You should read the following discussion and analysis of our Group's business, results of operations and financial conditions for the Track Record Period in conjunction with the consolidated financial information and the accompanying notes thereto set forth in the Accountant's Report in Appendix I to this document.

The following discussion and analysis contain certain forward-looking statements and information that involve substantial risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk factors" in this document.

OVERVIEW

We are a growing private general contracting construction enterprise in the PRC and have been granted five first-grade construction contracting qualifications, including (i) the first-grade qualification in building construction general contracting (建築工程施工總承包一級); (ii) the first-grade qualification in municipal and public construction general construction (市政公用工程施工總承包一級); (iii) the first-grade qualification in foundation construction specialised contracting (地基基礎工程專業承包一級); (iv) the first-grade qualification in building electrical and mechanical installation and engineering specialised contracting (建築機電安裝工程專業承包一級); and (v) the first-grade qualification in building renovation and decoration construction specialised contracting (建築裝修裝飾工程專業承包一級). We also attain six other second-grade and third-grade construction contracting qualifications covering different specialisations such as petrochemical engineering construction, steel structure construction and environmental protection construction. We were the recipient of the award named "Top 500 Enterprises in Shenzhen" (深圳500強企業) for 2020, 2021 and 2022.

We may act as a general contractor or subcontractor for our projects depending on the availability of opportunities in the market.

We provide our customers with professional and comprehensive construction services. Generally, we are responsible for the overall coordination and management of a construction project, which cover workplan formulation, labour recruitment, leasing of equipment and machinery, procurement of construction raw materials and quality and construction progress control. During the Track Record Period, our Group primarily engages in the provision of construction services comprising (i) construction engineering works; (ii) municipal and public construction works; (iii) foundation engineering works; and (iv) specialised contracting works.

For the years ended 31 December 2020, 2021 and 2022, our Group recorded (i) revenue of approximately RMB1,331.2 million, RMB1,346.2 million and RMB1,378.1 million, respectively; (ii) gross profit of approximately RMB66.4 million, RMB71.2 million and RMB78.9 million, respectively, representing gross profit margin of approximately 5.0%, 5.3% and 5.7%, respectively; and (iii) profit for the year of approximately RMB13.6 million, RMB28.1 million and RMB25.3 million, respectively.

For the six months ended 30 June 2022 and 2023, our Group recorded (i) revenue of approximately RMB371.9 million and RMB495.8 million, respectively; (ii) gross profit of approximately RMB21.7 million and RMB28.5 million separately, representing gross profit margin of about 5.8% and 5.8% individually; and (iii) loss for the period of approximately RMB4.4 million and profit for the period of approximately RMB10.8 million, respectively.

BASIS OF PRESENTATION

Immediately prior to and after the Reorganisation, our Group's business operations is conducted through Zhongshen Jianye which is controlled by Mr. Sang. Pursuant to the Reorganisation, Zhongshen Jianye was transferred to and held by our Company. Our Company and our intermediary holding companies set up during the Reorganisation are new companies which have not been involved in any business prior to the Reorganisation and their operations do not meet the definition of a business. The Reorganisation is merely a recapitalisation of our Group's business operations and does not result in any changes in management of such business and the ultimate controlling shareholder of our Group's business operations remains the same. For the purpose of the Accountant's Report set out in Appendix I to this document, the historical financial information has been prepared and presented as a continuation of the consolidated financial statements of Zhongshen Jianye and its subsidiaries with the assets and liabilities of our Group recognised and measured at the carrying values of the assets, liabilities and operating results of our Group's business operations under the consolidated financial statements of Zhongshen Jianye for all periods presented.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our financial condition and results of operations have been and will continue to be affected by a number of factors, including those set out below and in the section headed "Risk factors" in this document.

General economic conditions and regulatory environment in the PRC

We principally derive our revenue from construction projects in the PRC. The nature, extent and timing of construction projects will be determined by the interplay of a variety of factors, including but not limited to the general economic conditions, the PRC government's spending patterns on the construction works and infrastructure, the investment by property developers and the regulatory policies taken by the PRC government related to the construction industry. These factors may affect the number of construction projects offered by the public sector, private sector or institutional bodies. Our revenue directly correlates with the level of construction activities in the PRC. Any changes in the economic conditions and national, provincial or local policies related to the PRC construction industry may have a material impact on the level of construction activities, as well as the supply of land for property development, project financing, fiscal budget and taxation, thereby affect the demand of our service. If the level of construction activities in the PRC declines, our business and results of operations may be materially and adversely affected.

Our ability to secure new projects

Our construction services are generally offered on a project-by-project basis and non-recurring in nature. During the Track Record Period, we completed 50, 55, 33 and 26 projects, respectively. As at the Latest Practicable Date, we had 97 ongoing projects (either in progress or yet to commence). There is no guarantee that our existing customers will award new construction projects to us or that our existing customers will require our construction service again after completion of the projects. We generally identify construction projects through (i) open tender; (ii) invitation by existing customers or industry participants; and (iii) corporate negotiation. Our business performance mainly depends on our ability to secure projects through winning tenders or conferring with existing customers or industry participants. If we are unable to secure new construction projects from our existing customers or to attract new customers, it could have a negative impact on our Group's financial performance.

Pricing and budgeting of our projects

Pricing is a vital factor when competing with our competitors in the tendering or negotiation process and it directly affects our revenue and gross profit margin. For details of our pricing policy, please refer to the section headed "Business — Customers, sales and marketing — Pricing policy" in this document. It is our objective to maintain the competitiveness of our pricing while maximising our profit margin. Failure to strike a balance between pricing our projects competitively and maintaining an adequate profit margin will affect our financial performance and results of operations.

The total project cost is estimated at project assessment phase and project cost management is an ongoing process throughout the project, in particular, at the project execution phase. There is no assurance that the actual costs would not exceed our estimation during the performance of our projects. In the event there are (i) unfavourable weather conditions; (ii) disputes with customers, suppliers, subcontractors and other project parties; (iii) significant difference between actual site condition and our original expectation; (iv) unexpected fluctuation in the price of raw materials after the commencement of construction works; (v) receipt of variation orders from our customers, with substantial subsequent additional contract amount; and (vi) other force majeure events, that our Group has to incur substantial extra costs without sufficient compensation, our profit margin and results of operations will be adversely affected.

Fluctuation in cost of revenue

Our cost of revenue primarily consisted of raw material costs and labour subcontracting costs. These costs in aggregate represented approximately 77.3%, 80.8%, 79.0% and 79.6% of our total cost of revenue for the Track Record Period, respectively. Our ability to control and manage our cost of revenue will enhance our profitability. Any material fluctuation in our cost of revenue may adversely impact our financial performance.

Raw material costs is the largest component in our cost structure and accounted for approximately 46.7%, 49.2%, 47.4% and 52.5% of our total cost of revenue for the Track Record Period, respectively. The principal raw materials used in our construction projects include concrete and steel (rebar and sheet pile). The prices of these materials are largely susceptible to market forces, such as fluctuations of commodity price, logistics and processing costs, environmental and regulatory requirements and other unforeseen circumstances. Since the contract value of our projects is generally determined when a project is awarded to us, any substantial increase in the prices of raw materials between the time of submission of our tender or quotation and the time when we purchase the relevant materials will substantially increase our raw material costs and may materially and adversely affect our gross profit margin and results of operations.

Our labour subcontracting costs accounted for approximately 30.6%, 31.6%, 31.6% and 27.1% of our total cost of revenue for the Track Record Period, respectively. Our Group engaged subcontractors to provide labour services on a project-by-project basis. If we have to incur substantial extra subcontracting costs due to unexpected circumstances without any compensation, our gross profit margin and results of operations will be materially and adversely affected.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in each of raw material costs and labour subcontracting costs, with other variables remaining constant, on our profit/(loss) for the years/periods indicated:

	Impact on profit/(loss)				
Hypothetical fluctuations in raw material costs	**Year ended 31 December**			**Six months ended 30 June**	
	2020	**2021**	**2022**	**2022**	**2023**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Increase/(decrease) by:					
+2%	(11,814)	(12,550)	(12,321)	(3,542)	(4,902)
+5%	(29,535)	(31,374)	(30,803)	(8,854)	(12,256)
–2%	11,814	12,550	12,321	3,542	4,902
–5%	29,535	31,374	30,803	8,854	12,256

	Impact on profit/(loss)				
Hypothetical fluctuations in labour subcontracting costs	**Year ended 31 December**			**Six months ended 30 June**	
	2020	**2021**	**2022**	**2022**	**2023**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Increase/(decrease) by:					
+2%	(7,731)	(8,068)	(8,197)	(1,958)	(2,535)
+5%	(19,328)	(20,170)	(20,493)	(4,895)	(6,339)
–2%	7,731	8,068	8,197	1,958	2,535
–5%	19,328	20,170	20,493	4,895	6,339

Timing of billing and collection of trade receivables

During the project execution phase, we would submit progress reports to our customers periodically, indicating the volume of work that we have performed. Subject to the certification of work by the independent supervision entity appointed by our customers, we would be entitled to request for progress payments. The portion of the value of work completed but unbilled will be accounted as contract assets. We usually allows our customers to settle the billed amounts within one month. In addition, approximately 3% to 5% of the final settlement value will be retained by our customers as retention money and will be paid to us upon expiration of the defects liability period which normally last for six months to five years after the practical completion of the construction project. As at 31 December 2020, 2021 and 2022 and 30 June 2023, our contract assets and trade receivables amounted to approximately RMB857.0 million, RMB1,072.4 million, RMB1,207.2 million and RMB1,095.1 million, respectively. If the customers experience financial distress, delay of approval on the project progress payment applications, disagreement with the value of works completed or are unable to settle their payments to our Group in a timely manner or at all, our liquidity position could be adversely affected, leading to an increase in working capital.

Seasonality

We normally record lower sales during the first quarter of a year as construction activities are less active due to Chinese New Year. Please refer to the section headed "Risk factors — Our construction business is subject to seasonality" for details regarding the risks associated with seasonality.

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

The audited historical financial information of our Group has been prepared in accordance with HKFRS. The preparation of the historical financial information in conformity with HKFRS requires the use of accounting estimates. It also requires our management to exercise its judgement in the process of applying our accounting policies. The estimates we use and the judgments we make in applying our accounting policies have significant impacts on the reported financial condition and results of operation of our Group. We continually evaluate these estimates and judgments based on historical experience and other factors, including expectations of future events that may have a financial impact on our Group and that are believed to be reasonable under the circumstances.

Below is a summary of the critical accounting policies adopted by our Group for the preparation of financial statements. For full details of our Group's accounting policies and estimates, please refer to Note 2 and Note 4 to the Accountant's Report set out in Appendix I to this document respectively.

Revenue recognition

Revenue is recognised when or as the control of goods or services is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of goods or services may transfer over time or at a point in time. Control of goods or services is transferred over time if our Group's performance:

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

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

The progress towards complete satisfaction of the performance obligation is measured based on our Group's efforts or inputs to the satisfaction of the performance obligation that best depict our Group's performance in satisfying the performance obligation.

For construction services contracts, our Group's performance creates or enhances an asset or work in progress that the customer controls as the asset is created or enhanced, thus our Group satisfies a performance obligation and recognises revenue over time, by reference to the progress towards complete satisfaction of that performance obligation which is measured on the basis of the actual costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. Our Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

Bills and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

Contract assets and liabilities

Upon entering into a contract with a customer, our Group obtains rights to receive consideration from the customer and assumes performance obligations to provide services to the customer. The combination of those rights and performance obligations gives rise to a net asset or a net liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognised as contract assets if the measure of the remaining rights exceeds the measure of the remaining performance obligations. Conversely, the contract is a liability and recognised as contract liabilities if the measure of the remaining performance obligations exceeds the measure of the remaining rights.

Impairment

For impairment of trade receivables and contract assets, our Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets.

SUMMARY OF RESULTS OF OPERATIONS

The following sets forth a summary of our results of operations during the Track Record Period as extracted from the Accountant's Report set out in Appendix I to this document:

	Year ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue	1,331,204	1,346,219	1,378,055	371,857	495,780
Cost of revenue	(1,264,765)	(1,274,971)	(1,299,130)	(350,199)	(467,233)
Gross profit	66,439	71,248	78,925	21,658	28,547
Administrative expenses	(20,016)	(28,250)	(39,069)	(18,983)	(16,355)
(Impairment losses)/reversal of impairment losses on financial assets and contract assets	(26,848)	(5,075)	(1,254)	(7,262)	4,280
Other income, (losses)/gains — net	(212)	1,166	(2)	(40)	(7)
Operating profit/(loss)	19,363	39,089	38,600	(4,627)	16,465
Finance income	60	96	148	48	181
Finance costs	(223)	(90)	(486)	(35)	(1,418)
Finance (costs)/income — net	(163)	6	(338)	13	(1,237)
Profit/(loss) before income tax	19,200	39,095	38,262	(4,614)	15,228
Income tax (expense)/credit	(5,641)	(11,019)	(12,937)	233	(4,441)
Profit/(loss) and total comprehensive income/(loss) for the year/period attributable to owners of the Company	13,559	28,076	25,325	(4,381)	10,787
Earnings/(losses) per share attributable to owners of the Company for the year/period (expressed in RMB thousand per share) — Basic and diluted	1.36	2.81	2.53	(0.44)	1.08

DISCUSSION ON SELECTED ITEMS OF CONSOLIDATED INCOME STATEMENT

Revenue

Our Group principally generated revenue from construction business during the Track Record Period. We provided our customers with professional and comprehensive construction services, where we were responsible for the overall coordination and management of a construction project, which cover workplan formulation, labour recruitment, leasing of equipment and machinery, procurement of construction raw materials and quality and construction progress control. Our services span across different aspects of construction, which encompass mainly of (i) construction engineering works; (ii) municipal and public construction works; (iii) foundation engineering works; and (iv) specialised contracting works.

Our Group recorded an increase in our revenue by approximately RMB15.0 million or 1.1% from approximately RMB1,331.2 million for the year ended 31 December 2020 to approximately RMB1,346.2 million for the year ended 31 December 2021, which was primarily due to the increase in revenue derived from construction engineering projects of approximately RMB153.3 million, partially offset by the decrease in revenue derived from municipal and public construction projects of approximately RMB157.0 million.

Our Group recorded an increase in our revenue by approximately RMB31.8 million or 2.4% from approximately RMB1,346.2 million for the year ended 31 December 2021 to approximately RMB1,378.1 million for the year ended 31 December 2022, which was primarily due to the increase in revenue derived from specialised contracting projects of approximately RMB140.1 million, partially offset by the decrease in revenue derived from construction engineering projects of approximately RMB15.9 million and municipal and public construction projects of approximately RMB85.4 million.

Our Group recorded an increase in our revenue by approximately RMB123.9 million or 33.3% from approximately RMB371.9 million for the six months ended 30 June 2022 to approximately RMB495.8 million for the six months ended 30 June 2023, which was primarily due to the increase in revenue derived from construction engineering projects of approximately RMB85.2 million, foundation engineering projects of approximately RMB52.0 million and specialised contracting projects of approximately RMB41.8 million, partially offset by the decrease in revenue derived from municipal and public construction projects of approximately RMB55.0 million.

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

	Year ended 31 December						Six months ended 30 June			
	2020		2021		2022		2022		2023	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (Unaudited)	%	RMB'000	%
Construction projects										
Construction engineering projects	625,968	47.0	779,248	57.9	763,321	55.4	194,213	52.2	279,378	56.4
Municipal and public construction projects	646,234	48.5	489,206	36.3	403,793	29.3	147,837	39.8	92,850	18.7
Foundation engineering projects	35,092	2.6	60,539	4.5	53,597	3.9	1,776	0.5	53,732	10.8
Specialised contracting projects	23,910	1.9	17,226	1.3	157,344	11.4	28,031	7.5	69,820	14.1
Total	1,331,204	100.0	1,346,219	100.0	1,378,055	100.0	371,857	100.0	495,780	100.0

Construction engineering projects

Construction engineering projects primarily consist of commercial and residential buildings. Our revenue generated from construction engineering projects accounted for approximately 47.0%, 57.9%, 55.4%, 52.2% and 56.4% of our total revenue for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, respectively.

Our revenue from construction engineering projects increased by approximately RMB153.3 million or 24.5% from approximately RMB626.0 million for the year ended 31 December 2020 to approximately RMB779.2 million for the year ended 31 December 2021. Such increase was mainly attributable to (i) the increase in revenue generated from Project #87, Project #129 and Project #144 by approximately RMB155.0 million in aggregate as a result of greater portion of works performed during the year ended 31 December 2021; and (ii) the commencement of Project #190 with a contract value (excluding VAT) amounting to approximately RMB65.7 million in February 2021 and generated revenue of approximately RMB55.2 million for the year ended 31 December 2021. The increase was partially offset by the decrease in revenue recognised from Project #25 due to its suspension since December 2020. The revenue generated from Project #25 amounted to approximately RMB73.2 million for the year ended 31 December 2020 and our Group did not generate revenue from such project during the year ended 31 December 2021. For details on the suspended project, please refer to the section headed "Business — Our projects — Project suspension and delays" in this document.

Our revenue from construction engineering projects decreased by approximately RMB15.9 million or 2.0% from approximately RMB779.2 million for the year ended 31 December 2021 to approximately RMB763.3 million for the year ended 31 December 2022. Such decrease was mainly attributable to (i) the decrease in revenue recognised from Project #94 and Project #144 by approximately RMB101.1 million in aggregate as these projects were completed during the year ended 31 December 2022; and (ii) the decrease in revenue recognised from Project #87, Project #129 and Project #190 by approximately RMB352.3 million in aggregate as these projects were approaching their later stage of development. The decrease was partially offset by the commencement of (i) Project #196 with a contract value (excluding VAT) amounting to approximately RMB284.3 million in November 2021 and generated revenue of approximately RMB166.2 million for the year ended 31 December 2022; (ii) Project #237 with a contract value (excluding VAT) amounting to approximately RMB242.9 million in April 2022 and generated revenue of approximately RMB147.9 million for the year ended 31 December 2022; (iii) Project #266 with a contract value (excluding VAT) amounting to approximately RMB207.7 million in October 2022 and generated revenue of approximately RMB65.9 million for the year ended 31 December 2022; and (iv) Project #285 with a contract value (excluding VAT) amounting to approximately RMB140.6 million in September 2022 and generated revenue of approximately RMB64.3 million for the year ended 31 December 2022.

Our revenue from construction engineering projects increased by approximately RMB85.2 million or 43.9% from approximately RMB194.2 million for the six months ended 30 June 2022 to approximately RMB279.4 million for the six months ended 30 June 2023. Such increase was mainly attributable to (i) the commencement of Project #302 with a contract value (excluding VAT) amounting to approximately RMB83.3 million in January 2023 and generated revenue of approximately RMB66.7 million for the six months ended 30 June 2023; and (ii) Project #266, which generated revenue of approximately RMB55.7 million for the six months ended 30 June 2023. The increase was partially offset by the decrease in revenue recognised from Project #87, Project #196 and Project #237 by approximately RMB83.7 million in aggregate as these projects were approaching their later stage of development.

Municipal and public construction projects

Municipal and public construction projects primarily consist of environment improvement works, construction of sewage treatment infrastructure and roadwork. Our revenue generated from municipal and public construction projects accounted for approximately 48.5%, 36.3%, 29.3%, 39.8% and 18.7% of our total revenue for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, respectively.

Our revenue from municipal and public construction projects decreased by approximately RMB157.0 million or 24.3% from approximately RMB646.2 million for the year ended 31 December 2020 to approximately RMB489.2 million for the year ended 31 December 2021. Such decrease was mainly attributable to the completion of several large-scale municipal and public construction projects, including Project #136 and Project #137, during the year ended 31 December 2021 and substantial portions of work were performed during 2020, which is in line with our strategy to diversify resources to larger construction engineering projects during the Track Record Period notwithstanding our previous focus on municipal and public construction works.

Our revenue from municipal and public construction projects decreased by approximately RMB85.4 million or 17.5% from approximately RMB489.2 million for the year ended 31 December 2021 to approximately RMB403.8 million for the year ended 31 December 2022. Such decrease was mainly attributable to (i) the decrease in revenue recognised from Project #123, Project #157, Project #161, Project #195 and Project #212 by approximately RMB138.5 million in aggregate as these projects were completed during the year ended 31 December 2022; and (ii) the decrease in revenue recognised from Project #160 by approximately RMB53.2 million as the project was approaching its later stage of development. The decrease was partially offset by the commencement of (i) Project #246 with a contract value (excluding VAT) amounting to approximately RMB108.4 million in February 2022 and generated revenue of approximately RMB107.4 million for the year ended 31 December 2022; and (ii) Project #165 with a contract value (excluding VAT) amounting to approximately RMB34.4 million in February 2022 and generated revenue of approximately RMB30.4 million for the year ended 31 December 2022.

Our revenue from municipal and public construction projects decreased by approximately RMB55.0 million or 37.2% from approximately RMB147.8 million for the six months ended 30 June 2022 to approximately RMB92.9 million for the six months ended 30 June 2023. Such decrease was mainly attributable to the decrease in revenue recognised from Project #157 and Project #246 by approximately RMB55.6 million in aggregate as these projects were completed in July 2022 and April 2023, respectively. The decrease was partially offset by the commencement of Project #312 with a contract value (excluding VAT) amounting to approximately RMB32.9 million in April 2023 and generated revenue of approximately RMB30.7 million for the six months ended 30 June 2023.

Foundation engineering projects

Foundation engineering projects primarily consist of earthwork and foundation construction and slope protection work. Our revenue generated from foundation engineering projects accounted for approximately 2.6%, 4.5%, 3.9%, 0.5% and 10.8% of our total revenue for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, respectively.

Our revenue from foundation engineering projects increased by approximately RMB25.4 million or 72.5% from approximately RMB35.1 million for the year ended 31 December 2020 to approximately RMB60.5 million for the year ended 31 December 2021. Such increase was mainly attributable to the commencement of Project #177, an earthwork and foundation construction project, which generated revenue of approximately RMB43.3 million for the year ended 31 December 2021. The increase was partially offset by the decrease in revenue recognised from another earthwork and foundation construction project, Project #56 by approximately RMB31.1 million as the project was completed in November 2020.

Our revenue from foundation engineering projects decreased by approximately RMB6.9 million or 11.5% from approximately RMB60.5 million for the year ended 31 December 2021 to approximately RMB53.6 million for the year ended 31 December 2022. Such decrease was mainly attributable to (i) the decrease in revenue recognised from Project #177 by approximately RMB39.7 million as the project was completed during the year ended 31 December 2022; and (ii) the decrease in revenue recognised from Project #111 by approximately RMB15.3 million as the project was approaching its later stage of development. The decrease was partially offset by the commencement of (i) Project #240 with a contract value (excluding VAT) amounting to approximately RMB14.2 million in July 2022 and generated revenue of approximately RMB14.0 million for the year ended 31 December 2022; (ii) Project #296 with a contract value (excluding VAT) amounting to approximately RMB11.3 million in October 2022 and generated revenue of approximately RMB11.0 million for the year ended 31 December 2022; and (iii) our ongoing foundation engineering projects since September 2022 and generated revenue of approximately RMB24.7 million in aggregate for the year ended 31 December 2022.

Our revenue from foundation engineering projects increased by approximately RMB52.0 million or 2,925.5% from approximately RMB1.8 million for the six months ended 30 June 2022 to approximately RMB53.7 million for the six months ended 30 June 2023. Such increase was mainly attributable to the commencement of (i) Project #301 with a contract value (excluding VAT) amounting to approximately RMB9.6 million in January 2023 and generated revenue of approximately RMB8.7 million for the six months ended 30 June 2023; (ii) Project #307 with a contract value (excluding VAT) amounting to approximately RMB46.1 million in January 2023 and generated revenue of approximately RMB18.4 million for the six months ended 30 June 2023; and (iii) Project #316 with a contract value (excluding VAT) amounting to approximately RMB11.9 million in April 2023 and generated revenue of approximately RMB9.6 million for the six months ended 30 June 2023.

Specialised contracting projects

Specialised contracting projects primarily consist of building renovation and decoration works services. Our revenue generated from specialised contracting projects accounted for approximately 1.9%, 1.3%, 11.4%, 7.5% and 14.1% of our total revenue for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, respectively.

Our revenue from specialised contracting projects decreased by approximately RMB6.7 million or 28.0% from approximately RMB23.9 million for the year ended 31 December 2020 to approximately RMB17.2 million for the year ended 31 December 2021. Such decrease was mainly attributable to the completion of a renovation project in December 2020.

Our revenue from specialised contracting projects increased by approximately RMB140.1 million or 813.4% from approximately RMB17.2 million for the year ended 31 December 2021 to approximately RMB157.3 million for the year ended 31 December 2022. Such increase was mainly attributable to the commencement of several specialised contracting projects in relation to hydropower engineering with larger project scale including Project #249, Project #273, Project #274 and Project #276 with contract values (excluding VAT) amounting to approximately RMB83.2 million, RMB20.2 million, RMB16.5 million and RMB27.1 million, respectively, and generated revenue of approximately RMB82.7 million in aggregate for the year ended 31 December 2022. Such increase was partially offset by the decrease in revenue recognised from several specialised contracting projects, namely Project #99, Project #135, Project #185, Project #209 and Project #219, by approximately RMB14.4 million in aggregate as the projects were completed in 2021.

Our revenue from specialised contracting projects increased by approximately RMB41.8 million or 149.1% from approximately RMB28.0 million for the six months ended 30 June 2022 to approximately RMB69.8 million for the six months ended 30 June 2023. Such increase was mainly attributable to Project #249, Project #273, Project #275 and Project #279, which generated revenue of approximately RMB57.5 million in aggregate for the six months ended 30 June 2023. The increase was partially offset by the decrease in revenue recognised from Project #241 by approximately RMB9.3 million as the project was completed in June 2022 and the decrease in revenue recognised from Project #243 by approximately RMB9.4 million as the project was approaching its later stage of development.

Cost of revenue

The following table sets forth the breakdown of our cost of revenue by nature for the years/periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2020		2021		2022		2022		2023	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (Unaudited)	%	RMB'000	%
Raw material costs										
— concrete	163,122	12.9	164,179	12.9	128,781	9.9	50,575	14.4	34,088	7.3
— steel	169,147	13.4	143,218	11.2	111,252	8.6	30,680	8.8	65,319	14.0
— others[(1)]	258,439	20.4	320,089	25.1	376,032	28.9	95,821	27.4	145,711	31.2
Subtotal	590,708	46.7	627,486	49.2	616,065	47.4	177,076	50.6	245,118	52.5
Labour subcontracting costs	386,552	30.6	403,402	31.6	409,869	31.6	97,906	28.0	126,773	27.1
Specialised construction subcontracting costs	217,025	17.2	131,078	10.3	167,627	12.9	44,814	12.8	45,067	9.6
Equipment and machinery usage costs	60,828	4.8	99,155	7.8	91,541	7.0	26,260	7.5	43,856	9.4
Other project costs[(2)]	9,652	0.7	13,850	1.1	14,028	1.1	4,143	1.1	6,419	1.4
Total cost of revenue	1,264,765	100.0	1,274,971	100.0	1,299,130	100.0	350,199	100.0	467,233	100.0

Notes:

1. Others raw material costs primarily consisted of costs of aggregates, asphalt, bricks, cement, pipes and other construction materials.

2. Other project costs primarily consisted of other taxes and surcharges, insurance expenses, inspection costs and other expenses incurred at construction sites.

Our cost of revenue primarily comprised (i) raw material costs, which represented costs of raw materials used primarily in our construction projects; (ii) labour subcontracting costs, which represented fees paid to subcontractors to provide labour services; (iii) specialised construction subcontracting costs, which represented fees paid to subcontractors to provide certain specialised construction services, usually included costs of equipment and raw materials used in their subcontracted work; and (iv) equipment and machinery usage costs, which represented the costs incurred for leasing equipment and machinery for our construction projects. Each of these costs may vary from project to project depending on various factors, including but not limited to, the scope and complexity of works, the method and sequence of construction, the stages of construction and necessary equipment and machinery.

Our cost of revenue amounted to approximately RMB1,264.8 million, RMB1,275.0 million, RMB1,299.1 million, RMB350.2 million and RMB467.2 million for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, respectively. Such movements were generally in line with the changes in our revenue during the Track Record Period.

The increase in cost of revenue of approximately RMB10.2 million or 0.8% for the year ended 31 December 2021 was mainly attributable to the increase in (i) equipment and machinery usage costs by approximately RMB38.3 million; (ii) raw material costs by approximately RMB36.8 million; and (iii) labour subcontracting costs by approximately RMB16.9 million, which was partially offset by the decrease in specialised construction subcontracting costs by approximately RMB85.9 million. The fluctuations in these costs were primarily due to the change of needs in purchasing required construction materials, engaging subcontractors and leasing necessary equipment and machinery based on the circumstances and nature of the projects.

The increase in cost of revenue of approximately RMB24.2 million or 1.9% for the year ended 31 December 2022 as compared to the year ended 31 December 2021 was mainly attributable to the increase in (i) specialised construction subcontracting costs by approximately RMB36.5 million; and (ii) labour subcontracting costs by approximately RMB6.5 million, which was partially offset by the decrease in raw material costs by approximately RMB11.4 million. The increase in specialised construction subcontracting costs and labour subcontracting costs were primarily due to (i) the increase in engagement of construction subcontractors to separately perform non-major parts of our construction process and other ancillary construction services; and (ii) the increase in the amount of works outsourced to subcontractors as a result of the commencement of several large-scale projects in late 2021 and 2022, namely Project#196, Project#237, Project #246, Project #249, Project #266 and Project #285. The decrease in raw material costs was mainly due to the fact that we engaged more specialised construction subcontractors in certain projects for cost control, the specialised construction subcontracting costs of which included raw materials used in construction, and hence lower raw material costs was incurred in 2022.

The increase in cost of revenue of approximately RMB117.0 million or 33.4% for the six months ended 30 June 2023 as compared to the six months ended 30 June 2022 was mainly attributable to the increase in (i) raw material costs by approximately RMB68.0 million; (ii) labour subcontracting costs by approximately RMB28.9 million; and (iii) equipment and machinery usage costs by approximately RMB17.6 million. The increases in these costs were primarily due to the increase in demand for raw materials and increase in amount of works outsourced to subcontractors as a result of the commencement of several large-scale projects in 2023 and the recovery from the negative impact of COVID-19, which have been progressively building up.

Gross profit and gross profit margin

We recorded gross profit of approximately RMB66.4 million, RMB71.2 million, RMB78.9 million, RMB21.7 million and RMB28.5 million, respectively, and gross profit margin of approximately 5.0%, 5.3%, 5.7% and 5.8% and 5.8%, respectively, for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023. During the Track Record Period, our gross profit margin varied from project to project. Our gross profit and gross profit margin are dependent on a number of factors, including but not limited to, the scope and complexity of works, the stages of construction, our cost control and management, timing and recognition of cost and revenue in different construction stages and the outcome of the negotiation on the value of variation orders or final accounts with our customers.

Our overall gross profit increased by approximately RMB4.8 million or 7.2% for the year ended 31 December 2021, which was primarily attributable to the overall revenue growth for reasons mentioned above and the overall increase in gross profit margin.

Our overall gross profit increased by approximately RMB7.7 million or 10.8% for the year ended 31 December 2022 as compared to the year ended 31 December 2021, which was primarily attributable to the overall revenue growth for reasons mentioned above and the overall increase in gross profit margin.

Our overall gross profit increased by approximately RMB6.9 million or 31.8% for the six months ended 30 June 2022 as compared to the six months ended 30 June 2023, which was primarily attributable to the overall revenue growth for reasons mentioned above and the overall increase in gross profit margin.

Our overall gross profit margin increased from approximately 5.0% for the year ended 31 December 2020 to approximately 5.3% for the year ended 31 December 2021. Such increase was largely driven by the increase in gross profit margin of our municipal and public construction projects.

Our overall gross profit margin increased from approximately 5.3% for the year ended 31 December 2021 to approximately 5.7% for the year ended 31 December 2022. Such increase was primarily attributable to the increase in gross profit margins of our construction engineering projects and foundation engineering projects.

Our overall gross profit margin remained stable at approximately 5.8% for the six months ended 30 June 2022 and 2023.

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

	Year ended 31 December						Six months ended 30 June			
	2020		2021		2022		2022		2023	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (Unaudited)	%	RMB'000	%
Construction projects										
Construction engineering projects	32,746	5.2	40,144	5.2	46,267	6.1	11,086	5.7	17,625	6.3
Municipal and public construction projects	30,940	4.8	28,211	5.8	21,560	5.3	8,945	6.1	4,346	4.7
Foundation engineering projects	1,569	4.5	2,835	4.7	2,900	5.4	93	5.2	3,173	5.9
Specialised contracting projects	1,184	5.0	58	0.3	8,198	5.2	1,534	5.5	3,403	4.9
Total	66,439	5.0	71,248	5.3	78,925	5.7	21,658	5.8	28,547	5.8

Construction engineering projects

Our gross profit margin of construction engineering projects remained relatively stable at approximately 5.2% and 5.2% for the years ended 31 December 2020 and 2021, respectively.

Our gross profit margin of construction engineering projects grew from approximately 5.2% for the year ended 31 December 2021 to approximately 6.1% for the year ended 31 December 2022. Such growth was primarily attributable to (i) Project #19, which contributed gross profit of approximately RMB2.5 million and achieved a gross profit margin of approximately 11.8% for the year ended 31 December 2022 as the project approached its later stage of construction and was completed in 2022, resulting in lower raw material costs and labour subcontracting costs; and (ii) the commencement of Project #196, Project #252 and Project #285 in late 2021 and 2022, which had achieved a gross profit margin of approximately 7.8%, 7.8% and 6.7%, respectively, during the year ended 31 December 2022. In respect of Project #196, due to the soil condition of the construction site, less cost of earthwork transportation was incurred. Therefore, we recorded a relatively higher profit margin from Project #196, which contributed a gross profit of approximately RMB13.0 million for the year ended 31 December 2022. In respect of Project #252, since it was a construction project at a school building and was commenced in July 2022 during summer holiday, and we were allowed to carry out construction works at night time, the construction progress was enhanced, resulting in a gross profit margin of approximately 7.8%. In respect of Project #285, since the project mainly involved indoor construction, the construction progress would be more efficient because of less affection of weather. Also, due to the nature of Project #285, lower equipment and machinery cost was incurred, resulting in higher gross profit margin. Project #285 contributed gross profit of approximately RMB4.3 million for the year ended 31 December 2022.

Our gross profit margin of construction engineering projects grew from approximately 5.7% for the six months ended 30 June 2022 to approximately 6.3% for the six months ended 30 June 2023. Such growth was primarily attributable to (i) the commencement of Project #302 in January 2023, which contributed gross profit of approximately RMB4.5 million and achieved a gross profit margin of approximately 6.8% for the six months ended 30 June 2023 due to the large scale of construction site, we could carry out various construction processes simultaneously, improving construction efficiency and reducing costs; and (ii) the higher gross profit margin of Project #196 and Project #285, which contributed gross profit of approximately RMB2.5 million and RMB1.1 million, and achieved a gross profit margin of approximately 7.8% and 6.8%, respectively, due to the reason as mentioned in the previous paragraph above.

Municipal and public construction projects

Our gross profit margin of municipal and public construction projects grew from approximately 4.8% for the year ended 31 December 2020 to approximately 5.8% for the year ended 31 December 2021. Such growth was primarily attributable (i) the commencement of several new municipal and public construction projects, namely Project #195 and Project #212, in 2021 with gross profit margin relatively higher than our average gross profit margin; and (ii) the alteration of building material by a customer for a project during the construction process, resulting in lower cost of raw materials to our Group.

Our gross profit margin of municipal and public construction projects decreased from approximately 5.8% for the year ended 31 December 2021 to approximately 5.3% for the year ended 31 December 2022. Such decrease was primarily attributable to (i) the negative impact of Project #96 on our gross profit margin as additional works were performed after completion and the relevant costs were incurred and recognised during the year ended 31 December 2022, partially offset by the commencement of several new roadwork projects, namely Project #165, Project #216 and Project #246, in 2022 with gross profit margin relatively higher than our average municipal and public construction projects due to the higher construction complexity of those new roadwork projects.

Our gross profit margin of municipal and public construction projects decreased from approximately 6.1% for the six months ended 30 June 2022 to approximately 4.7% for the six months ended 30 June 2023. Such decrease was primarily attributable to the negative impact of (i) Project #40, which contributed a gross loss of approximately RMB0.5 million, mainly due to the increase in raw materials used for maintenance of the landscape; and (ii) Project #184, which contributed a gross loss of approximately RMB0.3 million, due to the increase in use of aggregates, resulting in higher raw material costs.

Foundation engineering projects

Our gross profit margin of foundation engineering projects remained relatively stable at approximately 4.5% and 4.7% for the years ended 31 December 2020 and 2021, respectively.

Our gross profit margin of foundation engineering projects grew from approximately 4.7% for the year ended 31 December 2021 to approximately 5.4% for the year ended 31 December 2022. Such growth was primarily attributable to the commencement of several foundation projects, namely Project #281, Project #287, Project #293, Project #294 and Project #296, in 2022 which had relatively higher gross profit margin due to geological conditions of the construction sites, and hence less equipment and machinery usage costs and labour subcontracting cost were incurred.

Our gross profit margin of foundation engineering projects grew from approximately 5.2% for the six months ended 30 June 2022 to approximately 5.9% for the six months ended 30 June 2023. Such growth was primarily attributable to (i) the commencement of our new foundation project, namely Project #301, in 2023 with gross profit margin relatively higher than our average foundation engineering projects due to the larger scale construction site, we would carry out various construction processes simultaneously, improving construction efficiency and reducing costs; and (ii) Project #287 and Project #293 which had relatively high gross profit margin due to the reason as mentioned in the previous paragraph above.

Specialised contracting projects

Our gross profit margin of specialised contracting projects were approximately 5.0%, 0.3%, 5.2%, 5.5% and 4.9% for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, respectively. Our gross profit margin of specialised contracting projects generally depends on various factors such as (i) the nature; (ii) the complexity; and (iii) the duration of projects.

Administrative expenses

The following table sets forth the breakdown of our administrative expenses by nature for the years/periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Staff costs	14,432	17,670	22,187	11,235	9,835
[REDACTED]	—	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Depreciation and amortisation	2,977	3,227	3,465	1,672	1,758
Travelling and entertainment expenses	566	569	388	279	242
Professional fees	272	238	930	887	351
Auditors' remuneration	44	645	169	149	30
Others	1,725	2,583	2,599	1,482	1,772
Total	20,016	28,250	39,069	18,983	16,355

Our administrative expenses primarily consists of staff costs, depreciation and amortisation and [REDACTED]. For the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, our administrative expenses amounted to approximately RMB20.0 million, RMB28.3 million, RMB39.1 million, RMB19.0 million and RMB16.4 million, representing approximately 1.5%, 2.1%, 2.8%, 5.1% and 3.3% of our total revenue, respectively.

The increase in administrative expenses of approximately RMB8.2 million or 41.1% for the year ended 31 December 2021 and approximately RMB10.8 million or 38.3% for the year ended 31 December 2022 was mainly attributable to (i) the increase in staff costs of approximately RMB3.2 million and RMB4.5 million; and (ii) the non-recurring [REDACTED] of approximately [REDACTED], RMB[REDACTED] million and RMB[REDACTED] million incurred, for the respective years. The increase in staff costs was primarily due to the increase in our monthly average headcount from 174 for the year ended 31 December 2020 to 211 for the year ended 31 December 2021 and further to 226 for the year ended 31 December 2022.

The decrease in administrative expenses of approximately RMB2.6 million or 13.8% for the six months ended 30 June 2023 was mainly attributable to the decrease in (i) staff costs of approximately RMB1.4 million; and (ii) [REDACTED] of approximately RMB[REDACTED] million. The decrease in staff costs was primarily due to the decrease in average headcount from 231 for the six months ended 30 June 2022 to 193 for the six months ended 30 June 2023.

Net impairment losses on financial assets and contract assets

The following table sets forth our net impairment losses on financial assets and contract assets for the years/periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
(Impairment losses)/reversal of impairment losses on contract assets	(19,973)	(4,642)	(563)	(4,686)	3,154
(Impairment losses)/reversal of impairment loss on trade receivables	(6,987)	(380)	1,640	(2,612)	915
Reversal of impairment losses/(impairment losses on other receivables) on other receivables	112	(53)	(2,331)	36	211
Total	(26,848)	(5,075)	(1,254)	(7,262)	4,280

Our net impairment losses on financial assets and contract assets represent the expected credit losses on our contract assets, trade receivables and other receivables. Our Group applies the simplified approach to provide for expected credit loss prescribed by HKFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables and contract assets. The expected loss rates are determined based on the historical payment profiles, historical credit loss rates by industry and data published by external credit rating institutions, adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. Our Group has primarily identified the consumer price index and broad money supply under China M2 Money Supply in the PRC to be the relevant macroeconomic factors for the purpose of assessing forward looking information, and accordingly adjusts the loss rates based on expected changes in those factors. Please refer to Notes 2.8(d) and 3.1(b) to the Accountant's Report set out in Appendix I to this document for further details.

For the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022, our net impairment losses on financial assets and contract assets amounted to approximately RMB26.8 million, RMB5.1 million, RMB1.3 million and RMB7.3 million, respectively, representing approximately 2.0%, 0.4%, 0.1% and 2.0% of our total revenue for the same periods. Among these, impairment losses recognised on contract assets accounted for approximately 74.4%, 91.5%, 44.9% and 64.5% of our total net impairment losses on financial assets and contract assets for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022, respectively. For the six months ended 30 June 2023, we recorded reversal of impairment losses on financial assets and contract assets of approximately RMB4.3 million.

Our net impairment losses on financial assets and contract assets amounted to approximately RMB26.8 million for the year ended 31 December 2020 was mainly attributable to the impairment losses on contract assets and trade receivables provided for Customer C in relation to Project #25 in aggregate of approximately RMB22.8 million. Given Customer C had financial difficulties in settling our payments due to COVID-19 pandemic, we assessed the credit risk of Customer C at the end of 2020. After considering the status of billings, settlement and information related to the financial conditions of Customer C, we estimated the recoverable amounts for the construction services we provided by recognising an impairment provision against the trade receivables and contract assets from Customer C. We also decided to suspend Project #25 until Customer C could substantially settle the outstanding payments for the construction works we performed. For details on the suspended project, please refer to the section headed "Business — Our projects — Project suspension and delays".

Our net impairment losses on financial assets and contract assets decreased by approximately RMB21.8 million or 81.1% for the year ended 31 December 2021 as compared to the year ended 31 December 2020. Such decrease was mainly attributable to the credit loss allowance of approximately RMB22.8 million was recognised for Customer C in relation to Project #25 for the year ended 31 December 2020. As at 31 December 2021, the loss allowance provision on contract assets and trade receivables of Customer C in relation to Project #25 in aggregate amounted to approximately RMB22.9 million, representing an impairment losses of approximately RMB0.1 million recognised during the year ended 31 December 2021, which is substantially low as compared to the year ended 31 December 2020. The decrease was partially offset by the provision we made in light of the general higher expected loss rate of our customers to reflect the adverse impact of the delay in payments of certain non-state-owned real estate developers and other enterprises engaging in various industries due to the macroeconomic environment in the PRC.

Our net impairment losses on financial assets and contract assets decreased by approximately RMB3.8 million or 75.3% for the year ended 31 December 2022 as compared to the year ended 31 December 2021, which was mainly due to (i) our gross balances of trade and bills receivables as at 31 December 2022 was lower than that as at 31 December 2021; and (ii) the decrease in our impairment losses on contract assets of approximately RMB4.1 million in 2022 due to the high recovery rate of contract assets resulted in the decrease in our expected loss rates for contract assets of Customer C from 88.71% as at 31 December 2021 to 2.21% as at 31 December 2022, in view of our receipt of payment of approximately RMB20.0 million during the second half of 2022. The decrease was partially offset by (i) higher gross balances of contract assets as at 31 December 2022; and (ii) further increase in our expected loss rates of our customers for prudent sake with response to the overall market conditions in the PRC and real estate market.

We recorded reversal of impairment losses on financial assets and contract assets of approximately RMB4.3 million for the six months ended 30 June 2023 as compared to our net impairment losses on financial assets and contract assets of approximately RMB7.3 million for the six months ended 30 June 2022. Such reversal was mainly due to our lower gross balances of trade and bills receivables and contract assets as at 30 June 2023 as compared to 31 December 2022, partially offset by the slight increase in our expected loss rates for trade receivables and contract assets for prudent sake with response to the overall market conditions in the PRC and real estate market.

Finance (costs)/income — net

The following table sets forth our finance income and finance costs for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Finance income					
Interest income from bank deposits	60	96	148	48	181
Finance costs					
Interest expense on factoring	—	—	(422)	—	(1,366)
Interest expense on bank borrowing	(109)	—	—	—	—
Interest expense on lease liabilities	(114)	(90)	(64)	(35)	(52)
	(223)	(90)	(486)	(35)	(1,418)
Finance (costs)/income — net	(163)	6	(338)	13	(1,237)

Our finance income consists of interest income generated from bank deposits, while our finance costs primarily consist of interest expenses on factoring, bank borrowing and lease liabilities. Our finance costs — net amounted to approximately RMB0.2 million, RMB0.3 million and RMB1.2 million for the years ended 31 December 2020 and 2022 and the six months ended 30 June 2023, respectively, and our finance income — net amounted to approximately RMB6,000 and RMB13,000 for the year ended 31 December 2021 and the six months ended 30 June 2022, respectively.

Income tax (expense)/credit

Our Group is subject to income tax calculated at the applicable tax rates in accordance with the relevant laws and regulations in each tax jurisdiction in which companies comprising our Group domicile or operate. Pursuant to the local rules and regulations of the Cayman Islands and the BVI, members of our Group incorporated in the Cayman Islands and the BVI are not subject to any income tax. No provision for Hong Kong profits tax was made as our Group had no estimated assessable profit that was subject to Hong Kong profits tax during the Track Record Period. Pursuant to the EIT Law, the members of our Group which operate in the PRC are subject to EIT at a rate of 25% on their taxable income.

Our income tax expense consist primarily of corporate income tax and movements in deferred income tax assets. For the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, our income tax expense was approximately RMB5.6 million, RMB11.0 million, RMB12.9 million and RMB4.4 million, respectively. For the six months ended 30 June 2022, our income tax credit was approximately RMB0.2 million. Our effective tax rate was approximately 29.4%, 28.2%, 33.8% and 29.2%, respectively for the years ended 31 December 2020, 2021 and 2022 and six months ended 30 June 2023. For the six months ended 30 June 2022, we recorded loss before income tax and incurred a tax credit, and thus the effective tax rate is not applicable.

Our Directors have confirmed that as at the Latest Practicable Date, (i) our Group has made all required tax filings under the relevant tax laws and regulations in the PRC and has settled all outstanding tax liabilities due; and (ii) our Group is not subject to any dispute or potential dispute with tax authorities in the PRC.

Profit/(loss) and total comprehensive income/(loss) for the year/period

As a result of the foregoing, we recorded profit for the year of approximately RMB13.6 million, RMB28.1 million and RMB25.3 million for the years ended 31 December 2020, 2021 and 2022, respectively, loss for the period of approximately RMB4.4 million for the six months ended 30 June 2022 and profit for the period of approximately RMB10.8 million for the six months ended 30 June 2023.

Our profit increased by approximately 107.1% from approximately RMB13.6 million for the year ended 31 December 2020 to approximately RMB28.1 million for the year ended 31 December 2021 was mainly attributable to (i) the increase in revenue derived from construction engineering projects for reasons mentioned in the paragraph headed "Discussion on selected items of consolidated income statement — Revenue" in this section; and (ii) the decrease in impairment losses on financial assets and contract assets of approximately RMB21.8 million, partially offset by the increase in administrative expenses of approximately RMB8.2 million during the year.

Our profit decreased by approximately 9.8% from approximately RMB28.1 million for the year ended 31 December 2021 to approximately RMB25.3 million for the year ended 31 December 2022 was mainly attributable to the increase in staff costs and the [REDACTED] of approximately RMB[REDACTED] million and RMB[REDACTED] million, respectively, partially offset by (i) the increase in revenue derived from specialised contracting projects for reasons mentioned in the paragraph headed "Discussion on selected items of consolidated income statement — Revenue" in this section; and (ii) the decrease in net impairment losses on financial assets and contract assets of approximately RMB3.8 million.

We recorded profit for the period of approximately RMB10.8 million for the six months ended 30 June 2023. The improvement as compared to the six months ended 30 June 2022 was mainly due to (i) the increase in revenue derived from construction engineering projects, foundation engineering projects and specialised contracting projects for reasons mentioned in the paragraph headed "Discussion on selected items of consolidated income statement — Revenue" in this section; (ii) the reversal of impairment losses on financial assets and contract assets of approximately RMB4.3 million; and (iii) the decrease in staff costs and the [REDACTED] of approximately RMB[REDACTED] million and RMB[REDACTED] million, respectively.

DISCUSSION ON SELECTED ITEMS OF CONSOLIDATED BALANCE SHEETS

	As at 31 December			As at
	2020	2021	2022	30 June 2023
	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES				
Non-current assets				
Plant and equipment	95	225	652	629
Right-of-use assets	1,882	1,465	2,337	1,780
Intangible assets	15,436	13,341	11,246	10,198
Deposits and prepayments	—	—	214	8,736
Deferred income tax assets	9,219	10,561	10,466	9,537
	26,632	25,592	24,915	30,880
Current assets				
Inventories	148	352	304	238
Contract assets	637,725	803,829	1,019,851	967,469
Trade and bills receivables	224,908	268,548	215,383	129,113
Deposits, other receivables and prepayments	48,385	64,425	108,613	92,638
Amounts due from related parties	—	—	47	26
Restricted bank deposits	15,683	14,167	27,977	24,372
Cash and cash equivalents	20,735	41,072	112,117	96,754
	947,584	1,192,393	1,484,292	1,310,610
Current liabilities				
Trade and other payables	741,601	905,141	1,135,520	963,870
Amounts due to related parties	73,588	147,589	11,485	11,832
Contract liabilities	43,188	14,936	21,917	20,813
Current income tax liabilities	14,969	12,114	10,826	5,277
Lease liabilities	917	1,224	1,248	1,286
	874,263	1,081,004	1,180,996	1,003,078
Net current assets	73,321	111,389	303,296	307,532
Total asset less current liabilities	99,953	136,981	328,211	338,412

	As at 31 December			As at
	2020	2021	2022	30 June 2023
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current liabilities				
Lease liabilities	1,001	388	1,149	563
Net assets	98,952	136,593	327,062	337,849
EQUITY				
Share capital	—	—*(Note)*	9	9
Other reserves	103,696	146,050	314,647	314,647
(Accumulated losses)/retained earnings	(4,744)	(9,457)	12,406	23,193
Total equity	98,952	136,593	327,062	337,849

Note: Below RMB1,000.

Intangible assets

Our intangible assets primarily consist of construction licenses in relation to five construction contracting qualifications. Our intangible assets are stated at cost less accumulated amortisation and impairment losses after initial recognition. As at 31 December 2020, 2021 and 2022 and 30 June 2023, our intangible assets amounted to approximately RMB15.4 million, RMB13.3 million, RMB11.2 million and RMB10.2 million, respectively. The decreases over the Track Record Period were mainly due to amortisation charge during the respective years/period.

Contract assets

Our contract assets represent our right to consideration for work completed at the end of each reporting period before being unconditionally entitled to the consideration under the payment terms as set out in the contracts. Our contract assets are assessed for expected credit losses in accordance with the policy as set out in Note 2.9 to the Accountant's Report in Appendix I to this document. Our contract assets are transferred to receivables when our right to consideration becomes unconditional which usually occurs when we bill our customers.

We recognise revenue over time with input method which is measured on the basis of the actual costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. During the project execution phase, we would submit progress reports to our customers periodically, indicating the volume of work that we have performed. Subject to the certification of work by the independent supervision entity appointed by our customers, we would be entitled to request for progress payments. As stipulated in the construction contracts, our Group is generally entitled to unconditionally bill our customers for approximately 60% to 80% of the total certified value of work performed. Our customers will then confirm the billable value of works completed and arrange the payment to us. The (i) remaining unbilled portion of the work performed; (ii) work performed by us recognised as revenue but not yet submitted to the customers for certification; and (iii) retention money withheld by our customers during the defects liability period will be recognised as contract assets. Our contract assets can only be reclassified to receivables when it becomes unconditional for billing after reaching further milestones, including upon (i) completion of the construction projects; (ii) completion of final settlement audit; (iii) work performed by us were certified by our customers; and (iv) expiration of the defects liability period.

According to the Frost & Sullivan Report, the percentage of performed work that can be billed to customers out of total contract value of work performed is comparable to those of our industry peers and our Group's billing process and the timing of billing were comparable to those of our industry peers on the basis that (i) payments for the construction services are generally made upon achieving key milestones set forth in the construction contracts; and (ii) the industry peers are generally entitled to bill the customers 50% to 90% of the total certified value of work performed during the performance of the construction works. In addition, the general billing time for contract assets in the PRC construction industry ranges from one to six months.

According to the Frost & Sullivan Report, prolonged certification process is common in the construction industry in the PRC mainly due to, among others, (i) careful acceptance by multiple responsible personnel of different parties, especially for large and complex projects or projects obtained from governmental departments and SOEs; (ii) the extended negotiations for final settlement, including determination of scope of works, resolution of quality issues and discussion of adjustments; (iii) the involvement of the customer's management and/or the lengthy internal approval process of the finance department of the customer, in particular for customers from public sector; and (iv) some of the larger and/or complex projects require a longer period of time for inspection, which results in a longer period of time to complete settlement review.

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

	As at 31 December			As at 30 June 2023
	2020	2021	2022	
	RMB'000	RMB'000	RMB'000	RMB'000
Contract assets				
— Work performed but not yet billed	309,924	364,274	387,841	325,934
— Retention receivables	349,471	465,867	658,885	665,256
Less: provision for impairment of contract assets	(21,670)	(26,312)	(26,875)	(23,721)
Contract assets — net	637,725	803,829	1,019,851	967,469

Our contract assets (net of allowance for impairment of contract assets) increased by approximately RMB166.1 million or 26.0% from approximately RMB637.7 million as at 31 December 2020 to approximately RMB803.8 million as at 31 December 2021. Such increase was mainly due to (i) the increase in the quantity of work required for projects undertaken by us which had yet to be certified by the customers; and (ii) Project #87, an ongoing project with high contract value and relatively long project duration, accumulated contract assets since its commencement in July 2019. Such balance, other than the retention money, will only become unconditional for billing after completion of the project and upon the completion of final settlement audit.

Our contract assets (net of allowance for impairment of contract assets) increased by approximately RMB216.0 million or 26.9% from approximately RMB803.8 million as at 31 December 2021 to approximately RMB1,019.9 million as at 31 December 2022. Such increase was mainly due to (i) the construction works of approximately RMB180.4 million in aggregate we conducted for several large-scale projects commenced in 2022, namely Project #237, Project #246, Project #266 and Project #285, which had yet to be certified by the customers as at 31 December 2022; and (ii) several ongoing large-scale projects, namely Project #87, Project #129 and Project #196, which accumulated contract assets of approximately RMB246.4 million in aggregate since the commencement of the projects, representing 24.1% of our contract assets (net of allowance of impairment of contract assets), and we are only entitled to bill most of the settlement value of the projects until the completion of final settlement audit.

Our contract assets (net of allowance for impairment of contract assets) decreased by approximately RMB52.4 million or 5.1% from approximately RMB1,019.9 million as at 31 December 2022 to approximately RMB967.5 million as at 30 June 2023. Such decrease was mainly due to our efforts to follow up on the progress of final settlement audit. For the six months ended 30 June 2023, 78 projects became unconditional for billing after reaching further milestones, of which approximately RMB613.7 million of our contract assets was converted into trade receivables. In addition, we received prepayments from our customers of approximately RMB224.9 million in aggregate for Project #87, Project #129 and Project #273.

Work performed but not yet billed

Work performed but not yet billed represents our right to receive consideration for work completed and not yet billed because the rights are conditional upon the satisfaction by our customers on the construction work completed by us and the work is pending for the certification by our customers. As at 31 December 2020, 2021 and 2022 and 30 June 2023, our work performed but not yet billed amounted to approximately RMB309.9 million, RMB364.3 million, RMB387.8 million and RMB325.9 million, representing approximately 47.0%, 43.9%, 37.1% and 32.9% of our contract assets, respectively. The following table sets forth the aging analysis of our work performed but not yet billed based on recognition date as at the dates indicated:

	As at 31 December			As at
	2020	2021	2022	30 June 2023
	RMB'000	RMB'000	RMB'000	RMB'000
Within 6 months	277,403	324,554	330,559	165,581
6 months to 12 months	12,569	10,232	19,365	120,793
Over 12 months	19,952	29,488	37,917	39,560
	309,924	364,274	387,841	325,934

Retention receivables

Retention receivables represents (i) the amount of work performed withheld by our customers on each payment based on a prescribed percentage of the contract value and would become unconditional for billing after reaching further milestones; and (ii) the retention monies to be released upon expiry of the defects liability period. The progress billable amount is usually based on a progress billable percentage, generally ranging from 60% to 80%, of the total certified value of work performed, as stipulated in the relevant construction contracts. The total amount we are entitled to make billing to our customers (on an accumulative basis) is generally up to 95% to 97% of the final settlement value after the completion and acceptance of the project. Approximately 3% to 5% of the final settlement value will be retained by our customers as retention money and will be paid to us upon expiration of the defects liability period. Further details on our contract terms are set out in the section headed "Business — Customers, sales and marketing — Salient terms of typical sales agreements with our customers" in this document. As at 31 December 2020, 2021 and 2022 and 30 June 2023, our retention receivables amounted to approximately RMB349.5 million, RMB465.9 million, RMB658.9 million and RMB665.3 million, representing approximately 53.0%, 56.1%, 62.9% and 67.1% of our contract assets, respectively. The following table sets forth the aging analysis of our retention receivables based on recognition date as at the dates indicated:

	As at 31 December			As at
	2020	2021	2022	30 June 2023
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	294,790	313,684	396,374	430,008
Over 1 year	54,681	152,183	262,511	235,248
	349,471	465,867	658,885	665,256

The following table sets forth the aging analysis of our contract assets based on recognition date as at the dates indicated:

	As at 31 December			As at
	2020	2021	2022	30 June 2023
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	584,761	648,471	746,298	716,381
1 year to 2 years	71,297	148,075	179,628	165,515
Over 2 years	3,337	33,595	120,800	109,294
	659,395	830,141	1,046,726	991,190

As at the Latest Practicable Date, approximately 13.6%, 22.1% and 55.7% of our contract assets (amounting to approximately RMB89.6 million, RMB183.1 million and RMB583.5 million) as at 31 December 2020, 2021 and 2022 have not been converted into trade receivables, among which, approximately RMB74.3 million, RMB128.7 million and RMB382.5 million (representing approximately 82.9%, 70.3% and 65.6% of the total unconverted contract assets) are expected to be converted into trade receivables by the end of 2023, respectively, and the remaining outstanding balances are expected to be converted into trade receivables by the end of 2024. Such estimation was made by our Directors primarily based on (i) the historical conversion records of the contract assets during the Track Record Period; (ii) the latest status and progress of our existing projects; and (iii) our verbal communications with our customers for certain large-scale projects. To the best knowledge, information and belief of our Directors, such unconverted contract assets were mainly attributable to the following projects:

(i) Project #87, the largest contract value project, and Project #285 undertaken by us for Huizhou Xingsheng Century Investment Co., Ltd.* (惠州市興盛世紀投資有限公司) ("**Huizhou Xingsheng**") in Huizhou. The aggregate contract assets for Project #87 and Project #285 amounted to approximately RMB119.5 million, RMB250.5 million, RMB115.0 million and RMB122.7 million, representing approximately 18.1%, 30.2%, 11.0% and 12.4% of our contract assets as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively. As at the Latest Practicable Date, Project #87 and Project #285 have not yet been completed. The certified amount of contract assets for Project #87 and Project #285 are expected to be converted to trade receivables upon fulfillment of the milestones. From the commencement of Project #87 and Project #285 and up to the Latest Practicable Date, approximately RMB682.4 million was certified by Huizhou Xingsheng for abovementioned projects.

(ii) Several projects, namely Project #19, Project #94 and Project #129, undertaken by us for Customer Group A. The aggregate contract assets for such projects amounted to approximately RMB157.0 million, RMB168.0 million, RMB125.0 million and RMB79.9 million, representing approximately 23.8%, 20.2%, 11.9% and 8.1% of our contract assets as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively. As at the Latest Practicable Date, except for Project #129, the aforementioned projects have been completed. The amount of contract assets for the aforementioned projects is expected to be converted to trade receivables upon fulfillment of the milestones. From the commencement of the aforementioned projects and up to the Latest Practicable Date, approximately RMB684.5 million was certified by Customer Group A for the aforementioned projects.

(iii) Project #196 undertaken by us for Customer E. The contract assets for Project #196 amounted to approximately nil, RMB21.5 million, RMB126.9 million and RMB104.8 million, representing approximately nil, 2.6%, 12.1% and 10.6% of our contract assets as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively. As at the Latest Practicable Date, Project #196 has not yet been completed. The certified amount of contract assets for Project #196 is expected to be converted to trade receivables upon fulfillment of the milestones. From the commencement of Project #196 and up to the Latest Practicable Date, approximately RMB141.6 million was certified by Customer E for the project.

(iv) Project #177 and Project #237, one of our major projects, undertaken by us for Shenzhen 5297 Investment Development Co., Ltd.* (深圳市五二九七投資發展有限公司) ("**Shenzhen 5297**"). The contract assets for such projects amounted to approximately nil, RMB14.4 million, RMB43.7 million and RMB52.1 million, representing approximately nil, 1.7%, 4.2% and 5.3% of our contract assets as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively. As at the Latest Practicable Date, Project #237 has not yet been completed. The certified amount of contract assets for Project #177 and Project #237 are expected to be converted to trade receivables upon fulfillment of the milestones. From the commencement of Project #177 and Project #237 and up to the Latest Practicable Date, approximately RMB189.6 million was certified by Shenzhen 5297 for the projects.

(v) Several projects, namely Project #103, Project #105, Project#107, Project #135, Project #157, Project #162, Project #163, Project #246, Project #249 and Project #288, undertaken by us for Customer Group D. The aggregate contract assets for such projects amounted to approximately RMB9.0 million, RMB18.0 million, RMB64.4 million and RMB69.9 million, representing approximately 1.4%, 2.2%, 6.2% and 7.0% of our contract assets as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively. As at the Latest Practicable Date, except for Project #246, Project #249 and Project #288, the aforementioned projects have been completed. The amount of contract assets for the aforementioned projects is expected to be converted to trade receivables upon fulfillment of the milestones. From the commencement of the aforementioned projects and up to the Latest Practicable Date, approximately RMB305.6 million was certified by Customer Group D for the aforementioned projects.

(vi) Project #240 and Project #266, undertaken by us for Customer F. The aggregate contract assets for such projects amounted to approximately nil, nil, RMB49.9 million and RMB41.5 million, representing approximately nil, nil, 4.8% and 4.2% of our contract assets as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively. As at the Latest Practicable Date, Project #266 has not yet been completed. The amount of contract assets for the aforementioned projects is expected to be converted to trade receivables upon fulfillment of the milestones. From the commencement of the aforementioned projects and up to the Latest Practicable Date, approximately RMB135.8 million was certified by Customer F for the aforementioned projects.

In accordance with the payment terms of the respective contracts of the aforementioned projects, we are entitled to unconditionally bill the customer for a certain percentage of the certified value of work performed while the remaining portion would only become unconditionally billable to the customer at a later time upon fulfillment of certain milestone(s) (e.g. completion of the project or expiry of the defects liability period). Our Directors are not aware of any issue which will materially affect the conversion of the unconverted contracts assets disclosed above into trade receivables in the future and expect that approximately 82.9%, 70.3% and 65.6% of our unconverted contract assets as at 31 December 2020, 2021 and 2022 would be converted into trade receivables by 2023; in light of the certification history of our customers. Further, after making due and careful enquries, our Directors expect that a majority of such contract assets would be converted into trade receivables by 2024.

During the Track Record Period, to the best knowledge of our Directors, there was no material disputes or disagreements on the construction progress estimated by us and that certified by the respective customers.

Our Group applies the simplified approach to provide for expected credit loss prescribed by HKFRS 9, which requires the use of the lifetime expected loss provision for all contract assets. The expected loss rates are determined based on the historical payment profiles, historical credit loss rates by industry and data published by external credit rating institutions, adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. Our Group has primarily identified the consumer price index and broad money supply under China M2 Money Supply in the PRC to be the relevant macroeconomic factors for the purpose of assessing forward looking information, and accordingly adjusts the loss rates based on expected changes in those factors. As at 31 December 2020, 2021 and 2022 and 30 June 2023, our loss allowance on contract assets amounted to approximately RMB21.7 million, RMB26.3 million, RMB26.9 million and RMB23.7 million, representing approximately 3.3%, 3.2%, 2.6% and 2.4% of our contract assets, respectively. For further details on impairment of contract assets, please refer to Note 3.1(b)(ii) to the Accountant's Report set out in Appendix I to this document.

The following table sets forth the turnover days of our contract assets during the Track Record Period:

	Year ended 31 December			Six months ended
	2020	**2021**	**2022**	**30 June 2023**
Contract assets turnover days*(Note)*	146.9	201.9	248.6	372.0

Note: Contract assets turnover days are calculated based on the average of beginning and ending contract assets balance for the year/period divided by revenue for the year/period and multiplying by the number of days in the year/period.

Our contract assets turnover days increased by approximately 55.0 days from approximately 146.9 days for the year ended 31 December 2020 to approximately 201.9 days for the year ended 31 December 2021, and further increased by approximately 46.7 days to approximately 248.6 days for the year ended 31 December 2022. The increase was generally in line with the increase in balance of contract assets, in particular the increase in our retention receivables. We recorded higher turnover days for contract assets of approximately 372.0 days for the six months ended 30 June 2023, which was mainly attributable to a lower level of construction activities during the first quarter of the year due to seasonality factor, which led to a lower level of revenue recognised during the first half of the year.

Up to the Latest Practicable Date, approximately RMB141.4 million or 14.3% of our contract assets as at 30 June 2023 had been subsequently transferred to trade receivables upon billing.

Trade and bills receivables

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

	As at 31 December			As at
	2020	**2021**	**2022**	**30 June 2023**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Trade receivables	226,542	276,162	193,348	132,672
Less: allowance for impairment of trade receivables	(7,234)	(7,614)	(5,974)	(5,059)
Trade receivables — net	219,308	268,548	187,374	127,613
Bills receivables	5,600	—	28,009	1,500
	224,908	268,548	215,383	129,113

Trade receivables

Our trade receivables represent outstanding balances due from our customers in relation to certified work performed by us and billings raised to our customers but not yet settled. In general, the increase in trade receivables balance which outpaced the increase in revenue over the Track Record Period was mainly due to (i) the receivables resulted from public sector projects accounted for approximately 72.1%, 59.6% 81.8% and 66.6% of our trade receivables as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively; and (ii) the receivables from several sizeable private sector projects, namely Project #19, Project #87, Project #94 and Project #129, which in aggregate accounted for approximately 25.0%, 37.5% 12.2% and 20.0% of our trade receivables at the end of the same period, respectively. Having considered that (i) customers from public sector generally have longer settlement periods as they generally have onerous internal settlement procedures and are not able to settle the sum owed in time; (ii) several customers from private sector have longer settlement periods due to the temporary effect caused by COVID-19 pandemic on the general economic conditions in the PRC; and (iii) their respective continuous settlement history, financial conditions and creditworthiness, we consider the outstanding amounts are recoverable in the future.

Our trade receivables (net of allowance for impairment of trade receivables) increased by approximately RMB49.2 million or 22.5% from approximately RMB219.3 million as at 31 December 2020 to approximately RMB268.5 million as at 31 December 2021. Such increase was mainly due to (i) a greater portion of works of several large-scale projects was certified by our customers during the year ended 31 December 2021; and (ii) a number of projects had completed their final settlement audit such that a larger amount of contract assets was converted to trade receivables, which was partially offset by the settlement of certain construction projects.

Our trade receivables (net of allowance for impairment of trade receivables) decreased by approximately RMB81.2 million or 30.2% from approximately RMB268.5 million as at 31 December 2021 to approximately RMB187.4 million as at 31 December 2022 and further decreased by approximately RMB59.8 million or 31.9% to approximately RMB127.6 million as at 30 June 2023. Such decrease was mainly due to our continued efforts to improve trade receivable collections and faster payment of our customers as a result of the recovery from the negative impact of COVID-19.

The following table sets forth the aging analysis of our trade receivables, based on invoice date, as at the dates indicated:

	As at 31 December			As at
	2020	2021	2022	30 June 2023
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	221,125	226,145	124,373	108,690
1 year to 2 years	5,417	49,157	32,596	16,622
Over 2 years	—	860	36,379	7,360
	226,542	276,162	193,348	132,672

The following table sets forth the aging analysis of our trade receivables, based on due dates, as at the dates indicated:

	As at 31 December			As at
	2020	2021	2022	30 June 2023
	RMB'000	RMB'000	RMB'000	RMB'000
Not past due	25,269	56,808	42,821	31,002
Within 1 year	197,124	169,315	81,798	77,691
1 year to 2 years	4,149	49,941	32,397	16,619
Over 2 years	—	98	36,332	7,360
	226,542	276,162	193,348	132,672

Our project periods generally range from approximately one month to three years, and depending on their scale and complexity of the projects. In determining the applicable credit terms, we perform credit evaluation on each customer with reference to various factors including our past business relationship with them, payment history, reputation, financial strength and our evaluation on their future operation risk. We usually allows our customers to settle the billed amounts within one month. As at 31 December 2020, 2021 and 2022 and 30 June 2023, approximately 100.0%, 100.0%, 75.9% and 92.8% of our overdue trade receivables were aged less than two years, respectively. Our overdue trade receivables aged less than two years at the end of each period were mainly receivables from our customers, being government departments, SOEs or market leaders in their respective industries, which generally have good payment ability and continuous settlement record. We believe the risk of not being able to recover the relevant trade receivables aged less than two years is relatively low based on our evaluation of the credit records of and our business relationships with these customers.

Our trade receivables as at 31 December 2022 in general aged longer than that of as at 31 December 2021. The percentage of amount of trade receivables that were past due over two years to the aggregate amount of trade receivables increased from approximately 0.3% as at 31 December 2021 to approximately 18.8% as at 31 December 2022, mainly due to the trade receivables from a SOE, namely CCCC Fourth Harbor Engineering Co., Ltd.* (中交第四航務工程局有限公司), which has onerous internal settlement procedures and thus would take a longer time for them to settle trade receivables due, leading to the overall longer ageing pattern of CCCC Fourth Harbor Engineering Co., Ltd.* (中交第四航務工程局有限公司).

The percentage of amount of trade receivables that were past due over two years to the aggregate amount of trade receivables dropped from approximately 18.8% as at 31 December 2022 to approximately 5.5% as at 30 June 2023, mainly due to the repayment of a substantial portion of our long-outstanding trade receivables from our customers. In particular, the trade receivables that aged over two years as at 31 December 2022 for Project #96 undertaken by us for CCCC Fourth Harbor Engineering Co., Ltd.* (中交第四航務工程局有限公司) of approximately RMB34.7 million have been settled by 30 June 2023.

Our Group applies the simplified approach to provide for expected credit loss prescribed by HKFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables. The expected loss rates are determined based on the historical payment profiles, historical credit loss rates by industry and data published by external credit rating institutions, adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. Our Group has primarily identified the consumer price index and broad money supply under China M2 Money Supply in the PRC to be the relevant macroeconomic factors for the purpose of assessing forward looking information, and accordingly adjusts the loss rates based on expected changes in those factors. As at 31 December 2020, 2021 and 2022 and 30 June 2023, our loss allowance on trade receivables amounted to approximately RMB7.2 million, RMB7.6 million, RMB6.0 million and RMB5.1 million, representing approximately 3.2%, 2.8%, 3.1% and 3.8% of gross trade receivables, respectively. For further details on impairment of trade receivables, please refer to Note 3.1(b)(ii) to the Accountant's Report set out in Appendix I to this document.

Our Directors confirmed that we had not experienced any material default in payment of any trade or non-trade payables and borrowings when they become due nor had we breached any covenants during the Track Record Period and up to the Latest Practicable Date.

Our Directors confirmed that we had no material covenant and undertakings in relation to outstanding debts, guarantees or other contingent obligations.

The following table sets forth the turnover days of our trade receivables during the Track Record Period:

	Year ended 31 December			Six months ended
	2020	**2021**	**2022**	**30 June 2023**
Trade receivables turnover days *(Note)*	43.6	68.1	62.2	59.5

Note: Trade receivables turnover days are calculated based on the average of beginning and ending trade receivables balance for the year/period divided by revenue for the year/period and multiplying by the number of days in the year/period.

Our trade receivables turnover days increased by approximately 24.5 days from approximately 43.6 days for the year ended 31 December 2020 to approximately 68.1 days for the year ended 31 December 2021. Such increase was generally in line with the increase in balance of trade receivables during the year as we were entitled to bill a larger amount of contract assets. We recorded a lower trade receivables turnover days of 62.2 days and 59.5 days for the year ended 31 December 2022 and six months ended 30 June 2023, respectively, as we improved our trade receivable collection progress.

Up to the Latest Practicable Date, approximately RMB23.6 million or 17.8% of our trade receivables as at 30 June 2023 had been subsequently settled.

Bills receivables

Our bills receivables represent bank acceptance bills received for payments from our customers. As at 31 December 2020, 2021 and 2022 and 30 June 2023, we recorded bill receivables of approximately RMB5.6 million, nil, RMB28.0 million and RMB1.5 million, respectively.

Deposits, other receivables, prepayments and amounts due from related parties

The following table sets forth the breakdown of our deposits, other receivables, prepayments and amounts due from related parties as at the dates indicated:

	As at 31 December			As at
	2020	2021	2022	30 June 2023
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments to suppliers	40,589	51,981	65,084	80,759
Prepayments for [REDACTED]	—	[REDACTED]	[REDACTED]	[REDACTED]
Prepayment for purchase of a property	—	—	—	8,426
Deposits	3,195	4,396	41,497	7,955
Amounts due from other third parties	4,643	4,516	601	1,693
Bank deposits restricted for use under court orders	—	1,731	—	—
Amounts due from related parties	—	—	47	26
Less: allowance for impairment of other receivables	(42)	(95)	(2,426)	(2,215)
Total	48,385	64,425	108,874	101,400
Less: non-current portion	—	—	(214)	(8,736)
Current portion	48,385	64,425	108,660	92,664

Our prepayments to suppliers amounted to approximately RMB40.6 million, RMB52.0 million, RMB65.1 million and RMB80.8 million, as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively, mainly represented the prepayments made to our suppliers for purchasing raw materials.

Our deposits represented (i) tender deposits provided at the time of bidding our target projects, which would usually be released when the result of the tendering was announced; and (ii) guarantee deposits provided when we successfully bid on a construction project. The amount of deposits was determined on a project-by-project basis depending on the tender terms and contract value. Our deposits amounted to approximately RMB3.2 million, RMB4.4 million RMB41.5 million and RMB8.0 million as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively. Our deposits as at 31 December 2022 increased as compared to that of as at 31 December 2021 mainly due to our payment of tender deposit of approximately RMB32.0 million for our target project. Such tender deposit has been refunded to us in January 2023 following the publication of the tender result.

Our amount due from other third parties amounted to approximately RMB4.6 million, RMB4.5 million, RMB0.6 million and RMB1.7 million as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively, mainly represented the advances to other third parties for project preparation including prepare the necessary resources and manpower required for the construction project.

Trade and other payables

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

	As at 31 December			As at 30 June 2023
	2020	2021	2022	
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	724,170	891,789	1,091,566	926,100
Other payables and accruals	17,431	13,352	43,954	37,770
	741,601	905,141	1,135,520	963,870

Trade payables

Our trade payables represent outstanding balances due to our suppliers for the purchases of raw materials and provision of services.

Our trade payables increased by approximately RMB167.6 million or 23.1% from approximately RMB724.2 million as at 31 December 2020 to approximately RMB891.8 million as at 31 December 2021. Such increase was mainly due to the increase in trade receivables which restricted our cash flow and limited our ability to settle trade payables. As part of our cashflow management, we generally assess the status of settlement of our trade receivables from our customers and our liquidity position before making payments to our suppliers.

Our trade payables increased by approximately RMB199.8 million or 22.4% from approximately RMB891.8 million as at 31 December 2021 to approximately RMB1,091.6 million as at 31 December 2022. Such increase was mainly attributable to (i) the amount due to Supplier B of approximately RMB41.2 million; (ii) the increase in amounts due to Shenzhen Hangshunxin Trading Co., Ltd.* (深圳市航順鑫貿易有限公司) of approximately RMB25.6 million, a supplier of steel for our construction projects; (iii) the increase in amounts due to Supplier E of approximately RMB21.7 million, a construction materials supplier for Project #87; and (iv) the increase in amounts due to Supplier J of approximately RMB18.3 million, a labour subcontractor for Project #196, partially offset by the decrease in amounts due to Supplier A of approximately RMB97.3 million.

Our trade payables decreased by approximately RMB165.5 million or 15.2% from approximately RMB1,091.6 million as at 31 December 2022 to approximately RMB926.1 million as at 30 June 2023. Such decrease was mainly due to a lower level of purchases during the first half of the year as a result of a lower level of construction activities during the first quarter of the year due to seasonality factor.

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

	As at 31 December			As at
	2020	2021	2022	30 June 2023
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	560,709	707,449	648,196	451,911
1 year to 2 years	153,860	160,056	337,764	349,744
Over 2 years	9,601	24,284	105,606	124,445
	724,170	891,789	1,091,566	926,100

The following table sets forth the turnover days of our trade payables during the Track Record Period:

	Year ended 31 December			Six months ended
	2020	2021	2022	30 June 2023
Trade payables turnover days*(Note)*	169.8	231.3	278.6	390.8

Note: Trade payables turnover days are calculated based on the average of beginning and ending trade payables balance for the year/period divided by the cost of revenue for the year/period and multiplying by the number of days in the year/period.

For the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, our trade payables turnover days were approximately 169.8 days, 231.3 days, 278.6 days and 390.8 days, respectively. Such increase is in line with the changes of aggregate trade receivables and contract assets turnover days during the relevant year/period as we will adjust our payment schedules to suppliers depending on the status of settlement of our trade receivables and our liquidity position. We recorded higher trade payables turnover days of approximately 390.8 days for the six months ended 30 June 2023, which was mainly attributable to a lower level of construction activities during the first quarter of the year due to seasonality factor, which led to a lower level of cost of revenue incurred during the first half of the year.

Up to the Latest Practicable Date, approximately RMB55.9 million or 6.0% of our trade payables as at 30 June 2023 had been subsequently settled.

Other payables and accruals

Our other payables and accruals mainly consist of [REDACTED] payables, employee benefits accruals, accrued taxes and surcharges, advance from a customer and other operating expenses payables and accruals. The following table sets forth the breakdown of our other payables as at the dates indicated:

	As at 31 December			As at
	2020	2021	2022	30 June 2023
	RMB'000	RMB'000	RMB'000	RMB'000
Accrued taxes and surcharges	9,412	3,602	34,233	26,982
Employee benefits accruals	2,559	4,136	3,852	3,503
Advance from a customer	3,000	3,000	3,000	3,000
[REDACTED] payables	—	[REDACTED]	[REDACTED]	[REDACTED]
Other operating expenses payables and accruals	2,460	1,134	1,202	487
	17,431	13,352	43,954	37,770

Our accrued taxes and surcharges mainly represented value-added tax payable. Our accrued taxes and surcharges increased significantly from approximately RMB3.6 million as at 31 December 2021 to approximately RMB34.2 million as at 31 December 2022, mainly due to increase in output VAT payable resulted from the increase in revenue in the second half of 2022 which had not been settled as at 31 December 2022.

Advances from a customer of approximately RMB3.0 million represented guarantee deposits for settlement of wages of peasant labours paid by a customer to one of our designated bank accounts. Such advance was unsecured, interest free and would be settled when the project completed.

Amounts due to related parties

Our amounts due to related parties amounted to approximately RMB73.6 million, RMB147.6 million, RMB11.5 million and RMB11.8 million as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively, mainly represented (i) funds advanced by Mr. Xian and Mr. Sang; and (ii) [REDACTED] paid by Zhongshen Hengtai on behalf of our Group. For details, please refer to Note 27 to the Accountant's Report set out in Appendix I to this document. All balances were non-trade in nature, unsecured, interest-free and repayable on demand. All outstanding balances of amounts due to related parties will be capitalised upon or immediately before [REDACTED].

Contract liabilities

Our contract liabilities represent our obligation to provide services to customers for which we have received the advance consideration from the customers. As at 31 December 2020, 2021 and 2022 and 30 June 2023, our contract liabilities amounted to approximately RMB43.2 million, RMB14.9 million, RMB21.9 million and RMB20.8 million, respectively.

Such fluctuation over the Track Record Period was primarily due to the difference in payment terms of different projects as our Group negotiated the advance payment arrangement with our customers on a case-by-case basis.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows

As at 31 December 2020, 2021 and 2022 and 30 June 2023, we had cash and cash equivalents of approximately RMB20.7 million, RMB41.1 million, RMB112.1 million and RMB96.8 million, respectively. Our primary uses of cash were mainly for financing our daily operations and working capital requirements in relation to the execution of our projects, including payment for procurement of raw materials and subcontracting costs. Upon completion of the [REDACTED], we expect that there will not be any material change in the sources and uses of cash of our Group in the future, except that we will have additional funds from [REDACTED] of the [REDACTED] for implementing our future plans as detailed in "Future plans and [REDACTED]" in this document.

The following table sets forth a selected summary of our consolidated statement of cash flows for the years/periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Operating profits before working capital changes	49,252	47,483	43,370	4,316	14,136
Changes in working capital	(64,557)	(93,336)	17,727	(2,978)	(9,858)
Income tax paid	(8,677)	(15,216)	(14,130)	(7,565)	(9,061)
Net cash (used in)/generated from operating activities	(23,982)	(61,069)	46,967	(6,227)	(4,783)
Net cash generated from/(used in) investing activities	6,506	(174)	(578)	(13)	(8,461)
Net cash generated from/(used in) financing activities	26,620	81,576	24,560	22,906	(2,101)
Net increase/(decrease) in cash and cash equivalents	9,144	20,333	70,949	16,666	(15,345)
Cash and cash equivalents at beginning of year/period	11,591	20,735	41,072	41,072	112,117
Exchange differences on cash and cash equivalents	—	4	96	39	(18)
Cash and cash equivalents at end of the year/period	20,735	41,072	112,117	57,777	96,754

Net cash (used in)/generated from operating activities

For the year ended 31 December 2020, we recorded net cash used in operating activities of approximately RMB24.0 million, which was mainly attributable to (i) the increase in contract assets of approximately RMB246.9 million; and (ii) the increase in trade and bills receivables of approximately RMB141.0 million, partially offset by (i) the increase in trade and other payables of approximately RMB278.3 million; and (ii) the operating profit before working capital changes of approximately RMB49.3 million.

For the year ended 31 December 2021, we recorded net cash used in operating activities of approximately RMB61.1 million, which was mainly attributable to (i) the increase in contract assets of approximately RMB170.7 million; and (ii) the increase in trade and bills receivables of approximately RMB44.0 million, partially offset by the increase in trade and other payables of approximately RMB163.5 million.

For the year ended 31 December 2022, we recorded net cash generated from operating activities of approximately RMB47.0 million, which was mainly attributable to (i) the increase in trade and other payables of approximately RMB230.4 million; (ii) the decrease in trade and bills receivables of approximately RMB54.8 million, partially offset by (i) the increase in contract assets of approximately RMB216.6 million; and (ii) the increase in deposits, other receivables and prepayments of approximately RMB44.1 million.

For the six months ended 30 June 2023, we recorded net cash used in operating activities of approximately RMB4.8 million, which was mainly attributable to the decrease in trade and other payables of approximately RMB171.7 million, partially offset by (i) the decrease in trade and bills receivables of approximately RMB87.2 million; (ii) the decrease in the increase in contract assets of approximately RMB55.5 million; and (iii) the decrease in deposits, other receivables and prepayments of approximately RMB16.5 million.

Net cash generated from/(used in) investing activities

For the year ended 31 December 2020, we recorded net cash generated from investing activities of approximately RMB6.5 million, which was mainly attributable to the repayment from related parties of approximately RMB7.5 million; and partially offset by the purchases of intangible assets of approximately RMB0.9 million.

For the year ended 31 December 2021, we recorded net cash used in investing activities of approximately RMB0.2 million, which was mainly attributable to the purchases of property, plant and equipment of approximately RMB0.2 million.

For the year ended 31 December 2022, we recorded net cash used in investing activities of approximately RMB0.6 million, which was primarily attributable to the purchases of property, plant and equipment of approximately RMB0.5 million and the advances to related parties of approximately RMB47,000.

For the six months ended 30 June 2023, we recorded net cash used in investing activities of approximately RMB8.5 million, which was mainly attributable to the purchases of property, plant and equipment of approximately RMB8.5 million.

Net cash generated from/(used in) financing activities

For the year ended 31 December 2020, we recorded net cash generated from financing activities of approximately RMB26.6 million, which was mainly attributable to contributions from shareholders in cash of approximately RMB41.5 million; and partially offset by (i) the repayment to related parties of approximately RMB11.2 million; and (ii) the repayment of bank borrowing of approximately RMB2.6 million.

For the year ended 31 December 2021, we recorded net cash generated from financing activities of approximately RMB81.6 million, which was mainly attributable to (i) the advances from related parties of approximately RMB74.0 million; and (ii) the contributions from shareholders in cash of approximately RMB9.6 million.

For the year ended 31 December 2022, we recorded net cash generated from financing activities of approximately RMB24.6 million, which was mainly attributable to (i) the contributions from shareholders in cash of approximately RMB22.4 million; (ii) the advances from related parties of approximately RMB6.6 million, partially offset by the [REDACTED] paid of approximately RMB[REDACTED] million.

For the six months ended 30 June 2023, we recorded net cash used in financing activities of approximately RMB2.1 million, which was mainly attributable to the interest paid of approximately RMB1.4 million and the payment of principal elements of lease liabilities of approximately RMB0.6 million, and partially offset by the advances from related parties of approximately RMB0.3 million.

Net current assets

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

	As at 31 December			As at
	2020	**2021**	**2022**	**30 June 2023**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Current assets				
Inventories	148	352	304	238
Contract assets	637,725	803,829	1,019,851	967,469
Trade and bills receivables	224,908	268,548	215,383	129,113
Deposits, other receivables and prepayments	48,385	64,425	108,613	92,638
Amounts due from related parties	—	—	47	26
Restricted bank deposits	15,683	14,167	27,977	24,372
Cash and cash equivalents	20,735	41,072	112,117	96,754
	947,584	1,192,393	1,484,292	1,310,610
Current liabilities				
Trade and other payables	741,601	905,141	1,135,520	963,870
Amounts due to related parties	73,588	147,589	11,485	11,832
Contract liabilities	43,188	14,936	21,917	20,813
Current income tax liabilities	14,969	12,114	10,826	5,277
Lease liabilities	917	1,224	1,248	1,286
	874,263	1,081,004	1,180,996	1,003,078
Net current assets	73,321	111,389	303,296	307,532

Our net current assets increased from approximately RMB73.3 million as at 31 December 2020 to approximately RMB111.4 million as at 31 December 2021. The increase was primarily due to (i) the increase in contract assets of approximately RMB166.1 million; (ii) the increase in trade and bills receivables of approximately RMB43.6 million; and (iii) the decrease in contract liabilities of approximately RMB28.3 million, which was partially offset by (i) the increase in trade and other payables of approximately RMB163.5 million; and (ii) the increase in amounts due to related parties of approximately RMB74.0 million.

Our net current assets increased from approximately RMB111.4 million as at 31 December 2021 to approximately RMB303.3 million as at 31 December 2022. The increase was primarily due to (i) the increase in contract assets of approximately RMB216.0 million; (ii) the decrease in amounts due to related parties of approximately RMB136.1 million; (iii) the increase in cash and cash equivalents of approximately RMB71.0 million; and (iv) the increase in deposits, other receivables and prepayments of approximately RMB44.2 million, which was partially offset by (i) the increase in trade and other payables of approximately RMB230.4 million; and (ii) the decrease in trade and bills receivables of approximately RMB53.2 million.

Our net current assets increased from approximately RMB303.3 million as at 31 December 2022 to approximately RMB307.5 million as at 30 June 2023. The increase was primarily due to the decrease in trade and other payables of approximately RMB171.7 million, which was partially offset by (i) the decrease in in trade and bills receivables of approximately RMB86.3 million; (ii) the decrease in contract assets of approximately RMB52.4 million; (iii) the decrease in deposits, other receivables and prepayments of approximately RMB16.0 million; and (iv) the decrease in cash and cash equivalents of approximately RMB15.4 million..

Working capital sufficiency

Our Directors confirm that, taking into account the financial resources presently available to our Group, including our internal resources and the estimated [REDACTED] of the [REDACTED] and the capitalisation of amounts due to related parties upon or immediately before the [REDACTED], in the absence of unforeseen circumstances, our Group has sufficient working capital for our present requirements for at least the next 12 months from the date of this document.

INDEBTEDNESS

The following table sets forth the components of our indebtedness as at the dates indicated:

	As at 31 December			As at
	2020	2021	2022	30 June 2023
	RMB'000	RMB'000	RMB'000	RMB'000
Current liabilities				
Amounts due to related parties	73,588	147,589	11,485	11,832
Lease liabilities	917	1,224	1,248	1,286
	74,505	148,813	12,733	13,118
Non-current liabilities				
Lease liabilities	1,001	388	1,149	563
	75,506	149,201	13,882	13,681

Save for the borrowings aforementioned, during the Track Record Period and up to 30 June 2023, being the latest practicable date for the purpose of this indebtedness statement, we did not have any other bank borrowing or banking facilities. Our Directors confirmed that they are not aware of any foreseeable problem in obtaining facilities for our business should the need arises, having considered our Group is financially healthy in general.

As at 30 June 2023, our Group committed to pay outstanding balance of approximately RMB33.7 million pursuant to a purchase agreement whereby our Group agrees to acquire a commercial property, save as aforesaid or as otherwise disclosed herein, our Group did not have outstanding mortgages, charges, debentures, bank overdrafts, loans or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

During the Track Record Period and up to the Latest Practicable Date, we had not entered into off balance sheet commitment and arrangements.

CAPITAL EXPENDITURES AND COMMITMENTS

Our Group incurred capital expenditures of approximately RMB98,000, RMB0.2 million, RMB0.5 million and RMB8.5 million for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, respectively. The majority of these capital expenditures were related to purchases of property, plant and equipment and were mainly funded through our internal resources. As at 31 December 2020, 2021 and 2022 and 30 June 2023, save for the outstanding balance of approximately RMB33.7 million pursuant to a purchase agreement whereby our Group agrees to acquire a commercial property, we had no significant capital commitments.

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios during the Track Record Period:

	As at 31 December			As at 30 June
	2020	2021	2022	2023
Current ratio[1]	1.1 times	1.1 times	1.3 times	1.3 times
Quick ratio[2]	1.1 times	1.1 times	1.3 times	1.3 times
Gearing ratio[3]	N/A	N/A	N/A	N/A
Debt to equity ratio[4]	Net cash	Net cash	Net cash	Net cash

	Year ended 31 December			Six months ended
	2020	2021	2022	30 June 2023
Net profit margin[5]	1.0%	2.1%	1.8%	2.2%
Return on equity[6]	13.7%	20.6%	7.7%	N/A[8]
Return on assets[7]	1.4%	2.3%	1.7%	N/A[8]

Notes:

(1) Current ratio is calculated based on total current assets divided by total current liabilities as at the relevant year/period end.

(2) Quick ratio represents current assets (net of inventories) divided by total current liabilities as at the relevant year/period end.

(3) Gearing ratio is calculated based on total debt divided by total equity as at the relevant year/period end and multiplied by 100%. Total debt represents total interest-bearing debts, which comprises bank borrowing.

(4) Debt to equity ratio represents net debt (being total debt net of cash and cash receivable) divided by total equity as at the relevant year/period end and multiplied by 100%.

(5) Net profit margin is calculated by dividing profit for the year/period by revenue as at the relevant year/period end and multiplied by 100%.

(6) Return on equity is calculated by profit for the year divided by the total shareholders' equity as at the relevant year end and multiplied by 100%.

(7) Return on assets is calculated by profit for the year divided by the total assets as at the relevant year end and multiplied by 100%.

(8) Return on assets and return on equity are calculated on a full year basis.

Current ratio

Our current ratio remained stable at approximately 1.1 times, 1.1 times, 1.3 times and 1.3 times as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively.

Quick ratio

As at 31 December 2020, 2021 and 2022 and 30 June 2023, our quick ratio remained stable at approximately 1.1 times, 1.1 times, 1.3 times and 1.3 times, respectively.

Gearing ratio

We did not have any outstanding debt as at 31 December 2020, 2021 and 2022 and 30 June 2023.

Debt to equity ratio

We maintained a net cash position as at 31 December 2020, 2021 and 2022 and 30 June 2023. As such, debt to equity ratio is not applicable to our Group.

Net profit margin

Our net profit margin increased from approximately 1.0% for the year ended 31 December 2020 to approximately 2.1% for the year ended 31 December 2021 primarily due to the improvement in our net profit by approximately 107.1%, which was mainly attributable to (i) the decrease in net impairment losses on financial assets and contract assets; and (ii) the increase in gross profit margin from approximately 5.0% for the year ended 31 December 2020 to approximately 5.3% for the year ended 31 December 2021 for reasons discussed in the paragraph headed "Gross profit and gross profit margin" in this section.

Our net profit margin decreased from approximately 2.1% for the year ended 31 December 2021 to approximately 1.8% for the year ended 31 December 2022 primarily due to the decrease in our net profit by approximately 9.8%, which was mainly attributable to the increase in staff costs and the [REDACTED] of approximately RMB[REDACTED] million and RMB[REDACTED] million, respectively. Such decrease was partially offset by (i) the decrease in impairment losses on financial assets and contract assets of approximately RMB3.8 million for the year ended 31 December 2022; and (ii) the increase in gross profit margin from approximately 5.3% for the year ended 31 December 2021 to approximately 5.7% for the year ended 31 December 2022 for reasons discussed in the paragraph headed "Gross profit and gross profit margin" in this section.

Our net profit margin increased from approximately 1.8% for the year ended 31 December 2022 to approximately 2.2% for the six months ended 30 June 2023 primarily due to the reversal of impairment losses on financial assets and contract assets of approximately RMB4.3 million for the six months ended 30 June 2023, partially offset by the decrease in gross profit as a result of a lower level of construction activities during the first quarter of the year due to seasonality factor, which led to a lower level of revenue recognised during the first half of the year.

Return on equity

Our return on equity increased from approximately 13.7% for the year ended 31 December 2020 to approximately 20.6% for the year ended 31 December 2021, primarily due to the improvement in our net profit by approximately 107.1% for reasons mentioned above.

Our return on equity decreased from approximately 20.6% for the year ended 31 December 2021 to approximately 7.7% for the year ended 31 December 2022, primarily due to the increase in other reserves from approximately RMB146.5 million as at 31 December 2021 to approximately RMB314.6 million as at 31 December 2022 as a result of the amounts due to shareholders of approximately RMB143.9 million has been capitalised, and the decrease in our net profit by approximately 9.8% for reasons mentioned above.

Return on assets

Our return on assets increased from approximately 1.4% for the year ended 31 December 2020 to approximately 2.3% for the year ended 31 December 2021, primarily due to the improvement in our net profit by approximately 107.1% for reasons mentioned above.

Our return on assets decreased from approximately 2.3% for the year ended 31 December 2021 to approximately 1.7% for the year ended 31 December 2022, primarily due to the increase in our total assets from approximately RMB1,218.0 million as at 31 December 2021 to approximately RMB1,509.2 million and the decrease in our net profit by approximately 9.8% for reasons mentioned above.

DIVIDEND

No dividend has been proposed and declared by our Group during the Track Record Period and up to the Latest Practicable Date. Our Group does not have a dividend policy or any predetermined dividend distribution ratio. The declaration of future dividends, and the amount of any dividends, will be subject to the recommendation by our Board at its discretion in accordance with our Articles of Association and will depend on a number of factors, including market conditions, our strategic plans and prospects, business opportunities, financial condition and operating results, working capital requirements and anticipated cash needs, statutory and contractual restrictions on the payment of dividends by us and other factors that our Board considers relevant. Any declaration of final dividend by our Company shall also be subject to the approval of our Shareholders.

MATERIAL ADVERSE CHANGES

Our Directors confirm that, save for the estimated non-recurring [REDACTED], there has been no material adverse change in the financial or trading position or prospects of our Group since 30 June 2023 (being the date to which the latest consolidated financial statements of our Group were made up) and up to the date of this document, and there is no event since 30 June 2023 and up to the date of this document which would materially affect the information shown in the Accountant's Report set out in Appendix I to this document.

[REDACTED]

The total estimated [REDACTED] in connection with the [REDACTED] are approximately RMB[REDACTED] million (equivalent to approximately HK$[REDACTED] million), representing approximately [REDACTED]% of the gross proceeds from the [REDACTED], of which approximately RMB[REDACTED] million is expected to be capitalised upon the [REDACTED]. The remaining estimated [REDACTED] amount to approximately RMB[REDACTED] million, of which (i) approximately RMB[REDACTED] million, RMB[REDACTED] million and RMB[REDACTED] million was recognised for the year ended 31 December 2021 and 2022 and the six months ended 30 June 2023, respectively; and (ii) approximately RMB[REDACTED] million is expected to be recognised as expenses for the six months ending 31 December 2023. Such total estimated [REDACTED] include (i) [REDACTED]-related expenses of HK$[REDACTED] million; (ii) fees and expenses of legal advisers and reporting accountant of HK$[REDACTED] million; and (iii) other fees and expenses of HK$[REDACTED] million. The [REDACTED] above are the current estimate for reference only and the final amount to be recognised to our consolidated income statement is subject to audit and the then changes in variables and assumptions.

DISTRIBUTABLE RESERVES

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 2 February 2021. Please refer to Note 22 to the Accountant's Report as set out in Appendix I to this document for details of our Company's reserves.

FINANCIAL RISK MANAGEMENT

Our Group is exposed to various types of financial risks in the ordinary course of business, including market risk, credit risk and liquidity risk. Details of the risks to which we are exposed to are set out in Note 3 to the Accountant's Report set out in Appendix I to this document.

[REDACTED]

[REDACTED]

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.