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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, 2022 and 2023.

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.

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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.

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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 104 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.

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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:

Hypothetical fluctuations in raw material costs	Impact on profit/(loss)				
	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

Hypothetical fluctuations in labour subcontracting costs	Impact on profit/(loss)				
	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

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Timing of billing and collection of trade receivables

During the project execution phase, unless there are specific milestones stipulated in the relevant contracts, the progress billable amount is based on a progress billable percentage, generally ranging from 60% to 80%, of the total certified value of the work performed, as stipulated in the relevant construction contract. If specific milestones are stipulated in the contracts, in general, we are able to start billing at an agreed percentage, generally ranging from 20% to 100%, of the total certified value of the work performed upon achieving the relevant milestone. The billable percentages may vary upon reaching different milestones and typical milestones stipulated in construction contracts include (i) the completion of a project; (ii) the completion of a certain percentage of agreed work; (iii) the completion of the main structure and/or the roofing of the buildings; and (iv) the removal of exterior frames of the buildings. 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.

Before the final settlement audit, we are required to complete 100% of the agreed work. After the completion and acceptance (including the final settlement audit), 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 (i.e. the finalised total value of the work after the final settlement audit), the remaining 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. The total billed amount will be converted from contract assets to trade receivables and the unbilled balance (i.e. the retention money) will be accounted for as contract assets. During the Track Record Period, the average time required for us to complete the final settlement audit and bill the balance of the final settlement value (excluding approximately 3% to 5% retention money) after completion of the project amounted to approximately one year.

As at the Latest Practicable Date, we had a total of 5 on-going construction projects with an aggregate contract value (excluding VAT) of approximately RMB219.2 million, which we are entitled to bill 100% of the contract sum only after completion of the projects.

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.

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

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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.

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 the 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. Our industry peers generally took around several months or up to one year to complete the settlement audit.

Estimation of initial budgeted costs and actual cost to completion for construction contracts

Initial budgeted costs for construction contracts mainly comprise (i) materials and equipment and machinery costs; (ii) subcontracting costs; and (iii) an appropriation of variable and fixed construction overheads. In estimating the initial budgeted costs for construction contracts, management makes reference to information such as (i) costs incurred for the similar on-going projects; (ii) current offers from suppliers; (iii) recent offers agreed with suppliers; and (iv) professional estimation on materials and equipment and machinery costs, subcontracting costs and other costs estimated by our Directors. During the Track Record Period, save for the 10 loss-making projects with an aggregate amount of losses of approximately RMB2.2 million, there were no material differences between our budgeted costs and the actual costs incurred for our construction projects. For details of the loss-making projects, please refer to the section headed “Business — Our projects — Loss-making projects during the Track Record Period” in this document.

Seasonality

We normally record higher sales during the second half of a year than the first half of a year as construction activities are less active during long Chinese New Year holiday. 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

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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.

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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.

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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	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
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	<u>(212)</u>	<u>1,166</u>	<u>(2)</u>	<u>(40)</u>	<u>(7)</u>
Operating profit/(loss)	19,363	39,089	38,600	(4,627)	16,465
Finance income	60	96	148	48	181
Finance costs	<u>(223)</u>	<u>(90)</u>	<u>(486)</u>	<u>(35)</u>	<u>(1,418)</u>
Finance (costs)/income — net	<u>(163)</u>	<u>6</u>	<u>(338)</u>	<u>13</u>	<u>(1,237)</u>
Profit/(loss) before income tax	19,200	39,095	38,262	(4,614)	15,228
Income tax (expense)/credit	<u>(5,641)</u>	<u>(11,019)</u>	<u>(12,937)</u>	<u>233</u>	<u>(4,441)</u>
Profit/(loss) and total comprehensive income/ (loss) for the year/period attributable to owners of the Company	<u><u>13,559</u></u>	<u><u>28,076</u></u>	<u><u>25,325</u></u>	<u><u>(4,381)</u></u>	<u><u>10,787</u></u>
Earnings/(losses) per share attributable to owners of the Company for the year/period (expressed in RMB thousand per share)					
— Basic and diluted	<u><u>1.36</u></u>	<u><u>2.81</u></u>	<u><u>2.53</u></u>	<u><u>(0.44)</u></u>	<u><u>1.08</u></u>

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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 (i) a resurgence of COVID-19 in certain areas of the PRC in March 2022, temporary measures restricting certain business operation and activities were imposed in the affected areas from time to time, including Shenzhen and Minquan County where some of our construction projects were located, which leads to 45 of our construction projects which were on-going at the relevant time had encountered suspension for around 6.4 days on average, thus, lowering our revenue during the six months ended 30 June 2022; and (ii) the optimistic business environment of the construction industry in the first half of 2023, our number of ongoing projects increased from 60 projects for the six months ended 30 June 2022 to 95 projects for the six months ended 30 June 2023. The increase in revenue was mainly attributable 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.

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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	%	RMB'000	%
	(Unaudited)									
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 with Huizhou Xingsheng Century Investment Co., Ltd.* (惠州市興盛世紀投資有限公司), Customer Group A and Xinqi Technology (Dongguan) Co., Ltd.* (新祺科技(東莞)有限公司), respectively, by approximately RMB155.0 million in aggregate as a result of greater portion of works performed during the year ended 31 December 2021. The accumulated percentage of completion for Project #87, Project #129 and Project #144 was approximately 89.4%, 87.0% and 100.0%, respectively, for the year ended 31 December 2021; and (ii) the commencement of Project #190 undertaken by us for Customer I 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 accumulated percentage of completion for Project #190 was approximately 84.4% for the year ended 31 December 2021. The increase was partially offset by the decrease in revenue recognised from Project #25 undertaken by us for Customer C 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. The accumulated percentage of completion for Project #25 was approximately 25.3% for 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.

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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 with Customer Group A 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 accumulated percentage of completion for Project #87, Project #129 and Project #190 was approximately 98.8%, 92.5% and 91.5%, respectively, for the year ended 31 December 2022. The decrease was partially offset by the commencement of (i) Project #196 undertaken by us for CCCC Fourth Harbor Engineering Co., Ltd.* (中交第四航務工程局有限公司) 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. The accumulated percentage of completion for Project #196 was approximately 68.1% for the year ended 31 December 2022; (ii) Project #237 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) 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. The accumulated percentage of completion for Project #237 was approximately 61.1% for the year ended 31 December 2022; (iii) Project #266 undertaken by us for Customer F 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. The accumulated percentage of completion for Project #266 was approximately 31.8% for the year ended 31 December 2022; and (iv) 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) 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. The accumulated percentage of completion for Project #285 was approximately 45.9% 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. Our number of revenue generated construction engineering projects increased from 19 projects for the six months ended 30 June 2022 to 36 projects for the six months ended 30 June 2023. The increase in revenue was mainly attributable to (i) the commencement of Project #302 undertaken by us for Customer G 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. The accumulated percentage of completion for Project #302 was approximately 80.3% 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 accumulated percentage of completion for Project #266 was approximately 58.7% 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

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approaching their later stage of development. The accumulated percentage of completion for Project #87, Project #196 and Project #237 was approximately 99.0%, 79.6% and 75.3%, respectively, for the six months ended 30 June 2023.

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 undertaken by us for CCCC Fourth Harbor Engineering Co., Ltd.* (中交第四航務工程局有限公司), 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 with Customer N, Customer Group D a subsidiary of a SOE listed on the Shanghai Stock Exchange in 2009 and principally engaged in natural gas distribution, Customer M and Shenzhen Huachuang, respectively, 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 with CCCC Fourth Harbor Engineering Co., Ltd.* (中交第四航工程局有限公司) by approximately RMB53.2 million as the project was approaching its later stage of development. The accumulated percentage of completion for Project #160 was approximately 88.3% for the year ended 31 December 2022. The decrease was partially offset by the commencement of (i) Project #246 undertaken by us for Customer Group D 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. The accumulated percentage of completion for Project #246 was approximately 99.4% for the year ended 31 December 2022; and (ii) Project #165 undertaken by us for a SOE principally engaged in engineering construction activities and real estate development in the PRC 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. The accumulated percentage of completion for Project #165 was approximately 88.8% for the year ended 31 December 2022.

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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 undertaken by us for Customer H 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. The accumulated percentage of completion for Project #312 was approximately 93.5% 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 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), which generated revenue of approximately RMB43.3 million for the year ended 31 December 2021. The accumulated percentage of completion for Project #177 was approximately 92.8% 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 with a government unit in Shenzhen 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 with a government unit in Shenzhen by approximately RMB15.3 million as the project was approaching its later stage of development. The accumulated percentage of completion for Project #111 was approximately 81.7% for the year ended 31 December 2022. The decrease was partially offset by the commencement of (i) Project #240 undertaken by us for Customer F 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. The accumulated percentage of completion for Project #240 was approximately 98.8% for the year ended 31 December 2022; (ii) Project #296 undertaken by us for Customer R with a contract value (excluding VAT) amounting to

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approximately RMB11.3 million in October 2022 and generated revenue of approximately RMB11.0 million for the year ended 31 December 2022. The accumulated percentage of completion for Project #296 was approximately 97.3% 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. Our number of revenue generated foundation engineering projects increased from two projects for the six months ended 30 June 2022 to 15 projects for the six months ended 30 June 2023 and our number of new foundation engineering projects increased from one project with a contract value (excluding VAT) of approximately RMB14.2 million for the six months ended 30 June 2022 to five projects with an aggregate contract value (excluding VAT) of approximately RMB72.0 million for the six months ended 30 June 2023. The increase in revenue was mainly attributable to the commencement of (i) Project #301 undertaken by us for a subsidiary of a company listed on the Stock Exchange, the principal business of which are environmental energy project operation and environmental water project operation, 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. The accumulated percentage of completion for Project #301 was approximately 91.1% for the six months ended 30 June 2023; (ii) Project #307 undertaken by us for Zhongjian Hetu 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. The accumulated percentage of completion for Project #307 was approximately 40.1% for the six months ended 30 June 2023; and (iii) Project #316 undertaken by us for a company listed on the Shenzhen Stock Exchange and principally engaged in research and development and production and sales of chip power inductors electronic components 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. The accumulated percentage of completion for Project #316 was approximately 80.3% 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.

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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. The customer of Project #249 was Customer Group D, the customer of Project #273 and Project #274 was Zhongjian Hetu and the customer of Project #276 was Customer O. The accumulated percentage of completion for Project #249, Project #273, Project #274 and Project #276 was approximately 39.6%, 69.4%, 80.2% and 86.1%, respectively, 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. The customer of Project #99 was a SOE and a construction company in the PRC, the customer of Project #135 was Customer Group D, the customer of Project #185 was a government unit in Shenzhen and the customer of Project #209 and Project #219 was Shenzhen Huachuang.

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. Our number of revenue generated specialised contracting projects increased from four projects for the six months ended 30 June 2022 to ten projects for the six months ended 30 June 2023. The increase in revenue 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 customer of Project #249 was Customer Group D, the customer of Project #273 was Zhongjian Hetu and the customer of Project #275 and Project #279 was Customer J. The accumulated percentage of completion for Project #249, Project #273, Project #275 and Project #279 was approximately 70.2%, 100.0%, 100.0% and 100.0%, respectively, for the six months ended 30 June 2023. The increase was partially offset by the decrease in revenue recognised from Project #241 undertaken by us for Shenzhen Huachuang by approximately RMB9.3 million as the project was completed in June 2022 and the decrease in revenue recognised from Project #243 undertaken by us for a private company principally engaged in civil building construction in the PRC by approximately RMB9.4 million as the project was approaching its later stage of development. The accumulated percentage of completion for Project #243 was approximately 50.7% for the six months ended 30 June 2023.

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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:

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

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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 and was in line with the increase in revenue in the first half of 2023. 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.

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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	%	RMB'000	%
(Unaudited)										
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.

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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 undertaken by us for Customer Group A, which contributed gross profit of approximately RMB2.5 million and achieved a higher gross profit margin of approximately 11.8% for the year ended 31 December 2022 as compared to the initial budgeted gross profit margin. We were able to lower the raw material purchase costs by purchasing in bulk after our experience in phase one and the use of double penetration technology on concrete pumping improved utilisation efficiency and substantially reduced the overall cost of the project. 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, at a similar level as compared to their respective initial budgeted gross profit margin. In respect of Project #196 undertaken by us for Customer E, 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 undertaken by us for a foreign language school in Foshan, 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 undertaken by us for Huizhou Xingsheng Century Investment Co., Ltd.* (惠州市興盛世紀投資有限公司), 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 undertaken by us for Customer G 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, at a similar level as compared to its initial budgeted gross profit margin. 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. Such gross profit margins was at a similar level as compared to their respective initial budgeted gross profit margin.

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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 undertaken by us for Customer M and Shenzhen Huachuang, respectively, which achieved a gross profit margin at a similar level as compared to their respective initial budgeted gross profit margin and relatively higher than our average gross profit margin in 2021. Due to larger scale construction site, we could carry out various construction processes simultaneously, improving construction efficiency and reducing costs for these; 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 the negative impact of 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) 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, which achieved a gross profit margin at a similar level as compared to their respective initial budgeted gross profit margin and relatively higher than our average municipal and public construction projects due to the higher construction complexity of those new roadwork projects. The customer of Project #165 was a SOE principally engaged in engineering construction activities and real estate development in the PRC, the customer of Project #216 was a SOE principally engaged in dairy industry and real estate development in the PRC and the customer of Project #246 was Customer Group D.

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 undertaken by us for a government unit in Shenzhen, which contributed a gross loss of approximately RMB0.5 million, mainly due to the increase in raw materials used for maintenance of the landscape as compared to the expected usage; and (ii) Project #184 undertaken by us for a SOE principally engaged in centralised water supply and sewage treatment in the PRC, 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.

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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. The customer of Project #281 was Customer J, the customer of Project #287 was a private company principally engaged in real estate development, the customer of Project #293 was a government unit in Hangzhou and the customer of Project #294 and Project #296 was Customer R. Such projects achieved gross profit margin of approximately 5.7%, 7.7%, 7.7%, 5.8%, and 5.7%, respectively, at a similar level as compared to their respective initial budgeted gross profit margin. The higher gross profit margin was mainly due to the 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 undertaken by us for a subsidiary of a company listed on the Stock Exchange, the principal business of which are environmental energy project operation and environmental water project operation, in 2023. It achieved a gross profit margin of approximately 6.8%, at a similar level as compared to its initial budgeted gross profit margin. The gross profit margin was relatively higher than our average foundation engineering projects due to the larger scale construction site, we could 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. The decrease in our gross profit margin of specialised contracting projects for the year ended 31 December 2021 was mainly due to the negative impact on our gross profit margin of two projects completed in the year ended 31 December 2019, namely Project #103 and Project #105, undertaken by us for Customer Group D as remedial works were carried out to address defective works that arose after the completion and additional costs of approximately RMB0.7 million in aggregate were incurred and recognised while no revenue was generated during the year ended 31 December 2021. Project #103 and Project #105, however, aggregately achieved a gross profit margin of approximately 8.3%, at a similar level as compared to their initial budgeted gross profit margin, in consideration of all revenue and costs generated from both projects from the commencement of the projects in the year ended 31 December 2019 and up to 30 June 2023. Excluding Project #103 and Project #105, our gross profit margin of the remaining specialised contracting projects for the year ended 31 December 2021 was approximately 4.6%.

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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 nil, 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.

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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	RMB'000
				(Unaudited)	
(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 ^(Note)	<u>112</u>	<u>(53)</u>	<u>(2,331)</u>	<u>36</u>	<u>211</u>
Total	<u><u>(26,848)</u></u>	<u><u>(5,075)</u></u>	<u><u>(1,254)</u></u>	<u><u>(7,262)</u></u>	<u><u>4,280</u></u>

Note: For the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, our reversal of impairment losses/(impairment losses) on other receivables mainly comprises reversal of impairment losses/(impairment losses) on tender deposits, guarantee deposits, bank deposits restricted for use under court orders and amounts due from other third parties.

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

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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.

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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 and our receipt of payment of approximately RMB53.4 million from Customer Group A during the six months ended 30 June 2023, 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	RMB'000
				(Unaudited)	
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.

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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

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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
	<u>26,632</u>	<u>25,592</u>	<u>24,915</u>	<u>30,880</u>
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
	<u>947,584</u>	<u>1,192,393</u>	<u>1,484,292</u>	<u>1,310,610</u>

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	As at 31 December			As at
	2020	2021	2022	30 June 2023
	RMB'000	RMB'000	RMB'000	RMB'000
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
	<u>874,263</u>	<u>1,081,004</u>	<u>1,180,996</u>	<u>1,003,078</u>
Net current assets	<u>73,321</u>	<u>111,389</u>	<u>303,296</u>	<u>307,532</u>
Total asset less current liabilities	<u>99,953</u>	<u>136,981</u>	<u>328,211</u>	<u>338,412</u>
Non-current liabilities				
Lease liabilities	1,001	388	1,149	563
Net assets	<u>98,952</u>	<u>136,593</u>	<u>327,062</u>	<u>337,849</u>
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	<u>98,952</u>	<u>136,593</u>	<u>327,062</u>	<u>337,849</u>

Note: Below RMB1,000.

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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.

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The aggregate amount of contract assets for a project generally represents one single payment obligation only. Our contract assets are not past due during the Track Record Period. In the ageing analysis of contract assets on recognition date basis, contract assets are classified according to the period in which the corresponding revenue was recognised. Frost & Sullivan is of the view that, it is not uncommon in the construction industry that there are no credit terms for the contract assets.

According to the Frost & Sullivan Report, the general billing time for contract assets in the PRC construction industry ranges from one to six months.

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

	<u>As at 31 December</u>			<u>As at</u>
	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>30 June 2023</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Contract assets				
— Work performed but not yet billed	309,924	364,274	387,841	325,934
— Retention receivables	<u>349,471</u>	<u>465,867</u>	<u>658,885</u>	<u>665,256</u>
	659,395	830,141	1,046,726	991,190
Less: provision for impairment of contract assets	<u>(21,670)</u>	<u>(26,312)</u>	<u>(26,875)</u>	<u>(23,721)</u>
Contract assets — net	<u><u>637,725</u></u>	<u><u>803,829</u></u>	<u><u>1,019,851</u></u>	<u><u>967,469</u></u>

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The following table sets forth the movements in our contract assets and trade receivables during the Track Record Period:

	<u>Contract assets</u>	<u>Trade receivables</u>
	RMB'000	RMB'000
As at 1 January 2020	412,446	91,130
New contract assets during the year	1,313,265	—
Amounts transferred to trade receivables during the year ^(Note)	(1,066,316)	1,161,664
Amounts received during the year	<u>—</u>	<u>(1,026,252)</u>
As at 31 December 2020	659,395	226,542
New contract assets during the year	1,305,568	—
Amounts transferred to trade receivables during the year ^(Note)	(1,134,822)	1,233,128
Amounts received during the year	<u>—</u>	<u>(1,183,508)</u>
As at 31 December 2021	830,141	276,162
New contract assets during the year	1,369,309	—
Amounts transferred to trade receivables during the year ^(Note)	(1,152,724)	1,254,162
Amounts received during the year	<u>—</u>	<u>(1,336,976)</u>
As at 31 December 2022	1,046,726	193,348
New contract assets during the period	478,069	—
Amounts transferred to trade receivables during the period ^(Note)	(533,605)	581,419
Amounts received during the period	<u>—</u>	<u>(642,095)</u>
As at 30 June 2023	<u>991,190</u>	<u>132,672</u>

Note: The difference mainly represents VAT.

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) the accumulated contract assets of Project #87 since its commencement in July 2019. Project #87 was an ongoing construction engineering project for a residential property in Huizhou, with high contract value (excluding VAT) of approximately RMB458.7 million and relatively long project duration over three years. 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.

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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, a construction engineering project for a residential and commercial property in Shenzhen with a contact value (excluding VAT) of approximately RMB242.9 million, Project #246, a municipal and public project for the infrastructure and public facilities in Shenzhen with a contact value (excluding VAT) of approximately RMB108.4 million, Project #266, a construction engineering project for a industrial property in Huizhou with a contact value (excluding VAT) of approximately RMB207.7 million, and Project #285, a construction engineering project for a residential property in Huizhou with a contact value (excluding VAT) of approximately RMB140.6 million, 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, a construction engineering project for a residential property in Shangqiu with a contact value (excluding VAT) of approximately RMB360.1 million, and Project #196, a construction engineering project for a residential property in Zhuhai with a contact value (excluding VAT) of approximately RMB284.3 million. The accumulated contract assets of Project #87, Project #129 and Project #196 was 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. We have adopted a credit risk management policy since June 2022, our commerce department designated employees to follow up on the progress of the certification of work performed and the final settlement audit for the completed projects together with the project management team to enhance the progress of billing. As a result, the number of projects completed certification of work performed increased from 16 projects for the six months ended 30 June 2022 to 25 projects for the six months ended 30 June 2023. As at 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 (a specialised contracting project in relation to hydropower installation in Shantou). The prepayments from such customers are netted-off against their respective contract assets for the same contract as at 30 June 2023.

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

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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 percentages of work performed but not yet billed over our contract value of approximately 4.0%, 4.7%, 5.0% and 4.2% for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, 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
	<u>309,924</u>	<u>364,274</u>	<u>387,841</u>	<u>325,934</u>

Note: The aggregate amount of contract assets for a single construction project generally represents one single payment obligation only. The work performed but not billed are not past due. Therefore, the above aging analysis is for illustrative purpose only.

Our work performed but not yet billed as at 30 June 2023 in general aged longer than that of as at 31 December 2022. The percentage of amount of contract assets that were aged over six months to the aggregate amount of work performed but not yet billed increased from approximately 14.8% as at 31 December 2022 to approximately 49.2% as at 30 June 2023, mainly due to the long project duration of Project #196 undertaken by us for Customer E and the completion of a large-scale project, Project #246, undertaken by us for Customer Group D, both of which were subject to certification of work and final settlement audit, respectively. The work performed but not yet billed that aged over six months as at 30 June 2023 for these two projects amounted to approximately RMB64.8 million in aggregate, accounting for approximately 40.4% of all work performed but not yet billed that aged over six months as at 30 June 2023. Also, in line with the industry practice according to the Frost & Sullivan Report, our customer generally certified our work performed towards the end of a year.

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The following tables set forth the details of our top five work performed but not yet billed by project as at each of 31 December 2020, 2021 and 2022 and 30 June 2023:

As at 31 December 2020

Rank	Project	Customer	Initial	Revenue	Accumulated	Work	Aged within 6 months	Aged from	Aged over 12 months	Amount of subsequent billing up to the Latest Practicable Date
			contract value	recognised during the year ended 31 December 2020	revenue recognised as at 31 December 2020	performed but not yet billed as at 31 December 2020		6 months to 12 months		
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
1	Project #87	Huizhou Xingsheng Century Investment Co., Ltd.* (惠州市興盛世紀投資有限公司)	458,716	215,271	291,689	90,380	90,380	—	—	90,380
2	Project #129	Customer Group A	360,136	130,375	130,375	36,206	36,206	—	—	36,206
3	Project #94	Customer Group A	200,516	66,407	155,051	26,993	26,993	—	—	26,993
4	Project #160	CCCC Fourth Harbor Engineering Co., Ltd.* (中交第四航務工程局有限公司)	121,996	23,862	23,862	19,090	19,090	—	—	19,090
5	Project #25	Customer C	291,608	73,172	73,645	15,904	15,904	—	—	15,904

As at 31 December 2021

Rank	Project	Customer	Initial	Revenue	Accumulated	Work	Aged within 6 months	Aged from	Aged over 12 months	Amount of subsequent billing up to the Latest Practicable Date
			contract value	recognised during the year ended 31 December 2021	revenue recognised as at 31 December 2021	performed but not yet billed as at 31 December 2021		6 months to 12 months		
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
1	Project #87	Huizhou Xingsheng Century Investment Co., Ltd.* (惠州市興盛世紀投資有限公司)	458,716	281,533	573,223	193,162	193,162	—	—	193,162
2	Project #129	Customer Group A	360,136	180,982	311,357	26,485	26,485	—	—	26,485
3	Project #190	Customer I	65,743	55,211	55,211	22,811	22,811	—	—	22,811
4	Project #196	Customer E	284,332	27,014	27,014	18,821	18,821	—	—	18,821
5	Project #223	Customer K	14,737	14,737	14,737	9,233	9,233	—	—	—

As at 31 December 2022

Rank	Project	Customer	Initial	Revenue	Accumulated	Work	Aged within 6 months	Aged from	Aged over 12 months	Amount of subsequent billing up to the Latest Practicable Date
			contract value	recognised during the year ended 31 December 2022	revenue recognised as at 31 December 2022	performed but not yet billed as at 31 December 2022		6 months to 12 months		
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
1	Project #196	Customer E	284,332	166,199	193,214	107,548	107,548	—	—	81,982
2	Project #266	Customer F	207,670	65,857	65,857	40,034	40,034	—	—	40,034
3	Project #263	Huizhou Zongtai Industrial Co., Ltd.* (惠州市宗泰實業有限公司)	41,284	20,684	20,684	15,765	15,765	—	—	15,765
4	Project #246	Customer Group D	108,431	107,369	107,369	15,344	15,344	—	—	9,034
5	Project #267	Customer M	32,608	17,924	17,924	15,236	15,236	—	—	7,653

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As at 30 June 2023

Rank	Project	Customer	Initial	Revenue	Accumulated	Work	Aged within 6 months	Aged from	Aged over	Amount of
			contract value	recognised during the year ended 30 June 2023	revenue recognised as at 30 June 2023	performed but not yet billed as at 30 June 2023		6 months to 12 months	12 months	subsequent billing up to the Latest Practicable Date
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
1	Project #196	Customer E	284,332	32,628	225,842	82,253	32,628	49,625	—	27,312
2	Project #266	Customer F	207,670	55,737	121,594	23,226	23,226	—	—	23,226
3	Project #249	Customer Group D	83,230	25,016	57,284	17,764	17,764	—	—	1,270
4	Project #307	Zhongjian Hetu	46,067	18,417	18,417	16,575	16,575	—	—	—
5	Project #246	Customer Group D	108,431	1,002	108,372	16,196	1,002	15,194	—	9,034

Retention receivables

Retention receivables represents (i) withholding monies, the amount of work performed withheld by our customers on each payment based on a prescribed percentage (i.e. generally ranging from 15% to 37%) of the contract value and would become unconditional for billing upon completion of final settlement audit; 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. Therefore, our billable amount of retention receivables generally ranges from 20% to 40%, which is within the range of 10% to 40% of those of our industry peers. 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 percentages of retention receivables over our contract value of approximately 4.6%, 6.1%, 8.5% and 8.5% for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, respectively.

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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

Note: The aggregate amount of contract assets for a single construction project generally represents one single payment obligation only. The retention receivables are not past due. Therefore, the above aging analysis is for illustrative purpose only.

To have a more detailed understanding on the retention receivables, set out below is the breakdown of retention receivables as at the dates indicated with the subsequent billing up and subsequent settlement to the Latest Practicable Date:

	As at 31 December			As at	Subsequent billing	Subsequent
	2020	2021	2022	30 June	up to the Latest	settlement up to
	RMB'000	RMB'000	RMB'000	2023	Practicable Date	the Latest
Retention receivables						
— Withholding monies	278,266	364,602	533,128	541,405	96,032	80,355
— Retention monies	71,205	101,265	125,757	123,851	15,625	13,326
	349,471	465,867	658,885	665,256	111,657	93,681

Our retention receivables increased by approximately RMB116.4 million or 33.3% from approximately RMB349.5 million as at 31 December 2020 to RMB465.9 million as at 31 December 2021, mainly attributable to (i) the increase in withholding monies of approximately RMB30.8 million, RMB19.7 million and RMB9.4 million for Project #129 with Customer Group A, Project #87 with Huizhou Xingsheng Century Investment Co., Ltd.* (惠州市興盛世紀投資有限公司) and Project #190 with Customer I, respectively; and (ii) the increase in retention monies of approximately RMB8.4 million, RMB5.4 million and RMB2.0 million for Project #87, Project #129, and Project #160 with CCCC Fourth Harbor Engineering Co., Ltd.* (中交第四航務工程局有限公司), respectively.

Our retention receivables further increased to approximately RMB658.9 million as at 31 December 2022 and remained relatively stable at approximately RMB665.2 million as at 30 June 2023, mainly attributable to the increase in withholding monies of approximately RMB64.3 million,

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RMB25.1 million RMB23.2 million and RMB12.9 million for Project #285 with Huizhou Xingsheng Century Investment Co., Ltd.* (惠州市興盛世紀投資有限公司), Project #237 with Shenzhen 5297 Investment Development Co., Ltd.* (深圳市五二九七投資發展有限公司), Project #276 with Customer O and Project #246 with Customer Group D, respectively, in 2022. Pursuant to the sales agreement of Project #285, we are entitled to unconditionally bill 100% upon completion, thus the outstanding balance of Project #285 is conditional on its completion and could not be billed yet.

The following tables set forth the details of our top five retention receivables by project as at each of 31 December 2020, 2021 and 2022 and 30 June 2023:

As at 31 December 2020

Rank	Project	Customer	Initial	Revenue	Accumulated	Retention		Aged within	Aged over	Amount of subsequent billing up to the Latest Practicable Date
			contract value	recognised during the year ended 31 December 2020	revenue recognised as at 31 December 2020	receivables as at 31 December 2020	12 months			
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
1	Project #94	Customer Group A	200,516	66,407	155,051	31,010	31,010	—	31,010	
2	Project #96	CCCC Fourth Harbor Engineering Co., Ltd.* (中交第四航務工程局有限公司)	272,754	39,258	272,754	29,987	29,987	—	29,838	
3	Project #87	Huizhou Xingsheng Century Investment Co., Ltd.* (惠州市興盛世紀投資有限公司)	458,716	215,271	291,689	29,169	29,169	—	29,169	
4	Project #19	Customer Group A	178,007	78,024	130,929	26,186	26,186	—	26,186	
5	Project #129	Customer Group A	360,136	130,375	130,375	26,075	26,075	—	26,075	

As at 31 December 2021

Rank	Project	Customer	Initial	Revenue	Accumulated	Retention		Aged within	Aged over	Amount of subsequent billing up to the Latest Practicable Date
			contract value	recognised during the year ended 31 December 2021	revenue recognised as at 31 December 2021	receivables as at 31 December 2021	12 months			
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
1	Project #129	Customer Group A	360,136	180,982	311,357	62,271	62,271	—	62,271	
2	Project #87	Huizhou Xingsheng Century Investment Co., Ltd.* (惠州市興盛世紀投資有限公司)	458,716	281,533	573,223	57,322	57,322	—	57,322	
3	Project #94	Customer Group A	200,516	52,820	207,871	38,305	38,305	—	26,402	
4	Project #19	Customer Group A	178,007	42,962	173,891	34,778	34,778	—	26,868	
5	Project #136	CCCC Fourth Harbor Engineering Co., Ltd.* (中交第四航務工程局有限公司)	101,295	2,066	107,313	21,463	—	21,463	12,785	

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As at 31 December 2022

Rank	Project	Customer	Initial contract value	Revenue recognised during the year ended 31 December 2022	Accumulated revenue recognised as at 31 December 2022	Retention receivables as at 31 December 2022	Aged within 12 months	Aged over 12 months	Amount of subsequent billing up to the Latest Practicable Date
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
1	Project #129	Customer Group A	360,136	19,243	330,600	66,120	16,524	49,596	62,913
2	Project #285	Huizhou Xingsheng Century Investment Co., Ltd.* (惠州市興盛世紀投資有限公司)	140,574	64,296	64,296	64,296	64,296	—	—
3	Project #87	Huizhou Xingsheng Century Investment Co., Ltd.* (惠州市興盛世紀投資有限公司)	458,716	141,509	714,732	50,698	50,698	—	36,697
4	Project #237	Shenzhen 5297 Investment Development Co., Ltd.* (深圳市五二九七投資發展有限公司)	242,897	147,882	147,882	29,576	29,576	—	29,576
5	Project #19	Customer Group A	178,007	21,156	195,047	29,066	21,156	7,910	—

As at 30 June 2023

Rank	Project	Customer	Initial contract value	Revenue recognised during the six months ended 30 June 2023	Accumulated revenue recognised as at 30 June 2023	Retention receivables as at 30 June 2023	Aged within 12 months	Aged over 12 months	Amount of subsequent billing up to the Latest Practicable Date
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
1	Project #285	Huizhou Xingsheng Century Investment Co., Ltd.* (惠州市興盛世紀投資有限公司)	140,574	16,006	80,302	80,302	80,302	—	—
2	Project #87	Huizhou Xingsheng Century Investment Co., Ltd.* (惠州市興盛世紀投資有限公司)	458,716	836	715,568	42,360	42,360	—	27,523
3	Project #237	Shenzhen 5297 Investment Development Co., Ltd.* (深圳市五二九七投資發展有限公司)	242,897	34,533	182,415	36,483	36,483	—	11,826
4	Project #19	Customer Group A	178,007	—	195,041	29,060	6,750	22,310	—
5	Project #129	Customer Group A	360,136	6,490	337,090	28,683	12,215	16,468	18,986

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 30 June 2023
	2020	2021	2022	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
	<u>659,395</u>	<u>830,141</u>	<u>1,046,726</u>	<u>991,190</u>

Note: The aggregate amount of contract assets for a single construction project generally represents one single payment obligation only. The contract assets are not past due. Therefore, the above aging analysis is for illustrative purpose only.

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As at the Latest Practicable Date, approximately 13.1%, 22.0%, 50.7% and 76.3% of our contract assets (amounting to approximately RMB86.7 million, RMB182.6 million, RMB531.2 million and RMB756.4 million) as at 31 December 2020, 2021 and 2022 and 30 June 2023 have not been converted into trade receivables, among which, approximately RMB52.9 million, RMB78.2 million, RMB220.3 million and RMB277.9 million (representing approximately 61.0%, 42.8%, 41.5% and 36.7% 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.

In respect of Project #87, the initial contract value was approximately RMB458.7 million, the total amount of variation orders/adjustment as at 30 June 2023 was approximately RMB266.1 million and the remaining contract sum as at 30 June 2023 was approximately RMB9.2 million. Project #87 was commenced in July 2019 and completed in September 2023. Up to the Latest Practicable Date, the total revenue recognised from Project #87 was approximately RMB724.4 million (approximately 99.9% of the total contract sum), the accumulated billed amount was approximately RMB515.0 million (approximately 71.1% of the total contract sum) and the accumulated billed amount being settled was approximately RMB700.7 million (approximately 96.7% of the total contract sum). The ECL loss allowance of Project #87 was approximately RMB0.7 million as at 30 June 2023.

In respect of Project #285, the initial contract value was approximately RMB140.6 million and the remaining contract sum as at 30 June 2023 was approximately RMB60.3 million. Project #285 was commenced in September 2022 and is expected to be completed in or around June 2024. Up to the Latest Practicable Date, the total revenue recognised from Project #285 was approximately RMB81.5 million (approximately 58.0% of the total contract sum), the accumulated billed amount was nil as we are only entitled to bill 100% upon completion pursuant to the sales agreement. The ECL loss allowance of Project #285 was approximately RMB1.4 million as at 30 June 2023.

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Further details of the projects are as follows:

Project	Details of milestones to be fulfilled and estimated date of fulfillment	Progress billable percentage during construction	Percentage of completion as at 30 June 2023	Schedule of progress payment application	Amount and date of subsequent billing up to the Latest Practicable Date	Amount and date of subsequent settlement up to the Latest Practicable Date
					RMB'000	RMB'000
Project #87	Project completed, the remaining balance of contract assets will be billed upon completion of the final settlement audit which is expected to be by December 2024	80.0%	99.0%	On a monthly basis during project implementation	9,174 (July 2023)	27,523 (August – September 2023)
Project #285	The remaining balance of contract assets will be billed upon 100% completion of the project which is expected to be by June 2024	0.0%	57.3%	After completion of the project and approved by such customer	—	—

As at the Latest Practicable Date, Project #285 has 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 RMB700.7 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.

In respect of Project #19, the initial contract value was approximately RMB178.0 million, the total amount of variation orders/adjustment as at 30 June 2023 was approximately RMB20.6 million and the remaining contract sum as at 30 June 2023 was nil. Project #19 was commenced in August 2019 and was completed in July 2022. Up to the Latest Practicable Date, the total revenue recognised from Project #19 was approximately RMB195.3 million (approximately 98.4% of the total contract sum), the accumulated billed amount was approximately RMB166.8 million (approximately 84.0% of the total contract sum) and the accumulated billed amount being settled was approximately RMB161.4 million (approximately 81.3% of the total contract sum). The ECL loss allowance of Project #19 was approximately RMB3.6 million as at 30 June 2023.

In respect of Project #94, the initial contract value was approximately RMB200.5 million, the total amount of variation orders/adjustment as at 30 June 2023 was approximately RMB23.9 million and the remaining contract sum as at 30 June 2023 was nil. Project #94 was commenced in June 2019 and was completed in July 2022. Up to the Latest Practicable Date, the total revenue recognised from Project #94 was approximately RMB218.1 million (approximately 97.2% of the total contract sum), the accumulated

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billed amount was approximately RMB201.3 million (approximately 89.7% of the total contract sum) and the accumulated billed amount being settled was approximately RMB193.1 million (approximately 86.0% of the total contract sum). The ECL loss allowance of Project #94 was approximately RMB2.7 million as at 30 June 2023.

In respect of Project #129, the initial contract value was approximately RMB360.1 million, the total amount of variation orders/adjustment as at 30 June 2023 was approximately RMB8.2 million and the remaining contract sum as at 30 June 2023 was approximately RMB31.2 million. Project #129 was commenced in April 2020 and is expected to be completed in or around December 2023. Up to the Latest Practicable Date, the total revenue recognised from Project #129 was approximately RMB338.1 million (approximately 91.8% of the total contract sum), the accumulated billed amount was approximately RMB315.4 million (approximately 85.6% of the total contract sum) and the accumulated billed amount being settled was approximately RMB336.4 million (approximately 91.3% of the total contract sum). The ECL loss allowance of Project #129 was approximately RMB3.5 million as at 30 June 2023.

Further details of the projects are as follows:

Project	Details of milestones to be fulfilled and estimated date of fulfillment	Progress billable percentage during construction	Percentage of completion as at 30 June 2023	Schedule of progress payment application	Amount and date of subsequent billing up to the Latest Practicable Date RMB'000	Amount and date of subsequent settlement up to the Latest Practicable Date RMB'000
Project #19	Project completed, the remaining balance of contract assets will be billed upon completion of the final settlement audit which is expected to be by August 2024	80.0%	100.0%	On a monthly basis during project implementation	—	4,587 (September 2023)
Project #94	Project completed, the remaining balance of contract assets will be billed upon completion of the final settlement audit which is expected to be by August 2024	80.0%	100.0%	On a monthly basis during project implementation	—	6,069 (July – September 2023)
Project #129	The remaining balance of contract assets will be billed upon completion of the final settlement audit which is expected to be by January 2025	80.0%	94.3%	On a monthly basis during project implementation	24,621 (July – September 2023)	18,986 (July – September 2023)

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 RMB690.8 million was certified by Customer Group A for the aforementioned projects.

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- (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. In respect of Project #196, the initial contract value was approximately RMB284.3 million and the remaining contract sum as at 30 June 2023 was approximately RMB58.5 million. Project #196 was commenced in November 2021 and is expected to be completed in or around May 2024. Up to the Latest Practicable Date, the total revenue recognised from Project #196 was approximately RMB241.6 million (approximately 85.0% of the total contract sum), the accumulated billed amount was approximately RMB148.3 million (approximately 52.2% of the total contract sum) and the accumulated billed amount being settled was approximately RMB148.3 million (approximately 52.2% of the total contract sum). The ECL loss allowance of Project #196 was approximately RMB2.7 million as at 30 June 2023. Further details of the projects are as follows:

Project	Details of milestones to be fulfilled and estimated date of fulfillment	Progress billable percentage during construction	Percentage of completion as at 30 June 2023	Schedule of progress payment application	Amount and date of subsequent billing up to the Latest Practicable Date RMB'000	Amount and date of subsequent settlement up to the Latest Practicable Date RMB'000
Project #196	The remaining balance of contract assets will be billed upon the removal of scaffolding of external wall which is expected to be by December 2023 and the completion of the final settlement audit which is expected to be by May 2025	75.0% before the roofing of the major structure and 80.0% after before the roofing of the major structure	79.6%	On a monthly basis during project implementation	27,321 (July – September 2023)	27,321 (July – September 2023)

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 RMB148.3 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.

In respect of Project #177, the initial contract value was approximately RMB46.5 million, the total amount of variation orders/adjustment as at 30 June 2023 was approximately RMB6.7 million and the remaining contract sum as at 30 June 2023 was nil. Project #177 was commenced in April 2021 and the foundation earthwork and pile foundation was completed in November 2022 and April 2023, respectively. Up to the

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Latest Practicable Date, the total revenue recognised from Project #177 was approximately RMB53.2 million (approximately 99.9% of the total contract sum), the accumulated billed amount was approximately RMB37.8 million (approximately 71.1% of the total contract sum) and the accumulated billed amount being settled was approximately RMB45.2 million (approximately 84.8% of the total contract sum). The ECL loss allowance of Project #177 was approximately RMB4,000 as at 30 June 2023.

In respect of Project #237, the initial contract value was approximately RMB242.9 million and the remaining contract sum as at 30 June 2023 was approximately RMB60.5 million. Project #237 was commenced in April 2022 and is expected to be completed in or around April 2024. Up to the Latest Practicable Date, the total revenue recognised from Project #237 was approximately RMB213.7 million (approximately 88.0% of the total contract sum), the accumulated billed amount was approximately RMB157.8 million (approximately 64.9% of the total contract sum) and the accumulated billed amount being settled was approximately RMB157.8 million (approximately 64.9% of the total contract sum). The ECL loss allowance of Project #237 was approximately RMB20,000 as at 30 June 2023.

Further details of the projects are as follows:

Project	Details of milestones to be fulfilled and estimated date of fulfillment	Progress billable percentage during construction	Percentage of completion as at 30 June 2023	Schedule of progress payment application	Amount and date of subsequent billing up to the Latest Practicable Date RMB'000	Amount and date of subsequent settlement up to the Latest Practicable Date RMB'000
Project #177	Project completed, the remaining balance of contract assets will be billed upon completion of the final settlement audit which is expected to be by March 2024	85.0%	100.0%	On a monthly basis during project implementation	—	—
Project #237	The remaining balance of contract assets will be billed upon certification of our certified value of work performed by Shenzhen 5297 Investment Development Co., Ltd.* (深圳市五二九七投資發展有限公司) on a monthly basis	85.0%	75.3%	On a monthly basis during project implementation	19,448 (July – September 2023)	26,097 (July – September 2023)

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 RMB202.9 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

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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.

In respect of Project #103, the initial contract value was approximately RMB43.7 million, the total amount of variation orders/adjustment as at 30 June 2023 was approximately RMB26.3 million and the remaining contract sum as at 30 June 2023 was nil. Project #103 was commenced in January 2019 and was completed in December 2019. Up to the Latest Practicable Date, the total revenue recognised from Project #103 was approximately RMB69.9 million (approximately 99.9% of the total contract sum), the accumulated billed amount was approximately RMB69.9 million (approximately 100.0% of the total contract sum) and the accumulated billed amount being settled was approximately RMB67.8 million (approximately 97.0% of the total contract sum). The ECL loss allowance of Project #103 was nil as at 30 June 2023. Pursuant to the sales agreement with the Customer Group D, we are required to issue invoice of the retention monies within 10 days after the completion of final settlement audit and the defects liability period is five years upon completion of the project. The final settlement audit was completed in November 2020 and the remaining balance of trade receivables of approximately RMB3.1 million as at 30 June 2023 will be settled upon expiry of the defects liability period in December 2024. Having considered (i) Customer Group D, a group of SOE, has a proven record of credibility in settling the outstanding amounts due to us; (ii) Customer Group D maintains stable business operations and is financially sound, to our best knowledge; (iii) Customer Group D settled substantial portion of Project #103 and the remaining balance will be settled upon expiry of the defects liability period, we were not aware of any material recoverability issue of Project #103.

In respect of Project #105, the initial contract value was approximately RMB23.1 million, the total amount of variation orders/adjustment as at 30 June 2023 was approximately RMB4.4 million and the remaining contract sum as at 30 June 2023 was nil. Project #105 was commenced in January 2019 and was completed in December 2019. Up to the Latest Practicable Date, the total revenue recognised from Project #105 was approximately RMB27.4 million (approximately 100.0% of the total contract sum), the accumulated billed amount was approximately RMB27.4 million (approximately 100.0% of the total contract sum) and the accumulated billed amount being settled was approximately RMB26.1 million (approximately 95.0 % of the total contract sum). The ECL loss allowance of Project #105 was nil as at 30 June 2023. Pursuant to the sales agreement with the Customer Group D, we are required to issue invoice of the retention monies within 10 days after the completion of final settlement audit and the defects liability period is five years upon completion of the project. The final settlement audits were completed in December 2020 and January 2021 and the remaining balance of trade receivables of approximately RMB1.4 million as at 30 June 2023 will be settled upon expiry of the defects liability period in December 2024. Having considered (i) Customer Group D, a group of SOE, has a proven record of credibility in settling the outstanding amounts due to us; (ii) Customer Group D maintains stable business operations and is

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financially sound, to our best knowledge; (iii) Customer Group D settled substantial portion of Project #105 and the remaining balance will be settled upon expiry of the defects liability period, we were not aware of any material recoverability issue of Project #105.

In respect of Project #107, the initial contract value was approximately RMB13.8 million, the total amount of variation orders/adjustment as at 30 June 2023 was approximately negative RMB1.5 million and the remaining contract sum as at 30 June 2023 was nil. Project #107 was commenced in January 2019 and was completed in June 2020. Up to the Latest Practicable Date, the total revenue recognised from Project #107 was approximately RMB12.2 million (approximately 99.1% of the total contract sum), the accumulated billed amount was approximately RMB12.3 million (approximately 100.0% of the total contract sum) and the accumulated billed amount being settled was approximately RMB12.3 million (approximately 100.0% of the total contract sum). The ECL loss allowance of Project #107 was nil as at 30 June 2023.

In respect of Project #135, the initial contract value was approximately RMB5.1 million, the total amount of variation orders/adjustment as at 30 June 2023 was approximately RMB5.0 million and the remaining contract sum as at 30 June 2023 was nil. Project #135 was commenced in December 2019 and was completed in August 2021. Up to the Latest Practicable Date, the total revenue recognised from Project #135 was approximately RMB10.1 million (approximately 99.4% of the total contract sum), the accumulated billed amount was approximately RMB9.5 million (approximately 93.5% of the total contract sum) and the accumulated billed amount being settled was approximately RMB10.2 million (approximately 100.0% of the total contract sum). The ECL loss allowance of Project #135 was less than RMB1,000 as at 30 June 2023. Customer Group D, as the general contractor of Project #135, will settle payment to us once the final settlement audit is completed and approved by the developer. As at the Latest Practicable Date, the remaining balance of trade receivables of approximately RMB1.6 million as at 30 June 2023 had been fully settled and the remaining balance of contract assets of approximately RMB0.7 million as at 30 June 2023 had been subsequently transferred to trade receivables and fully settled, respectively.

In respect of Project #157, the initial contract value was approximately RMB53.8 million, the total amount of variation orders/adjustment as at 30 June 2023 was approximately RMB7.0 million and the remaining contract sum as at 30 June 2023 was nil. Project #157 was commenced in November 2020 and was completed in July 2022. Up to the Latest Practicable Date, the total revenue recognised from Project #157 was approximately RMB60.8 million (approximately 99.9% of the total contract sum), the accumulated billed amount was approximately RMB54.4 million (approximately 89.4% of the total contract sum) and the accumulated billed amount being settled was approximately RMB52.4 million (approximately 86.1% of the total contract sum). The ECL loss allowance of Project #157 was approximately RMB3,000 as at 30 June 2023.

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In respect of Project #162, the initial contract value was approximately RMB9.2 million, the total amount of variation orders/adjustment as at 30 June 2023 was approximately negative RMB1.3 million and the remaining contract sum as at 30 June 2023 was nil. Project #162 was commenced in December 2020 and was completed in November 2021. Up to the Latest Practicable Date, the total revenue recognised from Project #162 was approximately RMB7.9 million (approximately 100.0% of the total contract sum), the accumulated billed amount was approximately RMB7.7 million (approximately 97.0% of the total contract sum) and the accumulated billed amount being settled was approximately RMB7.7 million (approximately 97.0% of the total contract sum). The ECL loss allowance of Project #162 was less than RMB1,000 as at 30 June 2023.

In respect of Project #163, the initial contract value was approximately RMB5.5 million, the total amount of variation orders/adjustment as at 30 June 2023 was approximately RMB0.5 million and the remaining contract sum as at 30 June 2023 was nil. Project #163 was commenced in December 2020 and was completed in November 2021. Up to the Latest Practicable Date, the total revenue recognised from Project #163 was approximately RMB6.0 million (approximately 100.0% of the total contract sum), the accumulated billed amount was approximately RMB5.8 million (approximately 97.0% of the total contract sum) and the accumulated billed amount being settled was approximately RMB5.8 million (approximately 97.0% of the total contract sum). The ECL loss allowance of Project #163 was less than RMB1,000 as at 30 June 2023.

In respect of Project #246, the initial contract value was approximately RMB108.4 million and the remaining contract sum as at 30 June 2023 was nil. Project #246 was commenced in February 2022 and was completed in April 2023. Up to the Latest Practicable Date, the total revenue recognised from Project #246 was approximately RMB108.4 million (approximately 99.9% of the total contract sum), the accumulated billed amount was approximately RMB85.0 million (approximately 78.3% of the total contract sum) and the accumulated billed amount being settled was approximately RMB75.9 million (approximately 70.0% of the total contract sum). The ECL loss allowance of Project #246 was approximately RMB15,000 as at 30 June 2023.

In respect of Project #249, the initial contract value was approximately RMB83.2 million and the remaining contract sum as at 30 June 2023 was approximately RMB25.9 million. Project #249 was commenced in July 2022 and is expected to be completed in or around March 2024. Up to the Latest Practicable Date, the total revenue recognised from Project #249 was approximately RMB71.6 million (approximately 86.0% of the total contract sum), the accumulated billed amount was approximately RMB29.4 million (approximately 35.3% of the total contract sum) and the accumulated billed amount being settled was approximately RMB26.4 million (approximately 31.8% of the total contract sum). The ECL loss allowance of Project #249 was approximately RMB13,000 as at 30 June 2023.

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In respect of Project #288, the initial contract value was approximately RMB14.6 million and the remaining contract sum as at 30 June 2023 was approximately RMB0.2 million. Project #288 was commenced in October 2022 and is expected to be completed in or around December 2023. Up to the Latest Practicable Date, the total revenue recognised from Project #288 was approximately RMB14.6 million (approximately 99.4% of the total contract sum), the accumulated billed amount was approximately RMB13.8 million (approximately 94.3% of the total contract sum) and the accumulated billed amount being settled was approximately RMB9.2 million (approximately 62.8% of the total contract sum). The ECL loss allowance of Project #288 was less than RMB1,000 as at 30 June 2023.

Further details of the projects are as follows:

Project	Details of milestones to be fulfilled and estimated date of fulfillment	Progress billable percentage during construction	Percentage of completion as at 30 June 2023	Schedule of progress payment application	Amount and date of subsequent billing up to the Latest Practicable Date RMB'000	Amount and date of subsequent settlement up to the Latest Practicable Date RMB'000
Project #103	Project completed, the remaining balance of trade receivables will be settled upon expiry of the defects liability period in December 2024	85.0%	100.0%	On a monthly basis during project implementation	—	943 (August 2023)
Project #105	Project completed, the remaining balance of trade receivables will be settled upon expiry of the defects liability period in December 2024	80.0%	100.0%	On a monthly basis during project implementation	—	—
Project #107	Project completed	85.0%	100.0%	On a monthly basis during project implementation	—	261 (September 2023)
Project #135	Project completed, the remaining balance of contract assets will be billed upon completion of the final settlement audit which is expected to be by March 2024	85.0%	100.0%	On a monthly basis during project implementation	—	2,102 (September 2023)
Project #157	Project completed, the remaining balance of contract assets will be billed upon completion of the final settlement audit which is expected to be by June 2024	80.0%	100.0%	On a monthly basis during project implementation	—	5,505 (August 2023)
Project #162	Project completed, the remaining balance of contract assets will be billed upon expiry of the defects liability period by November 2023	85.0%	100.0%	On a monthly basis during project implementation	—	—
Project #163	Project completed, the remaining balance of contract assets will be billed upon expiry of the defects liability period by November 2023	85.0%	100.0%	On a monthly basis during project implementation	—	—
Project #246	Project completed, the remaining balance of contract assets will be billed upon completion of the final settlement audit which is expected to be by June 2024	85.0%	100.0%	On a monthly basis during project implementation	9,034 (September 2023)	—

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Project	Details of milestones to be fulfilled and estimated date of fulfillment	Progress billable percentage during construction	Percentage of completion as at 30 June 2023	Schedule of progress payment application	Amount and date of subsequent billing up to the Latest Practicable Date RMB'000	Amount and date of subsequent settlement up to the Latest Practicable Date RMB'000
Project #249	Upon completion of the review process by the supervision unit and cost consulting unit every month	80.0%	70.2%	On a monthly basis during project implementation	1,270 (July – September 2023)	2,685 (September 2023)
Project #288	The remaining balance of contract assets will be billed upon completion of the final settlement audit which is expected to be by June 2024	70.0%	99.3%	On a monthly basis during project implementation	—	—

As at the Latest Practicable Date, except for 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 RMB315.2 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.

In respect of Project #240, the initial contract value was approximately RMB14.2 million and the remaining contract sum as at 30 June 2023 was nil. Project #240 was commenced in July 2022 and was completed in March 2023. Up to the Latest Practicable Date, the total revenue recognised from Project #240 was approximately RMB14.2 million (approximately 99.9% of the total contract sum), the accumulated billed amount was approximately RMB14.2 million (approximately 100.0% of the total contract sum) and the accumulated billed amount being settled was approximately RMB14.2 million (approximately 100.0% of the total contract sum). The ECL loss allowance of Project #240 was nil as at 30 June 2023.

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In respect of Project #266, the initial contract value was approximately RMB207.7 million and the remaining contract sum as at 30 June 2023 was approximately RMB86.1 million. Project #266 was commenced in October 2022 and is expected to be completed in or around April 2024. Up to the Latest Practicable Date, the total revenue recognised from Project #266 was approximately RMB186.8 million (approximately 90.0% of the total contract sum), the accumulated billed amount was approximately RMB125.6 million (approximately 60.5% of the total contract sum) and the accumulated billed amount being settled was approximately RMB122.0 million (approximately 58.7% of the total contract sum). The ECL loss allowance of Project #266 was approximately RMB1.1 million as at 30 June 2023. Further details of the projects are as follows:

Project	Details of milestones to be fulfilled and estimated date of fulfillment	Progress billable percentage during construction	Percentage of completion as at 30 June 2023	Schedule of progress payment application	Amount and date of subsequent billing up to the Latest Practicable Date	Amount and date of subsequent settlement up to the Latest Practicable Date
					RMB'000	RMB'000
Project #240	Project completed	85.0%	100.0%	Every two months during project implementation	—	—
Project #266	Upon certification of our certified value of work performed by Customer F every two months	85.0%	58.7%	Every two months during project implementation	45,520 (July – September 2023)	41,850 (July – August 2023)

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 RMB139.9 million was certified by Customer F for the aforementioned projects.

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 enquiries, 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.

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The following tables set forth the details of our top 10 contract assets by customer as at each of 31 December 2022 and 30 June 2023:

As at 31 December 2022

Rank	Customer	Principal Business	Work performed but not yet billed RMB'000	Retention receivables RMB'000	Total contract assets as at 31 December 2022 RMB'000	Amount of subsequent assets to be billed up to the Latest Practicable Date RMB'000	Reason for the remaining balance has not yet been billed
1	Customer E	A SOE principally engaged in investment, asset management and real estate development and property management	107,548	19,321	126,869	81,982	Pursuant to the sales agreement with the customer, we are entitled to bill up to 75% of the total value of work performed before the roofing of the major structure, 80% of the total value of work performed after roofing of the major structure until completion, 2.5% of the total value of work performed accumulated before the roofing of the major structure upon the removal of scaffolding of external wall, and 2.5% of the total value of work performed accumulated before the roofing of the major structure upon the completion, on a monthly basis. Accordingly, the outstanding balance is conditional on reaching further milestones and could not be billed yet.
2	Customer Group A	A group of property developers which are subsidiaries of a company listed on the Stock Exchange in 1996 with a market capitalisation of approximately HK\$244.2 billion as at the Latest Practicable Date	2,718	122,312	125,030	70,612	Pursuant to the sales agreements with the customers, we are entitled to bill up to 80% of the total value of the work performed on a monthly basis and up to 80% of the contract value on an accumulative basis during project implementation. Accordingly, the outstanding balance is conditional on reaching further milestones and could not be billed yet.
3	Huizhou Xingsheng Century Investment Co., Ltd.* (惠州市興盛世紀投資有限公司)	A private company principally engaged in real estate development	—	114,994	114,994	36,697	Pursuant to the sales agreements with the customer, we are entitled to unconditionally bill up to 80% of the total value of the work performed on a monthly basis during project implementation or 100% upon completion, depending on the projects. Accordingly, the outstanding balance is conditional on reaching further milestones and could not be billed yet.
4	Customer Group D	A group of SOEs principally engaged in construction contracting works for building and municipal public utilities in the PRC	24,957	39,465	64,422	32,907	Pursuant to the sales agreements with the customers, we are entitled to bill up to 70–85% of the total value of the work performed on a monthly basis (as the case may be, and up to 80–85% of the contract value on an accumulative basis) during project implementation. Accordingly, the outstanding balance is conditional on reaching further milestones and could not be billed yet.

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Rank	Customer	Principal Business	Work performed but not yet billed RMB'000	Retention receivables RMB'000	Total contract assets as at 31 December 2022 RMB'000	Amount of subsequent billing up to the Latest Practicable Date RMB'000	Reason for the remaining balance has not yet been billed
5	Customer M	A government unit in Shenzhen	34,187	16,814	51,001	26,924	Pursuant to the sales agreements with the customer, we are entitled to bill up to 80–85% of the total value of the work performed on a monthly basis and up to 80% of the contract value on an accumulative basis during project implementation. Accordingly, the outstanding balance is conditional on reaching further milestones and could not be billed yet.
6	Customer F	A private company principally engaged in manufacturing of electronic components	40,034	9,878	49,912	49,912	As at the Latest Practicable Date, all outstanding balance as at 31 December 2022 has been subsequently billed.
7	Shenzhen 5297 Investment Development Co., Ltd.* (深圳市五二九七投資發展有限公司)	A SOE company principally engaged in real estate development	7,103	36,601	43,704	42,058	Pursuant to the sales agreements with the customer, we are entitled to bill up to 85% of the total value of the work performed on a monthly basis and up to 85% of the contract value on an accumulative basis during project implementation. Accordingly, the outstanding balance is conditional on reaching further milestones and could not be billed yet.
8	CCCC Fourth Harbor Engineering Co., Ltd.* (中交第四航務工程局有限公司)	A SOE principally engaged in construction contracting works for municipal public utilities and sale and manufacturing of PC components in the PRC	—	29,249	29,249	16,937	Pursuant to the sales agreements with the customer, we are entitled to bill up to 80% of the total value of the work performed on a monthly basis and up to 80% of the contract value on an accumulative basis during project implementation. Accordingly, the outstanding balance is conditional on reaching further milestones and could not be billed yet.
9	Customer N	A government street office in Shenzhen	9,056	15,611	24,667	3,941	Pursuant to the sales agreements with the customer, we are entitled to bill up to 70–85% of the total value of the work performed on a monthly basis and up to 60–70% of the contract value on an accumulative basis during project implementation or 70–80% of the tender price upon completion, depending on the projects. Accordingly, the outstanding balance is conditional on reaching further milestones and could not be billed yet.
10	Customer O	A private company principally engaged in construction contracting services in the PRC	—	23,238	23,238	—	Pursuant to the sales agreement with the customer, we are only entitled to bill the total value of the work performed after completion of the project. Accordingly, the outstanding balance is conditional on reaching further milestones and could not be billed yet.

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As at 30 June 2023

Rank	Customer	Principal Business	Work performed but not yet billed RMB'000	Retention receivables RMB'000	Total contract assets as at 30 June 2023 RMB'000	Amount of subsequent billing up to the Latest Practicable Date RMB'000	Reason for the remaining balance has not yet been billed
1	Huizhou Xingsheng Century Investment Co., Ltd.* (惠州市興盛世紀投資有限公司)	A private company principally engaged in real estate development	—	122,662	122,662	27,523	Pursuant to the sales agreements with the customer, we are entitled to unconditionally bill up to 80% of the total value of the work performed on a monthly basis during project implementation or 100% upon completion, depending on the projects. Accordingly, the outstanding balance is conditional on reaching further milestones and could not be billed yet.
2	Customer E	A SOE principally engaged in investment, asset management and real estate development and property management	82,253	22,584	104,837	27,321	Pursuant to the sales agreement with the customer, we are entitled to bill up to 75% of the total value of work performed before the roofing of the major structure, 80% of the total value of work performed after roofing of the major structure until completion, 2.5% of the total value of work performed accumulated before the roofing of the major structure upon the removal of scaffolding of external wall, and 2.5% of the total value of work performed accumulated before the roofing of the major structure upon the completion, on a monthly basis. Accordingly, the outstanding balance is conditional on reaching further milestones and could not be billed yet.
3	Customer Group A	A group of property developers which are subsidiaries of a company listed on the Stock Exchange in 1996 with a market capitalisation of approximately HK\$244.2 billion as at the Latest Practicable Date	—	79,864	79,864	18,986	Pursuant to the sales agreements with the customers, we are entitled to bill up to 80% of the total value of the work performed on a monthly basis and up to 80% of the contract value at an accumulative basis during project implementation. Accordingly, the outstanding balance is conditional on reaching further milestones and could not be billed yet.
4	Customer Group D	A group of SOEs principally engaged in construction contracting works for building and municipal public utilities in the PRC	33,961	35,906	69,867	10,959	Pursuant to the sales agreements with the customers, we are entitled to bill up to 70–85% of the total value of the work performed on a monthly basis (as the case may be, and up to 80–85% of the contract value on an accumulative basis) during project implementation. Accordingly, the outstanding balance is conditional on reaching further milestones and could not be billed yet.

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Rank	Customer	Principal Business	Work performed but not yet billed RMB'000	Retention receivables RMB'000	Total contract assets as at 30 June 2023 RMB'000	Amount of subsequent billing up to the Latest Practicable Date RMB'000	Reason for the remaining balance has not yet been billed
5	Shenzhen 5297 Investment Development Co., Ltd.* (深圳市五二九七投資發展有限公司)	A SOE principally engaged in real estate development	7,677	44,466	52,143	19,448	Pursuant to the sales agreements with the customer, we are entitled to bill up to 85% of the total value of the work performed on a monthly basis and up to 80% of the contract value on an accumulative basis during project implementation. Accordingly, the outstanding balance is conditional on reaching further milestones and could not be billed yet.
6	Customer F	A private company principally engaged in manufacturing of electronic components	23,226	18,239	41,465	41,465	As at the Latest Practicable Date, all outstanding balance as at 30 June 2023 has been subsequently billed.
7	Customer M	A government unit in Shenzhen	20,509	16,633	37,142	9,653	Pursuant to the sales agreements with the customer, we are entitled to bill up to 80–85% of the total value of the work performed on a monthly basis and up to 80% of the contract value on an accumulative basis during project implementation. Accordingly, the outstanding balance is conditional on reaching further milestones and could not be billed yet.
8	Customer O	A private company principally engaged in construction contracting services in the PRC	—	24,365	24,365	—	Pursuant to the sales agreements with the customer, we are only entitled to bill the total value of the work performed after completion of the project. Accordingly, the outstanding balance is conditional on reaching further milestones and could not be billed yet.
9	Customer J	A private company established in 2013 and principally engaged in real estate development and construction services	—	23,804	23,804	9,450	Pursuant to the sales agreements with the customer, we are only entitled to bill the total value of the work performed after completion of the project. Accordingly, the outstanding balance is conditional on reaching further milestones and could not be billed yet.
10	Customer N	A government street office in Shenzhen	7,319	15,615	22,934	2,180	Pursuant to the sales agreements with the customer, we are entitled to bill up to 70–85% of the total value of the work performed on a monthly basis and up to 60–70% of the contract value on an accumulative basis during project implementation or 70–80% of the tender price upon completion, depending on the projects. Accordingly, the outstanding balance is conditional on reaching further milestones and could not be billed yet.

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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. According to the Frost & Sullivan Report, our industry peers provision for impairment on contract assets were approximately 0.2% to 3.3% of the amount of their contract assets outstanding as at 31 December 2022. Our Directors consider that our provision for impairment on contract assets is in line with our industry peers and our provision for impairment loss on contract assets due from our customer is sufficient.

The following tables set forth the provisions for impairment losses on contract assets by customer type as at the dates indicated:

	As at 31 December			As at 30 June
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
Collective basis				
— Group 1	100	98	133	278
— Group 2	55	82	67	72
— Group 3	4,205	7,076	2,060	2,110
— Group 4	737	1,368	8,357	10,019
Individual basis				
— Customer C	16,573	17,688	—	—
— Customer Group A	—	—	14,787	9,771
— Customer P	—	—	1,306	1,306
— Others	—	—	165	165
	21,670	26,312	26,875	23,721

Note:

Group 1 represents governmental departments and institutional bodies established under regulations set by the PRC government with funding from the PRC government.

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Group 2 represents SOEs, which are established under the Law of the People’s Republic of China on State-owned Assets in enterprises, as well as under the arrangements made by the State-owned Assets Supervision and Administration Commission of the State Council.

Group 3 represents non-state-owned real estate developers.

Group 4 represents other enterprises engaging in various industries.

The following table sets forth the movements in provisions for impairment losses our contract assets during the Track Record Period:

	Provisions for impairment losses of contract assets
	RMB’000
Loss allowance provision as at 1 January 2020	1,697
Impairment losses recognised during the year ended 31 December 2020	19,973
Loss allowance provision as at 31 December 2020	21,670
Impairment losses recognised during the year ended 31 December 2021	4,642
Loss allowance provision as at 31 December 2021	26,312
Impairment losses recognised during the year ended 31 December 2022	563
Loss allowance provision as at 31 December 2022	26,875
Reversal of impairment losses recognised during the six months ended 30 June 2023	(3,154)
Loss allowance provision as at 30 June 2023	23,721

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.

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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. The higher turnover days for contract assets was mainly attributable to (i) the increase in the withholding monies for Project #129 with Customer Group A, Project #87 with Huizhou Xingsheng Century Investment Co., Ltd.* (惠州市興盛世紀投資有限公司) and Project #190 with Customer I and the increase in retention monies for Project #87, Project #129, and Project #160 with CCCC Fourth Harbor Engineering Co., Ltd.* (中交第四航務工程局有限公司) for the year ended 31 December 2021; and (ii) the increase in the withholding monies for Project #285 with Huizhou Xingsheng Century Investment Co., Ltd.* (惠州市興盛世紀投資有限公司), Project #237 with Shenzhen 5297 Investment Development Co., Ltd.* (深圳市五二九七投資發展有限公司), Project #276 with Customer O and Project #246 with Customer Group D for the year ended 31 December 2022. 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 and business activities during the first half of the year due to seasonality factor, which led to a lower level of revenue recognised during the first half of the year and more contract assets being certified towards the end of a year in general.

Our aggregate trade receivables and contract assets turnover days was approximately 190.5 days, 270.0 days, 310.8 days and 431.5 days, respectively, and our aggregate trade receivables and contract assets turnover days (excluding Customer Group A) was approximately 185.1 days, 260.2 days, 267.2 days and 390.0 days, respectively, for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, and are within the range of 163.9 days to 442.0 days of those of our industry peers according to the Frost & Sullivan Report. The changes in our aggregate trade receivables and contract assets turnover days are in line with the change in our contract assets turnover days during the years/period as explained above. The longer aggregate trade receivables and contract assets turnover days for the years ended 31 December 2021 and 2022 and the six months ended 30 June 2023 as compared to that for the year ended 31 December 2020 was mainly due to the following factors:

Sizable on-going projects with long project duration

As at 31 December 2021 and 2022 and 30 June 2023, the contract assets for on-going projects amounted to approximately RMB642.1 million, RMB755.8 million and RMB645.9 million respectively. The aggregate contract assets balance of the major on-going sizable projects with long project duration, namely Project #87, Project #129, Project #196 and Project #285, as at 31 December 2021 and 2022 and 30 June 2023 was approximately RMB360.8 million, RMB310.7 million and RMB256.2 million respectively. The aggregate contract assets of these four projects accounted for approximately 56.2%, 41.1% and 39.7% of the total contract assets of all on-going projects as at 31 December 2021 and 2022 and 30 June 2023, respectively. Project #87 was completed in September 2023. The remaining three sizable projects remain on-going as at the Latest Practicable Date and the project duration of which is expected to be around or exceed two years.

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Long final settlement audit process and industry benchmark

The long trade receivables and contract assets turnover days was mainly due to the prolonged certification process including final settlement audit process. During the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, the aggregate contract value (excluding VAT) of our new projects from governmental departments and SOEs was approximately RMB791.2 million, RMB715.3 million, RMB1,001.7 million and RMB236.1 million, respectively. As at 31 December 2020, 2021 and 2022 and 30 June 2023, our contract assets due from governmental departments and SOEs was approximately RMB366.5 million, RMB346.0 million, RMB632.4 million and RMB575.0 million, respectively, and our trade receivables due from governmental departments and SOEs was approximately RMB163.6 million, RMB165.3 million, RMB158.2 million and RMB88.3 million, respectively. According to the Frost & Sullivan Report, prolonged certification process is not uncommon in the construction industry in the PRC, especially for large and complex projects or projects obtained from governmental departments and SOEs. Our aggregate trade receivables and contract assets turnover days was approximately 270.0 days and 310.8 days for the years ended 31 December 2021 and 2022, respectively, and are within the range of 163.9 days to 343.3 days of those of our industry peers according to the Frost & Sullivan Report. Our Directors believe that the relatively long trade receivables and contract assets turnover days is common in the construction industry in the PRC, especially where the customers included governmental departments and SOEs, the average conversion period of our contract assets and average settlement period of our trade receivables in relation to governmental departments, SOEs and other customers from the public sector was approximately eight months and two months, respectively. Our Directors confirm that we have not encountered any defaults in payment by governmental departments and SOEs during the Track Record Period and up to the Latest Practicable Date.

During the Track Record Period and up to the Latest Practicable Date, we had no material disputes with our customers with regard to the billing or the amount of work performed.

Up to the Latest Practicable Date, approximately RMB572.6 million or 86.8%, RMB647.5 million or 78.0%, RMB515.5 million or 49.3% and RMB234.8 million or 23.7% of our contract assets as at 31 December 2020, 2021 and 2022 and 30 June 2023 had been subsequently transferred to trade receivables upon billing, respectively. Considering that our major projects generally take or will take (as the case may be) an average of two years or more to complete, and on average it further takes one year for final settlement audit to complete for projects during the Track Record Period, it may take many years for us to be entitled to bill most of the settlement value of a project.

Having considered our latest monitoring results from publicly available information and to the best knowledge of our Directors, all of our trade receivable and contract asset debtors as at 30 June 2023 were under normal operation status (i.e. not wound-up or dissolved, and having valid business

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licence, where applicable) as at the Latest Practicable Date, and none of them received any winding-up petition as at the Latest Practicable Date, our Directors consider that there is no material recoverability issues for the contract assets.

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	<u>(7,234)</u>	<u>(7,614)</u>	<u>(5,974)</u>	<u>(5,059)</u>
Trade receivables — net	219,308	268,548	187,374	127,613
Bills receivables	<u>5,600</u>	<u>—</u>	<u>28,009</u>	<u>1,500</u>
	<u><u>224,908</u></u>	<u><u>268,548</u></u>	<u><u>215,383</u></u>	<u><u>129,113</u></u>

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 the 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

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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 on active communication on settlement with our customers from time to time to improve trade receivable collections and faster payment of our customers as a result of the recovery from the negative impact of COVID-19. As at 31 December 2022, settlement of trade receivables were mainly from (i) Huizhou Xingsheng Century Investment Co., Ltd.* (惠州市興盛世紀投資有限公司) in relation to Project #87, which amounted to approximately RMB389.0 million; (ii) Shenzhen 5297 Investment Development Co., Ltd.* (深圳市五二九七投資發展有限公司) in relation to Project #237, which amounted to approximately RMB123.3 million; and (iii) Customer Group A in relation to Project #19, Project #94 and Project #129, which in aggregate amounted to approximately RMB166.2 million. As at 30 June 2023, settlement of trade receivables are mainly from (i) Customer G in relation to Project #302, which amounted to approximately RMB81.8 million; (ii) Customer F in relation to Project #266, which amounted to approximately RMB70.0 million; (iii) Customer E in relation to Project #196, which amounted to approximately RMB59.6 million; and (iv) CCCC Fourth Harbor Engineering Co., Ltd.* (中交第四航務工程局有限公司) in relation to Project #96, Project #136, Project #137 and Project #160, which in aggregate amounted to approximately RMB87.2 million.

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The following tables set forth the details of our top five trade receivables by project as at each of 31 December 2020, 2021 and 2022 and 30 June 2023:

As at 31 December 2020

Rank	Project	Customer	Customer type	Principal Business	Trade receivables as	Initial contract	Percentage of
					at 31 December	value	completion as at
					2020		31 December
					RMB'000	RMB'000	2020
1	Project #96	CCC Fourth Harbor Engineering Co., Ltd.* (中交第四航務工程局有限公司)	SOE	A SOE principally engaged in construction contracting works for municipal public utilities and sale and manufacturing of PC components in the PRC	51,293	272,754	100.0%
2	Project #136	CCCC Fourth Harbor Engineering Co., Ltd.* (中交第四航務工程局有限公司)	SOE	A SOE principally engaged in construction contracting works for municipal public utilities and sale and manufacturing of PC components in the PRC	34,468	101,295	100.0%
3	Project #19	Customer Group A	Listed company	A group of property developers which are subsidiaries of a company listed on the Stock Exchange in 2007	31,054	178,007	75.6%
4	Project #137	CCCC Fourth Harbor Engineering Co., Ltd.* (中交第四航務工程局有限公司)	SOE	A SOE principally engaged in construction contracting works for municipal public utilities and sale and manufacturing of PC components in the PRC	29,774	80,812	100.0%
5	Project #129	Customer Group A	Listed company	A group of property developers which are subsidiaries of a company listed on the Stock Exchange in 2007	20,979	360,136	35.8%

As at 31 December 2021

Rank	Project	Customer	Customer type	Principal Business	Trade receivables as	Initial contract	Percentage of
					at 31 December	value	completion as at
					2021		31 December
					RMB'000	RMB'000	2021
1	Project #129	Customer Group A	Listed company	A group of property developers which are subsidiaries of a company listed on the Stock Exchange in 2007	56,892	360,136	87.0%
2	Project #96	CCC Fourth Harbor Engineering Co., Ltd.* (中交第四航務工程局有限公司)	SOE	A SOE principally engaged in construction contracting works for municipal public utilities and sale and manufacturing of PC components in the PRC	55,440	272,754	100.0%
3	Project #19	Customer Group A	Listed company	A group of property developers which are subsidiaries of a company listed on the Stock Exchange in 2007	25,721	178,007	90.1%
4	Project #137	CCCC Fourth Harbor Engineering Co., Ltd.* (中交第四航務工程局有限公司)	SOE	A SOE principally engaged in construction contracting works for municipal public utilities and sale and manufacturing of PC components in the PRC	24,585	80,812	100.0%
5	Project #160	CCCC Fourth Harbor Engineering Co., Ltd.* (中交第四航務工程局有限公司)	SOE	A SOE principally engaged in construction contracting works for municipal public utilities and sale and manufacturing of PC components in the PRC	17,184	121,996	75.8%

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As at 31 December 2022

Rank	Project	Customer	Customer type	Principal Business	Trade receivables as	Initial contract	Percentage of
					at 31 December	value	completion as at
					2022		31 December 2022
					RMB'000	RMB'000	
1	Project #96	CCCC Fourth Harbor Engineering Co., Ltd.* (中交第四航務工程局有限公司)	SOE	A SOE principally engaged in construction contracting works for municipal public utilities and sale and manufacturing of PC components in the PRC	55,440	272,754	100.0%
2	Project #160	CCCC Fourth Harbor Engineering Co., Ltd.* (中交第四航務工程局有限公司)	SOE	A SOE principally engaged in construction contracting works for municipal public utilities and sale and manufacturing of PC components in the PRC	26,297	121,996	88.3%
3	Project #265	Shenzhen Yutang Tianliao Co., Ltd.* (深圳市玉塘田寮股份合作公司)	SOE	A SOE principally engaged in and property management	18,000	171,697	17.4%
4	Project #94	Customer Group A	Listed company	A group of property developers which are subsidiaries of a company listed on the Stock Exchange in 2007	12,714	200,516	100.0%
5	Project #19	Customer Group A	Listed company	A group of property developers which are subsidiaries of a company listed on the Stock Exchange in 2007	10,951	178,007	100.0%

As at 30 June 2023

Rank	Project	Customer	Customer type	Principal Business	Trade receivables as	Initial contract	Percentage of
					at 30 June 2023	value	completion as at
					2023		30 June 2023
					RMB'000	RMB'000	
1	Project #160	CCCC Fourth Harbor Engineering Co., Ltd.* (中交第四航務工程局有限公司)	SOE	A SOE principally engaged in construction contracting works for municipal public utilities and sale and manufacturing of PC components in the PRC	20,168	121,996	94.1%
2	Project #94	Customer Group A	Listed company	A group of property developers which are subsidiaries of a company listed on the Stock Exchange in 2007	15,609	200,516	100.0%
3	Project #19	Customer Group A	Listed company	A group of property developers which are subsidiaries of a company listed on the Stock Exchange in 2007	10,951	178,007	100.0%
4	Project #96	CCCC Fourth Harbor Engineering Co., Ltd.* (中交第四航務工程局有限公司)	SOE	A SOE principally engaged in construction contracting works for municipal public utilities and sale and manufacturing of PC components in the PRC	10,294	272,754	100.0%
5	Project #157	Customer Group D	SOE	A group of SOEs principally engaged in construction contracting works for building and municipal public utilities in the PRC	8,159	53,840	100.0%

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Our balances of trade receivables exclude trade receivables under factoring agreements on non-recourse terms. During the Track Record Period, we entered into factoring agreements on non-recourse terms with 12 factoring providers, six of which are factoring institutes principally engaged in factoring business in the PRC and six of which are groups of licensed banks principally engaged in banking, financing and other financial services in the PRC. Set out below are the salient terms of the non-recourse factoring agreements:

Duration	Factoring agreements will continue to be in force unless terminated by the parties in accordance with the relevant agreement.
Discounting Charge	Funds in use are subject to a discounting charge ranging from approximately 2.7% to 6.9%.
Service Charge	Commission or service charges equivalent to a percentage, ranging from approximately 0.11% to 1.8%.
Maximum Terms of Payment	Ranging from 83 days to 368 days from the date of payment received.

We take into account various factors in selecting trade receivables for factoring arrangement on non-recourse basis, including (i) the customer’s background, credibility and business relationship with us, basically focus on SOEs and listed companies; (ii) the willingness of customer to enter into factoring arrangement; (iii) the repayment plan of customer; (iv) the cost and operational efficiency of factoring; and (v) the status of the relevant construction project. After entering into the factoring agreements with the factoring providers, our customers of the selected trade receivables for factoring will settle the selected trade receivables with the factoring providers directly.

During the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, trade receivables of approximately RMB83.8 million, RMB147.5 million, RMB48.6 million and RMB44.0 million, respectively, were transferred to such factoring providers in accordance with the relevant non-recourse factoring agreements. Our Directors considered that the substantial risks and rewards associated with the trade receivables have been transferred to the respective factoring providers. As such, trade receivables which are factored of approximately RMB83.8 million, RMB147.5 million, RMB48.6 million and RMB44.0 million, respectively, are not recognised as trade receivables in our accounts and, thus, are not on our balance sheet as at 31 December 2020, 2021 and 2022 and 30 June 2023. During the Track Record Period, we did not enter into any factoring arrangements on a recourse basis. To the best knowledge of our Directors, the factoring providers are Independent Third Parties and have no past or present relationships (including, but not limited to, family, business, employment, trust, financing or otherwise) with our Group, its directors, shareholders, senior management, or any of their respective associates as at the Latest Practicable Date.

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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
	<u>226,542</u>	<u>276,162</u>	<u>193,348</u>	<u>132,672</u>

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
	<u>226,542</u>	<u>276,162</u>	<u>193,348</u>	<u>132,672</u>

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.

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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.

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The following tables set forth the details of our top 10 trade receivables by customer as at each of 31 December 2022 and 30 June 2023:

As at 31 December 2022

Rank	Customer	Principal Business	Total trade receivables as at 31 December 2022 RMB'000	Amount of subsequent settlement up to the Latest Practicable Date RMB'000	Reason for slow payment
1.	CCCC Fourth Harbor Engineering Co., Ltd.* (中交第四航務工程局有限公司)	A SOE principally engaged in construction contracting works for municipal public utilities and sale and manufacturing of PC components in the PRC	91,505	78,946	Such customer, as a SOE, has onerous internal procedures on settlement and payment of invoices, and, thus, it generally requires longer settlement periods. We have active communication on settlement with such customer from time to time
2.	Customer Group A	A group of property developers which are subsidiaries of a company listed on the Stock Exchange in 1996 with a market capitalisation of approximately HK\$244.2 billion as at the Latest Practicable Date	23,665	14,149	Such customer is a sizeable and reputable property developer in the PRC and we have maintained business relationship with such customer since 2019. To the best knowledge and belief of our Directors, such customer generally requires longer settlement periods. We have active communication on settlement with such customer from time to time and received payments from such customer subsequent to 30 June 2023 and up to the Latest Practicable Date.
3.	Customer Group D	A group of SOEs principally engaged in construction contracting works for building and municipal public utilities in the PRC	23,346	19,749	Such customer, as a SOE, has onerous internal procedures on settlement and payment of invoices, and, thus, it generally requires longer settlement periods. We have active communication on settlement with such customer from time to time.
4.	Shenzhen Yutang Tianliao Co., Ltd.* (深圳市玉塘田寮股份有限公司)	A SOE principally engaged in and property management	18,000	18,000	As at the Latest Practicable Date, all outstanding balance as at 31 December 2022 has been subsequently settled.
5.	Customer R	A private company principally engaged in construction contracting services in the PRC	4,795	4,231	Such customer, as a general contractor of the project, has not yet received payments from the relevant developer. We have active communication on settlement with such customer from time to time and expect to receive payment after such customer receives payment from the developer.

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Rank	Customer	Principal Business	Total trade receivables as at 31 December 2022 RMB'000	Amount of subsequent settlement up to the Latest Practicable Date RMB'000	Reason for slow payment
6.	Customer S	A government street office in Shenzhen	4,331	794	Such customer, as a government entity, has onerous internal procedures on settlement and payment of invoices, and, thus, it generally requires longer settlement periods. We have active communication on settlement with such customer from time to time.
7.	Customer T	A government street office in Shenzhen	3,598	—	Such customer, as a government entity, has onerous internal procedures on settlement and payment of invoices, and, thus, it generally requires longer settlement periods. We have active communication on settlement with such customer from time to time.
8.	Customer Group B	A group of property developers which are subsidiaries of a company listed on the Stock Exchange in 1996 with a market capitalisation of approximately HK\$244.2 billion as at the Latest Practicable Date	3,287	1,793	Such customer, as a SOE, has onerous internal procedures on settlement and payment of invoices, and, thus, it generally requires longer settlement periods. We have active communication on settlement with such customer from time to time.
9.	Customer U	A private company principally engaged in construction contracting services in the PRC	3,000	3,000	As at the Latest Practicable Date, all outstanding balance as at 31 December 2022 has been subsequently settled.
10.	Customer V	A government street office in Shenzhen	2,413	2,378	Such customer, as a government entity, has onerous internal procedures on settlement and payment of invoices, and, thus, it generally requires longer settlement periods. We have active communication on settlement with such customer from time to time.

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As at 30 June 2023

Rank	Customer	Principal Business	Total trade receivables as at 30 June 2023 RMB'000	Amount of subsequent settlement up to the Latest Practicable Date RMB'000	Reason for slow payment
1.	CCCC Fourth Harbor Engineering Co., Ltd.* (中交第四航務工程局有限公司)	A SOE principally engaged in construction contracting works for municipal public utilities and sale and manufacturing of PC components in the PRC	30,462	600	Such customer, as a SOE, has onerous internal procedures on settlement and payment of invoices, and, thus, it generally requires longer settlement periods. We have active communication on settlement with such customer from time to time
2.	Customer Group A	A group of property developers which are subsidiaries of a company listed on the Stock Exchange in 1996 with a market capitalisation of approximately HK\$244.2 billion as at the Latest Practicable Date	26,560	11,615	Such customer is a sizeable and reputable property developer in the PRC and we have maintained business relationship with such customer since 2019. To the best knowledge and belief of our Directors, such customer generally requires longer settlement periods. We have active communication on settlement with such customer from time to time and has recently received payment from such customer.
3.	Customer Group D	A group of SOEs principally engaged in construction contracting works for building and municipal public utilities in the PRC	24,385	11,754	Such customer, as a SOE, has onerous internal procedures on settlement and payment of invoices, and, thus, it generally requires longer settlement periods. We have active communication on settlement with such customer from time to time.
4.	Customer Group B	A group of property developers which are subsidiaries of a company listed on the Stock Exchange in 1996 with a market capitalisation of approximately HK\$244.2 billion as at the Latest Practicable Date	9,204	7,079	Such customer, as a SOE, has onerous internal procedures on settlement and payment of invoices, and, thus, it generally requires longer settlement periods. We have active communication on settlement with such customer from time to time.
5.	Shenzhen 5297 Investment Development Co., Ltd.* (深圳市五二九七投資發展有限公司)	A SOE principally engaged in real estate development	7,248	7,248	As at the Latest Practicable Date, all outstanding balance as at 30 June 2023 has been subsequently settled.

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Rank	Customer	Principal Business	Total trade receivables as at 30 June 2023 RMB'000	Amount of subsequent settlement up to the Latest Practicable Date RMB'000	Reason for slow payment
6.	Customer T	A government street office in Shenzhen	4,642	—	Such customer, as a government entity, has onerous internal procedures on settlement and payment of invoices, and, thus, it generally requires longer settlement periods. We have active communication on settlement with such customer from time to time.
7.	Customer S	A government street office in Shenzhen	3,537	—	Such customer, as a government entity, has onerous internal procedures on settlement and payment of invoices, and, thus, it generally requires longer settlement periods. We have active communication on settlement with such customer from time to time.
8.	Customer W	A private company principally engaged in construction contracting services in the PRC	3,070	—	Such customer, as a general contractor of the project, has not yet received payments from the relevant developer. We have active communication on settlement with such customer from time to time and expect to receive payment after such customer receives payment from the developer.
9.	Customer R	A private company principally engaged in construction contracting services in the PRC	2,700	2,136	Such customer, as a general contractor of the project, has not yet received payments from the relevant developer. We have active communication on settlement with such customer from time to time and expect to receive payment after such customer receives payment from the developer.
10.	Xinqi Technology (Dongguan) Co., Ltd.* (新祺科技(東莞)有限公司)	A private company principally engaged in manufacture and sales of electronic components	2,615	—	Pursuant to the sales agreement with the customer, the customer will pay the remaining balance of trade receivable upon expiry of the defects liability period.

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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. According to the Frost & Sullivan Report, the provision for impairment on trade receivables of our industry peers was approximately 1.9% to 14.7% of the amount of their gross trade receivables outstanding as at 31 December 2022. Our Directors consider that our provision for impairment on trade receivables is in line with our industry peers and our provision for impairment loss on trade receivables due from our customer is sufficient.

The following tables set forth the provisions for impairment losses on trade receivables by customer type as at the dates indicated:

	As at 31 December			As at 30 June
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
Collective basis				
— Group 1	16	21	59	71
— Group 2	47	203	1,429	70
— Group 3	947	1,778	30	121
— Group 4	31	396	1,497	1,388
Individual basis				
— Customer C	6,193	5,216	—	—
— Customer Group A	—	—	2,799	3,249
— Customer P	—	—	—	—
— Others	—	—	160	160
	7,234	7,614	5,974	5,059

Note:

Group 1 represents governmental departments and institutional bodies established under regulations set by the PRC government with funding from the PRC government.

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Group 2 represents SOEs, which are established under the Law of the People’s Republic of China on State-owned Assets in enterprises, as well as under the arrangements made by the State-owned Assets Supervision and Administration Commission of the State Council.

Group 3 represents non-state-owned real estate developers.

Group 4 represents other enterprises engaging in various industries.

The following table sets forth the movements in provisions for impairment losses our trade receivables during the Track Record Period:

	Provisions for impairment losses of trade receivables
	RMB’000
Loss allowance provision as at 1 January 2020	247
Impairment losses recognised during the year ended 31 December 2020	<u>6,987</u>
Loss allowance provision as at 31 December 2020	7,234
Impairment losses recognised during the year ended 31 December 2021	<u>380</u>
Loss allowance provision as at 31 December 2021	7,614
Reversal of impairment losses recognised during the year ended 31 December 2022	<u>(1,640)</u>
Loss allowance provision as at 31 December 2022	5,974
Reversal of impairment losses recognised during the six months ended 30 June 2023	<u>(915)</u>
Loss allowance provision as at 30 June 2023	<u><u>5,059</u></u>

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The trade receivables of major projects that were aged over one year as at 30 June 2023 amounted to approximately RMB21.2 million, representing approximately 88.6% of the total trade receivables that were aged over one year as at 30 June 2023. The details of these major projects with trade receivables that were aged over one year as at 30 June 2023 are as follow:

Project	Customer Name	Trade receivables that were aged over one year as at 30 June 2023	ECL loss allowance as at 30 June 2023	Details of our Directors assessment on the sufficiency of our provision for impairment loss for each customer
		RMB'000		
Project #19	Customer Group A	10,951	Approximately RMB1.3 million	Such customer is a sizeable and reputable property developer in the PRC and we have maintained business relationship with such customer since 2019. It has been making payments for settlement during the Track Record Period and it settled approximately RMB64.5 million, RMB47.5 million, RMB50.8 million, nil and RMB5.0 million, 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.
				In light of (i) the continuous settlement record during the Track Record Period; and (ii) the expected credit loss rate of such customer as at 31 December 2022 was determined to be 11.83% and further increased to 12.23% as at 30 June 2023, our Directors consider that our provision for impairment loss on trade receivables due from such customer is sufficient.
Project #103	Customer Group D	3,162	Approximately RMB3,000	Such customer, as a SOE, has onerous internal procedures on settlement and payment of invoices. It has been making payments for settlement during the Track Record Period and it settled approximately RMB7.7 million, RMB3.0 million, nil, nil and RMB1.0 million, 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.
				In light of (i) the continuous settlement record during the Track Record Period; and (ii) its background as a SOE, our Directors consider that our provision for impairment loss on trade receivables due from such customer is sufficient.

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Project	Customer Name	Trade receivables that were aged over one year as at 30 June 2023	ECL loss allowance as at 30 June 2023	Details of our Directors assessment on the sufficiency of our provision for impairment loss for each customer
Project #94	Customer Group A	2,693	Approximately RMB1.9 million	Such customer is a sizeable and reputable property developer in the PRC and we have maintained business relationship with such customer since 2019. It has been making payments for settlement during the Track Record Period and it settled approximately RMB68.7 million, RMB83.6 million, RMB14.1 million, RMB2.5 million and RMB6.6 million, 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.
Project #135	Customer Group D	1,571	Approximately RMB2,000	<p>In light of (i) the continuous settlement record during the Track Record Period; and (ii) the expected credit loss rate of such customer as at 31 December 2022 was determined to be 11.83% and further increased to 12.23% as at 30 June 2023, our Directors consider that our provision for impairment loss on trade receivables due from such customer is sufficient.</p> <p>Such customer, as a SOE, has onerous internal procedures on settlement and payment of invoices. It has been making payments for settlement during the Track Record Period and it settled approximately RMB3.3 million, RMB3.8 million, RMB0.7 million, RMB1.0 million and RMB2.3 million, 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.</p> <p>In light of (i) the continuous settlement record during the Track Record Period; and (ii) its background as a SOE, our Directors consider that our provision for impairment loss on trade receivables due from such customer is sufficient.</p>

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Project	Customer Name	Trade receivables that were aged over one year as at 30 June 2023	ECL loss allowance as at 30 June 2023	Details of our Directors assessment on the sufficiency of our provision for impairment loss for each customer
Project #160	CCCC Fourth Harbor Engineering Co., Ltd.* (中交第四航務工程局有限公司)	1,457	Approximately RMB22,000	<p>Such customer, as a SOE, has onerous internal procedures on settlement and payment of invoices. It has been making payments for settlement during the Track Record Period and it settled approximately nil, RMB78.8 million, RMB12.7 million, RMB13.7 million and nil, 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.</p> <p>In light of (i) the continuous settlement record during the Track Record Period; and (ii) its background as a SOE, our Directors consider that our provision for impairment loss on trade receivables due from such customer is sufficient.</p>
Project #105	Customer Group D	1,404	Approximately RMB2,000	<p>Such customer, as a SOE, has onerous internal procedures on settlement and payment of invoices. It has been making payments for settlement during the Track Record Period and it settled approximately RMB10.6 million, RMB4.3 million, nil, nil and nil, 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.</p> <p>In light of (i) the continuous settlement record during the Track Record Period; and (ii) its background as a SOE, our Directors consider that our provision for impairment loss on trade receivables due from such customer is sufficient.</p>

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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 financial information published by the holding company of Customer Group A, a net current asset position was recorded as at 30 June 2023. Further, according to the announcement published by the holding company of Customer Group A, given the property sector of the PRC has undergone profound adjustments, since the beginning of 2023, the sales of the holding company of Customer Group A and its subsidiaries have been under remarkable pressure and 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. Meanwhile, the holding company of Customer Group A and its subsidiaries face significant uncertainty regarding asset disposals as there has not been any significant improvement in property sales, and its worsening liquidity position is expected to remain in short- to medium-term. In addition, it was disclosed that 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.

In view of the development in the PRC property industry which rendered property developers in financial difficulties since 2022, we decided to evaluate and monitor the credit risk of Customer Group A separately from other customers in non-state-owned real estate developers starting from the year ended 31 December 2022. The expected credit loss rate of Customer Group A as at 31 December 2022 was determined to be 11.83% and further increased to 12.23% as at 30 June 2023. 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.

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The details of the projects undertaken by us for Customer Group A during the Track Record Period are as follows:

Project	Initial contract value	Percentage of the accumulated revenue recognised up to the Latest Practicable Date	Percentage of the accumulated progress amount billed up to the Latest Practicable Date	Percentage of the accumulated billed amount settled up to the Latest Practicable Date	Revenue recognised during the year ended 31 December			Revenue recognised during the six months ended 30 June	Contract assets as at 30 June 2023	Trade receivables as at 30 June 2023	Overdue trade receivables as at 30 June 2023	
					2020	2021	2022	2023			aged within 1 year	aged 1 year to 2 years
					RMB'000	RMB'000	RMB'000	RMB'000			RMB'000	RMB'000
Project #19	178,007	98.4%	84.0%	81.3%	78,024	42,962	21,156	—	29,060	10,951	—	10,951
Project #94	200,516	97.2%	89.7%	86.0%	66,407	52,820	10,241	—	22,121	15,609	12,917	2,692
Project #129	360,136	91.8%	85.6%	91.3%	130,375	180,982	19,243	6,490	28,683	—	—	—

As at the Latest Practicable Date, Project #19 and Project #94 had been completed and were subject to final settlement audit and Project #129 was on-going. As at 31 December 2020, 2021 and 2022 and 30 June 2023, the contract assets due from Customer Group A was approximately RMB157.0 million, RMB168.0 million, RMB125.0 million and RMB79.9 million, respectively, and the trade receivables from Customer Group A was approximately RMB56.5 million, RMB85.9 million, RMB23.7 million and RMB26.6 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 RMB32.3 million, 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.

Pre-sale of commodity buildings of our construction projects with Customer Group A

According to 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”), the pre-sale proceeds of commodity buildings shall be used to fund the property construction costs of relevant projects. Project #19, Project #94 and Project #129 with Customer Group A conducted pre-sale and are within the scope of and regulated by the Pre-sales Measures. Accordingly, the pre-sale proceeds of the properties of such projects must be deposited into the escrow accounts. The amount of pre-sales proceeds under key supervision can only be used for settlement of property construction costs of relevant projects which includes construction payments to relevant contracting construction enterprises. We have obtained confirmations from the relevant government authorities of Henan Province in September 2023 confirming that (a) all or substantially all pre-sale properties of our construction projects with Customer Group A had been sold; (b) as at the date of the confirmations, 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; and (c) the funds in the said escrow accounts shall be used to settle property construction costs in order to ensure the delivery of pre-sale properties. As advised by our PRC Legal Advisers, the relevant government authorities of Henan Province have the authority and are competent to issue such confirmations.

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Set out below are the procedures for utilising the fund in the escrow accounts:

(1) In respect of the settlement of the property construction costs of a supplier

As advised by our PRC Legal Advisers, according to the Circular of the Ministry of Housing and Urban-Rural Development of the PRC on Issues Concerning Further Strengthening the Supervision and Administration of the Real Estate Market and Modifying the Pre-Sale System of Commodity Housing* (住房和城鄉建設部關於進一步加強房地產市場監管完善商品住房預售制度有關問題的通知), all proceeds from the pre-sale of commodity housing shall be placed into an escrow account and be supervised by the relevant supervising authorities so as to ensure the pre-sale proceeds are used for the development and construction of the corresponding project, and the pre-sale proceeds would be allocated in line with the construction progress with adequate funds being reserved to ensure the completion and delivery of the project.

In accordance with the Opinions of the Henan Provincial Department of Housing and Urban-rural Development, the Zhengzhou Central Sub-branch of the People’s Bank of China and the Henan Branch of the China Banking and Insurance Regulatory Commission on Further Regulating the Supervision of Funds from the Pre-sale of Commodity Housing* (河南省住房和城鄉建設廳、中國人民銀行鄭州中心支行、中國銀行保險監督管理委員會河南監管局關於進一步規範商品房預售資金監管工作的意見) (the “**Opinions**”), pre-sale proceeds under key supervision in the escrow account shall be appropriated according to the progress of the construction. Upon reaching the payment milestones, the real estate developer shall apply for the use of the pre-sale proceeds in accordance with the tripartite supervision agreement entered into by the housing and urban-rural development (real estate administration) department of city or county, the real estate developer and the supervising bank, together with the written evidences from the construction, construction supervision and other relevant entities, photos of the construction site and other evidentiary materials. Upon verification and approval by the housing and urban-rural development (real estate administration) departments of city or county, the supervising bank shall promptly appropriate the pre-sale proceeds.

(2) In respect of the withdrawal of any surplus amount for the developer’s own use

As advised by our PRC Legal Advisers, according to the Implementing Rules of Zhengzhou City for the Regulation of the Pre-Sale Proceeds of Commodity Housing* (鄭州市商品房預售款監管實施細則), the supervising bank shall jointly determine the quota of supervised funds with the real estate developer, construction contractor, and project supervision entity. The quota of supervised funds shall be no less than the total amount of project construction costs and stipulated in the pre-sale proceeds supervision agreement. The real estate developer may apply to request the supervising bank for withdrawal of funds from the escrow account according to the fund usage plan under pre-sale proceeds supervision agreement. The supervising bank would review the request by conducting site inspection to understand the progress of the project and then issue relevant site inspection report and review opinions. By reviewing the fund usage plan prepared by the real estate developer, the explanations in relation to the progress of the project and the funds required for the

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completion of the remaining works of the projects prepared by the construction contractor and the project supervision entity and other documents, the supervising authorities verify review opinions issued by the supervising bank and then make verification opinions for appropriation. If the balance of the pre-sale proceeds in the escrow account exceeds the amount required for the completion and filing conditions of the project, the real estate developer may withdraw and use such excess funds upon the examination and verification by the supervising bank and the approval of the supervising authorities. However, such excess amount of pre-sale proceeds shall be used for the construction of the relevant pre-sale project in priority.

According to the Circular of the Housing and Urban-Rural Development Bureau of Shangqiu City on Further Strengthening the Supervision of Pre-Sale Proceeds of Commodity Houses in Urban Areas* (商丘市住房和城乡建设局關於進一步加強市區商品房預售款監管工作的通知), on the condition that the funds required for the completion of the projects can be secured, the real estate developer may withdraw and use the amount that exceeds the reserved amount under supervision in the escrow account.

According to the Circular of Housing and Urban-Rural Development Bureau of Xuchang City, Xuchang Central Sub-branch of People’s Bank of China, Xuchang Bank Insurance Regulatory Sub-branch and Xuchang City Housing Fund Center on Further Strengthening the Supervision of Funds Generated from the Pre-sale of Commodity Housing in Central City Area* (許昌市住房和城乡建设局、中國人民銀行許昌市中心支行、許昌銀保監分局、許昌市住房公積金中心關於進一步加強中心城區商品房預售資金監管工作的通知), a real estate developer may withdraw and use the pre-sale proceeds that exceeds the upper limit of the amount under key supervision in the escrow account according to the principle of “stay in the project, stay in the local”.

(3) Regulatory safeguard in place to ensure that the funds are first used to settle the construction payables

As advised by our PRC Legal Advisers, in accordance with the Opinions, the housing and urban-rural development (real estate administration) departments of city or county shall establish and improve the supervision system for pre-sale proceeds, and have it connected with the management system of online registration of the commodity housing sales contracts, housing provident fund management system, business management systems of commercial banks and the online banking system of the China UnionPay so as to share data of the online registration of the commodity housing sales contracts, funds in escrow accounts, bank mortgages, loans from real estate developers and housing provident fund loans, and dynamically monitor the deposit and appropriation of funds in the escrow account. In respect of the pre-sale proceeds under key supervision in the escrow account, the supervising banks shall not deduct any of such funds without permission before the first registration of the building ownership of the project is completed.

According to the Notice by the Supreme People’s Court, the Ministry of Housing and Urban-Rural Development, and the People’s Bank of China of Regulating the Preservation and Enforcement Measures of People’s Courts to Ensure the Use of Funds from the Presale of

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Commodity Buildings on Project Construction* (最高人民法院、住房和城鄉建設部、中國人民銀行關於規範人民法院保全執行措施確保商品房預售資金用於項目建設的通知) (the “**Notice of Court**”), save for the cases where parties apply for enforcement of creditors’ rights on construction progress payment, payment of materials and equipment arising from the construction of the relevant commodity buildings project, before the first registration of the building ownership of the commodity buildings project is completed, the people’s court shall not impose any measure to deduct funds of pre-sale proceeds under supervision in the escrow account. After, an escrow account of pre-sale proceeds of commodity buildings is frozen by the people’s court, if the real estate developer, or the creditors in respect of the payment of construction costs, material and/or equipment request to use the pre-sale proceeds in the escrow account to settle the relevant payments, upon review and approval by the relevant housing and urban-rural development department, the supervising bank shall make payment and report the payment status to the people’s court in a timely manner.

In accordance with the Opinions, pre-sale proceeds under key supervision in the escrow account are funds needed to ensure the completion and delivery of relevant project and shall be appropriated according to the progress of the construction. After certain approval as abovementioned, the pre-sale proceeds under key supervision in the escrow account shall be specifically used for settlement of construction costs of the relevant project, including materials and equipment, construction progress payments and other related costs. Further, according to the Notice of Court, save for the cases where parties apply for enforcement of creditors’ rights on construction progress payment, payment of materials and equipment arising from the construction of the relevant commodity buildings project, before the first registration of the building ownership of the commodity buildings project is completed, the people’s court shall not impose any measure to deduct funds of the pre-sale proceeds under supervision in the escrow account pre-sale proceeds. As advised by our PRC Legal Advisers, save for the aforesaid, there are no specific provisions stipulating the priority of claims to utilise the pre-sale proceeds under key supervision in an escrow account for different types of suppliers under the PRC laws and regulations.

According to article 807 of the Civil Code of the People’s Republic of China (中華人民共和國民法典), where the construction costs of a contractor are not paid within the prescribed period, the contractor may apply to request the people’s court to auction the project in accordance with the applicable laws, the construction costs of the relevant construction project shall then be paid from the auction proceeds in priority. Articles 35 and 36 of the Interpretation of the Supreme People’s Court on Issues Concerning the Application of Law in the Trial of Cases Regarding Disputes over Construction Contracts for Construction Projects (I) (Interpretation No. 25 [2020] of the Supreme People’s Court) (最高人民法院關於審理建設工程施工合同糾紛案件適用法律問題的解釋(一)(法釋[2020]25號)) further affirm the priority of the construction costs of a contractor and provide that such priority shall be superior than the right of mortgage and other debts and the people’s courts shall support such priority.

The pre-sale proceeds in escrow accounts will be released directly to the suppliers by the supervising banks for payment settlement after approvals from the relevant authority are obtained.

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After the Track Record Period, we noted that Customer Group A was under phased liquidity pressures. Having considered (i) the aforementioned 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; (iii) written confirmations obtained from Customer Group A in September 2023 reaffirming that they will pay approximately RMB29.0 million for the settlement of the outstanding trade receivables and the outstanding contract assets according to progress certifications pursuant to contract terms by the end of 2023. Subsequent to the date of the written confirmations and up to 31 October 2023, Customer Group A settled approximately RMB31.0 million which is better than the repayment plans stated in the written confirmations; (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 during the Track Record Period and up to the Latest Practicable Date, 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

The following table sets forth the details of our top 10 customers (excluding Customer Group A) in terms of total contract assets and trade receivables as at 30 June 2023:

Rank	Customer	Contract assets	Trade receivables	Total contract assets and trade receivables
		RMB'000	RMB'000	RMB'000
1	Huizhou Xingsheng Century Investment Co., Ltd.* (惠州市興盛世紀投資有限公司)	122,662	—	122,662
2	Customer E	104,837	—	104,837
3	Customer Group D	69,867	24,385	94,252
4	Shenzhen 5297 Investment Development Co., Ltd.* (深圳市五二九七投資發展有限公司)	52,143	7,248	59,391
5	CCCC Fourth Harbor Engineering Co., Ltd.* (中交第四航務工程局有限公司)	12,312	30,462	42,774
6	Customer F	41,465	—	41,465
7	Customer M	37,142	—	37,142
8	Customer J	23,804	1,440	25,244
9	Customer N	22,934	2,298	25,232
10	Customer Group B	15,841	9,204	25,045

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Amongst the construction projects with our top 10 customers (excluding Customer Group A) in terms of total contract assets and trade receivables as at 30 June 2023, only Project #87 with Huizhou Xingsheng Century Investment Co., Ltd.* (惠州市興盛世紀投資有限公司) conducted pre-sale and is within the scope of and regulated by the Pre-sales Measures, and thus the corresponding pre-sale proceeds must be deposited into the escrow accounts. As at 30 June 2023, our construction projects with the remaining top 10 customers in terms of the total contract assets and trade receivables are not within the scope of and are not regulated by the Pre-sales Measures, and thus no escrow account had been set up.

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. Given that our top five debtors of contract assets and trade receivables as at 30 June 2023 were our top five customers during the Track Record Period which (i) include sizeable and reputable property developer in the PRC and/or SOEs; and (ii) have good credit history with whom we have maintained business relationships since 2018, our Directors consider that the credit risks associated with these customers 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.
- In accordance with HKFRS, we have made sufficient loss allowance provisions for contract assets of approximately RMB21.7 million, RMB26.3 million, RMB26.9 million and RMB23.7 million and trade receivables of approximately RMB7.2 million, RMB7.6 million, RMB6.0 million and RMB5.1 million as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively, to reflect the uncertainties associated with the outstanding amount and 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. Our management also monitors the recovery status on a quarterly basis to ascertain the collectability of our trade receivables and where necessary, we may follow up with customers on the overdue balances and report the collection status to our management.
- Furthermore, we have put in place a credit risk management for trade receivables and contract assets to minimise our credit risk. Our finance team provide information to our senior management and business team on a quarterly basis regarding updates on contract assets and trade receivables, such as ageing condition, and keep track of our customers' business performance and financial conditions to get informed of any anomaly in time. Our senior management will also closely monitor the billing status of our contract assets

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and settlement status of our trade receivables. We believe our long aggregate trade receivables and contract assets turnover days do not have a material adverse impact on our liquidity and cash management.

Based on the aforementioned and having considered (i) our communication with customers from time to time to keep track of their business performance and financial conditions; (ii) most of our customers have maintained good historical settlement records and have demonstrated their ability to meet their contractual obligations; and (iii) we exerted strong efforts in collecting payments for overdue balance and assessed the repayment schedules of customers, we were not aware of any material recoverability issue and sufficient provision had been made accordingly.

Having considered the view of our Directors and based on the due diligence work conducted by the Sole Sponsor, including but not limited to (i) interviewing the debtors of contract assets and trade receivables for each of the years/period during the Track Record Period to understand their respective background, operating history and latest financial conditions, (ii) obtaining and reviewing the sales agreements with the debtors and the lists of subsequent settlement of our contract assets and trade receivables up to the Latest Practicable Date and noted that majority of the debtors has been making progress payment after the Track Record Period and up to the Latest Practicable Date, (iii) conducting searches (including winding-up and litigation searches) on the debtors of contract assets and trade receivables for each of the years/period during the Track Record Period via independent search agents and is not aware that any of the them is subject to winding up litigation or financial difficulties, save for the financial difficulties encountered by Customer Group A in or around August 2023, (iv) reviewing the internal policies and procedures adopted by our Group regarding credit risk management and the implementation of such policies and procedures, and noted that our Group has adequate and effective measures on customer credit control, and (v) considering the unqualified opinion on the Historical Financial Information, as a whole, of us issued by the Reporting Accountant included in Appendix I to this document, nothing has come to the Sole Sponsor’s attention that would reasonably cause them to cast doubt on the reasonableness of the view of our Directors above.]

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The following table sets forth the total contract assets and trade receivables by geographical location and customer type as at 30 June 2023:

	<u>Contract assets</u>	<u>Trade receivables</u>	<u>Total contract assets and trade receivables</u>
	RMB'000	RMB'000	RMB'000
Guangdong Province			
Government	198,004	19,994	217,998
SOEs	205,121	38,897	244,018
Listed SOEs	94,569	26,863	121,432
Private companies	330,801	17,584	348,385
Henan Province			
SOEs	7,698	—	7,698
Listed companies	79,864	26,560	106,424
Sichuan Province			
Government	30,665	—	30,665
SOEs	16,306	—	16,306
Fujian Province			
SOEs	16,459	2,000	18,459
Others^(Note)			
Government	2,882	23	2,905
SOEs	3,269	540	3,809
Private companies	<u>5,552</u>	<u>211</u>	<u>5,763</u>
	<u>991,190</u>	<u>132,672</u>	<u>1,123,862</u>

Note: The other construction projects were located in Hubei Province, Zhejiang Province and Xinjiang Uygur Autonomous Region.

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.

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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. The higher turnover days for trade receivables for the year ended 31 December 2021 was generally in line with the increase in balance of trade receivables during the year as a greater portion of works of several large-scale projects was certified by our customers and we were entitled to bill a larger amount of contract assets during the year. 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 RMB224.4 million or 99.1%, RMB261.0 million or 94.5%, RMB151.1 million or 78.2% and RMB47.1 million or 35.5% of our trade receivables as at 31 December 2020, 2021 and 2022 and 30 June 2023 had been subsequently settled, respectively.

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.

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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 ^(Note)	(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

Note: As at 31 December 2020, 2021 and 2022 and 30 June 2023, allowance for impairment of other receivables mainly comprises allowance for impairment of tender deposits, guarantee deposits, bank deposits restricted for use under court orders and amounts due from other third parties.

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. Up to the Latest Practicable Date, approximately RMB55.6 million or 68.9% of our prepayment to suppliers as at 30 June 2023 had been subsequently utilised.

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

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due to our payment of a guarantee for tender deposit of approximately RMB32.0 million for our target project with an estimated contract value (excluding VAT) of approximately RMB320.0 million. The potential customer was a company listed on the Shenzhen Stock Exchange and principally engaged in research and development, production and sales of cotton-based medical dressings, disposable medical products and consumer products. However, we did not proceed with such tendering as the target project required a substantial upfront cost, and therefore, such guarantee for tender deposit has been refunded to us in January 2023. Up to the Latest Practicable Date, approximately RMB2.8 million or 35.2% of our deposits as at 30 June 2023 had been subsequently released/refunded.

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. Up to the Latest Practicable Date, approximately RMB1.1 million or 64.9% of our amounts due from other third parties as at 30 June 2023 had been subsequently settled.

Our amounts due from related parties of approximately nil, nil, RMB47,000 and RMB26,000 as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively. All balances were non-trade in nature, unsecured, interest-free and repayable on demand. All outstanding balances of amounts due from related parties will be settled upon or immediately before [REDACTED].

Restricted bank deposits

Our restricted bank deposits represent deposits in designated bank accounts confined to be used for the settlement to the wages of peasant labours deployed for construction projects. Pursuant to the Interim Measures for the Management of Designated Bank Accounts for Wages of Peasant Labours in the Field of Engineering Construction* (工程建設領域農民工工資專用帳戶管理暫行辦法) issued by the Ministry of Human Resources and Social Security and other nine PRC government authorities on 7 July 2021, the general contractor of a construction project shall open a designated bank account for settlement of the wages of peasant labours and be responsible for the payment of wages to peasant labours. Accordingly, we believe, and Frost & Sullivan concurs, that the requirements on deposits in designated bank accounts confined to be used for the settlement to the wages of peasant labours deployed for construction projects are common in the industry. As at 31 December 2020, 2021 and 2022 and 30 June 2023, we recorded restricted bank deposits of approximately RMB15.7 million, RMB14.2 million, RMB28.0 million and RMB24.4 million, respectively. During the Track Record Period, 57 projects imposed such requirement. The relevant designated bank accounts may be closed upon completion of the relevant projects, subject to certain statutory procedures and the notice from the relevant authorities, in accordance with the applicable laws and regulations and the balance of the restricted bank deposits will then be released to the general contractor.

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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
	2020	2021	2022	30 June 2023
	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
	<u>741,601</u>	<u>905,141</u>	<u>1,135,520</u>	<u>963,870</u>

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 and business activities during the first half of the year due to seasonality factor.

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

	<u>As at 31 December</u>			<u>As at</u>
	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>30 June 2023</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
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	<u>9,601</u>	<u>24,284</u>	<u>105,606</u>	<u>124,445</u>
	<u>724,170</u>	<u>891,789</u>	<u>1,091,566</u>	<u>926,100</u>

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

	<u>Year ended 31 December</u>			<u>Six months ended</u>
	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>30 June 2023</u>
Trade payables turnover days ^(Note)	<u>169.8</u>	<u>231.3</u>	<u>278.6</u>	<u>390.8</u>

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. We will adjust our payment schedules with our suppliers depending on the status of settlement of our trade receivables and our liquidity position through amicable negotiation. 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 and business activities during the first half 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 RMB103.5 million or 11.2% of our trade payables as at 30 June 2023 had been subsequently settled.

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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
	<u>17,431</u>	<u>13,352</u>	<u>43,954</u>	<u>37,770</u>

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. Up to the Latest Practicable Date, approximately RMB27.0 million or 99.9% of our accrued taxes and surcharges as at 30 June 2023 had been subsequently settled.

Advances from a customer of approximately RMB3.0 million represented guarantee deposits for settlement of wages of peasant labours paid by the customer of Project #33, a SOE principally engaged in investment in construction projects, to our designated bank account for Project #33, a municipal and public construction project located in Guangdong Province with a contract value (excluding VAT) of approximately RMB111.9 million and commenced in November 2019. Such advance was unsecured, interest free and would be settled when the project completed. Pursuant to Yangjiang City Construction Enterprise Workers' Wage Payment Security Deposit Management Measures* (陽江市建築施工企業工人工資支付保證金管理辦法), upon entering into the construction contract, the construction company (建築施工企業) are required to set up a designated bank account at the bank where the project is located. Before applying for the construction permit, the construction unit (建設單位) shall deposit 4.0% of the total contract value but not exceeding RMB3.0 million into the designated bank account of the construction company. As such, our Directors considered, and Frost & Sullivan concurred, it is in line with the customary practice in the PRC that construction contractors to use designated bank account and maintain guarantee deposits for settlement of wages of peasant labours. Up to the Latest Practicable Date, none of our advances from a customer as at 30 June 2023 had been subsequently settled.

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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].

Save for the reimbursements for the costs incurred by our employees when they were carrying out their duties, which were incidental to our ordinary course of business, and the aforementioned amounts due to related parties, our expenses relating to our operations were genuinely and directly settled by us and not by or via any other third parties, including any connected person or related party of our Group during the Track Record Period.

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. Our contract liabilities decreased to approximately RMB14.9 million as at 31 December 2021 mainly due to the advance payment of approximately RMB15.5 million for Project #157 has been utilised during the year.

Up to the Latest Practicable Date, approximately RMB16.9 million, or 81.1% of our contract liabilities as at 30 June 2023 had been subsequently utilised.

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.

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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	RMB'000
				(Unaudited)	
<i>Operating profits before working capital changes</i>	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	<u>(8,677)</u>	<u>(15,216)</u>	<u>(14,130)</u>	<u>(7,565)</u>	<u>(9,061)</u>
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	<u>26,620</u>	<u>81,576</u>	<u>24,560</u>	<u>22,906</u>	<u>(2,101)</u>
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	<u>—</u>	<u>4</u>	<u>96</u>	<u>39</u>	<u>(18)</u>
Cash and cash equivalents at end of the year/period	<u>20,735</u>	<u>41,072</u>	<u>112,117</u>	<u>57,777</u>	<u>96,754</u>

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.

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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 contract assets of approximately RMB55.5 million; and (iii) the decrease in deposits, other receivables and prepayments of approximately RMB16.5 million.

As our business develops, we expect to improve our net operating cash outflow position by generating more net cash from our operating activities, and improving our cost control and operation efficiency. In view of our net operating cash outflow for the six months ended 30 June 2023, we plan to improve our operation cash flow position by (i) implementing our credit risk management measures as disclosed in the section headed “Business — Customers, sales and marketing — Credit Risk Management” in this document, including (a) performing credit history check at the stage of tendering or corporate negotiation and on ongoing basis to minimise our credit and collection risk; (b) setting baseline collection target to ensure our trade receivable recovery is benchmarked and monitored as a way to stabilise our operational cash inflow; (c) monitoring certification progress to speed up the invoicing and collection process, and, in turn, the operational cash inflow; (d) performing regular reconciliation with our customers and follow-up with them on overdue trade receivables as a reminder as well a measure to express commercial pressure; (ii) closely monitoring the collection status of our trade receivables and actively following up with our customers for settlement; (iii) utilising the credit terms provided by our suppliers; and (iv) utilising our banking facilities, if any, to cover any potential shortfall in our cash flow position.

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.

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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.

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Net current assets

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

	As at 31 December			As at	As at
	2020	2021	2022	30 June 2023	30 September 2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)
Current assets					
Inventories	148	352	304	238	156
Contract assets	637,725	803,829	1,019,851	967,469	1,067,051
Trade and bills receivables	224,908	268,548	215,383	129,113	160,454
Deposits, other receivables and prepayments	48,385	64,425	108,613	92,638	77,105
Amounts due from related parties	—	—	47	26	33
Restricted bank deposits	15,683	14,167	27,977	24,372	25,169
Cash and cash equivalents	20,735	41,072	112,117	96,754	100,380
	<u>947,584</u>	<u>1,192,393</u>	<u>1,484,292</u>	<u>1,310,610</u>	<u>1,430,348</u>
Current liabilities					
Trade and other payables	741,601	905,141	1,135,520	963,870	1,085,504
Amounts due to related parties	73,588	147,589	11,485	11,832	12,655
Contract liabilities	43,188	14,936	21,917	20,813	5,861
Current income tax liabilities	14,969	12,114	10,826	5,277	7,488
Lease liabilities	917	1,224	1,248	1,286	1,253
	<u>874,263</u>	<u>1,081,004</u>	<u>1,180,996</u>	<u>1,003,078</u>	<u>1,112,761</u>
Net current assets	<u><u>73,321</u></u>	<u><u>111,389</u></u>	<u><u>303,296</u></u>	<u><u>307,532</u></u>	<u><u>317,587</u></u>

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.

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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 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.

Our net current assets increased from approximately RMB307.5 million as at 30 June 2023 to approximately RMB317.6 million as at 30 September 2023. The increase was primarily due to (i) the increase in contract assets of approximately RMB99.6 million; (ii) the increase in trade and bills receivables of approximately RMB31.3 million; and (iii) the decrease in contract liabilities of approximately RMB15.0 million, which was partially offset by (i) the increase in trade and other payables of approximately RMB121.6 million; and (ii) the decrease in deposits, other receivables and prepayments of approximately RMB15.5 million. As at 30 September 2023, we did not have any bank borrowing.

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], our Group has sufficient working capital for our present requirements for at least the next 12 months from the date of this document.

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INDEBTEDNESS

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

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

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 and 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. As at 30 November 2023, our bank borrowing with principal amount of approximately RMB29.5 million was secured by the commercial property. Our Directors confirmed that there has not been any material change in our indebtedness or contingent liabilities since the Latest Practicable Date and up to the date of this document.

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

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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
	Year ended 31 December			Six months ended
	2020	2021	2022	30 June 2023
Net profit margin ⁽³⁾	1.0%	2.1%	1.8%	2.2%
Return on equity ⁽⁴⁾	13.7%	20.6%	7.7%	6.4%
Return on assets ⁽⁵⁾	1.4%	2.3%	1.7%	1.6%

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) 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%.
- (4) Return on equity is calculated by profit/annualised profit for the year/period divided by the total shareholders' equity as at the relevant year/period end and multiplied by 100%.
- (5) Return on assets is calculated by profit/annualised profit for the year/period divided by the total assets as at the relevant year/period end and multiplied by 100%.

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.

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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 and business activities during the first half 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 and remained relatively stable at 6.4% for the six months ended 30 June 2023, 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.

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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 and remained stable at 1.6% for the six months ended 30 June 2023, 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 [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)

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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.