FUTURE PLANS

Please refer to the section headed "Business — Business strategies" in this document for a detailed discussion of our future plans.

REASONS FOR THE [REDACTED]

Our Directors believe that the [REDACTED] will benefit our Group in different aspects as discussed below:

Enhance our corporate profile and recognition in the market

The [REDACTED] will enhance our corporate profile, recognition and visibility in the market which should generate reassurance among our customers and suppliers. Our Directors believe that the [REDACTED] will strengthen our internal control and corporate governance practices, which in turn would bolster our customers' and suppliers' confidence in us and thus, enhance our level of competitiveness in the construction industry.

Our Directors also believe that our customers would prefer doing business with a [REDACTED] company to a private company given the former's greater transparency, and relevant regulatory supervision and stability generally. The transparent financial disclosure and regulatory supervision with a [REDACTED] status are definite competitive advantage to which customers would give due weight in a competitive tendering process and increase our chances for a successful tender compared with a non-[REDACTED] status.

Implement our business strategies

According to the Frost & Sullivan Report, it is anticipated that (i) the market size of the construction industry in terms of output value in PRC will grow at a CAGR of approximately 6.5% from 2022 to 2027, reaching approximately RMB42.7 trillion by 2027; and (ii) the market size of the construction industry in Guangdong Province in terms of output value will grow at a CAGR of approximately 8.3% from 2022 to 2027, reaching approximately RMB3.4 trillion by 2027. During the Track Record Period, we focused on the provision of construction services in the PRC and all of our revenue was generated from the provision of construction services. We had completed 164 projects with an aggregated total contract value amounting to approximately RMB2,584.1 million during the Track Record Period. During the Track Record Period, our Group received various awards and recognitions as set out in the section headed "Business — Awards and accreditations" in this document. Our Group will continue to further expand our construction business by capturing business opportunities arising from the expected growth in the construction industry in the PRC.

With the anticipated growth in for construction industry in the PRC and our proven track record, our Directors expect that our business will expand steadily going forward. We aim to further strengthen our financial position with the [REDACTED] from the [REDACTED] and to implement our business strategies as set out in the section headed "Business — Business strategies" in this document and the paragraph headed "[REDACTED]" in this section.

We have a genuine funding need in order to expand our market share

The business operations of our Group are capital intensive in nature. It is common in the construction industry that the projects require companies to have substantial cash outflows at the early stage of the projects while most of the cash inflows are only collected at the later stage of those projects. As such, construction companies are required to maintain significant amount of working capital to settle the cash outflows in their projects, especially those at the early stage. Construction companies usually have net cash outflows at the early stage of projects as they are required to pay for the cost of materials as well as the cost of the subcontractors and the progress payments from their customers would not cover these costs sufficiently until they are at the later stage of the projects.

During the Track Record Period, we have undertaken 259 projects with an aggregated contract value amounting to approximately RMB6,514.7 million. As a result of the number of projects undertaken, we experienced net cash outflows in the ordinary course of our business operation and we recorded cash outflow in operations of approximately RMB24.0 million for the year ended 31 December 2020, RMB61.1 million for the year ended 31 December 2021 and RMB4.8 million for the six months ended 30 June 2023. As at the Latest Practicable Date, we had a total of 97 projects on hand, which included projects that have commenced but not yet completed and projects that have been awarded to us but not yet commenced, with an aggregate contract sum of backlog of approximately RMB1,877.8 million.

In line with our strategy to further expand our construction business in the PRC, we expect to require the dedication of additional financial resources as the initial capital fund to invest in our existing and future projects. Accordingly, we intend to apply a portion of the [REDACTED] of the [REDACTED] to fund our operating costs in connection with our existing and future projects to support our growth and development.

Equity financing would be more preferable to debt financing

Without the [REDACTED] from the [REDACTED], our Group would have to finance the awarded projects and our operations through (i) our internal resources, including our future cash flows from our operating activities; (ii) banking facilities; (iii) advances from our Controlling Shareholders; and (iv) introduction of new investors by way of subscription of new registered capital of Zhongshen Jianye, all of such alternative financing plans are not considered by our Directors to be in our best interest as these measures may not provide us with sufficient fund with favourable terms which would limit our ability to undertake additional potential projects and expand the scale of our planned operations. Additional loans from banks and our Controlling Shareholders would also increase our level of indebtedness and the reliance of our Controlling Shareholders.

The [REDACTED] will allow us to gain access to the capital market for fundraising, will facilitate our future business growth and development and will enhance our competitiveness. We will be able to use secondary fundraising after the [REDACTED] for our future expansion plans and when necessary, through the issuance of equity and/or debt securities. By strengthening our financial position through fundraising activities, we will also have more bargaining power when negotiating terms with our customers, suppliers.

Additional manpower would improve our service capacity and competitiveness

In addition to financial resources, we consider that an expansion of our manpower is crucial to our development as we need to enhance our execution capability for our continuous growth. We believe that the hiring of additional staff can facilitate and support our expansion plan. Our revenue increased 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 and further increased to approximately RMB1,378.1 million for the year ended 31 December 2022. We consider that such growth was supported by the expansion of our manpower and our monthly average headcount increased from 174 for the year ended 31 December 2020 to 211 for the year ended 31 December 2021 and further increased to 266 for the year ended 31 December 2022. It demonstrated that our Group's revenue growth is positively correlated to our execution capability in terms of the number of employees in such a manner that our revenue growth requires the support of an increased workforce.

It is imperative for our Group to purchase machinery

The equipment and machinery we used in our operation were leased from leasing service suppliers. During the Track Record Period, the equipment and machinery usage cost amounted to approximately RMB60.8 million, RMB99.2 million, RMB91.5 million and RMB43.9 million, representing approximately 4.8%, 7.8%, 7.0% and 9.4% of our total cost of revenue, respectively. In light of the increasing equipment and machinery usage cost, it is imperative for our Group to purchase machinery.

Hence, the purchase of machinery is not solely based on the increasing equipment and machinery usage cost but it is more important and necessary for our Group to purchase machinery to ensure our Group's machinery are readily available to meet our customers' requirement and to perform our contractual obligations at all times in case if no available equipment and machinery to be leased from equipment and machinery leasing service suppliers as there is no long-term contractual arrangement between equipment and machinery leasing service suppliers and our Group.

[REDACTED]

We estimate that we will receive [REDACTED] of approximately HK$[REDACTED] million (equivalent to approximately RMB[REDACTED] million) from the [REDACTED] (after deducting the [REDACTED] and [REDACTED] by us and assuming an [REDACTED] of HK$[REDACTED] per [REDACTED].

We intend to use all of the [REDACTED] from the [REDACTED] for the following purposes:

- approximately [REDACTED]%, or approximately HK$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), of the [REDACTED] from the [REDACTED] will be used to fund our capital needs and cash flow of certain projects that have been awarded to us recently as at the Latest Practicable Date. For these projects, we either cannot receive advance payments or the advance payments are not sufficient to cover the upfront cost to be incurred within the early stage which are normally first three to six months from the respective commencement dates of the projects, depending on the expected duration of those projects. The details of these projects as at the Latest Practicable Date are as follows:

	Project	Location	Customer	Year of establishment	Registered capital	Principal business	Type of construction works	Commencement date	Expected completion date	Total contract value	Estimated amount of upfront costs (Note)	Payments from customers	Estimated cash outflow (Note)	Cost incurred as at Latest Practicable Date
										RMB million	RMB million	RMB million	RMB million	RMB million
1	A demolition project	Shenzhen Guangdong Province	A private property developer based in Shenzhen	1991	RMB15.4 million	Property development	Construction engineering	October 2023	October 2025	99.3	[REDACTED]	8	[REDACTED]	–
2	A renovation project	Changsha, Hunan Province	A polytechnic college in Hunan province	2019	RMB28.0 million	Higher education	Construction engineering	October 2023	June 2024	33.9	[REDACTED]	7	[REDACTED]	–
3	A building electrical and mechanical project	Shenzhen, Guangdong Province	A subsidiary of a property developer whose shares are listed on the Stock Exchange	2014	RMB450.0 million	Property development	Construction engineering	September 2023	December 2025	31.2	[REDACTED]	1	[REDACTED]	–
4	A roadwork improvement project	Heyuan, Guangdong Province	CCCC Fourth Harbor Engineering Co., Ltd.* (中交第四航務工程局有限公司)	1983	RMB5.0 billion	A SOE principally engaged in construction contracting works for municipal public utilities and sale and manufacturing of PC components in the PRC	Municipal and public construction	November 2023	December 2024	184.8	[REDACTED]	10	[REDACTED]	–
5	A residential buildings project	Guangzhou, Guangdong Province	A subsidiary of a property developer whose shares are listed on Shanghai Stock Exchange	2004	RMB20.0 million	Property development	Construction engineering	October 2023	August 2026	365.8	[REDACTED]	20	[REDACTED]	–
									Total	715.0	[REDACTED]	46	[REDACTED]	–

Note: The estimated amounts of upfront costs and cash outflow of these projects are estimated with reference to our historical projects during the Track Record Period and based on the contract value, length, scale and complexity of these projects.

In view of the upfront cost which is project-related expenses, such as cost of materials and subcontracting charges, our Directors consider to rely only on our future cash flows from our other existing or completed projects to finance such upfront costs will hinder our business growth as our internal resources are limited. Such upfront costs is expected to continue even after the first work-in-progress payment is made by our customers. As a result, we may experience temporary net cash outflows in the ordinary course of our business operation. For instance, we recorded cash outflow in operations of approximately RMB24.0 million for the year ended 31 December 2020, RMB61.1 million for the year ended 31 December 2021 and RMB4.8 million for the six months ended 30 June 2023. Despite our Group achieved cash inflow in operation of approximately RMB47.0 million for the year ended 31 December 2022, our Group needs to maintain a higher level of working capital for our expanding operation scale. Therefore, in view of the above and other factors such as the number of sizeable projects we are going to take up is expected to increase along with our expansion plan and additional time may inevitably be required for our customers to certify a larger scale of works, our Directors consider that there is no assurance that we can generate enough cash flows to support our business operation and growth at any point in time. In such case, our business strategies may be susceptible to the timing when sufficient cash can be generated which will unavoidably prolong the timing of implementation of our business strategies and we may fail to fully capture the emerging business opportunities driven by the forecasted growth in the industry as well as the upcoming growth of our Group. Based on past experience during the Track Record Period, we have undertaken 23 projects with contract value above RMB30 million and no advance payment from customer, the average time taken to generate net positive cash flow for first time from those projects with contact value over RMB30 million was approximately 4 months notwithstanding that we may experience temporary net cash outflow subsequently, depending our payment arrangement with our suppliers.

Based on the estimation of our Directors with reference to our historical projects during the Track Record Period, we are generally required to pay in advance or reserve a sum amounting to approximately [REDACTED]% of the contract value to satisfy the upfront cost requirement for projects which customers are not required for advance payment.

Save for the above projects, our Group continues to submit tenders in order to maintain our presence in the market and our Group will persist in adoption the strategy of new tender submission in order to be widen our market size as well as enlarge business opportunity.

Given (i) the five projects with total contract value of approximately RMB715.0 million which are expected to commence construction and will require upfront costs and cashflow; and (ii) the pro-active approach on tender submission to widen our exposure to more business opportunities, our Directors are confident that our Group is able to secure a number of new projects and capture the potential business associated with the increase in demand for construction services in the PRC.

- approximately [REDACTED]%, or approximately HK$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), of the [REDACTED] from the [REDACTED] will be used to acquire certain machinery. We set out below a breakdown of the [REDACTED] from the [REDACTED] allocated for the acquisition of machinery:

Types of equipment/machinery	Quantities	Estimated unit cost	Estimated total cost
		RMB'000	RMB'000
Large excavator	1	[REDACTED]	[REDACTED]
Large excavator	1	[REDACTED]	[REDACTED]
Large road roller	2	[REDACTED]	[REDACTED]
Forklift truck	2	[REDACTED]	[REDACTED]
Bulldozer	1	[REDACTED]	[REDACTED]
Hydraulic excavator	4	[REDACTED]	[REDACTED]
Sewage suction truck	2	[REDACTED]	[REDACTED]
Sprinkler truck	2	[REDACTED]	[REDACTED]
Dump truck	2	[REDACTED]	[REDACTED]
Forklift	2	[REDACTED]	[REDACTED]
Crane	2	[REDACTED]	[REDACTED]
Crawler excavator	2	[REDACTED]	[REDACTED]
Wheel excavator — Bucket	2	[REDACTED]	[REDACTED]
Wheel excavator — Breaker	2	[REDACTED]	[REDACTED]
Wheeled forklift	2	[REDACTED]	[REDACTED]
Sprinkler truck	2	[REDACTED]	[REDACTED]
Motor vehicle	2	[REDACTED]	[REDACTED]
Asphalt paver	2	[REDACTED]	[REDACTED]
Heavy dump truck	3	[REDACTED]	[REDACTED]
Rotary drilling rig	4	[REDACTED]	[REDACTED]
Crawler bulldozer	1	[REDACTED]	[REDACTED]
Tower crane	2	[REDACTED]	[REDACTED]
			[REDACTED]

The remaining balance will be funded out of our internal resources.

We require the use of a range of equipment and machinery such as construction cranes, excavators, scaffolding and dump truck, to perform our construction works. Given that operations of construction are capital intensive in nature and the significant amount of working capital are required, our Group did not purchase any machinery and equipment. During the Track Record Period, the equipment and machinery we used in our operation were leased from machinery and equipment leasing service suppliers and the equipment and machinery usage cost amounted to approximately RMB60.8 million, RMB99.2 million, RMB91.5 million and RMB43.9 million, respectively.

During the Track Record Period, we had experienced significant growth in our business operations. For the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, we recorded revenue of approximately RMB1,331.2 million, RMB1,346.2 million, RMB1,378.1 million and RMB495.8 million, respectively. Although we are generally allowed to select suppliers for competitive price, we can better control the cost for equipment and machinery by using our own machinery and equipment instead of renting from machinery and equipment leasing service suppliers as explained in the cost-and-benefit analysis below. Our Directors envisage that in anticipation of the new business opportunities with our backlog generally over RMB1,000 million and the contract value of the new construction projects contracted and the growing demand for our Group's services with a CAGR of approximately 8.3% from 2022 to 2027 in the market size of the construction industry in Guangdong Province in terms of output value, the machinery and equipment that we plan to purchase will be quickly deployed to different construction sites and none of them is expected to be in idle state for storage. In the unlikely event that our machinery and equipment become idle in the future, we plan to enter into lease arrangement with independent service provider to store such machinery and equipment in such leased area.

For illustration purpose, the table below sets forth a cost-and-benefit analysis of our estimated net annual cost savings assuming all the machinery and equipment are acquired by us as compared to renting from machinery and equipment leasing service suppliers:

	RMB'000
Estimated net annual cost savings	
— Rental of machinery and equipment*(Note 1)*	21,260
Less	
— Additional staff costs*(Note 2)*	708
— Additional depreciation expenses, repair and maintenance and other miscellaneous costs*(Note 3)*	4,342
	16,210

Notes:

1. Rental of machinery and equipment is based on the historical fee from machinery and equipment leasing service suppliers and consists of (i) the number of different type of machinery, (ii) cost of renting different type of machinery and equipment; and (iii) number of days per annum of different type of machinery and equipment.

2. The additional staff costs consist of the staff cost of machinery and equipment operator for crane, tower crane and rotary drilling rig.

3. Based on the accounting policies adopted by our Group, depreciation on machinery is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives of 5 years. The repair and maintenance cost was determined based our executive Directors' estimation with reference to the level and frequency of repair and maintenance required for our machinery.

As illustrated in the above cost-and-benefit analysis, if the machinery are acquired by us as compared to leasing from third parties, our estimated net annual cost savings would be approximately RMB16.2 million.

Taking into account the growth trend in the construction industry and projects undertaken by us, our executive Directors consider that our current plan in applying part of the [REDACTED] from the [REDACTED] for the acquisition of machinery is commensurate with our growing machinery needs.

- approximately [REDACTED]%, or approximately HK$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), of the [REDACTED] from the [REDACTED] will be used to hire additional manpower for the anticipated growth of our business operation in order to ensure that we have sufficient manpower for the ongoing and other future projects.

  Our Directors believe that our capability to render quality construction works to our customers is premised on our strong engineering team that are staffed with professional personnel who possess relevant skills and experience to plan and closely monitor the progress of our projects and the works of our subcontractors. According to the Frost & Sullivan Report, it is anticipated that (i) the market size of the construction industry in terms of output value in PRC will grow at a CAGR of approximately 6.5% from 2022 to 2027, reaching approximately RMB42.7 trillion by 2027; and (ii) the market size of the construction industry in Guangdong Province in terms of output value will grow at a CAGR of approximately 8.3% from 2022 to 2027, reaching approximately RMB3.4 trillion by 2027. In order to accommodate our business growth, the anticipated growth in construction industry in PRC, we had continuously expanded our workforce, as demonstrated by the significant 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 increased to 266 for the year ended 31 December 2022. Going forward, to maintain the competitiveness of our Group and further enhance the quality of our works, our Directors intend to further expand our manpower to cope with our business expansion.

In light of the above, our Directors consider that a substantial amount of manpower will be required and to this end, we intend to recruit the following additional employees for each of the three year ending 31 December 2026:

Position	Qualification and experience	Number of employees to be recruited	Approximate annual remuneration per employee
			RMB'000
Project manager	Qualified constructor (一級建造師) and/or associate constructor (二級建造師) with 5–10 years of relevant experience	5	[REDACTED]
Engineer	Qualified engineer (工程師) with 2–5 years of relevant experience	5	[REDACTED]

In light of the above, our Directors consider that with an expanded workforce of additional project management staff and supporting staff, our Group can take up more sizeable projects, enhance the quality control and further improve our project management at work sites, thereby encouraging our recurring or potential customers to engage us for future projects and solidifying our reputation in the general construction market in the PRC. As such, our Group's revenue and profitability can be improved.

Our Directors are of the view that our above hiring plan is feasible given that (i) the salary that we offer in our plan is based on (i) our offered salary being within the range of those of our current staff of the same categories; and (ii) our hiring plan will be implemented on a gradual basis. As such, our Directors do not foresee any practical difficulties in implementing our hiring plan.

- approximately [REDACTED]%, or approximately HK$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), of the [REDACTED] from the [REDACTED] will be used for working capital and other general corporate purposes.

To the extent that our [REDACTED] are not sufficient to satisfy the working capital requirements of the purpose as set forth above, we intend to fund the shortfall through variety of means including cash generated from operations and bank financing.

To the extent that the [REDACTED] of the [REDACTED] are not immediately applied to the above purposes and to the extent permitted by applicable laws and regulations, we will only place the unused [REDACTED] into short-term demand deposits with authorised financial institutions and/or licensed banks in Hong Kong and/or China to avoid investment risks to the [REDACTED].