by the number of customers we acquired and the engagements between us and our customers.

Further, our working capital and sufficiency of cash flow will be influenced by the timely settlement of our customers. Generally, our customers shall comply with the payment schedule specified in the contracts, subject to the dynamics of each customer. They shall arrange payment in accordance with the payment amount in our issued invoice within a period of time. In the event that our customers experience financial distress or are unable to settle their respective payments due to us in a timely manner or at all, our results of operations and financial conditions may be affected.

Our performance is subject to seasonality.

As our operating lease services and engineering and technical services are primarily performed on construction sites, our services are affected by seasonal weather conditions. For example, in the northern part of China, we cannot conduct most of our operating lease services in the first quarter of the year due to the extreme cold weather. Further, we may also experience seasonal fluctuation in our revenue and operating income in the first quarter of the year as a result of the Chinese New Year, which in turn, reduce the business activities and labor force in the market. As such, any comparisons of our operating results between different periods within a single financial year are not necessarily meaningful and cannot be relied on as indicators of our performance. Our results of operations are likely to continue to fluctuate due to our business cycle, which resulted in seasonality.

EFFECTS OF THE COVID-19 OUTBREAK ON OUR BUSINESS

A global pandemic caused by COVID-19 broke out in early 2020 and has impacted the global economy ever since. The outbreak of COVID-19 in China in the first quarter of 2020 and resurgence of COVID-19 cases in certain major cities across China throughout 2022 have led to the imposition of various pandemic mitigation measures by the PRC Government, including lockdown, suspension of construction work, travel bans and strict social distancing and quarantine measures. As a result, most of our business operations were adversely affected during the relevant periods and we suspended the operations of some of our service outlets as we were unable to carry a large portion of our operating lease services and engineering and technical services as planned. Whilst the duration of the official restrictions on construction varied across cities in the PRC due to the differences in local rules and regulations, our customers from our operating leases services segment and engineering and technical services segment requested for (i) a halt in the provision of engineering services for about 45 days in the first quarter of 2020 and/or (ii) a suspension of our operating leases with them for about 45 days in the first quarter of 2020 and for an aggregate of two to three months throughout 2022 (except for our customers with aerial work platform operating leases, as most of them requested for a suspension for about one month). We agreed to give rental or service fee waivers or discounts to certain customers in consideration of the suspension of our services. The aggregate contract value of such rental or service fee waivers and discounts in 2022 amounted to approximately RMB21.9 million, with a total of 89 projects affected. Despite such effects, due to the long-term nature of such construction projects undertaken by our customers, and the relatively short period of business suspension, our Directors confirm that there had not been any major termination of contracts or material delays in relation to the equipments or services provided by us. In addition, due to the pandemic mitigation measures by the PRC Government, we lost certain revenue opportunities because we suspended the operations of some of our service outlets or we encountered difficulties in delivering our equipment at the request of customers. The number of our service outlets suspended due to the outbreak of COVID-19 in 2020 and 2022 was 93 and 58, respectively. However, we benefited from government relief of social security payments for employment support relating to the COVID-19 pandemic which amounted to approximately RMB27.9 million in 2020.

China began to modify its zero-COVID policy in late 2022, and most of the travel restrictions and quarantine requirements were lifted in December 2022. There was a rapid spread of COVID-19 in a relatively short period of time and a surge in COVID-19 confirmed cases. As of the Latest Practicable Date, over 1,200 of our employees had informed us that they were infected. However, the surge in COVID-19 infections since December 2022 has not materially impacted our business operations and financial performance as the majority of our infected employees recovered and resumed working very shortly. As far as we are aware, all of our infected employees have recovered. With the bounce back of China's economy, our business operations has resumed to normal.

We believe, and F&S concurs, that the outbreak of the COVID-19 pandemic has provided a unique opportunity for us to consider how we could deliver real value to our customers and refine our development strategies for the years ahead. We believe that the PRC Government will introduce counter-cyclical control policies that will benefit our upstream and downstream industries, such as infrastructure and construction industries. In addition, we expect that demand for equipment operation service will boom in anticipation of the strong demand from infrastructure and construction industries. As a result, we actively enhance our management and operational capabilities and continue to implement our digitalization upgrade in order to further expand our business scale. For details, see "Business—Effects of the COVID-19 Pandemic" and "Risk Factors—Risks Relating to Our Business and Industry—The occurrence of epidemics, natural disasters, acts of war, and other disasters could significantly affect our business and the national and regional economies in the PRC".

BASIS OF PRESENTATION

Pursuant to the Reorganization as described in the section headed "History, Reorganization and Corporate Structure" in this [**REDACTED**], our Company became the holding company of the companies now comprising our Group on October 23, 2020. The companies now comprising our Group were under the common control of Far East Horizon before and after the reorganization. Accordingly, our historical financial information has been prepared on a consolidated basis by applying the principles of merger accounting as if the reorganization had been completed on the beginning of the Track Record Period.

Our historical financial information has been prepared in accordance with all applicable HKFRSs. All HKFRSs effective for the accounting period commencing from January 1, 2020, together with the relevant transitional provisions, have been early adopted by us in the preparation of the historical financial information on a consistent basis throughout the Track Record Period. For more information on the basis of presentation and preparation of the historical financial information, see note 2 to "Appendix I—Accountants' Report" in this [**REDACTED**].

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES AND JUDGMENTS

Our significant accounting policies and critical estimates and judgments, which are important for an understanding of our financial condition and result of operations, are set forth in details in note 2 and note 3 of "Appendix I—Accountants' Report" in this [**REDACTED**].

Significant Accounting Policies

Revenue Recognition

We generate revenue from our three business segments, namely, operating lease services, engineering and technical services, and platform and other services.

Revenue from Operating Lease Income

Operating lease income, for which we provide operating lease services and re-rent services cover various types of equipment and materials on a daily, weekly, monthly, yearly or project-by-project basis based on customers' needs. Rental income is recognized on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognized as income in the accounting period in which they are incurred.

Revenue from Contracts with Customers

Revenue from contracts with customers is recognized when control of goods or services is transferred to the customers at an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which we will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with 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 amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the customer and us at contract inception. When the contract contains a financing component which provides us with a significant financial benefit for more than one year, revenue recognized under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer 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.

- Sales of goods: Revenue from the sales of goods is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

- Engineering and technical services: Revenue from construction services is recognized over time, using an input method to measure progress towards complete satisfaction of the service, because our performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognizes revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of construction services.

Critical Judgments and Estimates

Critical accounting judgments and estimates are those that are most important to the portrayal of our financial conditions and results of operations and require our management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, the assets and liabilities and their accompanying disclosures and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

We continually evaluate these estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and our best assumptions, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates and expectations. Some of our accounting policies require a higher degree of judgment than others in their application. We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

Judgments

Classification between Finance Leases and Operating Leases

A lessor shall classify each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

Situations that would normally lead to a lease being classified as a finance lease include the following:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;

- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable and, at the inception of the lease, it is reasonably certain that the option will be exercised;

- the lease term is for the major part of the economic life of the asset, even if title is not transferred;

- at the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and

- the leased assets are of a specialized nature such that only the lessee can use them without major modifications being made.

If it is clear from other features that the lease does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset, the lease is classified as an operating lease. The determination of whether we have transferred substantially all the risks and rewards incidental to ownership depends on an assessment of the relevant arrangements relating to the lease and this involves critical judgments by management.

Determining the Timing of Satisfaction of Construction Services

We concluded that revenue from the construction services is recognized over time, using an input method to measure progress towards complete satisfaction of the service, because our performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The fact that we are building on the customer's construction site and the customer generally controls any work in progress arising from our performance demonstrates that our performance creates or enhances an asset that the customer controls as the asset is created or enhanced.

Estimates

Provision for ECLs

The measurement of impairment losses under HKFRS 9 across debt instruments recorded at fair value through other comprehensive income ("**FVOCI**"), trade receivables, financial assets included in prepayments, other receivables and other assets, contract assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

Our ECLs calculations are outputs of appropriate models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

(i) Our internal credit grading model, which assigns Probability of Defaults ("**PDs**") to the individual grades;

(ii) Our criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment;

(iii) Development of ECL models, including the various formulas and the choice of inputs;

(iv) Determination of associations between macroeconomic scenarios and, economic inputs, and the effect on PDs, exposure at defaults ("**EADs**") and loss given defaults ("**LGDs**").

We will regularly review the ECL model in the context of actual loss experience and adjust when necessary.

Impairment of Non-financial Assets

We assess whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each year during the Track Record Period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred Tax Assets

Deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. For details, see note 16 of "Appendix I—Accountants' Report" in this [**REDACTED**].

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

The table below sets forth a summary of our consolidated statement of profit or loss for the years indicated:

	For the year ended December 31,					
	2020		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Revenue	3,663,595	100.0	6,141,168	100.0	7,877,646	100.0
Cost of sales	(2,015,234)	(55.0)	(3,295,231)	(53.7)	(4,744,640)	(60.2)
Gross profit	**1,648,361**	**45.0**	**2,845,937**	**46.3**	**3,133,006**	**39.8**
Other income and gains	79,587	2.2	260,206	4.2	157,582	2.0
Selling and distribution expenses	(273,091)	(7.5)	(451,852)	(7.4)	(340,804)	(4.3)
Administrative expenses	(411,421)	(11.2)	(745,455)	(12.1)	(863,778)	(11.0)
ECLs of financial and contract assets, net	(91,790)	(2.5)	(304,285)	(5.0)	(110,114)	(1.4)
Other expenses	(6,155)	(0.2)	(51,734)	(0.8)	(157,270)	(2.0)
Finance costs	(303,984)	(8.3)	(650,318)	(10.6)	(924,818)	(11.7)
Profit before tax	**641,507**	**17.5**	**902,499**	**14.7**	**893,804**	**11.3**
Income tax expense	(148,145)	(4.0)	(192,861)	(3.1)	(227,242)	(2.9)
Profit for the year	**493,362**	**13.5**	**709,638**	**11.6**	**666,562**	**8.5**
Profit attributable to:						
Owners of the parent	448,373	12.3	709,638	11.6	666,562	8.5
Non-controlling interests	44,989	1.2	–	–	–	–
	493,362	13.5	709,638	11.6	666,562	8.5

Non-HKFRS Measures

To supplement our consolidated results which are prepared and presented in accordance with HKFRS, we use EBITDA and adjusted net profit, each a non-HKFRS measure, as additional financial measures, which are not required by, or presented in accordance with, HKFRS. EBITDA (a non-HKFRS measure) is defined as profit for the year adjusted by deducting bank interest income and loan interest income, then adding back income tax expenses, finance costs, depreciation of property, plant and equipment, depreciation of right-of-use assets and amortization of other intangible assets. We define adjusted net profit (a non-HKFRS measure) as profit for the year adjusted for [**REDACTED**] expenses, foreign exchange losses/gains from redemption liabilities on ordinary shares, foreign exchange losses/gains from interest payables on redemption liabilities on ordinary shares, and interest on redemption liabilities on ordinary shares. [**REDACTED**] expenses are expenses incurred in relation to the [**REDACTED**]. Foreign exchange losses/gains from redemption liabilities on ordinary shares, foreign exchange losses/gains from interest payables on redemption liabilities on ordinary shares, and interest on redemption liabilities on ordinary shares arose from the recipients of proceeds of our [**REDACTED**] Investments in 2021, which are non-cash in nature and do not result in cash outflow. Such foreign exchange losses/gains and interest expenses will not recur after the [**REDACTED**] as the redemption liabilities on ordinary shares will be reclassified as equity upon the [**REDACTED**]. We believe that such non-HKFRS measures facilitate comparisons of operating performance by eliminating the potential impact of these non-cash items. The use of such non-HKFRS measures has limitations as an analytical tool, and you should not consider them in isolation from, as a substitute for, analysis of, or superior to, our results of operations or financial conditions as reported under HKFRS. In addition, such non-HKFRS financial measures may be defined differently by other companies, and may not be comparable to other similarly titled measures used by other companies.

The table below sets forth the reconciliation of our non-HKFRS measures presented to the most directly comparable HKFRS financial measures for the years indicated:

	For the year ended December 31,					
	2020		**2021**		**2022**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Profit for the year	493,362	13.5	709,638	11.6	666,562	8.5
Less:						
Bank interest income	3,550	0.1	9,245	0.2	11,391	0.1
Loan interest income	13,903	0.4	–	–	–	–
Add:						
Income tax expenses	148,145	4.0	192,861	3.1	227,242	2.9

	For the year ended December 31,					
	2020		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Finance costs	303,984	8.3	650,318	10.6	924,818	11.7
Depreciation of property, plant and equipment	773,801	21.1	1,577,373	25.7	2,194,927	27.8
Depreciation of right-of-use assets	182,163	5.0	75,263	1.2	77,700	1.0
Amortization of other intangible assets	726	0.0	805	0.0	814	0.0
EBITDA (a non-HKFRS measure)	**1,884,728**	**51.4**	**3,197,013**	**52.1**	**4,080,672**	**51.8**
Profit for the year	493,362	13.5	709,638	11.6	666,562	8.5
Less:						
Foreign exchange gains from redemption liabilities on ordinary shares[1]	–	–	20,509	0.3	–	–
Foreign exchange gains from interest payables on redemption liabilities on ordinary shares[1]	–	–	–	–	–	–
Add:						
[**REDACTED**][2]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Foreign exchange losses from redemption liabilities on ordinary shares[1]	–	–	–	–	120,671	1.5
Foreign exchange losses from interest payables on redemption liabilities on ordinary shares[1]	–	–	–	–	9,130	0.1
Interest on redemption liabilities on ordinary shares[1]	–	–	63,968	1.0	108,061	1.4
Adjusted net profit (a non-HKFRS measure)	**504,217**	**13.8**	**780,223**	**12.7**	**944,773**	**12.0**

Notes:

(1) Foreign exchange losses/gains from redemption liabilities on ordinary shares, foreign exchange losses/gains from interest payables on redemption liabilities on ordinary shares, and interest on redemption liabilities on ordinary shares arose from the recipients of proceeds of our [**REDACTED**] Investments in 2021, which are non-cash in nature and do not result in cash outflow. Such foreign exchange losses/gains and interest expenses will not recur after the [**REDACTED**] as the redemption liabilities on ordinary shares will be reclassified as equity upon the [**REDACTED**].

(2) [**REDACTED**] expenses are expenses incurred in relation to the [**REDACTED**].

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

Our revenue is stated net of VAT or other sales taxes and is stated after deduction of any trade discounts. During the Track Record Period, we derived revenue from (i) operating lease services; (ii) engineering and technical services; and (iii) platform and other services. Our revenue and profitability would be based on and affected by our equipment volume and the corresponding utilization rates.

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

	For the year ended December 31,					
	2020		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Operating lease services(1)	2,484,554	67.8	4,463,348	72.7	5,189,949	65.9
Engineering and technical services(2)	1,062,760	29.0	1,519,288	24.7	2,136,630	27.1
Platform and other services(3)	116,281	3.2	158,532	2.6	551,067	7.0
Total	**3,663,595**	**100.0**	**6,141,168**	**100.0**	**7,877,646**	**100.0**

Notes:

(1) The main product lines for our operating lease services include aerial work platform, neo-excavation support system, neo-formwork system and other equipment.

(2) Our engineering and technical services represent tailor-made one-stop solutions for different business or operation scenarios.

(3) Our platform and other services primarily include platform services and sales of equipment, materials and spare parts.

We had been strategically adjusting amount of our equipment being leased during the Track Record Period to meet our customers' needs. For our operating lease services, our revenue increase during the Track Record Period was primarily attributable to more customers we acquired. Such increase in the number of customers led to the continuous increase in equipment volume of our aerial work platform, neo-excavation system and neo-formwork system during the Track Record Period. For example, in 2020, we particularly adopted a strategy to capture a larger market share by sales campaigns and price adjustments for our aerial work platform operating leases. On the other hand, mainly attributable to the increasing market demand and our top-tier service capabilities, revenue from engineering and technical services also experienced continuous increase during the Track Record Period.

The table below sets out the key information of our operating lease services for the years indicated:

	For the year ended December 31,		
	2020	**2021**	**2022**
Operating lease services			
Aerial work platform			
Equipment volume (in thousand units)	55.1	97.2[(1)]	131.3[(1)]
Utilization rate[(2)]	78.2%	80.2%	77.3%
Neo-excavation system			
Equipment volume (in thousand tons)	973.7	1,537.9	1,576.6
Utilization rate[(2)]	72.7%	72.2%	67.9%
Neo-formwork system			
Equipment volume (in thousand tons)	338.3	534.4	622.6
Utilization rate[(2)]	71.0%	78.9%	71.7%

Notes:

(1) As of December 31, 2021 and 2022, in addition to the 92.6 thousand units and 110.1 thousand units, respectively, of aerial work platform we owned, we managed 4,618 units and 21,163 units, respectively, of aerial work platforms which we re-rented to customers through the platform services joint mode. For details, see "—Our Business—Platform and Other Services—Platform services".

(2) Calculated as the average of total value of equipment we leased out during the year divided by the average of total value of equipment we owned during the corresponding year. "Average of total value of equipment" is the total asset value of all equipment, averaged between the beginning and the end of the year. According to the F&S Report, this method of calculation is consistent with the common industry practice.

For detailed analysis of fluctuations of utilization rate of our equipment, see "Business—Our Equipment Portfolio—Utilization of Our Equipment".

For details of our revenue recognition, see "—Significant Accounting Policies and Critical Estimates and Judgments—Significant Accounting Policies—Revenue Recognition" and note 2.4 of "Appendix I—the Accountants' Report" in this [**REDACTED**].

Cost of Sales

The table below sets forth a breakdown of our cost of sales by nature for the years indicated:

	For the year ended December 31,					
	2020		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Depreciation	834,228	41.4	1,500,769	45.5	2,106,292	44.4
Staff cost	400,909	19.9	590,873	17.9	857,645	18.1
Transportation cost	404,849	20.1	653,245	19.8	800,295	16.9
Cost of sale of equipments, materials and moulds	54,064	2.7	103,855	3.2	221,428	4.7
Cost of re-rent fee	44,601	2.2	58,908	1.8	181,045	3.8
Maintenance cost	188,684	9.4	297,804	9.0	490,544	10.3
Others[(1)]	87,899	4.4	89,777	2.7	87,391	1.8
Total	**2,015,234**	**100.0**	**3,295,231**	**100.0**	**4,744,640**	**100.0**

Note:

1. Others primarily consists of insurance premiums for equipment, accommodation reimbursements and cost of labor protection appliances.

During the Track Record Period, depreciation was a major component of our cost of sales. Our depreciation primarily includes depreciation of leased equipment and production equipment used for operating leases and engineering and technical services. The increase of such cost of sales was considered to be material, as we purchased more equipment, as a part of our expansion strategy to capture a larger share of that particular market. Staff costs, which primarily represented salary and benefits paid to our production and services staff, formed a major part of our cost of sales during the Track Record Period. It gradually increased as our team grew in size to adapt to our business expansion. We also procure external labor force and lease non-self-owned ancillary equipment to carry out certain labor-intensive components of our engineering and technical services because we believe, and F&S concurs, that is cost-efficient and is in line with industry norm. Nonetheless, such cost of sales experienced a significant increase as we adjusted our services portfolio in 2020 to provided more labor-intensive on-site construction services to customers. Transportation costs, which were incurred for transporting equipment and/or materials to our customers' sites, also constituted a major component of our cost of sales during the Track Record Period. Increase in transportation costs during the Track Record Period primarily due to our growth of business in operating leases and engineering and technical services segments, leading to higher cost incurred when transporting our equipments to sites.

The table below sets forth a breakdown of our cost of sales by segment for the years indicated:

	For the year ended December 31,					
	2020		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Operating lease services	1,185,393	58.8	2,091,079	63.5	2,870,719	60.5
Engineering and technical services	756,813	37.6	1,076,646	32.7	1,496,266	31.5
Platform and other services	73,028	3.6	127,506	3.9	377,655	8.0
Total	**2,015,234**	**100.0**	**3,295,231**	**100.0**	**4,744,640**	**100.0**

The following table sets forth a sensitivity analysis of our profit for the years with reference to the fluctuation of unit price of steel during the Track Record Period. The following table demonstrates the impact of the hypothetical increase and decrease in unit price of steel on our profit, with all other factors remain constant:

	Year ended December 31,		
	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Profit for the years	493,362	709,638	666,562
Assuming 1% increase in unit price of steel			
Impact on profit for the years(1)	(1,685)	(3,166)	(662)
Assuming 5% increase in unit price of steel			
Impact on profit for the years(1)	(8,424)	(15,828)	(3,309)
Assuming 10% increase in unit price of steel			
Impact on profit for the years(1)	(16,848)	(31,656)	(6,618)
Assuming 1% decrease in unit price of steel			
Impact on profit for the years(1)	1,685	3,166	662
Assuming 5% decrease in unit price of steel			
Impact on profit for the years(1)	8,424	15,828	3,309
Assuming 10% decrease in unit price of steel			
Impact on profit for the years(1)	16,848	31,656	6,618

Note:

(1) Impact on profit for the year was calculated based on the effective tax rate of 23.1%, 21.4% and 25.4% for the years ended December 31, 2020, 2021 and 2022, respectively.

Gross Profit and Gross Profit Margin

The following table sets forth our gross profit and gross profit margin by segment for the years indicated:

	For the year ended December 31,					
	2020		2021		2022	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Operating lease services	1,299,161	52.3	2,372,269	53.1	2,319,230	44.7
Engineering and technical services	305,947	28.8	442,642	29.1	640,364	30.0
Platform and other services	43,253	37.2	31,026	19.6	173,412	31.5
Total gross profit/Overall gross profit margin	**1,648,361**	**45.0**	**2,845,937**	**46.3**	**3,133,006**	**39.8**

For details of the fluctuations of our gross profit margin during the Track Record Period, see "—Results of Operations" in this section.

Other Income and Gains

Our other income primarily consists of (i) loan interest income, which represent interest income from certain of our infrastructure related projects; (ii) government grants; (iii) VAT super-credit; and (iv) bank interest income, which represent interest income from our bank deposits. Our other gains primarily consist of (i) gain on disposal of items of property, plant and equipment and right-of-use assets, which primarily related to our disposal of certain raw materials such as aluminum film, ring locks and H steel; and (ii) foreign exchange gains. The following table sets forth a breakdown of our other income and gains for the years indicated:

	Year Ended December 31,					
	2020		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Other income						
Bank interest income	3,550	4.5	9,245	3.6	11,391	7.2
Loan interest income	13,903	17.5	–	–	–	–
Government grants	13,871	17.4	23,948	9.2	68,764	43.7
VAT super-credit	–	–	193,617	74.4	42,125	26.7
Others	7,663	9.6	1,795	0.7	494	0.3
Subtotal	38,987	49.0	228,605	87.9	122,774	77.9

	Year Ended December 31,					
	2020		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Other gains						
Gain on disposal of items of property, plant and equipment and early termination of right-of-use assets	34,549	43.4	18,635	7.1	22,824	14.5
Gain on disposal of subsidiaries	365	0.5	–	–	–	–
Foreign exchange gains	–	–	11,374	4.4	–	–
Fair value gains, net:						
Derivative financial instruments – not for hedge accounting	–	–	–	–	9,286	5.9
Others	5,686	7.1	1,592	0.6	2,698	1.7
Subtotal	40,600	51.0	31,601	12.1	34,808	22.1
Total	**79,587**	**100.0**	**260,206**	**100.0**	**157,582**	**100.0**

Government grants mainly represent unconditional financial subsidies received from local government authorities. Our government grants increased during the Track Record Period, primarily because with the growth of our business and our increased contribution to local tax income, we were awarded such subsidies as an incentive from local government authorities to support our business expansion. However, such financial subsidies have been given at the discretion of the local government authorities and are non-recurring in nature.

VAT super-credit represents the VAT input tax surplus deduction allowed to offset VAT payable pursuant to the Announcement on Deepening Policies related to VAT reformation (《財政部稅務總局海關總署關於深化增值稅改革有關政策的公告》) (Announcement of Ministry of Finance, the General Administration of Taxation and the General Administration of Customs [2019] No. 39 財政部稅務總局海關總署公告[2019年]第39號) issued by the Ministry of Finance, the General Administration of Taxation and the General Administration of Customs. While such regulations were issued in 2019, we actively communicated with the local tax authorities in 2020 to confirm whether our subsidiaries would be eligible for VAT input tax surplus deduction and it became reasonably assured in 2021 that some of our subsidiaries would be eligible. Specifically, seven of our subsidiaries (primarily from Shanghai Horizon Equipment & Engineering and Guangzhou Hongtu Equipment & Engineering) filed applications for VAT input tax surplus deduction to, and the applications were accepted by, the relevant tax authorities in 2021.

Our VAT super-credit increased from nil in 2020 to RMB193.6 million in 2021, mainly because such subsidiaries filed applications for VAT input tax surplus deduction for previously accumulated VAT payables (including those incurred in 2020 and 2021) to, and the applications were accepted by, the relevant tax authorities in 2021. Our VAT super-credit decreased from RMB193.6 million in 2021 to RMB42.1 million mainly because we only recognized VAT input tax surplus deduction for VAT payables that arose in 2022, while in 2021, we recognized VAT input tax surplus deduction for previously accumulated VAT payables (including those incurred in 2020 and 2021).

Selling and Distribution Expenses

Our selling and distribution expenses primarily consist of (i) sales staff costs and (ii) transportation expenses, which primarily relates to costs incurred for transporting equipment and materials between our service outlets. The following table sets forth a breakdown of our selling and distribution expenses for the years indicated:

	For the year ended December 31,					
	2020		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Sales staff costs	194,006	71.0	343,472	76.0	225,090	66.0
Transportation expenses	38,106	14.0	52,087	11.5	67,728	19.9
Travelling expenses	14,221	5.2	20,360	4.5	21,852	6.4
Promotion and advertising expenses	8,602	3.1	8,491	1.9	7,929	2.3
Others (1)	18,156	6.7	27,442	6.1	18,205	5.3
Total	**273,091**	**100.0**	**451,852**	**100.0**	**340,804**	**100.0**

Notes:

(1) Mainly includes office expenses, meeting expenses and consulting expenses.

As a percentage of our revenue, our selling and distribution expenses was 7.5%, 7.4% and 4.3%, for the years ended December 31, 2020, 2021 and 2022, respectively. Our selling and distribution expenses as a percentage of our revenue remained relatively stable at 7.5% in 2020 and 7.4% in 2021. The decrease of our selling and distribution expenses as a percentage of our revenue in 2022 as compared to that in 2021 was primarily due to a decrease in sales staff costs mainly attributable to the decreased headcount as a result of staff restructuring.

Administrative Expenses

Our administrative expenses primarily consist of (i) research and development expenses; (ii) administrative staff costs; (iii) rental expenses; and (iv) depreciation and amortization, which represents depreciation of our self-owned property, plant and equipment, depreciation of right-of-use assets for our service outlets and amortization of land use rights and intangible assets. The following table sets forth a breakdown of our administrative expenses for the years indicated:

	For the year ended December 31,					
	2020		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Research and development expenses	153,595	37.3	216,676	29.1	270,612	31.3
Administrative staff costs	69,465	16.9	237,203	31.8	210,626	24.4
Rental expenses[1]	1,978	0.5	3,398	0.5	25,653	3.0
Depreciation and amortization[2]	105,462	25.6	140,064	18.8	154,413	17.9
Taxes and surcharges	16,496	4.0	30,670	4.1	35,215	4.1
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Professional party service fees	3,498	0.9	10,040	1.3	4,458	0.5
Impairment losses on property, plant and equipment	–	–	–	–	19,063	2.2
Office expenses	8,040	2.0	19,905	2.7	24,722	2.8
Information expenses	125	0.0	629	0.1	13,412	1.6
Others[3]	41,907	10.2	59,744	8.0	65,255	7.5
Total	**411,421**	**100.0**	**745,455**	**100.0**	**863,778**	**100.0**

Notes:

(1) Refers to rental expenses in relation to leases that have a lease term of less than 12 months and leases of low-value assets.

(2) Depreciation of our self-owned property, plant and equipment, depreciation of right-of-use assets for our service outlets and amortization of land use rights and intangible assets.

(3) Mainly includes travel expenses, insurance expenses and property management fee.

As a percentage of our revenue, our administrative expenses were 11.2%, 12.1% and 11.0% for the years ended December 31, 2020, 2021 and 2022, respectively. The increase of our administrative expenses as a percentage of our revenue in 2021 as compared to that in 2020 was primarily due to an increase in administrative staff costs mainly attributable to the increased headcount and compensation level of administrative staff. Specifically, we hired additional administrative staff in 2021 to manage the expanded service outlet network and diversified services and equipment portfolio. The decrease of our administrative expenses as a percentage of our revenue in 2022 as compared to that in 2021 was primarily due to a decrease in administrative staff costs mainly attributable to the decreased headcount as a result of staff restructuring.

ECLs of Financial and Contract Assets, Net

Our net ECLs of financial and contract assets primarily relate to our trade receivables. For the years ended December 31, 2020, 2021 and 2022, our net ECLs of financial and contract assets were RMB91.8 million, RMB304.3 million and RMB110.1 million, respectively.

Other Expenses

Our other expenses primarily consist of (i) commission expenses, representing commission fees and handling fees charged by banks and non-bank financial institutions in connection with our bank and other borrowings; (ii) exchange losses, representing the exchange differences arising from the appreciation of foreign currencies against Renminbi; (iii) loss arising from fair value changes of derivative financial instruments, which was in connection with our cross-currency interest rate swap contract that we entered into to reduce the level of foreign currency exchange risks for certain US-dollar denominated borrowings; and (iv) loss attributable to our monthly check on fixed assets. The following table sets forth a breakdown of our other expenses for the years indicated:

	Year Ended December 31,					
	2020		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Commission expenses	3,086	50.2	25,950	50.1	9,936	6.3
Exchange losses	1,142	18.6	–	–	139,519	88.7
Loss arising from fair value changes of derivative financial instruments	–	–	6,907	13.4	–	–
Loss on disposal of a subsidiary	–	–	567	1.1	–	–
Retirement of fixed assets	21	0.3	2,772	5.4	578	0.4
Forfeiture expenses	70	1.1	609	1.2	492	0.3
Loss attributable to our monthly check on fixed assets	1,786	29.0	3,062	5.9	4,565	2.9
Donation expenses	50	0.8	–	–	–	–
Others	–	–	11,867	22.9	2,180	1.4
Total	**6,155**	**100.0**	**51,734**	**100.0**	**157,270**	**100.0**

Our exchange losses increased significantly from nil in 2021 to RMB139.5 million in 2022, primarily due to the appreciation of U.S. dollars against Renminbi in 2022, as a result of which we recognized exchange losses in connection with (i) redemption liabilities on ordinary shares, (ii) interest payables on redemption liabilities on ordinary shares and (iii) bank borrowings denominated in U.S. dollars.

Finance Costs

Our finance costs primarily consist of (i) interest on interest-bearing bank and other borrowings; and (ii) interest on lease liabilities. The following table sets forth a breakdown of our finance costs for the years indicated:

	For the year ended December 31,		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Interest on interest-bearing bank and other borrowings	244,124	637,464[1]	920,359[1]
Interest on lease liabilities	59,860	12,854	4,459
Total	**303,984**	**650,318**	**924,818**

Note:

(1) Including interest on redemption liabilities on ordinary shares, which arose from the recipients of proceeds of our [**REDACTED**] Investments in 2021, amounting to RMB64.0 million and RMB108.1 million, respectively, for the year ended December 31, 2021 and 2022.

Income Tax Expense

Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands, we are not subject to any income tax in the Cayman Islands and British Virgin Islands. We are subject to profit tax of 16.5% in Hong Kong. Other than Shanghai Horizon Equipment & Engineering and Guangzhou Hongtu Equipment & Engineering, our subsidiaries in PRC were subject to standard EIT rate of 25% under EIT law during the Track Record Period. Shanghai Horizon Equipment & Engineering and Guangzhou Hongtu Equipment & Engineering were recognized as high and new technology enterprises and were entitled to a preferential income tax rate of 15% instead of 25% for a period of three years from 2020 to 2022. The qualification of high and new technology enterprise is subject to renewal every three years.

For the years ended December 31, 2020, 2021 and 2022, our effective tax rates were 23.1%, 21.4%, and 25.4%, respectively, calculated based on actual tax expenses divided by profit before income tax for the same year.

During the Track Record Period and up to the Latest Practicable Date, we have discharged all our tax obligations and did not have any unresolved tax disputes.

RESULTS OF OPERATIONS

Year ended December 31, 2022 compared to the year ended December 31, 2021

Revenue

Our revenue increased by 28.3% from RMB6,141.2 million for the year ended December 31, 2021 to RMB7,877.6 million for the year ended December 31, 2022, primarily reflecting our revenue increase in operating lease services, engineering and technical services and platform and other services.

Operating lease services

Revenue from operating lease services increased by 16.3% from RMB4,463.3 million for the year ended December 31, 2021 to RMB5,189.9 million for the year ended December 31, 2022, primarily due to growing demands for our operating lease services for aerial work platforms, neo-excavation systems and neo-formwork systems. Specifically, we have further grown our equipment portfolio, with equipment volume of (i) aerial work platforms we owned increasing by 18.9% from 92.6 thousand units as of December 31,2021 to 110.1 thousand units as of December 31, 2022; (ii) neo-excavation systems increasing by 2.5% from 1,537.9 thousand tons as of December 31, 2021 to 1,576.6 thousand tons as of December 31, 2022; and (iii) neo-formwork systems increasing by 16.5% from 534.4 thousand tons as of December 31, 2021 to 622.6 thousand tons as of December 31, 2022. As a result, our customer base grew from approximately 97,000 for the year ended December 31, 2021 to approximately 158,000 for the year ended December 31, 2022. The steep difference in the growth rate of our revenue from operating lease services between 2021 and 2022 (i.e. 16.3%) as compared to that between 2020 and 2021 (i.e. 79.6%) is also attributable to the pandemic mitigation measures by the PRC Government in 2022 which caused us to lose certain revenue opportunities because we suspended the operations of some of our service outlets or we encountered difficulties in delivering our equipment at the request of customers, together with the fee waivers and discounts we gave to customers due to suspension of our operating leases with them. See "—Effects of the COVID-19 Outbreak on Our Business."

Engineering and technical services

Revenue from engineering and technical services increased by 40.6% from RMB1,519.3 million for the year ended December 31, 2021 to RMB2,136.6 million for the year ended December 31, 2022, which is a continuation of the services portfolio diversification for providing more labor-intensive on-site construction services that led to a continued demand growth. Please see "– Year ended December 31, 2021 compared to the year ended December 31, 2020 – Revenue – Engineering and technical services."

Platform and other services

Revenue from platform and other services increased significantly from RMB158.5 million for the year ended December 31, 2021 to RMB551.1 million for the years ended December 31, 2022, primarily due to the growth of our equipment portfolio, with equipment volume of aerial work platforms we re-rented to customers through the platform services joint mode increasing from 4,618 units as of December 31,2021 to 21,163 units as of December 31, 2022, which is in line with our strategy to expand our equipment volume in an asset-light manner.

Cost of sales

Our cost of sales increased by 44.0% from RMB3,295.2 million for the year ended December 31, 2021 to RMB4,744.6 million for the year ended December 31, 2022, primarily reflecting increases in cost of sales for operating lease services and engineering and technical services.

Operating lease services

Cost of sales for our operating lease services increased by 37.3% from RMB2,091.1 million for the year ended December 31, 2021 to RMB2,870.7 million for the year ended December 31, 2022, which was an increase in depreciation resulted from the increase in the carrying value of our equipment used for providing operating lease services.

Engineering and technical services

Cost of sales for our engineering and technical services increased by 39.0% from RMB1,076.6 million for the year ended December 31, 2021 to RMB1,496.3 million for the year ended December 31, 2022, which was generally in line with the increase in our revenue generated from engineering and technical services.

Platform and other services

Cost of sales for our platform and other services increased significantly from RMB127.5 million for the year ended December 31, 2021 to RMB377.7 million for the year ended December 31, 2022, primarily due to the growth of our equipment portfolio.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by 10.1% from RMB2,845.9 million for the year ended December 31, 2021 to RMB3,133.0 million for the year ended December 31, 2022. Our gross profit margin decreased from 46.3% for the year ended December 31, 2021 to 39.8% for the year ended December 31, 2022, primarily due to a decrease in gross profit margin for our operating lease services.

Operating lease services

Gross profit for operating lease services decreased by 2.2% from RMB2,372.3 million for the year ended December 31, 2021 to RMB2,319.2 million for the year ended December 31, 2022. Gross profit margin for operating lease services decreased from 53.1% for the year ended December 31, 2021 to 44.7% for the year ended December 31, 2022, primarily because the increase in cost of sales for providing operating lease services outpaced the increase in our revenue generated from operating lease services, which was primarily due to a decrease in the utilization rate for our equipment mainly attributable to the suspension of our operating leases with customers and suspension of operations of our service outlets in 2022 as a result of the COVID-19 pandemic.

Engineering and technical services

Gross profit for engineering and technical services increased by 44.7% from RMB442.6 million for the year ended December 31, 2021 to RMB640.4 million for the year ended December 31, 2022. Our gross profit margin for engineering and technical services remained relatively stable at 29.1% for the year ended December 31, 2021 and 30.0% for the year ended December 31, 2022.

Platform and other services

Gross profit for platform and other services increased significantly from RMB31.0 million for the year ended December 31, 2021 to RMB173.4 million for the year ended December 31, 2022. Gross profit margin for platform and other services increased from 19.6% for the year ended December 31, 2021 to 31.5% for the year ended December 31, 2022, primarily due to a higher proportion of revenue from platform services, which had relatively higher gross profit margins than that of sales of equipment, materials and spare parts.

Other Income and Gains

Our other income and gains decreased by 39.4% from RMB260.2 million for the year ended December 31, 2021 to RMB157.6 million for the year ended December 31, 2022, primarily due to a decrease in VAT super-credit of RMB151.5 million mainly because we only recognized VAT input tax surplus deduction for VAT payables that arose in 2022, while in 2021, we recognized VAT input tax surplus deduction for previously accumulated VAT payables. Please see "—Description of Major Components of Our Results of Operations—Other Income and Gains." This decrease was partially offset by an increase in government grants of RMB44.8 million as a result of financial subsidies received from local government authorities to support our business expansion.

Selling and Distribution Expenses

Our selling and distribution expenses decreased by 24.6% from RMB451.9 million for the year ended December 31, 2021 to RMB340.8 million for the year ended December 31, 2022, primarily due to a decrease in sales staff costs of RMB118.4 million mainly attributable to the decreased headcount as a result of staff restructuring.

Administrative Expenses

Our administrative expenses increased by 15.9% from RMB745.5 million for the year ended December 31, 2021 to RMB863.8 million for the year ended December 31, 2022, primarily due to (i) an increase in research and development expenses of RMB53.9 million, reflecting our enhanced research and development efforts; and (ii) an increase in information expenses of RMB12.8 million mainly attributable to increased royalties and other fees paid to information service providers in connection with our operations and supply chain management; and (iii) an increase in office expenses of RMB4.8 million mainly attributable to the growth of our business. The increase was partially offset by a decrease in administrative staff costs of RMB26.6 million mainly attributable to the decreased headcount as a result of staff restructuring.

ECLs of Financial and Contract Assets, Net

Our net ECLs of financial and contract assets decreased by 63.8% from RMB304.3 million for the year ended December 31, 2021 to RMB110.1 million for the year ended December 31, 2022, primarily due to a decrease in ECLs of trade receivables mainly attributable to our enhanced collection efforts of trade receivables.

Other Expenses

Our other expenses increased significantly from RMB51.7 million for the year ended December 31, 2021 to RMB157.3 million for the year ended December 31, 2022, primarily attributable to an increase in exchange losses of RMB139.5 million due to the appreciation of U.S. dollars against Renminbi in 2022, as a result of which we recognized exchange losses in connection with (i) redemption liabilities on ordinary shares, (ii) interest payables on redemption liabilities on ordinary shares and (iii) bank borrowings denominated in U.S. dollars.

Finance Costs

Our finance costs increased by 42.2% from RMB650.3 million for the year ended December 31, 2021 (including interest on redemption liabilities on ordinary shares of RMB64.0 million, which arose from the recipients of proceeds of our [**REDACTED**] Investments in 2021) to RMB924.8 million for the year ended December 31, 2022 (including interest on redemption liabilities on ordinary shares of RMB108.1 million), primarily due to an increase in our interest on interest-bearing bank and other borrowings of RMB282.9 million as a result of our increased external financing efforts.

Income Tax Expense

Our income tax expense increased by 17.8% from RMB192.9 million for the year ended December 31, 2021 to RMB227.2 million for the year ended December 31, 2022, reflecting an increase in our profit before tax recorded by our subsidiaries with taxable profit. Our effective tax rate increased from 21.4% for the year ended December 31, 2021 to 25.4% for the year ended December 31, 2022, primarily due to interest on redemption liabilities on ordinary shares, foreign exchange losses and [**REDACTED**] expenses incurred by the Company which was loss-making and therefore were not tax deductible.

Profit for the Year

As a result of the foregoing, our profit for the year decreased by 6.1% from RMB709.6 million for the year ended December 31, 2021 to RMB666.6 million for the year ended December 31, 2022.

Year ended December 31, 2021 compared to the year ended December 31, 2020

Revenue

Our revenue increased by 67.6% from RMB3,663.6 million for the year ended December 31, 2020 to RMB6,141.2 million for the year ended December 31, 2021, primarily reflecting our revenue increase in operating lease services and engineering and technical services.

Operating lease services

Revenue from operating lease services increased by 79.6% from RMB2,484.6 million for the year ended December 31, 2020 to RMB4,463.3 million for the year ended December 31, 2021, primarily due to growing demands for our operating lease services for aerial work platforms, neo-excavation systems and neo-formwork systems. Specifically, we have further grown our equipment portfolio, with equipment volume of (i) aerial work platforms we owned increasing by 68.1% from 55.1 thousand units as of December 31, 2020 to 92.6 thousand units as of December 31, 2021; (ii) neo-excavation systems increasing by 57.9% from 973.7 thousand tons as of December 31, 2020 to 1,537.9 thousand tons as of December 31, 2021; and (iii) neo-formwork systems increasing by 58.0% from 338.3 thousand tons as of December 31, 2020 to 534.4 thousand tons as of December 31, 2021. As a result, our customer base grew from approximately 47,000 for the year ended December 31, 2020 to approximately 97,000 for the year ended December 31, 2021.

Engineering and technical services

Revenue from engineering and technical services increased by 43.0% from RMB1,062.8 million for the year ended December 31, 2020 to RMB1,519.3 million for the year ended December 31, 2021. This was due to the increase in orders received for our engineering and technical services as we gradually diversify our equipment operation services portfolio, thus achieving the strategic benefits of a comprehensive and multidimensional service and equipment offering. We adjusted our service portfolio for our engineering and technical services in 2020, in which more labor-intensive on-site construction services were provided in order to facilitate the cross-selling of our engineering and technical services and operating lease services.

Platform and other services

Revenue from platform and other services increased by 36.3% from RMB116.3 million for the year ended December 31, 2020 to RMB158.5 million for the years ended December 31, 2021, primarily due to an increase in sales of equipment, materials and spare parts.

Cost of sales

Our cost of sales increased by 63.5% from RMB2,015.2 million for the year ended December 31, 2020 to RMB3,295.2 million for the year ended December 31, 2021, which was generally in line with the increase in our revenue.

Operating lease services

Cost of sales for our operating lease services increased by 76.4% from RMB1,185.4 million for the year ended December 31, 2020 to RMB2,091.1 million for the year ended December 31, 2021, which was generally in line with the increase in our revenue generated from operating lease services.

Engineering and technical services

Cost of sales for our engineering and technical services increased by 42.3% from RMB756.8 million for the year ended December 31, 2020 to RMB1,076.6 million for the year ended December 31, 2021, primarily due to increased staff costs and external labor costs that are involved in certain of our more labor-intensive on-site construction services.

Platform and other services

Cost of sales for our platform and other services increased by 74.6% from RMB73.0 million for the year ended December 31, 2020 to RMB127.5 million for the year ended December 31, 2021, primarily due to the increase in sales.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by 72.7% from RMB1,648.4 million for the year ended December 31, 2020 to RMB2,845.9 million for the year ended December 31, 2021. Our gross profit margin remained relatively stable at 45.0% for the year ended December 31, 2020 and 46.3% for the year ended December 31, 2021.

Operating lease services

Gross profit for operating lease services increased by 82.6% from RMB1,299.2 million for the year ended December 31, 2020 to RMB2,372.3 million for the year ended December 31, 2021. Gross profit margin for operating lease services remained relatively stable at 52.3% for the year ended December 31, 2020 and 53.1% for the year ended December 31, 2021.

Engineering and technical services

Gross profit for engineering and technical services increased by 44.7% from RMB305.9 million for the year ended December 31, 2020 to RMB442.6 million for the year ended December 31, 2021. Our gross profit margin for engineering and technical services remained relatively stable at 28.8% for the year ended December 31, 2020 and 29.1% for the year ended December 31, 2021.

Platform and other services

Gross profit for platform and other services decreased by 28.3% from RMB43.3 million for the year ended December 31, 2020 to RMB31.0 million for the year ended December 31, 2021. Gross profit margin for platform and other services decreased from 37.2% for the year ended December 31, 2020 to 19.6% for the year ended December 31, 2021, primarily due to a higher proportion of sales of certain materials which had relatively lower gross profit margins.

Other Income and Gains

Our other income and gains increased significantly from RMB79.6 million for the year ended December 31, 2020 to RMB260.2 million for the year ended December 31, 2021, primarily due to an increase in VAT super-credit of RMB193.6 million mainly because it became reasonably assured in 2021 that seven of our subsidiaries (primarily from Shanghai Horizon Equipment & Engineering and Guangzhou Hongtu Equipment & Engineering) would be eligible for VAT input tax surplus deduction to offset VAT payable pursuant to the Announcement on Deepening Policies related to VAT reformation (《財政部稅務總局海關總署關於深化增值稅改革有關政策的公告》) (Announcement of Ministry of Finance, the General Administration of Taxation and the General Administration of Customs [2019] No. 39 財政部稅務總局海關總署公告[2019年]第39號) issued by the Ministry of Finance, the General Administration of Taxation and the General Administration of Customs. Specifically, these subsidiaries filed applications for VAT input tax surplus deduction for previously accumulated VAT payables to, and the applications were accepted by, the relevant tax authorities in 2021.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 65.5% from RMB273.1 million for the year ended December 31, 2020 to RMB451.9 million for the year ended December 31, 2021, primarily due to an increase in sales staff costs of RMB149.5 million mainly attributable to the increased headcount to support our business expansion and increased compensation level of sales staff.

Administrative Expenses

Our administrative expenses increased by 81.2% from RMB411.4 million for the year ended December 31, 2020 to RMB745.5 million for the year ended December 31, 2021, primarily due to (i) an increase in administrative staff costs of RMB167.7 million mainly attributable to the increased headcount and compensation level of administrative staff; (ii) an increase in research and development expenses of RMB63.1 million, reflecting our increased efforts in research and development; and (iii) an increase in office expenses of RMB11.9 million mainly attributable to the growth of our business.

ECLs of Financial and Contract Assets, Net

Our net ECLs of financial and contract assets increased significantly from RMB91.8 million for the year ended December 31, 2020 to RMB304.3 million for the year ended December 31, 2021, primarily due to increases in our trade receivables and contract assets which were generally in line with the growth of our business.

Other Expenses

Our other expenses increased significantly from RMB6.2 million for the year ended December 31, 2020 to RMB51.7 million for the year ended December 31, 2021, primarily due to (i) an increase in commission expenses mainly attributable to an increase in the scale of our bank and other borrowings; and (ii) provisions for in-process litigation claims.

Finance Costs

Our finance costs increased significantly from RMB304.0 million for the year ended December 31, 2020 to RMB650.3 million for the year ended December 31, 2021, primarily due to an increase in our interest on interest-bearing bank and other borrowings of RMB393.3 million (including interest on redemption liabilities on ordinary shares of RMB64.0 million, which arose from the recipients of proceeds of our [**REDACTED**] Investments in 2021) as a result of our increased external financing efforts. This increase was offset by a decrease in our interest on lease liabilities of RMB47.0 million mainly because we concluded the finance lease from Far East Horizon.

Income Tax Expense

Our income tax expense increased by 30.2% from RMB148.1 million for the year ended December 31, 2020 to RMB192.9 million for the year ended December 31, 2021, reflecting an increase in our profit before tax as a result of our business growth. Our effective tax rate decreased from 23.1% for the year ended December 31, 2020 to 21.4% for the year ended December 31, 2021, primarily due to a higher proportion of profit before tax from Shanghai Horizon Equipment & Engineering which was entitled to a preferential income tax rate of 15%.

Profit for the Year

As a result of the foregoing, our profit for the year increased by 43.8% from RMB493.4 million for the year ended December 31, 2020 to RMB709.6 million for the year ended December 31, 2021.

DESCRIPTION OF CERTAIN ITEMS IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The following table sets out our consolidated statement of financial position as of the dates indicated:

	As of December 31,		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets			
Property, plant and equipment	10,348,017	18,278,063	19,102,390
Right-of-use assets	681,881	321,214	335,222
Other intangible assets	4,946	4,611	3,797
Derivative financial instruments	–	–	2,379
Prepayments, other receivables and other assets	–	120,683	174,980
Deferred tax assets	182,113	263,859	333,081
Restricted bank balances	642	–	–
Total non-current assets	**11,217,599**	**18,988,430**	**19,951,849**
Current assets			
Inventories	165,757	291,365	186,217
Trade receivables	2,529,852	4,198,258	4,486,990
Contract assets	110,132	276,859	304,295
Prepayments, other receivables and other assets	1,235,084	2,055,489	2,103,819
Financial assets at fair value through profit or loss	–	150,051	–
Debt investments at fair value through other comprehensive income	190,940	480,140	1,036,355
Restricted bank balances	24,009	13,023	62,944

	As of December 31,		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Cash and cash equivalents	165,830	506,991	2,159,325
Total current assets	**4,421,604**	**7,972,176**	**10,339,945**
Current liabilities			
Trade and bills payables	896,440	1,435,700	1,109,794
Other payables and accruals	640,535	1,257,869	736,808
Interest-bearing bank and other borrowings	2,435,389	5,064,932	6,143,418
Lease liabilities	628,285	65,545	59,927
Tax payables	93,292	166,130	141,020
Total current liabilities	**4,693,941**	**7,990,176**	**8,190,967**
Net current (liabilities)/assets	**(272,337)**	**(18,000)**	**2,148,978**
Total assets less current liabilities	**10,945,262**	**18,970,430**	**22,100,827**
Non-current liabilities			
Other payables and accruals	150,489	241,715	266,266
Derivative financial instruments	–	6,907	2,257
Interest-bearing bank and other borrowings	5,382,124	12,632,834	15,068,696
Lease liabilities	92,458	60,743	71,332
Deferred tax liabilities	–	–	357
Deferred revenue	18,442	17,270	16,684
Total non-current liabilities	**5,643,513**	**12,959,469**	**15,425,592**
Net assets	**5,301,749**	**6,010,961**	**6,675,235**
EQUITY			
Equity attributable to owners of the parent			
Share capital	327	370	370
Reserves	5,300,996	6,010,591	6,674,865
	5,301,323	6,010,961	6,675,235
Non-controlling interests	426	–	–
Total equity	**5,301,749**	**6,010,961**	**6,675,235**

Property, Plant and Equipment

Our property, plant and equipment primarily consists of (i) buildings; (ii) leasehold improvements, (iii) equipment, materials and molds for operating lease; (iv) equipment, materials and molds for own use; (iv) office and other equipment; (v) motor vehicles and (vi) construction in progress. The carrying value of our property, plant and equipment increased from RMB10,348.0 million as of December 31, 2020 to RMB18,278.1 million as of December 31, 2021, and further increased to RMB19,102.4 million as of December 31, 2022, primarily reflecting our addition of property, plant and equipment as a result of our procurement to support the expansion of our operating lease services.

Right-of-use Assets

As of the lease commencement date, we recognize right-of-use assets and the corresponding lease liabilities, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. Our right-of-use assets decreased from RMB681.9 million as of December 31, 2020 to RMB321.2 million as of December 31, 2021, primarily reflecting transfer to property, plant and equipment, as repayments in relation to our financial leases were made in the year. Our right-of-use assets remained relatively stable at RMB321.2 million as of December 31, 2021 and RMB335.2 million as of December 31, 2022.

Deferred Tax Assets

Our deferred tax assets primarily relate to (i) provision for impairment losses arising from trade receivables; and (ii) salaries and benefits payable. Our deferred tax assets increased from RMB182.1 million as of December 31, 2020 to RMB263.9 million as of December 31, 2021, primarily due to increases in provision for impairment losses in relation to our trade receivables and in provision for salaries and benefits payable. Our deferred tax assets increased from RMB263.9 million as of December 31, 2021 to RMB333.1 million as of December 31, 2022, primarily due to provision for certain expenses.

Inventories

Our inventories primarily consist of (i) raw materials, which primarily include raw materials used for manufacturing our neo-formwork system and spare parts used for repairing our aerial work platform; (ii) work in progress, which represent our self-manufactured neo-formwork system; and (iii) finished goods held for sale in the ordinary course of business. Apart from intra group sales and transferring to our property, plant and equipment or serving for our own sales, some of our inventories are spare parts that serve for our operating lease services and engineering and technical services. As one of the main businesses of our Group is the production and sales of neo-formwork structures, such structures are produced for the dual purpose of sales and providing for operating leasing services. Whilst some of such neo-formwork structures can be sold within our Group and may eventually become our Group's fixed assets, they can still fulfil its purpose for external sales before being internally sold. Thus they were accounted as finished goods under inventory before internally sold. The following table sets forth a breakdown of our inventories as of the date indicated.

	As of December 31,		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	84,358	126,256	84,697
Work in progress	14,206	77,871	18,799
Finished goods	67,193	87,238	82,721
Total	**165,757**	**291,365**	**186,217**

Our inventories increased from RMB165.8 million as of December 31, 2020 to RMB291.4 million as of December 31, 2021, primarily due to (i) an increase in work in progress of RMB63.7 million; and (ii) an increase in raw materials of RMB41.9 million mainly attributable to increased manufacturing efforts in relation to the neo-formwork system (equipment volume of which increased from 338.3 thousand tons as of December 31, 2020 to 534.4 thousand tons as of December 31, 2021). Our inventories decreased from RMB291.4 million as of December 31, 2021 to RMB186.2 million as of December 31, 2022, primarily due to (i) a decrease in work in progress of RMB59.1 million; and (ii) a decrease in raw materials of RMB41.6 million mainly attributable to decreased manufacturing efforts in relation to the neo-formwork system in response to changes in market demands (equipment volume of which increased from 534.4 thousand tons as of December 31, 2021 to 622.6 thousand tons as of December 31, 2022). We are of the view that an analysis of our inventory turnover days is not meaningful because inventory turnover days is not applicable to us due to our business nature which mainly involves operating leasing services for equipment. Our inventories, which accounted for 1.1%, 1.1% and 0.6% of our total assets as of December 31, 2020, 2021 and 2022, respectively, mainly consisted of (i) self-manufactured neo-formwork system; (ii) externally purchased raw materials; and (iii) finished goods we planned to transfer to our property, plant and equipment. Apart from transferring to our property, plant and equipment or serving for our own sales, some of our inventories are spare parts that serve for our operating lease services and engineering and technical services.

We regularly monitor our inventory and conduct stock takes in accordance with our in-house measurement methods in relation to inventory assets, and other inventory management policies, and issue inventory reports. Under such in-house manuals, the allocation of assets such as equipment/materials is dynamic. Asset inventory for rent in various areas are combined with those in newly established service outlets and bases for asset allocation, purchase or disposal based on our overall business objectives and asset mobilization rates. Our asset inspection team under the Asset Management Department inspects the assets inventory reports and the asset compliance management of each service outlet and base, and publicizes penalties for violations. We also promote the use of the warehouse management systems and personal digital assistant ("**PDA**") applications (such as barcode scanners) to ensure the standardization of our inventory assets. For such reasons, our Directors confirm that there are not any major internal control weakness in relation to our Group's inventory management. Having considered the view of the Directors and based on the due diligence work conducted by the Joint Sponsors, including but not limited to reviewing the internal control policies on inventory and property, plant and equipment management of our Company with the assistance of an independent internal control consultant pursuant to a scope agreed among our Company, the Joint Sponsors and the internal control consultant, interviewing with the management of our Company on the policies and measures on the stock-take of inventory and property, plant and equipment and the reasons for the gain on stock-take of physical assets, and discussing with the Reporting Accountants on the procedures conducted in relation to our Company's inventory and property, plant and equipment, nothing has come to the Joint Sponsors' attention that would reasonably cause them to cast doubt on the reasonableness of the view of the Directors above.

As disclosed in page I-2 of Appendix I of the [**REDACTED**], the Reporting Accountant stated that "In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control." The Reporting Accountant had performed audit procedures to form their opinion on our Group's Historical Financial Information as a whole, during their work in performing procedures to obtain audit evidence, the Reporting Accountants were not aware of any significant internal control weakness and deficiencies which may have an adverse effect on their opinion to the Historical Financial Information.

As of February 28, 2023, RMB71.6 million or 38.4% of our inventories as of December 31, 2022, were subsequently utilized. Such subsequent utilization of inventory was calculated as the percentage of subsequent settlement utilization amount (gross amount) to net carrying amount of inventory as of December 31, 2022, respectively. Our settlement progress is relatively slow in the first quarter of a year as a result of the Chinese New Year, which in turn, reduces the business activities and labor force in the market. In addition, apart from externally purchased raw materials and neo-formwork structures transferring to our property, plant and equipment or serving for our own sales, we keep a certain amount of spare parts in inventory, which are reserved to serve for our operating lease services and engineering and technical services. As such, the Directors believe that there was no recoverability issue for inventories and sufficient provision has been made.

Trade Receivables

Our trade receivables represent outstanding amounts due from customers for our services. The following table sets forth our trade receivables as of the dates indicated.

	As of December 31,		
	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	3,103,878	5,033,365	5,387,345
ECLs	(574,026)	(835,107)	(900,355)
Total	**2,529,852**	**4,198,258**	**4,486,990**

Before allowance for impairment of trade receivables, as of December 31, 2020, 2021 and 2022, our trade receivables were RMB3,103.9 million, RMB5,033.4 million and RMB5,387.3 million, respectively. The increases in our trade receivables throughout the Track Record Period were primarily due to the increases in our revenue and business scale as a result of our business expansion.

We apply the simplified approach to provide for the expected credit loss of trade receivable prescribed by HKFRS 9, under which we do not track changes in credit risk, but recognize a loss allowance based on lifetime ECLs at each reporting date instead. We have established a provision matrix that is based on our historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. For details, please see Note 18 to the Accountant's Report in Appendix I to this [**REDACTED**].

In terms of our management of trade receivables, we take into account the characteristics and credit risks of our customers, and we evaluate their ECL based on factors such as (i) their aging analysis; (ii) their litigations or business disputes or (iii) their payments. For customers that were neither related to litigation or business disputes nor default of payment, their ECL is calculated by reference of their aging analysis. For customers related to litigation, business disputes and default of payment, due to the higher credit risks involved, their impairment provision is calculated based on historical defaults. Our total trade receivables increased yearly between the years ended December 31, 2020, 2021 and 2022, which resulted in increases in the provision for ECL of our trade receivables.

The following table sets forth the aging analysis of our trade receivables (net of ECLs) as of the date indicated based on invoice date and trade receivables turnover days for the periods indicated.

	As of December 31,*		
	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Within 6 months	1,294,996	2,810,217	3,362,705
6 months to 1 year	623,737	804,785	516,793
1 to 2 years	396,172	372,692	454,728
2 to 3 years	128,220	131,084	79,021
Over 3 years	86,727	79,480	73,743
Total	**2,529,852**	**4,198,258**	**4,486,990**
Trade receivables turnover days[1]	252	250	208

(1) Trade receivables turnover days for each year equals the ending balance of trade receivables (net of ECLs) for that year divided by revenue for that year and multiplied by 365.

* Net of ECL. settlement amount (gross amount) to trade receivables (net of ECL).

Our trade receivables turnover days remained relatively stable at 252 days for the year ended December 31, 2020 and 250 days for the year ended December 31, 2021. Our trade receivables turnover days decreased from 250 days for the year ended December 31, 2021 to 208 days for the year ended December 31, 2022, primarily due to our enhanced collection efforts in 2022. Specifically, we have established a designated team which is specialized in collection of receivables (a change from our previous practice of having business teams responsible for collection of receivables on their own) and responsible for promptly following up with collection of trade receivables and taking initiatives to negotiate settlement plans and timetables.

Our Directors are of the view that, the trade receivable average turnover days being well above 200 days is in line with common practice in the market. It is a common industry phenomenon for customers to significantly delay with the payment of receivables, and that industry players would have to adopt various methods to collect payment. We will continue our payment collection methods at a certain period after the expiry of our customers' credit period, as per our trade receivables collection policy. We believe that such collection efforts would still be more effective when implemented at an earlier stage instead of allowing a longer credit period to our customers. Typically, the peak of our collection efforts take place at the beginning of the year until the Chinese New Year holidays.

We have implemented systematic risk management assessment policies to evaluate the credit history and financial condition of our customers. We conduct on-site evaluations of our customers' operations as necessary. We review our trade receivables balance and follow up with our customers with overdue trade receivables on a quarterly basis. We recognize trade receivables as impaired and provision for doubtful receivables with reference to our past recoverability, the quarterly review of aging periods of such receivables and observable changes in economic conditions that correlate with default on receivables.

For trade receivables which were past due for over 180 days, we generally decide to grant non-recurring extensions of credit periods. In making such decision, we take into account (i) whether such customer has a proven record of credibility of settling the outstanding amounts due to us; (ii) the background of the customer (as in general, SOEs had better credit history and long-term deals with us); (iii) the significance of the transaction amounts in relation to this customer; (iv) such customer maintains stable business operations and is financially sound, to the best knowledge of our sales team; and (v) the balancing consideration between reducing trade receivable turnover days or to maintain a sustainable and cooperative relationship with our larger customers. Such decision is reached after careful consideration and assessment by our senior management, finance team and sales team in accordance with our internal credit control procedures. If we decide to extend their credit period, we issue payment reminders to these customers. For trade receivables which were past due for over 365 days from the date of receiving our formal invoice, we generally will consider taking debt recovery actions unless there is commercial justification not to do so.

Such trade receivable average turnover days is in line with common practice in the market. According to the F&S Report, companies that are engaged in construction in China generally have long payment cycles, as they will need to collect their payment from property developers or commissioning government bodies, thus the service providers ofsuch customers (which fits the description of most of our customers) usually have relatively long average trade receivables turnover days being well above 140 days. Hence, it is customary for equipment services providers to extend their credit terms to their customers. Moreover, the average trade receivables turnover days in this industry in 2020 was at around 283 days. For the three years ended December 31, 2020, 2021 and 2022, revenue generated from construction industry customers represented 94.5%, 94.5% and 95.1% of our total revenue, respectively.

Moreover, according to the F&S Report, although it is an industrial norm that the payment approval process for Chinese SOEs are typically complicated and time consuming, SOEs and listed non-SOEs with sound financial positions generally have low recoverability issues. For the three years ended December 31, 2020, 2021 and 2022, revenue generated from SOEs represented 36.5%, 28.0% and 27.4% of our total revenue, respectively.

Despite being over a seemingly longer recovery period, in generally terms, we can subsequently settle most of our trade receivables. As of February 28, 2023, RMB2,587.2 million or 83.4%, RMB2,768.5 million or 55.0% and RMB1,082.0 million or 20.1% of our trade receivables as of December 31, 2020, 2021 and 2022, had been subsequently settled. Such subsequent settlement of trade receivable rate was calculated as the percentage of subsequent settlement amount (gross amount) to trade receivables (gross amount) as of December 31, 2020, 2021 and 2022, respectively. Furthermore, during the Track Record

Period, we had not encountered any material bad debts being written-off or any payment default that would lead to a materially adverse impact on our financial condition. Most of our trade receivables were recovered through our collection payment mechanism and long-term relationship engaged with our core customers. Among the trade receivables as of December 31, 2022, approximately RMB340.6 million was subject to legal action. Such trade receivables that were subject to legal action were owed to us from over 420 customers, among which (i) three of them were listed companies in the PRC with trade receivables totaling at around RMB5.3 million; (ii) 9 of them were SOEs with trade receivables totaling at around RMB31.2 million; (iii) 14 of them were local SOEs with trade receivables totaling at around RMB36.6 million; (iv) 21 of them were natural persons customers with trade receivables totaling at around RMB5.0 million; and (v) over 370 ordinary commercial entities with trade receivables totaling at around RMB262.5 million. Such customers had trade receivables over 365 days, and had not responded to our debt recovery action (which mostly include frequent visits or communications with such customers to understand their financial position and their ability to settle their trade receivables) and our management has decided not to grant any further extensions on their credit period. These legal actions were the outcome of any failed attempts in debt recovery actions made in relation to our customers with trade receivables over one year. As of February 28, 2023, about 173 of such cases had been either judged at first instance, judged at second instance, concluded at the courts, or enforcements had been applied for, and RMB119.2 million had been re-allocated to our subsequent settlement of trade receivables as a result. Nevertheless, during the Track Record Period, we had not encountered any material payment default by our customers.

We also believe that our capability to recover trade receivables is built upon our customers' reliance on our services and the number of operating leases that still remain active with such customers. As of December 31, 2022, the contract value of our operating leases with an expiry date of less than one year, more than one year but less than two years, and more than two years but less than three years amounted to RMB4,361.2 million, RMB535.5 million and RMB17.3 million, respectively. In other words, many of the customers who had unpaid trade receivables, had still been engaging us with operating leases well beyond the Track Record Period. Whilst according to our trade receivables management policies, we would consider taking debt recovery actions for trade receivables which were past due for over 365 days from the date of issue of our Group's formal invoice, we believe that the end result of such debt recovery actions, i.e. legal action, should be last resort. According to our internal policies, we will first consider the credit of the customer, the relationship we have with the customer and the payment records of such customer before moving on with debt recovery actions. We would first send our sales team members to reach out to such customers to ask for payment, or at least an update on their latest situation in regards to payment. However, if such recovery actions could not reach our expectations, we will then have to consider whether or not to continue to communicate and resolve such issues with our customers, or escalate to legal action. As indicated above, out of the trade receivables of RMB340.6 million subject to legal action, only RMB119.2 million was subsequently settled through legal means as of February 28, 2023. Legal action and is also seen to be time consuming and uncertain, even after being judged at first instance, and the case can be reheard in the second instance upon appeal. Moreover, our trade receivables outstanding for over one year amounted to RMB611.1

million, RMB583.3 million and RMB607.5 million as at December 31, 2020, 2021 and 2022, respectively. For such reasons, our Directors are of the general opinion against taking excessive debt recovery action in relation to our trade receivables. Our Directors expect it the best interests of such customers to fulfil their payment obligations in order to maintain the sustained provision of our services.

Based on the aforesaid, our Directors believe that we have no recoverability issue for our trade receivables that aged over one year. Furthermore, considering that (i) we had not encountered any material bad debts being written off or any payment default that would lead to a materially adverse impact on our financial condition during the Track Record Period; (ii) as of February 28, 2023, RMB2,587.2 million or 83.4%, RMB2,768.5 million or 55.0%, RMB1,082.0 million or 20.1% of our trade receivables aged as of December 31, 2020, 2021 and 2022 had been subsequently settled; (iii) as of February 28, 2023, approximately RMB119.2 million of our trade receivables as of December 31, 2022 was subsequently settled through legal means; and (iv) we have established a provision matrix that is based on our historical credit loss experience, taking into account factors including aging analysis, defaults and legal actions (if any), adjusted for forward-looking factors specific to the debtors and the economic environment, pursuant to which our average ECL rate for trade receivables that aged over one year (defined as expected credit loss for trade receivables that aged over one year divided by gross carrying amount of such receivables) as of December 31, 2022 was 35% (while our trade receivables subject to legal actions generally had higher ECL rates); our Directors are of the view that sufficient provision has been made in relation to our trade receivables.

Prepayments, Other Receivables and Other Assets

Our prepayments, other receivables and other assets primarily consist of (i) prepayments, which primarily relate to our procurement of equipment; (ii) rental and project deposits, which primarily relate to deposits for other borrowings obtained from non-bank financial institutions, deposits we paid to bid for projects, performance deposits and deposits we paid to equipment providers for the re-renting of equipment; (iii) due from related parties, mainly comprising (a) receivables due from International Far Eastern Leasing Co., Ltd. and Shanghai Horizon Construction Investment Co., Ltd. arising from certain infrastructure projects and (b) outstanding balance of deposits we placed with International Far Eastern Leasing Co., Ltd. and Shanghai Horizon Construction Investment Co., Ltd. pursuant to certain fund pool contracts; and (iv) tax recoverable, which primarily include our input VAT to be credited. The following table sets forth a breakdown of our prepayments, other receivables and other assets as of the date indicated.

	As of December 31,		
	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Current			
Prepayments	211,109	249,037	304,500
Rental and project deposits	89,850	98,454	337,415
Due from related parties	194,401	1,774	159
Other receivables	41,873	57,936	90,193
Tax recoverable	715,163	1,664,016	1,400,331
Total	**1,252,396**	**2,071,217**	**2,132,598**
ECLs	(17,312)	(15,728)	(28,779)
	1,235,084	2,055,489	2,103,819
Non-current			
Project deposits	–	121,000	144,000
Others	–	–	31,079
ECLs	–	(317)	(99)
	–	120,683	174,980

Our prepayments, other receivables and other assets increased from RMB1,235.1 million as of December 31, 2020 to RMB2,176.2 million as of December 31, 2021, primarily due to an increase in tax recoverable mainly attributable to an increase in deductible input value added tax as a result of our equipment procurement to support the expansion of our operating lease services, which was partially offset by a decrease in amount due from related parties of RMB192.6 million mainly attributable to repayment of deposits we placed with International Far Eastern Leasing Co., Ltd. and Shanghai Horizon Construction Investment Co., Ltd. as we terminated the fund pool contracts in 2021. Our prepayments, other receivables and other assets remained relatively stable at RMB2,176.2 million as of December 31, 2021 and RMB2,278.8 million as of December 31, 2022. The significant increase in our rental and project deposits from RMB98.5 million as of December 31, 2021 to RMB337.4 million was mainly due to the growth of our business and an increase in the volume of equipment we re-rented to customers.

As of February 28, 2023, RMB97.2 million or 6.9% of our tax recoverable as of December 31, 2022, were subsequently settled.

Contract Assets

Our contract assets represent retention receivables arising from our construction services. Contract assets are initially recognized for revenue earned from construction services as the receipt of consideration is conditional on successful completion of construction and acceptance by the customer, respectively. Upon completion of installation or construction and acceptance by the customer, the amounts recognized as contract assets are reclassified to trade receivables. Our contract assets increased from RMB110.1 million as of December 31, 2020 to RMB276.9 million as of December 31, 2021, and further increased to RMB304.3 million as of December 31, 2022, primarily due to our business expansion for construction services. As of February 28, 2023, RMB121.3 million or 36.2% of our contract assets as of December 31, 2022, were subsequently certified. Such subsequent certification was calculated as the percentage of subsequent settlement amount (gross amount) to contract assets (net of ECL) as of December 31, 2022.

For the years ended December 31, 2020, 2021 and 2022, our average turnover days of trade receivables and contract assets (combined), were 263, 266 and 222 days, respectively. The decrease of such turnover days during the year ended December 31, 2022 was mainly attributable to our enhanced collection efforts in 2022. Specifically, we have established a designated team which is specialized in collection of receivables (a change from our previous practice of having business teams responsible for collection of receivables on their own) and responsible for promptly following up with collection of trade receivables and taking initiatives to negotiate settlement plans and timetables.

Financial Assets at Fair Value through Profit or Loss

Our financial assets at fair value through profit or loss represent certain wealth management products purchased from a State-owned financial institution in the PRC with floating rates in 2021. As of December 31, 2021, our financial assets at fair value through profit or loss was RMB150.1 million. We redeemed such wealth management products in January 2022.

Debt Investments at Fair Value Through Other Comprehensive Income

Debt investments at FVOCI represent notes receivables in relation to our business operation. Our debt investments at FVOCI increased from RMB190.9 million as of December 31, 2020 to RMB480.1 million as of December 31, 2021, and further increased to RMB1,036.4 million as of December 31, 2022, primarily due to an increase in payments from customers through bank bills and commercial bills.

Cash and Cash Equivalents

Our cash and cash equivalents primarily represent cash we have in bank accounts. As of December 31, 2020, 2021 and 2022, our cash and cash equivalents amounted to RMB165.8 million, RMB507.0 million and RMB2,159.3 million, respectively.

Trade and Bills Payables

Our trade and bills payables primarily relate to payments due to our suppliers for procurement of equipment and raw materials. During the Track Record Period, our suppliers generally granted us a credit period of 30 to 60 days from the invoice date. The following table sets forth an aging analysis of our trade and bills payables as of the date indicated based on the invoice date and trade and bills payable turnover days for the years indicated.

	As of December 31,		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	755,532	1,367,239	1,002,327
One to two years	97,004	45,334	84,800
Two to three years	25,375	11,405	9,751
Over three years	18,529	11,722	12,916
Total	**896,440**	**1,435,700**	**1,109,794**
Trade and bills payables turnover days[(1)]	47	49	106

(1) Trade and bills payables turnover days for each year equals the ending balance of trade and bills payables for that year divided by total purchases of property, plant and equipment for that year and multiplied by 365.

Our trade and bills payables increased from RMB896.4 million as of December 31, 2020 to RMB1,435.7 million as of December 31, 2021, and then decreased to RMB1,109.8 million as of December 31, 2022, reflecting the level of procurement and amounts due to suppliers as of these dates. Our trade and bills payables turnover days remained relatively stable at 47 days and 49 days for the years ended December 31, 2020 and 2021, respectively. Our trade and bills payables turnover days increased from 49 days for the year ended December 31, 2021 to 106 days for the year ended December 31, 2022, primarily due to (i) a decrease in purchases of property, plant and equipment in line with our strategy to expand our equipment volume in an asset-light manner; and (ii) our enhanced supplier management efforts, such as using bills received from our customers to settle our payables.

As of February 28, 2023, RMB639.7 million or 57.6% of our trade and bills payables asof December 31, 2022, was subsequently settled.

Other Payables and Accruals

Our other payables and accruals primarily include (i) payables due to related parties, which mainly represent amount payables due to Shanghai Donghong Co., Ltd. and Far East Horizon; (ii) lease deposits, which represent deposits paid by our customers in relation to equipment they lease; (iii) salary and welfare payables to our employees; (iv) advanced lease payments, which mainly relate to prepayments from customers for operating lease services; (v) contract liabilities, which represent advances we received to deliver engineering and technical services; (vi) interest payable in connection with our bank and other borrowings; and (vii) other taxes payables, which primarily relate to VAT payable. The following table sets forth a breakdown of our other payables and accruals as of the date indicated.

	As of December 31,		
	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Current			
Lease deposits	46,040	39,002	23,454
Salary and welfare payables	129,999	245,567	214,118
Advanced lease payments	76,298	530,560	251,934
Contract liabilities	36,960	114,520	47,047
Other taxes payable	125,139	215,766	85,005
Interest payable	24,240	63,555	65,775
Other payables	46,380	48,837	49,452
Due to related parties	155,479	62	23
	640,535	1,257,869	736,808
Non-current			
Lease deposits	150,489	165,879	71,259
Interest payable	–	63,968	181,159
Provisions	–	11,868	13,848
	150,489	241,715	266,266
Total	**791,024**	**1,499,584**	**1,003,074**

Our other payables and accruals increased from RMB791.0 million as of December 31, 2020 to RMB1,499.6 million as of December 31, 2021, primarily due to an increase in advanced lease payments of RMB454.3 million. Our other payables and accruals decreased from RMB1,499.6 million as of December 31, 2021 to RMB1,003.1 million as of December 31, 2022, primarily due to (i) a decrease in advanced lease payments of RMB278.6 million, and (ii) a decrease in other taxes payables of RMB130.8 million.

Our contract liabilities increased from RMB37.0 million as of December 31, 2020 to RMB114.5 million as of December 31, 2021, primarily due to the growth of our business in engineering and technical service segment. Our contract liabilities decreased from RMB114.5 million as of December 31, 2021 to RMB47.0 million as of December 31, 2022, primarily due to our adjusted credit policy to grant credit terms (instead of requiring prepayments) to certain major customers.

Our advanced lease payments increased from RMB76.3 million as of December 31, 2020 to RMB530.6 million as of December 31, 2021, primarily due to the growth of our business in operating lease service segment. Our contract liabilities decreased from RMB530.6 million as of December 31, 2021 to RMB251.9 million as of December 31, 2022, primarily due to our adjusted credit policy to grant credit terms (instead of requiring prepayments) to certain major customers.

Our other taxes payables increased from RMB125.1 million as of December 31, 2020 to RMB215.8 million as of December 31, 2021, primarily because VAT payables we recognized in connection with certain intra-group transactions in 2021 remained unsettled as of December 31, 2021. Our other taxes payables decreased from RMB215.8 million as of December 31, 2021 to RMB85.0 million as of December 31, 2022, primarily due to our settlement of such VAT payables in 2022.

As of February 28, 2023, RMB5.0 million or 10.6% of our contract liabilities as of December 31, 2022, had been subsequently recognized as revenue.

Tax Payables

Our tax payables represent PRC EIT payables. Our tax payables amounted to RMB93.3 million, RMB166.1 million and RMB141.0 million as of December 31, 2020, 2021 and 2022, respectively.

Lease Liabilities

Lease liabilities represent our obligations under the existing leases. As of the lease commencement date, we recognize the corresponding lease liabilities for our right-of-use assets, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. Our lease liabilities decreased from RMB720.7 million as of December 31, 2020 to RMB126.3 million as of December 31, 2021, primarily due to (i) repayments in relation to our financial leases made during the relevant years; and (ii) the conclusion of our long-term finance lease. Our lease liabilities remained relatively stable at RMB126.3 million as of December 31, 2021 and RMB131.3 million as of December 31, 2022.

NET CURRENT LIABILITIES/ASSETS

The following table sets forth details of our net current liabilities/assets as of the date indicated:

	As of December 31,		
	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Current assets			
Inventories	165,757	291,365	186,217
Trade receivables	2,529,852	4,198,258	4,486,990
Contract assets	110,132	276,859	304,295
Prepayments, other receivables and other assets	1,235,084	2,055,489	2,103,819
Financial assets at fair value through profit or loss	–	150,051	–
Debt investments at fair value through other comprehensive income	190,940	480,140	1,036,355
Restricted deposits	24,009	13,023	62,944
Cash and cash equivalents	165,830	506,991	2,159,325
Total current assets	**4,421,604**	**7,972,176**	**10,339,945**
Current liabilities			
Trade and bills payables	896,440	1,435,700	1,109,794
Other payables and accruals	640,535	1,257,869	736,808
Interest-bearing bank and other borrowings	2,435,389	5,064,932	6,143,418
Lease liabilities	628,285	65,545	59,927
Tax payables	93,292	166,130	141,020
Total current liabilities	**4,693,941**	**7,990,176**	**8,190,967**
Net current (liabilities)/assets	**(272,337)**	**(18,000)**	**2,148,978**

Our net current liabilities decreased from RMB272.3 million as of December 31, 2020 to RMB18.0 million as of December 31, 2021, primarily due to (i) an increase in trade receivables of RMB1,668.4 million mainly attributable to increases in our revenue and business scale as a result of our business expansion; (ii) an increase in prepayments, other receivables and other assets of RMB820.4 million mainly attributable to an increase in deductible input value added tax as a result of our equipment procurement to support the expansion of our operating lease services. This was partially offset by an increase in interest-bearing bank and other borrowings of RMB2,629.5 million to support our business expansion.

We recorded net current assets of RMB2,149.0 million as of December 31, 2022, as compared to net current liabilities of RMB18.0 million as of December 31, 2021, primarily due to (i) an increase in cash and cash equivalents of RMB1,652.3 million; (ii) an increase in debt investments at FVOCI of RMB556.2 million mainly attributable to an increase in payments from customers through bank bills and commercial bills; and (iii) a decrease in other payables and accruals of RMB521.1 million mainly attributable to a decrease in advanced lease payments primarily due to our adjusted credit policy to grant credit terms (instead of requiring prepayments) to certain major customers and a decrease in other tax payables. This was partially offset by an increase in interest-bearing bank and other borrowings of RMB1,078.5 million to support our business expansion.

For more discussion on our historical net current liabilities, see "—Liquidity and Capital Resources". For a discussion of relevant risks, see "Risk Factors—Risks Relating to Our Business and Industry—We had net current liabilities as of December 31, 2020 and 2021."

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are for working capital. As of December 31, 2020, 2021 and 2022, we had cash and cash equivalents of RMB165.8 million, RMB507.0 million and RMB2,159.3 million, respectively. During the Track Record Period, our principal sources of liquidity and capital resources were cash flow generated from operating activities and bank and other borrowings. We monitor our cash flows and cash balance on a regular basis and strive to maintain an optimum liquidity that can meet our working capital needs.

Although we had net current liabilities as of December 31, 2020 and 2021, our Directors are of the opinion, and the Joint Sponsors concur, that we have sufficient working capital to meet our present and future cash requirements for at least the next 12 months from the date of publication of this [**REDACTED**], taking into account our cash flow generated from operating activities, bank borrowings and available banking facilities and the [**REDACTED**] from the [**REDACTED**], due to the following:

- *Positive cash flow generated from our business.* We had net cash flow from operating activities in the amount of RMB1,027.3 million, RMB2,449.4 million and RMB2,822.8 million for the years ended December 31, 2020, 2021 and 2022, respectively. We expect to continue to generate steady levels of cash from operating activities considering our long-term and stable flow of business from our customers and the growth of our business;

- *Bank borrowings and available banking facilities*. As of December 31, 2022, we had a total of RMB10,884 million available banking facilities that were unutilized and unrestricted;

- [**REDACTED**] *from the* [**REDACTED**]. We expect to receive [**REDACTED**] from the [**REDACTED**] of approximately HK$[**REDACTED**] based on the low end of the indicative [**REDACTED**] set out in this [**REDACTED**].

In order to mitigate liquidity risks, we make reasonable use of financial leverage and closely monitor our asset-liability ratio to prevent potential liquidity risks. We also pay specific attention to mismatch of long-term and short-term indebtedness and managing liquidity risk through increasing the proportion of long-term debt financing. We aim to optimize our financing structure by using more interest-bearing bank loans and other long-term financing methods to replace short-term liabilities, so as to mitigate the maturity mismatches between assets and liabilities.

We will further enhance our working capital management efficiency and continue to closely monitor our cash flows and financial position on a regular basis to ensure that our cash flows remain at a healthy level and adjust the amount of our indebtedness as appropriate. Specifically, we will formulate annual and monthly budgets and cash flow projections, which will be approved by our chief financial officer, in order to plan and monitor our cash flows. Our chief financial officer will also be responsible for reviewing regularly our liquidity and cash flows and reporting to our Board, if necessary, on our working capital management. In addition, we will continue to closely monitor our liquidity position to ensure that it is in line with our business operations and expansion needs. We will also manage the level of our cash and liquid assets to ensure the availability of sufficient cash flows to meet any planned or unexpected cash requirements arising from our operations. We will continue to assess the availability of resources for financing our business needs on an ongoing basis.

Going forward, we believe our liquidity requirements will be satisfied by using funds from a combination of our cash flow from operating activities, cash and cash equivalents, bank and other borrowings and [**REDACTED**] from the [**REDACTED**]. As of December 31, 2022, the latest practicable date for determining our indebtedness, we had RMB38,216 million available banking facilities in aggregate from banks and finance lease companies, of which RMB10,884 million were unutilized and unrestricted. Other than the bank and other borrowings that we may obtain, we do not have any plans for material external debt financing.

Cash Flows

The following table sets forth selected cash flow data from our consolidated statements of cash flows for the years indicated:

	For the year ended December 31,		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Operating cash flows before movements in working capital	1,946,959	3,299,002	4,291,011
Changes in working capital	(782,132)	(647,921)	(1,146,967)
Tax paid	(137,522)	(201,707)	(321,217)
Net cash generated from operating activities	1,027,305	2,449,374	2,822,827
Net cash used in investing activities	(6,690,791)	(10,470,801)	(3,462,671)
Net cash generated from financing activities	5,807,677	8,370,277	2,285,788
Net increase/(decrease) in cash and cash equivalents	**144,191**	**348,850**	**1,645,944**
Cash and cash equivalents at the beginning of the year	22,781	165,830	506,991
Effects of foreign exchange rate changes, net	(1,142)	(7,689)	6,390
Cash and cash equivalents at the end of the year	**165,830**	**506,991**	**2,159,325**

Net Cash Generated from Operating Activities

For the year ended December 31, 2022, we had net cash generated from operating activities of RMB2,822.8 million, primarily attributable to our profit before income tax of RMB893.8 million, as adjusted for non-cash and non-operating items, which primarily include (i) depreciation for property, plant and equipment, (ii) finance costs, and (iii) exchange losses. The amount was further adjusted by negative changes in working capital and tax paid of RMB321.2 million. Changes in working capital primarily include (i) a decrease in other payables and accruals, (ii) an increase in debt investments at FVOCI, and (iii) an increase in trade receivables; partially offset by a decrease in prepayments, other receivables and other assets.

For the year ended December 31, 2021, we had net cash generated from operating activities of RMB2,449.4 million, primarily attributable to our profit before income tax of RMB902.5 million, as adjusted for non-cash and non-operating items, such as depreciation for property, plant and equipment, and finance costs. The amount was further adjusted by negative changes in working capital and tax paid of RMB201.7 million. Changes in working capital primarily include (i) an increase in trade receivables, (ii) an increase in debt investments at FVOCI, and (iii) an increase in contract assets; partially offset by (i) a decrease in prepayments, other receivables and other assets, (ii) an increase in other payables and accruals, and (iii) an increase in trade and bills payables.

For the year ended December 31, 2020, we had net cash generated from operating activities of RMB1,027.3 million, primarily attributable to our profit before income tax of RMB641.5 million, as adjusted for non-cash and non-operating items, which primarily include (i) depreciation of property, plant and equipment and (ii) finance costs. The amount was further adjusted by negative changes in working capital and tax paid of RMB137.5 million. Changes in working capital primarily include (i) increase in trade receivables, and (ii) a decrease in trade and other payables; partially offset by (i) a decrease in prepayments, other receivables and other assets, and (ii) an increase in other payables and accruals.

Net Cash Used in Investing Activities

For the year ended December 31, 2022, we had net cash used in investing activities of RMB3,462.7 million, primarily attributable to the purchases of items of property, plant and equipment, partially offset by (i) proceeds from disposal of items of property, plant and equipment and (ii) redemption of financial assets at fair value through profit or loss.

For the year ended December 31, 2021, we had net cash used in investing activities of RMB10,470.8 million, primarily attributable to (i) the purchases of items of property, plant and equipment and (ii) subscription of financial assets at fair value through profit or loss, partially offset by proceeds from disposal of items of property, plant and equipment.

For the year ended December 31, 2020, we had net cash used in investing activities of RMB6,690.8 million, which was primarily attributable to the purchases of items of property, plant and equipment, partially offset by (i) proceeds from disposal of items of property, plant and equipment and (ii) disposal of subsidiaries.

Net Cash Generated from Financing Activities

For the year ended December 31, 2022, we had net cash generated from financing activities of RMB2,285.8 million, primarily attributable to new bank and other borrowings, which was partially offset by (i) repayment of bank and other borrowings; and (ii) interest paid.

For the year ended December 31, 2021, we had net cash generated from financing activities of RMB8,370.3 million, primarily attributable to (i) new bank and other borrowings and (ii) other borrowings received from investment with redemption obligation, which was partially offset by (i) repayment of bank and other borrowings; (ii) interest paid; and (iii) principal portion of lease payments, net.

For the year ended December 31, 2020, we had net cash generated from financing activities of RMB5,807.7 million, primarily attributable to (i) new bank and other borrowings; (ii) cash received from related parties; and (iii) proceeds from issue of shares, partially offset by (i) repayment of bank and other borrowings; (ii) consideration paid for business combination under common control; and (iii) principal portion of lease payments, net.

INDEBTEDNESS

Our indebtedness primarily consisted of bank borrowings, other borrowings, due to related parties and lease liabilities. Our indebtedness as of December 31, 2020, 2021 and 2022, being the latest practicable date for determining our indebtedness, were as follows:

	As of December 31,		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Bank borrowings			
– Unsecured	6,394,138	11,086,105	13,012,661
Other borrowings			
– Secured	1,207,242	5,202,801	6,734,764
– Unsecured	216,133	102,413	37,571
Due to related parties	155,479	62	23
Redemption liabilities on ordinary shares	–	1,306,447	1,427,118
Lease liabilities	720,743	126,288	131,259
Total	**8,693,735**	**17,824,116**	**21,343,396**

Bank Borrowings

Our bank borrowings were all unsecured and denominated in RMB and USD during the Track Record Period. Our bank borrowings as of December 31, 2020, 2021 and 2022 bore interest at rates ranging from 1.30% to 5.35% per annum. As of December 31, 2020, our bank borrowings of RMB2,206.7 million were guaranteed by Far East Horizon. As of December 31, 2021 and 2022, we did not have any bank borrowings guaranteed by Far East Horizon.

Our bank borrowing agreements contain standard terms, conditions and covenants that were customary for commercial bank loans. Our Directors confirm that we did not experience any difficulty in obtaining bank borrowings, default in payment of bank borrowings or breach of covenants during the Track Record Period and up to the Latest Practicable Date. Given our credit history and our current credit status, we believe that we will not encounter any major difficulties in obtaining additional bank borrowings in the future.

Other Borrowings

Other borrowings mainly represented our borrowings from related parties and secured borrowings from non-bank financial institutions in China. Our borrowings from related parties as of December 31, 2020 bore interest rate at 4.19% per annum. The interest rates were determined based on loan contracts signed with related parties. For details of our borrowings from related parties, see note 26 of "Appendix I—Accountants' Report" of this [**REDACTED**]. We fully settled our borrowings from related parties in 2021.

As of December 31, 2020, 2021 and 2022, our other borrowings of RMB1,207.2 million, RMB5,202.8 million and RMB6,734.8 million, respectively, were secured by our property, plant and equipment. In 2020, we obtained borrowings of RMB1,207.2 million from four individual non-bank financial institutions among which, around RMB484.2 million, RMB583.0 million, RMB20.0 million and RMB120.0 million of our borrowings were attributable to non-banking financial institutions as of December 31, 2020. As of December 31, 2021,we had borrowings of RMB5,202.8 million from 15 non-bank financial institutions. All of these institutions are financing leasing associates or subsidiaries of major banks in China, and are regulated by the China Banking and Insurance Regulatory Commission. As of December 31, 2022, we obtained borrowings of RMB6,737.4 million from 24 non-bank financial institutions. All of these institutions are financing leasing associates or subsidiaries of major banks in China, and are regulated by the China Banking and Insurance Regulatory Commission. The salient terms of such secured borrowings were not comparable to those of our Group's bank borrowings during the Track Record Period. For instance, according to the salient terms of the financial leases under such an arrangement, our assets are secured under such arrangements, as opposed to those arrangements under the general salient terms with unsecured bank borrowings. With a financial lease, unlike the counterpart arrangements under the salient terms of unsecured bank borrowings, only possession is transferred without the movement regarding the ownership of the lease. As there are no material sales under the salient terms of such financial leases or relevant sales invoices, the lease is still at the disposal of the company, and there are no restrictions on possession, income rights and the rights to use.

Our Directors confirm that we did not encounter any difficulties in obtaining bank borrowings during the Track Record Period and up to the Latest Practicable Date, but this form of other borrowings was preferred in certain situations, as compared to obtaining a bank loan, mainly because such institutions provided us with diversified financing channels with more flexibility in handling the relative funds, and the institutions left our line of credit untouched and in turn secured the liquidity of our Company.

Redemption Liabilities on Ordinary Shares

Redemption liabilities on ordinary shares arose from the recipient of proceeds of our [**REDACTED**] Investments in 2021. As of December 31, 2021 and 2022, our redemption liabilities on ordinary shares amounted to RMB1,306.4 million and RMB1,427.1 million, respectively. Such rights of redemption liabilities on ordinary shares will be terminated upon [**REDACTED**] and reclassified as equity.

Lease Liabilities

Upon the application of HKFRS 16, we recognized the corresponding lease liabilities for our right-of-use assets in respect of all leases unless they are qualified for low value or short-term leases. As of December 31, 2020, 2021 and 2022, we, as a lessee, had outstanding lease liabilities of RMB720.7 million, RMB126.3 million and RMB131.3 million, respectively.

Except as disclosed above, since December 31, 2022 and up to the date of this [**REDACTED**], there has been no material change to our indebtedness. As of December 31, 2022, being the latest practicable date for determining our indebtedness, except as disclosed above, we did not have any other loan issued and outstanding or any loan agreed to be issued, bank overdrafts, loans and other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

CAPITAL COMMITMENTS

Our capital commitments relate to capital expenditures contracted for but not yet paid in relation to purchase of plant and equipment. Our capital commitments amounted RMB66.2 million, RMB63.0 million and RMB69.2 million, as of December 31, 2020, 2021 and 2022, respectively.

CAPITAL EXPENDITURE

For the years ended December 31, 2020, 2021 and 2022, our capital expenditure amounted to RMB5,887.0 million, RMB9,592.5 million and RMB3,220.4 million, respectively. Our capital expenditure during the Track Record Period consisted of additions to property, plant and equipment and other intangible assets. The decrease in our capital expenditure in 2022 was in line with our strategy to expand our equipment volume in an asset-light manner. We plan to finance future capital expenditure plans through cash flow from operating activities, bank and other borrowings and the [**REDACTED**] from the [**REDACTED**].

CONTINGENT LIABILITIES

As of the Latest Practicable Date, we did not have any material contingent liabilities, guarantees or any other litigations or claims of material importance, pending or threatened against us that is likely to have a material and adverse effect on our business, financial condition or results of operations.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into a number of transactions with related parties. For details of our related party transactions, see note 36 to the Accountants' Report in Appendix I to this [**REDACTED**]. All loans, advances, non-trade balances due to and from the related parties are expected to be settled before the [**REDACTED**].

It is the view of our Directors that our transactions with related parties during the Track Record Period was conducted on an arm's length basis and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our historical results or make our historical results not reflective of our future performance.

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios as of the dates or for the years indicated.

	As of/For the year ended December 31,		
	2020	**2021**	**2022**
Return on equity(1)	17.8%	12.5%	10.5%
Return on assets(2)	4.0%	3.3%	2.3%
Gearing ratio(3)	59.1%	74.1%	74.1%
Interest coverage(4)	3.05	2.37	1.95
Gross profit margin(5)	45.0%	46.3%	39.8%
EBITDA margin (non-HKFRS measure)(6)	51.4%	52.1%	51.8%

Notes:

(1) Equals profit for the year divided by average balance of total equity at the beginning and the end of that year and multiplied by 100%.

(2) Equals profit for the year divided by the average balance of total assets at the beginning and the end of that year and multiplied by 100%.

(3) Calculated by dividing net debt by total equity as of the same date plus net debt and multiplied by 100%. Net debt includes interest-bearing bank and other borrowings less cash and cash equivalents.

(4) Equals profit before interest and tax for the year divided by the finance costs for the year.

(5) Gross profit margin is calculated based on gross profit for the year divided by revenue for the year and multiplied by 100%.

(6) EBITDA margin, a non-HKFRS measure, is calculated based on EBITDA (a non-HKFRS measure) for the year divided by revenue for the year and multiplied by 100%.

Return on Equity

Our return on equity decreased from 17.8% in 2020 to 12.5% in 2021, primarily because the increase in our average equity outpaced the increase in our net profit. Our return on equity decreased from 12.5% in 2021 to 10.5% in 2022, primarily due to a decrease in our net profit and an increase in our average equity.3

Return on Assets

Our return on assets decreased from 4.0% in 2020 to 3.3% in 2021, primarily because the increase in our average total assets outpaced the increase in our net profit. Our return on assets decreased from 3.3% in 2021 to 2.3% in 2022, primarily due to a decrease in our net profit and an increase in our average total assets.

Gearing Ratio

Our gearing ratio increased from 59.1% as of December 31, 2020 to 74.1% as of December 31, 2021, primarily due to an increase in bank and other borrowings (including interest on redemption liabilities on ordinary shares, which arose from the recipients of proceeds of our [**REDACTED**] Investments in 2021). Our gearing ratio remained stable at 74.1% as of December 31, 2021 and 2022.

Interest Coverage

Our interest coverage decreased from 3.05 as of December 31, 2020 to 2.37 as of December 31, 2021, primarily due to our increased finance costs mainly attributable to an increase in bank and other borrowings (including interest on redemption liabilities on ordinary shares, which arose from the recipients of proceeds of our [**REDACTED**] Investments in 2021). Our interest coverage decreased from 2.37 as of December 31, 2021 to 1.95 as of December 31, 2022, primarily because the increase in our finance costs outpaced the increase in our profit before interest and tax.

Please see "—Results of Operations" for a discussion of the factors affecting our gross profit margin and EBITDA margin (a non-HKFRS measure) during the respective years.

QUANTITATIVE AND QUALITATIVE DISCLOSURE OF FINANCIAL RISKS

We are exposed to various types of financial risks in the ordinary course of business, including foreign currency risk, credit risk, liquidity risk and interest rate risk. Our overall risk management strategy focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. Our senior management is responsible for carrying out our risk management. For details, see note 39 of "Appendix I—Accountants' Report" in this [**REDACTED**].

Foreign Currency Risk

Our monetary assets, liabilities and transactions are principally denominated in RMB. We are not significantly exposed to foreign currency risk arising from monetary assets and liabilities that are denominated in currencies other than the functional currencies of the respective group entities.

Credit Risk

We trade only with recognized and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances and contract assets are monitored on an ongoing basis.

Liquidity Risk

Our objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings and lease liabilities. We may aim to optimize our financing structure by using more interest-bearing bank loans and other long-term financing methods to replace short-term liabilities, so as to mitigate the maturity mismatches between assets and liabilities.

Interest Rate Risk

Our exposure to risk for changes in market interest rates relates primarily to our interest-bearing bank and other borrowings and lease liabilities. We aim to mitigate such risks by reducing future variability in cash flows or fair value, while balancing the cost of such risk mitigation measure.

DIVIDENDS

No dividends have been paid or declared by our Company during the Track Record Period. Shanghai Horizon Construction Development declared dividends of RMB14.3 million to one of our non-controlling equity shareholders in 2019, which was settled in cash in 2020. Our Board may declare dividends in the future after taking into account our results of operations, financial condition, cash requirements and availability and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and Cayman Companies Law. In addition, our Directors may from time to time pay such interim dividends on shares outstanding of our Company and authorize payment of the same out of the funds of our Company lawfully available. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the discretion of our Board.

DISTRIBUTABLE RESERVES

As of December 31, 2022, our Company had no reserves available for distribution to our Shareholders.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

For details of our unaudited pro forma adjusted combined net tangible assets, see Appendix II to this [**REDACTED**].

[REDACTED] EXPENSES

[**REDACTED**] expenses to be borne by us are estimated to be approximately RMB[**REDACTED**] (including [**REDACTED**]) and assuming the [**REDACTED**] is not exercised. This constitutes around [**REDACTED**]% of the [**REDACTED**] from the [**REDACTED**], which includes [**REDACTED**]-related expenses (including but not limited to [**REDACTED**] and fees) of RMB[**REDACTED**] and non-[**REDACTED**]-related expenses of RMB[**REDACTED**] (which includes fees and expenses for legal advisors and accountants of RMB[**REDACTED**] and other expenses of RMB[**REDACTED**]). For the year ended December 31, 2020, 2021 and 2022, approximately RMB[**REDACTED**], RMB[**REDACTED**] and RMB[**REDACTED**], respectively, were charged to our consolidated statements of profit or loss as administrative expenses. After December 31, 2022, approximately RMB[**REDACTED**] is expected to be charged to our consolidated statements of profit or loss, and approximately RMB[**REDACTED**] is expected to be accounted for as a deduction from equity upon the [**REDACTED**]. The [**REDACTED**] expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate.

NO MATERIAL ADVERSE CHANGE

After due and careful consideration, our Directors confirm that, up to the date of this [**REDACTED**], there has been no material adverse change in our financial and trading position or prospects since December 31, 2022, and there is no event since December 31, 2022 which would materially affect the information shown in the Accountants' Report, the text of which is set out in Appendix I to this [**REDACTED**].

DISCLOSURE REQUIRED UNDER THE LISTING RULES

We confirm that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rule 13.13 to 13.19 of the Listing Rules.