

APPENDIX III UNAUDITED PRELIMINARY FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2022

The following is the preliminary financial information of our Group as of and for the year ended 31 December 2022 (the “2022 Preliminary Financial Information”), together with comparative financial information as of and for the year ended 31 December 2021 and a discussion of changes in our financial condition and results of operations between the two periods. The 2022 Preliminary Financial Information does not constitute the consolidated financial statements of the Group for the year ended 31 December 2022 but is extracted from those financial statements. The 2022 Preliminary Financial Information was not audited. Investors should bear in mind that the 2022 Preliminary Financial Information in this appendix may be subject to adjustments.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	For the year ended 31 December	
		2021	2022
		RMB'000	RMB'000 (Unaudited)
Revenue	4	1,823,384	1,890,660
Cost of sales		(1,627,737)	(1,684,101)
Gross profit		195,647	206,559
Other income and other gains, net	5	1,456	850
Administrative expenses		(116,526)	(117,546)
Listing expenses		(4,513)	(6,181)
Impairment on financial and contract assets, net		(500)	(2,543)
Finance costs	6	(3,549)	(7,408)
Profit before taxation	7	72,015	73,731
Income tax expense	8	(10,112)	(8,243)
Profit and total comprehensive income for the year		<u>61,903</u>	<u>65,488</u>
Profit and total comprehensive income for the year attributable to			
Owners of the Company		60,570	64,471
Non-controlling interests		1,333	1,017
		<u>61,903</u>	<u>65,488</u>

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<i>Note</i>	As at 31 December	
		2021	2022
		<i>RMB'000</i>	<i>RMB'000</i> (Unaudited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		24,156	19,566
Deferred tax assets		3,797	4,107
Intangible assets		48	45
		<u>28,001</u>	<u>23,718</u>
Current assets			
Inventories		3,018	828
Trade, bills and other receivables	<i>11</i>	513,270	434,116
Contract assets		1,216,095	1,127,150
Amounts due from related companies		6,475	8,318
Amounts due from shareholders		9,260	4,352
Restricted bank deposits		18,429	17,599
Cash and cash equivalents		89,106	151,661
		<u>1,855,653</u>	<u>1,744,024</u>
Current liabilities			
Trade and bills payables	<i>12</i>	1,166,117	803,363
Accruals and other payables		302,800	420,745
Contract liabilities		24,976	17,267
Amounts due to related companies		4,833	8,618
Amounts due to shareholders		14,046	5,806
Amounts due to directors		253	748
Lease liabilities		28	—
Borrowings		66,895	136,705
Income tax payable		9,538	11,334
		<u>1,589,486</u>	<u>1,404,586</u>
Net current assets		<u>266,167</u>	<u>339,438</u>
Total assets less current liabilities		294,168	363,156
Non-current liabilities			
Lease liabilities		—	—
Borrowings		—	3,425
		<u>—</u>	<u>3,425</u>
NET ASSETS		<u>294,168</u>	<u>359,731</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital		1	1
Reserves		285,261	349,807
		<u>285,262</u>	<u>349,808</u>
Non-controlling interests		8,906	9,923
TOTAL EQUITY		<u>294,168</u>	<u>359,731</u>

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NOTES TO THE 2022 PRELIMINARY FINANCIAL INFORMATION

1. BASIS OF PRESENTATION AND PREPARATION

As detailed in the section headed “History, Development and Reorganisation” to the prospectus, in preparation for the listing of shares of the Company on the Main Board of the Stock Exchange (the “**Listing**”), the Group underwent a reorganisation (the “**Reorganisation**”) to rationalise its corporate structure in connection with the Listing.

The Company was incorporated in the Cayman Islands on 27 March 2020 as an exempted company with limited liability under the Cayman Islands Companies Act. Pursuant to the Reorganisation as detailed in the section headed “History, Development and Reorganisation” in the prospectus, the Company became the holding company of the companies now comprising the Group in 2020. The Company, Head Sage, Zhongtian HK, Zhaolin Trading, Jicai Trading, Hangxiao Materials (together, the “**Non-operating Companies**”) are newly incorporated companies as part of the Reorganisation and none of these new holding companies carried out any businesses since their incorporation. The Non-operating Companies are inserted as holding companies of Zhongtian Construction, have no substance, have not been involved in any business and do not meet the definition of a business. Accordingly, the 2022 Preliminary Financial Information has been prepared based on that of Zhongtian Construction which comprised the Group during the periods using the predecessor carrying amounts.

The 2022 Preliminary Financial Information has been prepared in accordance with accounting policies which conform with the HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations issued by the HKICPA. The 2022 Preliminary Financial Information also complies with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

The 2022 Preliminary Financial Information has been prepared on the historical cost basis and is presented in Renminbi (“**RMB**”), which is the same as the functional currency of the Company.

The HKICPA has issued a number of new and amended HKFRSs which are relevant to the Group and became effective during the period. For the purpose of preparing and presenting the 2022 Preliminary Financial Information for the periods, the Group has adopted all new and amended HKFRSs that are effective during the periods and has applied them consistently throughout the periods.

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2. NEW OR REVISED HKFRS ISSUED BUT NOT YET EFFECTIVE

The following new or revised HKFRSs, potentially relevant to the 2022 Preliminary Financial Information, have been issued, but are not yet effective and have not been early adopted by the Group.

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current (the 2020 Amendments) ²
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ²
Amendments to HKAS 8	Definition of Accounting Estimate ²
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ²
HK Interpretation 5 (Revised)	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ³
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ³
HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts and related amendments ²

1 Effective for annual periods beginning on or after a date to be determined

2 Effective for annual periods beginning on or after 1 January 2023

3 Effective for annual periods beginning on or after 1 January 2024

The management of the Group does not anticipate that the adoption of the new/revised HKFRSs in future periods will have any material impact on the Group's consolidated financial information.

3. SEGMENT INFORMATION

(a) Operating segment information

The Group has identified its operating segments and prepared segment information based on the regular internal financial information reported to the Group's executive directors for their decisions about resources allocation to the Group's business components and review of these components' performance.

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Management has determined the operating segments based on the reports reviewed by chief operating decision maker (the “CODM”). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors of the Company.

The Group is principally engaged in the provision of construction services in the PRC. Management reviews the operating results of the business as one operating segment to make decisions about resources to be allocated. Therefore, the CODM of the Company regards that there is only one segment which is used to make strategic decisions.

The major operating entities of the Group is domiciled in the PRC. Accordingly, all of the Group’s revenue were derived in the PRC during the periods.

As at 31 December 2021 and 2022, all of the non-current assets were located in the PRC.

(b) Information about major customer

Revenue from customers of the corresponding years accounting for 10% or more of the Group’s revenue for the year, is set out below:

	Year ended 31 December	
	2021	2022
	<i>RMB’000</i>	<i>RMB’000</i>
Zhongtian Holdings Group	367,739	265,507

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4. REVENUE

Revenue represents the revenue from construction contracts and provision of construction machinery and equipment for construction projects.

	Year ended 31 December	
	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i> (Unaudited)
Revenue from construction contracts		
Civil building construction	885,259	857,897
Municipal works construction	427,745	735,037
Foundation works	114,195	24,325
Prefabricated steel structure construction works	369,761	257,670
Other specialised contracting works	17,170	6,488
Revenue from provision of construction machinery and equipment service	9,254	9,243
	<u>1,823,384</u>	<u>1,890,660</u>

5. OTHER INCOME AND OTHER GAINS, NET

	Year ended 31 December	
	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i> (Unaudited)
Interest income on bank deposits	222	502
Government grants (<i>Note</i>)	1,435	211
Loss on disposal of property, plant and equipment	(200)	—
Others	(1)	137
	<u>1,456</u>	<u>850</u>

Note:

These represented grants to incentivise the development of our Group, of which the entitlement was unconditional and one-off in nature.

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6. FINANCE COSTS

	Year ended 31 December	
	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i> (Unaudited)
Interest charge on lease liabilities	6	5
Interest charge on borrowings	3,543	7,403
	<u>3,549</u>	<u>7,408</u>

7. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging the followings:

	Year ended 31 December	
	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i> (Unaudited)
Cost of inventories	642,700	715,675
Auditors' remuneration	98	19
Depreciation of property, plant and equipment owned	6,041	5,043
Depreciation of right-of-use assets	505	398
Amortisation of intangible assets	3	3
Research and development costs	56,726	61,821
Short-term leases expenses		
— Office premises	67	59
— Machinery and equipment	199,353	143,595
Staff costs (including directors' emoluments):		
— Salaries and wages	39,224	30,098
— Retirement scheme contributions	4,193	6,164
Listing expenses	<u>4,513</u>	<u>6,181</u>

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8. INCOME TAX EXPENSE

Provision for the PRC Enterprise Income Tax (“EIT”) for the periods was made based on the estimated assessable profits calculated in accordance with the relevant income tax laws, and regulations applicable to the subsidiaries operated in the PRC.

	Year ended 31 December	
	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i> (Unaudited)
PRC Enterprise Income Tax		
Current year	10,179	8,553
Deferred tax	(67)	(310)
	10,112	8,243

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulations of the EIT Law, the tax rate of the Group is 25% for FY2021 and FY2022, except for the following subsidiaries:

A subsidiary of our Company has been certified as new high technology enterprise in the PRC and enjoyed a preferential enterprise income tax rate of 15% for FY2021 and FY2022.

Two subsidiaries of our Company were qualified as small enterprise and are eligible for preferential tax rate for FY2021 and FY2022.

9. DIVIDENDS

No dividends were paid or declared by our Company for FY2021 and FY2022.

10. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion for the purpose of this report is not considered meaningful due to the Reorganisation and presentation of the result of our Group for FY2021 and FY2022.

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11. TRADE, BILLS AND OTHER RECEIVABLES

	As at 31 December	
	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i> (Unaudited)
Trade receivables		
— Related parties	36,060	21,794
— Third parties	416,661	341,233
	452,721	363,027
Bills receivables	1,050	300
Impairment provision for		
— Trade receivables	(8,335)	(8,654)
— Bills receivables	(7)	(3)
	(8,342)	(8,657)
Trade and bills receivables, net	445,429	354,670
Deposits and other receivables	56,001	53,092
Prepayments	18,453	33,608
Impairment provision for deposits and other receivables	(6,613)	(7,254)
Other receivables, prepayments and deposits, net	67,841	79,446
	<u>513,270</u>	<u>434,116</u>

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Included in trade receivables are trade debtors (net of impairment losses) with the following ageing analysis, based on invoice dates, as of the end of each reporting period:

	As at 31 December	
	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i> (Unaudited)
Trade receivables, aged		
0–90 days	216,064	180,116
91–180 days	59,846	17,477
181–365 days	61,334	66,231
1–2 years	65,467	70,153
2–3 years	15,816	3,729
Over 3 years	25,859	16,667
	<u>444,386</u>	<u>354,373</u>

Included in trade receivables are trade debtors (net of impairment losses) with the following ageing analysis, based on due dates, as of the end of each reporting Periods:

	As at 31 December	
	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i> (Unaudited)
Trade receivables, aged		
Not yet past due	211,004	234,063
0–90 days	60,927	18,225
91–180 days	74,906	15,936
181–365 days	77,400	49,773
1–2 years	2,184	17,674
2–3 years	953	2,035
Over 3 years	17,012	16,667
	<u>444,386</u>	<u>354,373</u>

Trade receivables are generally due within 10 to 90 days from the date of billing.

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12. TRADE AND BILLS PAYABLES

	As at 31 December	
	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i> (Unaudited)
Trade payables		
— Third parties	1,106,920	767,508
— Related parties	37,797	20,855
	<u>1,144,717</u>	<u>788,363</u>
Bills payables	21,400	15,000
	<u>1,166,117</u>	<u>803,363</u>

A credit period of up to 3 months from the date of billing is generally granted by our Group's trade suppliers. Based on the receipt of services and goods, which normally coincided with the invoice dates, the ageing analysis of our Group's trade payables as at the end of each of the reporting period is as follows:

	As at 31 December	
	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i> (Unaudited)
0–90 days	293,430	223,588
91–180 days	147,400	116,288
181–365 days	169,043	252,924
1–2 years	420,920	92,018
Over 2 years	113,924	103,545
	<u>1,144,717</u>	<u>788,363</u>

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MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

We are a general contracting construction group in Hunan Province with over 40 years of operating history. In FY2022, we derived all of our revenue from our customers located in the PRC.

Currently, we primarily focused on the provision of construction services comprising (i) civil building construction services, provision of construction contracting mainly as general contractor for residential, industrial and commercial construction projects; (ii) municipal works construction services, which mainly consisted of construction of urban roads, education institutions, sports stadiums and water supply works; (iii) foundation works services which include foundation construction as well as earthwork construction; (iv) prefabricated steel structure construction services; and (v) other specialised contracting works which includes building renovation and decoration construction specialised contracting. We provide comprehensive construction services to customers throughout the construction process from project procurement, management, construction to supervision and to a lesser extent, we also engage in the provision of construction machinery and equipment service.

For FY2022, our Group's revenue amounted to approximately RMB1,890.7 million, representing an increase of approximately RMB67.3 million or 3.7% from approximately RMB1,823.4 million in FY2021. We recorded an increase in our gross profit from approximately RMB195.6 million in FY2021 to approximately RMB206.6 million in FY2022, representing a year-on-year growth of approximately 5.6%. As a result, our profit for the year increased from approximately RMB61.9 million in FY2021 to approximately RMB65.5 million in FY2022. For FY2022, our gross profit margin was approximately 10.9% and our net profit margin was approximately 3.5%, respectively.

Future Plans and Prospects

We strive to attain sustainable growth and continue to leverage our market position in the competitive construction industry and seek to promote long-term shareholder value by implementing the following business strategies:

- Expand business through funding our capital needs and cash flows for upcoming projects and enhance our market presence to capture more business opportunities;
- Invest in construction machinery and equipment to enhance our technical equipment capability;

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- Further strengthen our R&D capabilities to embrace the latest development trend of PRC construction industry; and
- Capture the opportunities arising from the latest development trend of EPC model and green building including prefabricated construction method in the PRC.

Except for the estimated non-recurring Listing expenses as disclosed in this prospectus, to the best of our Directors' knowledge, there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2022 and up to the Latest Practicable Date.

RESULTS OF OPERATIONS

Revenue

Construction contracts

For FY2022, our revenue generated from construction contracts increased by approximately RMB67.3 million or 3.7% from approximately RMB1,814.1 million in FY2021 to approximately RMB1,881.4 million in FY2022. The increment was mainly due to the increase in revenue generated from municipal works construction works, which grew by approximately RMB307.3 million or 71.8% while partially net-off by the decrement in revenue generated from prefabricated steel structure construction works and foundation works of approximately RMB112.1 million or 30.3% and RMB89.9 million or 78.7% respectively.

Civil building construction

For FY2022, our revenue generated from civil building construction stayed relatively stable and decreased by approximately RMB27.4 million or 3.1% from approximately RMB885.3 million in FY2021 to RMB857.9 million in FY2022, which was mainly attributable to the decrease in revenue generated from Hainan Lixun Meilun Science and Technology Park* (海南力迅美倫科創園) project, Chaling County People's Hospital Phase II Construction Project* (茶陵縣人民醫院二期建設工程項目) and Amusement and Intelligent Equipment R&D and Production Base Construction (Phase I)* (遊樂和智能裝備研發生產基地建設一期) project by approximately RMB44.4 million, RMB51.5 million and RMB47.6 million respectively from FY2021 to FY2022 as these projects are approaching its final stage of development. The decrement was partially net-off by the increment of revenue contributed by a new project namely Kairuisi Phase I* (凱睿思(一期)) project with a contract sum (excluded VAT) amounting to approximately RMB130.8 million and generated revenue of approximately RMB105.2 million in FY2022.

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Municipal works construction

Our revenue generated from municipal works construction significantly increased by approximately RMB307.3 million or 71.8% from approximately RMB427.7 million in FY2021 to RMB735.0 million in FY2022, which was mainly due to (i) revenue contributed by a road construction project in Haikou of approximately RMB60.2 million in FY2022; (ii) increment in revenue contributed by Xupu County Chengbei School Supporting Facilities Construction* (澱浦縣城北學校配套設施建設工程) project by approximately RMB78.0 million compared to FY2021 due to completion of substantial parts in FY2022; (iii) increment in revenue contributed by a new project namely Yuci Road *(玉瓷路) project by approximately RMB32.7 million in FY2022; (iv) increase in revenue of another municipal works construction work project involving an education institution in Hunan Province by approximately RMB39.7 million due to the completion of demolition and hence the project was resumed and completed in FY2022 with additional variation order amounting to approximately RMB30.0 million engaged by the customer and (v) increased in revenue contributed by Sanya City Third Ring Road* (三亞市三環路) project by approximately RMB83.4 million due to the clearance of the construction site has been completed and the project has resumed, as well as the additional variation order amounting to approximately RMB90.0 million engaged by the customer FY2022.

Foundation works

Our revenue generated from foundation works decreased by approximately RMB89.9 million or 78.7% from approximately RMB114.2 million in FY2021 to approximately RMB24.3 million in FY2022, mainly because of (i) the commencement and substantial completion of Changsha Zhenye City Phase V Field Leveling Earthwork* (長沙振業城五期場平土石方工程) project in FY2021 and approximately RMB33.7 million of revenue was recognised in FY2021 while no revenue was recognised in FY2022; (ii) decrement in revenue contributed from Zhuzhou Luosha Hongbei Cultural and Creative Park Plant Water, Electricity, Road, Land Levelling and Ancillary Works* (株洲羅莎烘焙文創園地塊三通一平及附屬工程) project by approximately RMB4.8 million compared to FY2021; and (iii) the decrement in another foundation work project that was substantially completed in FY2021 with approximately RMB28.8 million of revenue recognised in FY2021 while no revenue was recognised in FY2022.

Prefabricated steel structure construction works

For FY2022, our revenue generated from prefabricated steel structure construction works decreased from approximately RMB369.8 million for FY2021 to approximately RMB257.7 million for FY2022, mainly due to decrement of revenue generated from Zhongtian Lutai* (中天•麓台) project by approximately RMB74.6 million compared with FY2021 as the project has completed a major part of its construction works in FY2021 and approaching its later stage of construction and

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Integration and upgrading of Bogie Urban Rail Frame* (轉向架城軌構架整合升級) project was approaching its completion in FY2022, leading to the decrease in revenue by approximately RMB32.7 million compared with FY2021.

Other specialised contracting works

For FY2022, our revenue from other specialised contracting works decreased from approximately RMB17.2 million in FY2021 to approximately RMB6.5 million in FY2022 due to substantial portions of a number of projects were completed in FY2021 and only one new project in this segment was commenced in FY2022 generating revenue of approximately RMB1.6 million.

Provision of construction machinery and equipment service

For FY2022, our revenue from this sub-segment stayed relatively stable at approximately RMB9.2 million compared to approximately RMB9.3 million for FY2021.

Cost of sales

	FY2021		FY2022	
	<i>RMB'000</i>	%	<i>RMB'000</i> (Unaudited)	% (Unaudited)
Raw material costs	642,700	39.5	715,675	42.5
Labour costs	9,652	0.6	7,141	0.4
Labour subcontracting costs	520,137	32.0	447,934	26.6
Construction subcontracting costs	124,295	7.6	272,414	16.2
Rental of machinery and equipment costs	244,010	15.0	157,274	9.3
Other project costs	86,943	5.3	83,663	5.0
Total	1,627,737	100.0	1,684,101	100.0

Our cost of sales increased from approximately RMB1,627.7 million from FY2021 to approximately RMB1,684.1 million from FY2022 by 3.5% in line with the revenue growth of approximately 3.7%. Among the cost of sales items, raw material costs increased by approximately 11.4% from FY2021 to FY2022, which was mainly due to increment in revenue from construction contracts and the major works of a number of projects such as Kairuisi Phase I* (凱睿思(一期)) project, Zhongyuan Guosheng Plaza Phase I* (中源國盛廣場(一期)) project and Zhongyuan Guosheng Plaza Phase II* (中源國盛廣場(二期)) project which required more raw materials at the latest stage of construction and hence incurred higher raw material costs in FY2022 than FY2021.

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On the other hand, the aggregate labour costs and labour subcontracting costs decreased by approximately 14.1% in FY2022 as compared to FY2021, mainly attributable to the major works of a number of projects such as Zhongyuan Guosheng Plaza Phase I* (中源國盛廣場(一期)) project which required more raw materials but less labour and hence incurred less labour subcontracting costs in FY2022 than FY2021.

The construction subcontracting costs increased from approximately RMB124.3 million in FY2021 to approximately RMB272.4 million in FY2022, mainly due to the use of more construction subcontractors for performance of non-major parts of our construction process and other ancillary construction services for some projects for which the major part of construction has been completed, such as Jincheng International School* (金城國際學校) and Xupu County Chengbei School Supporting Facilities Construction Project* (濉浦縣城北學校配套設施建設工程) which required installation of lift and other ancillary construction services in FY2022.

Our rental of machinery and equipment costs decreased by approximately 35.5% in FY2022 as compared to FY2021 mainly due to the decrease in revenue generated from foundation works construction by approximately 78.7% and we utilised our own construction machinery and equipment for our construction works in FY2022.

Gross profit and gross profit margin

	FY2021		FY2022	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000 (Unaudited)	% (Unaudited)
Construction contracts				
— Civil building construction	95,433	10.8	92,500	10.8
— Municipal works construction	42,027	9.8	76,415	10.4
— Foundation works	7,782	6.8	1,574	6.5
— Prefabricated steel structure construction	45,293	12.2	30,951	12.0
— Other specialised contracting works	2,362	13.8	1,854	28.6
Subtotal	192,897	10.6	203,294	10.8
Provision of construction machinery and equipment service	2,750	29.7	3,265	35.3
	195,647	10.7	206,559	10.9

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For FY2022, the gross profit margins of civil building construction remained relatively stable as compared to FY2021 while the gross profit margin of municipal works construction exhibited an increment of approximately 0.6% from approximately 9.8% in FY2021 to approximately 10.4% in FY2022 mainly because we recognised a larger portion of revenue in FY2022 than FY2021 from Jincheng International School* (金城國際學校) project, which recorded higher gross profit margins due to the relatively higher construction complexity and requirement compared to other type of municipal works engaged in FY2021 and a road construction in Haikou which recorded a higher gross profit margin due to tight construction schedule required by the relevant customer.

For FY2022, the gross profit margin of foundation works remained relatively stable and slightly decrease to approximately 6.5% compared with approximately 6.8% in FY2021 as the revenue from foundation works was mainly contributed by for Chaling Pioneering Park* (茶陵創業園) project in FY2022 with gross profit margin of approximately 6.2% while in FY2021 the higher gross profit margin was attributed to Changsha Zhenye City Phase V Field Leveling Earthwork* (長沙振業城五期場平土石方工程) project with gross profit margin of approximately 12.5% due to tighter schedule.

Other income and other gains

The other income and gains in FY2022 dropped by approximately RMB0.6 million as compared to FY2021 mainly due to decrease in government grants from approximately RMB1.4 million to approximately RMB0.2 million which was one-off in nature.

Administrative expenses

Our administrative expenses mainly consisted of R&D expenses, salaries and other benefits, depreciation and amortisation, repair and maintenance expenses, office administration expenses and other expenses. For FY2022, our administrative expenses stayed relatively stable and slightly increased from approximately RMB116.5 million to approximately RMB117.5 million mainly due to the increment in R&D expenses of approximately RMB5.1 million while partially net-off by the decrement in salaries and other benefits due to decrement in discretionary bonus for employees in FY2022.

Listing expenses

Listing expenses represented professional services fees incurred for the purpose of Listing. We incurred Listing expenses of approximately RMB4.5 million and RMB6.2 million for FY2021 and FY2022, respectively.

APPENDIX III UNAUDITED PRELIMINARY FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2022

Impairment on financial and contract assets, net

Our impairment on financial and contract assets (net) represents the expected credit losses on our trade receivables, other receivables and contract assets. We conducted impairment analysis at the end of each year using a provision matrix to measure expected credit losses. For FY2021 and FY2022, our impairment on financial and contract assets was RMB0.5 million and RMB2.5 million, respectively.

For FY2022, impairment losses on financial and contract assets increased by approximately RMB2.0 million or 400% as compared to FY2021. For FY2022, we increased our average ECL rates for trade and bills receivables and contract assets from 0.97% as at 31 December 2021 to 1.27% as at 31 December 2022 based on the calculation of the Independent Valuer and for prudent sake with response to the overall market conditions in the PRC and real estate market.

Finance costs

Our finance cost in FY2022 increased by approximately RMB3.9 million as compared to FY2021, which was in line with the increase in bank and other borrowings in FY2022.

Income tax expenses

Our income tax expenses consist principally of enterprise income tax and movements in deferred tax assets. For FY2021 and FY2022, our income tax was RMB10.1 million and RMB8.2 million, respectively, and our effective tax rate for the corresponding periods was 14.0% and 11.2%, respectively. Since 1 January 2018 and up to the Latest Practicable Date, Zhongtian Construction, our principal operating subsidiary has been accredited as a High and New Technology Enterprise (高新技術企業) under the relevant PRC laws and regulation and was entitled to a preferential tax treatment of 15%, which is lower than the statutory rate of 25.0%. The preferential tax treatment in relation to the High and New Technology Enterprise Certificate (高新技術企業證書) will expire on 17 September 2024 unless the High and New Technology Enterprise Certificate (高新技術企業證書) is renewed.

Net profit

Our net profit increased by approximately RMB3.6 million in FY2022 as compared to FY2021 mainly attributable to the increment in gross profits of approximately RMB10.9 million partially net-off by the increase in Listing expenses of approximately RMB1.7 million, increase in finance costs of approximately RMB3.9 million and increase in impairment on financial and contract assets of approximately RMB2.0 million.

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Analysis of key items of financial position

Net current assets

The following table sets forth a breakdown of our Group's current assets and liabilities as at the dates indicated:

	As at 31 December 2021	As at 31 December 2022
	<i>RMB'000</i>	<i>RMB'000</i> (Unaudited)
Current assets		
Inventories	3,018	828
Trade, bills and other receivables	513,270	434,116
Contract assets	1,216,095	1,127,150
Amounts due from related companies	6,475	8,318
Amounts due from shareholders	9,260	4,352
Restricted bank deposits	18,429	17,599
Cash and cash equivalents	89,106	151,661
	<u>1,855,653</u>	<u>1,744,024</u>
Current liabilities		
Trade and bills payables	1,166,117	803,363
Accruals and other payables	302,800	420,745
Contract liabilities	24,976	17,267
Amounts due to related companies	4,833	8,618
Amounts due to shareholders	14,046	5,806
Amounts due to directors	253	748
Lease liabilities	28	—
Borrowings	66,895	136,705
Income tax payable	9,538	11,334
	<u>1,589,486</u>	<u>1,404,586</u>
Net current assets	<u><u>266,167</u></u>	<u><u>339,438</u></u>

Our net current assets increased from approximately RMB266.2 million as at 31 December 2021 to approximately RMB339.4 million as at 31 December 2022, mainly due to the net profit of approximately RMB65.5 million generated for the FY2022 leading to the increase in net assets and net current assets of our Group.

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Trade, bills and other receivables

Our trade, bills and other receivables comprised (i) net trade and bills receivables of approximately RMB445.4 million and RMB354.7 million as at 31 December 2021 and 2022 respectively; and (ii) net other receivables, prepayment and deposits of approximately RMB67.8 million and RMB79.4 million as at 31 December 2021 and 2022 respectively. Our net trade and bills receivables decreased by 20.4% because we put more effort to collect trade receivables from our customers during FY2022. Our net other receivables, prepayment and deposits increased because of increase in prepayments from approximately RMB18.5 million as at 31 December 2021 to approximately RMB33.6 million as at 31 December 2022.

Contract assets

Our contract asset decreased from approximately RMB1,216.1 million as at 31 December 2021 to RMB1,127.2 million as at 31 December 2022, mainly because of our efforts to follow up on the progress of the settlement audit. We have adopted an internal control policy on the settlement audit, according to which the cost and contract department of our Group will designate employees to follow up on the progress of the settlement audit for the completed projects together with the project management team, in a bid to lower the number of completed projects that have not completed settlement audit as well as shorten the settlement period of the completed projects in the long run.

Trade and bills payables

Our trade and bills payables decreased from approximately RMB1,166.1 million as at 31 December 2021 to approximately RMB803.4 million as at 31 December 2022 in line with the decrease in trade and bills receivables during FY2022 and is also due to the faster repayment by our Group during FY2022.

Accruals and other payables

Our accruals and other payables increased from approximately RMB302.8 million as at 31 December 2021 to approximately RMB420.7 million as at 31 December 2022, mainly due to the higher other tax payables of approximately RMB306.3 million as at 31 December 2022 as compared with RMB192.7 million as at 31 December 2021, mainly attributable to the increase in net VAT payable.

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Indebtedness

The following table sets forth our Group's indebtedness as at the respective dates indicated:

	As at 31 December 2021	As at 31 December 2022
	<i>RMB'000</i>	<i>RMB'000</i> (Unaudited)
Non-current		
Borrowings	—	3,425
	—	3,425
Current		
Borrowings	66,895	136,705
Amounts due to related companies	4,833	8,618
Amounts due to shareholders	14,046	5,806
Amounts due to directors	253	748
Current portion of lease liabilities	28	—
	<u>86,055</u>	<u>151,877</u>
	<u>86,055</u>	<u>155,302</u>

Our aggregate indebtedness increased from approximately RMB86.1 million as at 31 December 2021 to approximately RMB155.3 million mainly because we raised more borrowings, mainly bank borrowings, from approximately RMB66.9 million as at 31 December 2021 to approximately RMB140.1 million as at 31 December 2022. Given that we maintained a low gearing ratio of 22.7% as at 31 December 2021, our Directors considered that it was appropriate to raise more bank financing for our working capital purpose while balancing our debt level in FY2022.

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Key financial ratios

	FY2021 or as at 31 December 2021	FY2022 or as at 31 December 2022
		(Unaudited)
Revenue growth	3.0%	3.7%
Net profit growth	24.8%	5.8%
Gross profit margin ^(Note 1)	10.7%	10.9%
Net profit margin ^(Note 2)	3.4%	3.5%
Return on assets ^(Note 3)	3.3%	3.7%
Return on equity ^(Note 4)	21.7%	18.7%
Current ratio ^(Note 5)	1.2 times	1.2 times
Quick ratio ^(Note 6)	1.2 times	1.2 times
Trade and bills receivables turnover days ^(Note 7)	97.3	78.9
Contracts assets turnover days ^(Note 8)	246.0	228.0
Trade and bills payables turnover days ^(Note 9)	281.2	213.4
Interest coverage ^(Note 10)	21.3 times	11.0 times
Net debt to equity ratio ^(Note 11)	N/A ^(Note 13)	N/A ^(Note 13)
Gearing ratio ^(Note 12)	22.7%	39.0%

Notes:

1. Gross profit margin = gross profit ÷ revenue × 100%
2. Net profit margin = profit for the year ÷ revenue × 100%
3. Return on assets = profit for the year ÷ total assets × 100%
4. Return on equity = profit for the year ÷ total equity attributable to owners of the Company × 100%
5. Current ratio = total current assets ÷ total current liabilities
6. Quick ratio = (total current assets – inventories) ÷ total current liabilities
7. The calculation of average trade receivables turnover days is based on the average of the opening balance and closing balance of trade and bills receivables for the relevant year divided by revenue and multiplied by the number of days in the relevant year.
8. The calculation of average contract assets turnover days is based on the average of the opening balance and closing balance of contract assets for the relevant year divided by revenue and multiplied by the number of days in the relevant year.
9. The calculation of average trade and bills payables turnover days is based on the average of the opening balance and closing balance of trade and bills payables for the relevant year divided by cost of sales and multiplied by the number of days in the relevant year.

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10. Interest coverage ratio = profit before finance costs and income tax expense ÷ finance costs
11. Net debt to equity ratio = (total interest-bearing debt including borrowings and lease liabilities net of cash and cash equivalent) ÷ total equity x 100%
12. Gearing ratio = (total interest-bearing debt including borrowings and lease liabilities) ÷ total equity x 100%
13. Net debt to equity ratio is not applicable to our Group as at 31 December 2021 and 2022 as our Group recorded net cash as at 31 December 2021 and 2022.

Revenue growth

Our revenue increased slightly from approximately RMB1,823.4 million in FY2021 to approximately RMB1,890.7 million in FY2022, representing an increase of approximately RMB67.3 million or 3.7%. Please refer to the paragraph headed “Management’s discussion and analysis — Results of operations — Revenue” in this appendix for the reasons for the increase in our revenue.

Net profit growth

Our profit and total comprehensive income increased from approximately RMB61.9 million for FY2021 to approximately RMB65.5 million for FY2022, representing an increase of approximately RMB3.6 million or 5.8%. Please refer to the paragraph headed “Management’s discussion and analysis — Results of operations — Net profit” in this appendix for the reasons for the increase in our net profit.

Gross profit margin

Our gross profit margin increased slightly from approximately 10.7% in FY2021 to approximately 10.9% in FY2022. Please refer to the paragraph headed “Management’s discussion and analysis — Results of operation — Gross profit and gross profit margin” in this appendix for the reasons for the changes in gross profit margin.

Net profit margin

Our net profit margin remained stable at 3.4% and 3.5% respectively in FY2021 and FY2022 despite our improvement in gross profit margin as the increase in gross profit is partially offset by increase in finance costs by approximately RMB3.9 million, increase in impairment on financial and contract assets of approximately RMB2.0 million and increase in Listing expenses of

APPENDIX III UNAUDITED PRELIMINARY FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2022

approximately RMB1.7 million in FY2022 as compared with FY2021. Please refer to the paragraph headed “Management’s discussion and analysis — Results of operations” in this appendix for the reasons for the changes in net profit margin.

Return on assets

Our return on assets increased slightly from 3.3% in FY2021 to 3.7% in FY2022 mainly resulted from our increase in net profit by 5.8% from FY2021 to FY2022.

Return on equity

Our return on equity decreased slightly from 21.7% in FY2021 to 18.7% in FY2022 despite our increase in net profit in FY2022 mainly because our equity increased by 22.6% from 31 December 2021 to 31 December 2022.

Current ratio

Our current ratio remained stable at 1.2 as at 31 December 2021 and 2022 respectively, meaning that our current assets can cover well above our current liabilities and that we had the net current assets position.

Quick ratio

Our quick ratio remained stable at 1.2 as at 31 December 2021 and 2022 respectively, meaning that our current assets can cover well above our current liabilities and that we had the net current assets position. As our inventory represented less than 0.2% of our total current assets as at 31 December 2021 and 2022, changes in inventory level did not have a significant impact on quick ratio.

Trade and bills receivables turnover days

We had lower trade and bills receivables turnover day of 78.9 days for FY2022 when compared with the trade and bills receivables turnover day of 97.3 days for FY2021 as we recorded faster repayment of trade receivables from our customers in FY2022.

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Contract assets turnover days

Our contract assets turnover days dropped slightly from 246 days for FY2021 to 228.0 days for FY2022, mainly because of our efforts to follow up on the progress of the settlement audit and more contracts assets were billed and converted to trade receivables for FY2022.

Trade and bills payables turnover days

Our trade and bills payables turnover days decreased from 281.2 days in FY2021 to 213.4 days for FY2022 mainly due to faster repayment by our Group during FY2022.

Interest coverage

Our interest coverage ratio decreased from 21.3 times for FY2021 to 11.0 times for FY2022 mainly because of the increase in our borrowings from approximately RMB66.9 million as at 31 December 2021 to RMB140.1 million as at 31 December 2022.

Net debt to equity ratio

Net debt to equity ratio is not applicable to our Group as at 31 December 2021 and 2022 as our Group recorded net cash as at 31 December 2021 and 2022.

Gearing ratio

Our gearing ratio increased from approximately 22.7% as at 31 December 2021 to 39.0% as at 31 December 2022, mainly because we raised more bank borrowings during FY2022. Given that we maintained a low gearing ratio of 22.7% as at 31 December 2021, our Directors considered that it was appropriate to raise more bank financing for our working capital purpose while balancing our debt level in FY2022.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

Please refer to the paragraph headed “Business — Risk management and internal control systems” in this prospectus for further information.

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CODE ON CORPORATE GOVERNANCE PRACTICES

Since we were not yet listed on the Stock Exchange in FY2022, the Corporate Governance Code as set out in Appendix 14 to the Listing Rules was not applicable to us during such period under review. After the Listing, we will comply with all the code provisions set forth in the Corporate Governance Code. Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code for each financial year and comply with the “comply or explain” principle in our corporate governance report, which will be included in our annual reports subsequent to the Listing.

REVIEW OF OUR PRELIMINARY FINANCIAL INFORMATION

We established an audit committee, which will come into operation with effect from the Listing, in compliance with the Corporate Governance Code. Each of the proposed members of the audit committee has reviewed the 2022 Preliminary Financial Information as set out in this appendix.

The unaudited financial information in respect of our consolidated statement of financial position as at 31 December 2022, consolidated statement of comprehensive income and the related notes thereto FY2022 as set out in our 2022 Preliminary Financial Information above has been agreed by the Reporting Accountants to the amounts set out in the Group’s unaudited consolidated financial statements FY2022 following their work under Practice Note 730 “Guidance for Auditors Regarding Preliminary Announcements of Annual Results” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). The work performed by the Reporting Accountants in this respect did not constitute an assurance engagement performed in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by the Reporting Accountants on the 2022 Preliminary Financial Information.

PURCHASE, SALES OR REDEMPTION OF OUR SHARES

Since we were not yet listed on the Stock Exchange in FY2022, this disclosure requirement is not applicable to us.