
SUMMARY

This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the [REDACTED]. There are risks associated with any investment. Some of the particular risks in investing in the [REDACTED] are set out in the section headed “Risk factors” in this document. You should read that section carefully before you decide to invest in the [REDACTED]. There are risks associated with any investment. Your investment decision should be made in light of these considerations.

OVERVIEW

Established in 2017, we are a growing private general contracting construction enterprise in the PRC. We have strategically focused on municipal and public construction works in Guangdong Province to build up our reputation and market share and have established a firm foothold in Guangdong Province with footprints in Henan Province, Sichuan Province, Fujian Province, Hubei Province, Zhejiang Province and Xinjiang Uygur Autonomous Region. According to the Frost & Sullivan Report, we ranked top 50 out of over 10,000 private construction companies headquartered in Guangdong Province in terms of revenue in 2022, accounting for a market share of approximately 0.23%, and the size of the construction industry in Guangdong Province to the overall PRC market in 2022 is approximately 8.2% in terms of revenue with top five private construction enterprises in Guangdong Province accounted for approximately 15.0% market share in terms of revenue among all private construction enterprises in Guangdong Province in 2022.

We primarily acted as a general contractor or subcontractor for our construction projects during the Track Record Period. Our projects encompass a wide range of construction works, including (i) construction engineering works which primarily consist of structural and/or engineering works; (ii) municipal and public construction works which primarily consist of all urban and rural public infrastructure construction; (iii) foundation engineering works which primarily consist of earthwork and foundation construction and slope protection work; and (iv) specialised contracting works which represent the specialised construction works outsourced by the general contractor, which require strong professionalism and primarily consist of building renovation and decoration works services.

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. We generally identify construction projects through (i) open tender; (ii) invitation by existing customers or industry participants; and (iii) corporate negotiation. For details, please refer to the section headed “Business — Our Business operations and services” in this document.

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The following table sets forth the breakdown of our revenue 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		
	Revenue		Gross profit margin	Revenue		Gross profit margin	Revenue		Gross profit margin	Revenue		Gross profit margin	Revenue		Gross profit margin
	RMB'000	%	%	RMB'000	%	%	RMB'000	%	%	RMB'000	%	%	RMB'000	%	%
Construction projects															
Construction engineering projects	625,968	47.0	5.2	779,248	57.9	5.2	763,321	55.4	6.1	194,213	52.2	5.7	279,378	56.4	6.3
Municipal and public construction projects	646,234	48.5	4.8	489,206	36.3	5.8	403,793	29.3	5.3	147,837	39.8	6.1	92,850	18.7	4.7
Foundation engineering projects	35,092	2.6	4.5	60,539	4.5	4.7	53,597	3.9	5.4	1,776	0.5	5.2	53,732	10.8	5.9
Specialised contracting projects	23,910	1.9	5.0	17,226	1.3	0.3	157,344	11.4	5.2	28,031	7.5	5.5	69,820	14.1	4.9
Total	1,331,204	100.0	5.0	1,346,219	100.0	5.3	1,378,055	100.0	5.7	371,857	100.0	5.8	495,780	100.0	5.8

For the years ended 31 December 2020, 2021 and 2022 and six months ended 30 June 2023, we secured 55, 54, 62 and 35 new projects, respectively, and completed 50, 55, 33 and 26 projects, respectively. As at the Latest Practicable Date, we had 104 ongoing projects (either in progress or yet to commence). For details, please refer to the section headed “Business — Our projects” in this document.

Backlog and new contract sum

The following table sets forth the movement in the aggregate contract sum of backlog of our projects during the Track Record Period and up to the Latest Practicable Date:

	For the year ended 31 December			For the six months ended 30 June	From 1 July 2023 to the Latest Practicable Date
	2020	2021	2022	2023	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Opening aggregate contract sum of backlog	1,068,768	1,154,970	654,844	1,300,973	1,467,376
Add: new construction projects contracted	1,241,826	886,801	1,665,513	615,719	871,449
Add: adjustment/variation orders	175,579	(40,708)	358,670	46,464	6,375
Less: revenue recognised	1,331,204	1,346,219	1,378,055	495,780	473,154
Closing aggregate contract sum of backlog	<u>1,154,970</u>	<u>654,844</u>	<u>1,300,973</u>	<u>1,467,376</u>	<u>1,872,045</u>

Project suspension and delays

Project #25 was suspended from December 2020 to October 2022 as Customer C had financial difficulties due to COVID-19 pandemic. The aggregate revenue generated from Project #25 during the Track Record Period amounted to approximately RMB76.2 million. As at the Latest Practicable Date, Project #25 has been resumed.

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As at the Latest Practicable Date, our contract assets and trade receivables of Project #25 was approximately RMB10.4 million and RMB18.4 million, respectively. During the years ended 31 December 2020 and 2021, our impairment losses recognised for Project #25 was approximately RMB22.8 million and RMB0.1 million, respectively, and during the year ended 31 December 2022 and the six months ended 30 June 2023, our reversal of impairment losses for Project #25 was approximately RMB22.7 million and RMB28,000, respectively. Accordingly, as at 31 December 2020, 2021 and 2022 and 30 June 2023, our impairment losses recognised for Project #25 in aggregate amounted to approximately RMB22.8 million, RMB22.9 million, RMB0.2 million and RMB0.2 million, respectively. For details, please refer to the section headed “Business — Our projects — Project suspension and delays” and Note 3.1(b) of the Accountant’s Report in Appendix I to this document. We consider that the contract assets and trade receivables from Customer C are recoverable in view of (i) our receipts of payment of approximately RMB22.5 million in aggregate during the second half of 2022 and the first half of 2023; (ii) while Customer C had financial difficulties in settling our payments due to COVID-19 pandemic, COVID-19 pandemic had ended and all the related restrictions were lifted; and (iii) the improved financial conditions of Customer C after its bond issuance.

Saved as disclosed above and the paragraph headed “Recent development — Impact of the COVID-19 pandemic” in this section, none of the construction projects carried out by our Group experienced material suspensions or delays during the Track Record Period and up to the Latest Practicable Date.

COMPETITIVE STRENGTHS

We believe that the following strengths contribute to our success and differentiate us from our competitors: (i) we attain a range of first-grade qualifications and licenses in the construction contracting industry; (ii) we have developed in-depth undertaking of needs and demands of government departments through interaction in municipal and public construction projects; (iii) our Group is led by a vibrant, dedicated and professional management team and a team of experienced project managers; and (iv) we have adopted comprehensive and stringent occupational safety and quality control systems. For details, please refer to the section headed “Business — Our strengths” in this document.

BUSINESS STRATEGIES

We strive to achieve sustainable growth in our current business and to further strengthen our overall competitiveness in construction services in the PRC by implementing the following business strategies: (i) continue to expand our construction business by enhancing our financing capabilities to undertake more projects and diversifying and expanding our client base; (ii) strengthen budget management and cost control to improve our rate of return; (iii) maintain conservative financial management; (iv) further strengthen our manpower; and (v) purchase of construction machinery and equipment. For details, please refer to the section headed “Business — Business strategies” in this document.

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OUR CUSTOMERS AND SUPPLIERS

Our customers mainly include government departments, SOEs, and listed and private enterprises. For each of the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, the total revenue attributable to our five largest customers amounted to approximately RMB905.1 million, RMB759.2 million, RMB771.3 million and RMB226.9 million, representing approximately 67.9%, 56.5%, 56.0% and 45.9% of our total revenue respectively, while the total revenue attributable to our largest customer for each of the same years/period amounted to approximately RMB274.8 million, RMB281.5 million, RMB205.8 million and RMB66.7 million, representing approximately 20.6%, 20.9%, 14.9% and 13.5% of our total revenue, respectively. For details, please refer to the section headed “Business — Customers, sales and marketing — Customers” in this document.

Our suppliers include raw materials suppliers, machinery and equipment leasing service suppliers, labour subcontractors and specialised construction subcontractors. For each of the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, the total purchase from our five largest suppliers amounted to approximately RMB363.7 million, RMB346.4 million, RMB262.7 million and RMB109.1 million respectively, accounting for approximately 28.9%, 27.2%, 20.3% and 23.4% of our total purchase, respectively, while the total purchase from our largest supplier for each of the same years/period amounted to approximately RMB171.9 million, RMB192.9 million, RMB97.6 million and RMB28.4 million, representing approximately 13.6%, 15.2%, 7.5% and 6.1% of our total purchase, respectively. For details, please refer to the section headed “Business — Raw materials, equipment and machinery, and subcontracting suppliers — Suppliers” in this document.

RISK FACTORS

We believe that there are certain risks involved in our operations, many of which are beyond our control. The more significant risks relating to our business include: (i) our business and future growth are subject to the performances of the PRC property market and the PRC property developers; (ii) our revenue is mainly derived from projects that are not recurring in nature and we are subject to the risks associated with competitive tendering process; (iii) during the Track Record Period, our Group experienced an increase in trade receivables and trade receivables turnover days; (iv) we recorded net cash used in operating activities during the Track Record Period; (v) our cash flows may deteriorate due to potential mismatch in time between receipt of progress payments from our customers, and payments to our subcontractors and suppliers; and (vi) we are subject to recoverability of our contract assets and our construction business is subject to a relatively long cash conversion cycle. For details, please refer to the section headed “Risk factors” in this document.

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PRICING POLICY

We generally provide price quotations in our tender documents or engage in price negotiations with customers. For tendering projects, the tender documents typically provide a ceiling price of bidding based on a list of items and works for the completion of the construction projects (工程量清單), and our bid price is usually set with a discount rate based on such ceiling price of bidding. For corporate negotiation projects, customer will provide a list of items and works for the completion of the construction projects (工程量清單), and we may prepare a budget proposal based on such information and our pricing is generally determined on a cost-plus model with a markup. For details, please refer to the section headed “Business — Customers, sales and marketing — Pricing policy” in this document.

OUR QUALIFICATIONS

We 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 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, 2022 and 2023.

COMPETITIVE LANDSCAPE

The output value of the construction industry in China has reached approximately RMB31.2 trillion in 2022 from approximately RMB22.6 trillion in 2018, representing a CAGR of approximately 8.4%. It is anticipated that the output value of the construction industry will grow at a CAGR of approximately 6.5% from 2022 to 2027, reaching approximately RMB42.7 trillion by 2027.

The construction industry in the PRC is highly fragmented, though the leading construction enterprises in the PRC are dominated by SOEs. In terms of construction revenue in the PRC in 2022, private construction enterprises accounted for approximately 35.2% market share. In terms of construction revenue among all private construction enterprises in 2022, the top five private construction enterprises accounted for approximately 4.2% market share, according to the Frost & Sullivan Report. In 2022, the market size of the construction industry in Guangdong Province was approximately 8.2% to the overall PRC market, in terms of revenue. The construction market in Guangdong Province is highly fragmented, with top five private construction enterprises in Guangdong Province accounted for approximately 15.0% market share in terms of revenue among all private construction enterprises in Guangdong Province in 2022.

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Impact of the PRC property industry

According to the Frost & Sullivan Report, the PRC property industry had demonstrated a downward trend since 2021. Being in the upstream of the property industry chain, the PRC construction industry has also been considerably impacted and experienced a slowdown in the overall development pace in 2022. Please refer to the section headed “Industry overview — Recent impact on the development of the PRC property industry” for further details. In 2023, some property developers in the PRC faced financial difficulties, which may affect their business plans, financial positions and abilities to settle payments to us. For details of the associated risks, please refer to the section headed “Risk factors — Our business and future growth are subject to the performances of the PRC property market and the PRC property developers” in this document. In 2023, the PRC government has introduced certain measures such as reducing the minimum down payment and interest rates on mortgages for property buyers, which are conducive to expanding consumption and investment. Some local governments also implemented policies such as “determination based on property ownership in the region instead of overall mortgage record (認房不認貸)” for first-time home buyers, aiming at easing the criteria for obtaining first-home loans.

Despite the overall lower development pace of the PRC construction industry, our revenue increased gradually during the Track Record Period. Further, according to the Frost & Sullivan Report, the downturn of the PRC property industry has less impact on companies from the public sector. As we mainly derived our revenue from the public sector projects, our Directors are of the view that the downturn of the PRC property industry had not imposed any material financial or operational impact on us and we expect that we will continue to generate revenue mainly from the public sector. Save as disclosed in the paragraph headed "Overview — Project suspension and delays" in this section, during the Track Record Period and up to the Latest Practicable Date, we had not experienced any material delay or cancellation of our construction projects.

KEY OPERATIONAL AND FINANCIAL DATA

The following is a summary of our operational and financial information for the Track Record Period and should be read in conjunction with our financial information in the accountant’s report set out in Appendix I to this document.

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Highlights of our consolidated statements of comprehensive income

	Year ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Revenue	1,331,204	1,346,219	1,378,055	371,857	495,780
Cost of revenue	<u>(1,264,765)</u>	<u>(1,274,971)</u>	<u>(1,299,130)</u>	<u>(350,199)</u>	<u>(467,233)</u>
Gross profit	66,439	71,248	78,925	21,658	28,547
(Impairment losses)/reversal of impairment losses on financial assets and contract assets	(26,848)	(5,075)	(1,254)	(7,262)	4,280
Profit/(loss) before income tax	19,200	39,095	38,262	(4,614)	15,228
Profit/(loss) and total comprehensive income/(loss) for the year/period attributable to owners of the Company	<u>13,559</u>	<u>28,076</u>	<u>25,325</u>	<u>(4,381)</u>	<u>10,787</u>

For the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, we recorded revenue of approximately RMB1,331.2 million, RMB1,346.2 million, RMB1,378.1 million and RMB495.8 million, respectively. The increase in revenue for the year ended 31 December 2021 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. The increase in revenue for the year ended 31 December 2022 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. The increase in our revenue for the six months ended 30 June 2023 as compared to the corresponding period in 2022 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.

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. The increase in profit for the year ended 31 December 2021 was mainly attributable to the increase in revenue derived from construction engineering projects and the decrease in impairment losses on financial assets and contract assets. The decrease in profit for the year ended 31 December 2022 was mainly attributable to the increase in staff costs and the [REDACTED]. The improvement in profit for the six months ended 30 June 2023 as compared to the six months ended 30 June 2022 was mainly due

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to the increase in revenue derived from construction engineering projects, foundation engineering projects and specialised contracting projects, the reversal of impairment losses on financial assets and contract assets and the decrease in staff costs and the [REDACTED].

Our net impairment losses on financial assets and contract assets for the year ended 31 December 2020 amounted to approximately RMB26.8 million, 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. Customer C had financial difficulties in settling our payments due to COVID-19 pandemic. It was decreased to approximately RMB5.1 million for the year ended 31 December 2021, mainly attributable to the significant decrease in the impairment loss for Customer C in relation to Project #25 to approximately RMB0.1 million for the year ended 31 December 2021 as Project #25 was suspended from December 2020 to October 2022, hence no additional contract assets and trade receivables was recognised, 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. It was further decreased to approximately RMB1.3 million for the year ended 31 December 2022, mainly due to (i) the decrease in our gross balances of trade and bills receivables as at 31 December 2022 as a result of our efforts on active communication on settlement with our customers from time to time to improve trade receivables collections; and (ii) the decrease in our impairment losses on contract assets of approximately RMB4.1 million in 2022 mainly due to the high recovery rate of contract assets resulted in the decrease in our expected loss rates for contract assets of Customer C in view of our receipt of payment of approximately RMB20.0 million during the second half of 2022. A reversal of approximately RMB4.3 million for the six months ended 30 June 2023 was recorded, 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 as a result of our efforts to follow up on the progress of final settlement audit and active communication on settlement with our customers from time to time to improve trade receivables collections and faster payments of our customers resulting from the recovery from the negative impact of COVID-19, 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.

For details, please refer to the section headed “Financial information — Discussion on selected items of consolidated income statement” in this document.

Highlights of our consolidated balance sheet

	As at 31 December			As at
	2020	2021	2022	30 June 2023
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	26,632	25,592	24,915	30,880
Current assets	947,584	1,192,393	1,484,292	1,310,610
Current liabilities	874,263	1,081,004	1,180,996	1,003,078
Net current assets	73,321	111,389	303,296	307,532
Non-current liabilities	1,001	388	1,149	563
Net assets	98,952	136,593	327,062	337,849

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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, primarily due to the increase in contract assets and trade and bills receivables and the decrease in contract liabilities, partially offset by the increase in trade and other payables and amounts due to related parties. It was further increased to approximately RMB303.3 million as at 31 December 2022, primarily due to the increase in contract assets, cash and cash equivalents and deposits, other receivables and prepayments and the decrease in amounts due to related parties, partially offset by the increase in trade and other payables and the decrease in trade and bills receivables. It was further increased to approximately RMB307.5 million as at 30 June 2023, primarily due to the decrease in trade and other payables, partially offset by the decrease in trade and bills receivables, contract assets, deposits, other receivables and prepayments and cash and cash equivalents. For further details, please refer to the section headed “Financial information — Liquidity and capital resources — Net current assets” in this document.

Our net assets increased from approximately RMB99.0 million as at 31 December 2020 to approximately RMB136.6 million as at 31 December 2021, primarily attributable to our profit for the year and cash contributions from shareholders. Our net assets further increased to approximately RMB327.1 million as at 31 December 2022, primarily attributable to our profit for the year, cash contributions from shareholders and capitalisation of amounts due to shareholders, partially offset by the deemed distribution to shareholders pursuant to the Reorganisation. Our net assets further increased to approximately RMB337.8 million as at 30 June 2023 due to the profit for the period.

Highlights of our consolidated statements of cash flows

	Year ended 31 December			Six months ended 30 June
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Operating profits before working capital changes</i>	49,252	47,483	43,370	14,136
Net cash (used in)/generated from operating activities	(23,982)	(61,069)	46,967	(4,783)
Net cash generated from/(used in) investing activities	6,506	(174)	(578)	(8,461)
Net cash generated from/(used in) financing activities	<u>26,620</u>	<u>81,576</u>	<u>(24,560)</u>	<u>(2,101)</u>
Net increase/(decrease) in cash and cash equivalents	9,144	20,333	70,949	(15,345)
Cash and cash equivalents at beginning of year/period	11,591	20,735	41,072	112,117
Exchange differences on cash and cash equivalents	<u>—</u>	<u>4</u>	<u>96</u>	<u>(18)</u>
Cash and cash equivalents at end of the year/period	<u><u>20,735</u></u>	<u><u>41,072</u></u>	<u><u>112,117</u></u>	<u><u>96,754</u></u>

For the years ended 31 December 2020 and 2021 and the six months ended 30 June 2023, we recorded net cash used in operating activities of approximately RMB24.0 million, RMB61.1 million and RMB4.8 million, respectively. The net cash used in operating activities for the year ended 31 December 2020 was mainly attributable to the increase in contract assets and trade and bills

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receivables, partially offset by the increase in trade and other payables and the operating profit before working capital changes. The net cash used in operating activities for the year ended 31 December 2021 was mainly attributable to the increase in contract assets and trade and bills receivables, partially offset by the increase in trade and other payables. The net cash used in operating activities for the six months ended 30 June 2023 was mainly attributable to the decrease in trade and other payables, partially offset by the decrease in trade and bills receivables, contract assets and deposits, other receivables and prepayments. For details, please refer to the section headed “Financial information — Liquidity and capital resources — Cash flows” in this document.

Recoverability of our contract assets and trade receivables

Customer Group A

Customer Group A is a group of property developers which are subsidiaries of a company listed on the Stock Exchange in 2007. The holding company of Customer Group A is a sizeable and reputable property developer in the PRC. According to the announcement published by the holding company of Customer Group A, the holding company of Customer Group A and its subsidiaries recorded a significant decline in contracted sales during the period from January to September 2023 as compared to the same period in 2021 and 2022 and its worsening liquidity position is expected to remain in short- to medium-term. In addition, the holding company of Customer Group A had not made a due payment for certain of its indebtedness and expected that it will not be able to meet all of the offshore payment obligations when due or within the relevant grace periods.

As at 31 December 2020, 2021 and 2022 and 30 June 2023, we recorded loss allowance provision for contract assets due from Customer Group A of approximately RMB2.4 million, RMB2.9 million, RMB14.8 million and RMB9.8 million, respectively, and loss allowance provision for trade receivables from Customer Group A of approximately RMB0.9 million, RMB1.5 million, RMB2.8 million and RMB3.2 million, respectively.

Customer Group A has been making payments for settlement during the Track Record Period and settled approximately RMB188.6 million, RMB269.6 million, RMB166.2 million, RMB53.4 million and RMB32.3million, respectively, during the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023 and the period subsequent to 30 June 2023 and up to the Latest Practicable Date. All three projects undertaken by us for Customer Group A conducted pre-sale and thus are within the scope of and regulated by the regulations under the Measures for Administration of Pre-sales of Commodity Properties* (城市商品房預售管理辦法) and other applicable PRC laws and regulations (the “**Pre-sales Measures**”). Accordingly, the pre-sale proceeds of the properties of such projects must be deposited into the escrow accounts.

Having considered (i) the Pre-sales Measures pursuant to which the pre-sale proceeds deposited in the escrow accounts can only be used for settlement of our property construction costs; (ii) confirmations obtained from the relevant government authorities of Henan Province in September 2023 confirming that, among others, the balance in the escrow accounts of Project #19, Project #94 and Project #129 was approximately RMB45.0 million, RMB50.0 million and RMB33.0 million, respectively, as at the date of the confirmations; (iii) written confirmations obtained from

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Customer Group A in respect of the settlement schedule of the relevant projects; (iv) the balance in the escrow accounts of Project #19, Project #94 and Project #129 exceed the respective aggregate contract assets and trade receivables as at 30 June 2023 by approximately RMB5.0 million, RMB12.3 million and RMB4.3 million, respectively; and (v) the continuous settlement record of Customer Group A, our Directors are of the view that the contract assets and trade receivables due from Customer Group A does not have any material potential recoverability issues nor any material potential impact of the phased liquidity pressures experienced by Customer Group A on our financial position and performance and results of operation subsequent to the Track Record Period. Our Directors will closely monitor the situation of Customer Group A and may adjust the expected credit loss on its trade receivables as and when necessary.

Overall customer

Our Directors are of the view that there is no material recoverability issues for contract assets and trade receivables due from our customers on the following basis:

- During the Track Record Period, we did not experience any material difficulties in billing contract assets or collecting trade receivables from our customers. Our Directors consider that the credit risks associated with our top five debtors of contract assets and trade receivables as at 30 June 2023 who were also our top five customers during the Track Record Period are low.
- Our Directors confirm there was no material disagreement or dispute between us and our customers which could adversely affect the recoverability of the contract assets and trade receivables due from all customers that remained unbilled and/or unsettled.
- Sufficient loss allowance provisions for contract assets and trade receivables were made in accordance with HKFRS to reflect the uncertainties associated with the outstanding amount and we will continue to make sufficient provisions to account for any potential write-offs and contingent factors.
- Our management closely monitors the amounts and turnover days of our contract assets and trade receivables to minimise and control credit risk, and the recovery status on a quarterly basis to ascertain the collectability of our trade receivables.
- We have put in place a credit risk management for trade receivables and contract assets to minimise our credit risk. Quarterly updates on contract assets and trade receivables, and close monitoring of the billing status of our contract assets and the settlement status of our trade receivables, will be conducted. We will also keep track of our customers’ business performance and financial conditions to get informed of any anomaly in time.

For further details, please refer to the section headed “Financial Information — Discussion on selected items of consolidated balance sheets — Recoverability of our contract assets and trade receivables” in this document.

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KEY FINANCIAL RATIOS

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

	As at/Year ended 31 December			As at/ Six months ended 30 June
	2020	2021	2022	2023
Current ratio	1.1 times	1.1 times	1.3 times	1.3 times
Quick ratio	1.1 times	1.1 times	1.3 times	1.3 times
Net profit margin	1.0%	2.1%	1.8%	2.2%
Return on equity	13.7%	20.6%	7.7%	6.4%
Return on assets	1.4%	2.3%	1.7%	1.6%

For further details, please refer to the section headed “Financial information — Key financial ratios” in this document.

CONTROLLING SHAREHOLDERS AND THE [REDACTED] INVESTMENT

Immediately following completion of the [REDACTED] and the Capitalisation Issue, Zhongshen Hengtai will hold approximately [REDACTED]% of the issued share capital of our Company, where Zhongshen Hengtai is solely owned by Mr. Sang. As Zhongshen Hengtai and Mr. Sang are directly or indirectly entitled to exercise or control the exercise of 30% or more of the voting power at our Company’s general meeting, each of Zhongshen Hengtai and Mr. Sang is regarded as our Controlling Shareholder under the Listing Rules. For details, please refer to the section headed “Relationship with Controlling Shareholders” in this document. Upon [REDACTED], Xinyao Investment will hold [REDACTED]% of the issued share capital of our Company. Xinyao Investment is an investment holding company incorporated in the BVI and is solely owned by Ms. Hou who is a [REDACTED] investor and a private investor who has an extensive experience in communication engineering and electronic engineering research projects. For details, please refer to the section headed “History, Reorganisation and corporate structure” in this document.

FUTURE PLANS AND [REDACTED]

Our Directors intend to apply the [REDACTED] of approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million) from the [REDACTED] for the following purposes:

- approximately [REDACTED]%, or approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), of the [REDACTED] from the [REDACTED] will be used to fund our capital needs and cash flow of certain projects that have been awarded to us recently at the Latest Practicable Date;

SUMMARY

- approximately [REDACTED]%, or approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), of the [REDACTED] from the [REDACTED] will be used to acquire certain machinery;
- approximately [REDACTED]%, or approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), of the [REDACTED] from the [REDACTED] will be used to hire additional manpower; and
- approximately [REDACTED]%, or approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), of the [REDACTED] from the [REDACTED] will be used for working capital and other general corporate purposes.

For details, please refer to the section headed “Future plans and [REDACTED]” in this document.

RECENT DEVELOPMENT

Our business model and cost structure remained largely unchanged after the Track Record Period, and we will continue to actively secure new construction projects, especially in Guangdong Province and adjacent provinces. Subsequent to the Track Record Period and up to the Latest Practicable Date, we secured 14 new projects with an aggregate contract value of approximately RMB871.4 million. During the period from 1 July 2023 to [30 September] 2023, the total number of our projects with recognised revenue and projects undertaken by us but not yet commenced was 104, and out of which, we acted as general contractor for 85 projects and as subcontractor for 19 projects.

The following table sets forth the details of our projects with recognised revenue and projects undertaken by us but not yet commenced during the period from 1 July 2023 to [30 September] 2023:

	Number of projects	Contract value	Revenue recognised		Revenue expected to be recognised		
			up to the Track Record Period	from 1 July 2023 to [30 September] 2023	subsequent to [30 September] 2023] and up to 31 December 2023	for the year ending 31 December	
		RMB'000	RMB'000	RMB'000	RMB'000	2024	2025
Construction projects							
Construction engineering projects	40	3,610,779	2,144,019	316,991	257,385	439,929	226,070
Municipal and public construction projects	43	1,085,638	517,492	107,344	175,334	280,956	2,466
Foundation engineering projects	12	162,935	80,886	27,392	38,004	16,654	—
Specialised contracting projects	9	361,375	213,337	22,212	55,511	58,156	12,939
Total	104	5,220,727	2,955,734	473,939	526,234	795,695	241,475

SUMMARY

As at the Latest Practicable Date, none of the abovementioned projects have had any material interruption. [Our total revenue recognised from 1 July 2023 to 30 September 2023 as mentioned above was derived from the audited consolidated financial information of our Group for the six months ended 30 June 2023 and the unaudited consolidated financial information of our Group for the nine months ended 30 September 2023. The unaudited consolidated financial information of our Group for the nine months ended 30 September 2023 has been reviewed by the reporting accountant of the Company in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.] Revenue expected to be recognised subsequent to [30 September 2023] and up to 31 December 2023 and the years ending 31 December 2024 and 2025 represents our best estimate with reference to the (i) workplan of the project; (ii) revenue recognised during the Track Record Period; (iii) the work progress of the project; and (iv) our estimate on the customer’s progress of certification of our future works done. The estimated revenue excludes value of variation orders which has not been agreed with the customer (if any) and is thus inherently subject to great uncertainties.

However, we cannot guarantee that the amount estimated in our backlog will be realised in full, in a timely manner, or at all. The PRC construction industry is subject to challenges due to the recent uncertainties in the PRC property market and the abilities of customers to settle payments. For details of the associated risks, please refer to the sections headed “Risk factors — Backlog is subject to unexpected adjustments and cancellations and, therefore, may not be indicative of our future results of operations.”, “Risk factors — During the Track Record Period, our Group experienced an increase in trade receivables and trade receivables turnover days and any delays or defaults of progress payments and/or release of retention monies by our customers from both public and private sectors may expose our Group to considerable credit risk.” and “Risk factors — Our business and future growth are subject to the performances of the PRC property market and the PRC property developers.” in this document.

Impact of the COVID-19 pandemic

Since early 2020, the PRC and certain countries around the world encountered an outbreak of COVID-19. Due to the restrictions and measures imposed by the local governments of the PRC in order to reduce the risk of widespread of the COVID-19, certain of our constructions projects which were on-going at the relevant time had encountered suspension. In late 2022, China began to modify its policy in relation to the COVID-19 and most of the travel restrictions and quarantine requirements were lifted in December 2022. Despite the COVID-19 pandemic, we recorded a gradual increase in revenue for the years ended 31 December 2020, 2021 and 2022. As at the Latest Practicable Date, none of our construction projects was suspended due to COVID-19 related measures imposed by the PRC government.

SUMMARY

Our Directors are of the view that the effect of the suspension of the affected construction projects on our Group’s financial position is relatively low as the suspension was relatively short in terms of duration and did not have material impacts on the progress of the affected construction projects. Accordingly, the COVID-19 pandemic has not resulted in a material adverse effect on the business or financial condition of our Group.

For further details, please refer to the sections headed “Business — Raw materials, equipment and machinery, and subcontracting suppliers — Impact of the COVID-19 pandemic” and “Risk Factors — Risks relating to our business and industry — Risks relating to our business — The outbreak of epidemic or any other severe communicable disease could adversely affect our Group’s financial positions and results of operations” in this document.

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, financial condition and operating results, working capital requirements 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.

[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 [REDACTED] from the [REDACTED], of which approximately RMB[REDACTED] million is directly attributable to the issue of the [REDACTED] which is expected to be accounted for as a deduction from equity upon the [REDACTED] in accordance with relevant accounting standards. 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.

SUMMARY

OFFER STATISTICS

	Based on the [REDACTED] of HK\$[REDACTED] per [REDACTED]
Market capitalisation of our Share ⁽¹⁾	HK\$[REDACTED]
Unaudited pro forma adjusted net tangible assets per Share ⁽²⁾	HK\$[REDACTED]

Notes:

- (1) The calculation of market capitalisation is based on [REDACTED] Shares expected to be in issue immediately upon completion of the Capitalisation Issue and the [REDACTED].
- (2) The unaudited pro forma adjusted net tangible assets per Share was calculated after adjustments as specified in “Appendix II — Unaudited pro forma financial information” to this document.