You should read the following discussion and analysis of our financial conditions and results of operations in conjunction with our consolidated financial statements included in the Accountant's Report, which has been prepared in accordance with HKFRSs, as set out in Appendix I to this document, and the unaudited pro forma financial information included in Appendix II to this document, in each case together with the accompanying notes.

The following discussion contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analyses made by our Group in light of our experience and perception of historical trends, current conditions and expected future developments. Our actual results and timing of selected events could differ materially from those anticipated in these forward-looking statements that involve risks and uncertainties; and could be the result of various factors, including but not limited to those set out under the section headed "Risk factors" of this document.

Any discrepancies in any table or elsewhere in this document between totals and sums of amounts listed herein are due to rounding.

OVERVIEW

We are a cleaning and maintenance services provider in Guangdong province in the PRC. With industry experience of over 20 years and foothold in Guangdong province, we have steadily developed our business since our establishment in 2000 to offer a wide range of services to over 700 customers and extend the coverage of our operations to 14 provincial-level regions in the PRC.

All of our revenue is derived from the provision of cleaning and maintenance services. For the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, our revenue was approximately RMB465.7 million, RMB563.5 million, RMB594.2 million, RMB289.2 million and RMB298.3 million, respectively, and our profit and total comprehensive income attributable to owners of the Company was approximately RMB31.3 million, RMB39.9 million, RMB34.4 million, RMB15.4 million and RMB15.3 million, respectively. We achieved growth in our revenue mainly by increasing the number of our projects in progress and increased revenue from our customers by leveraging our well-established position, strong brand recognition and proven tracking record allowing us to capture the growing demand for cleaning and maintenance service in the PRC. Our net profit margin before non-recurring **[REDACTED]** expenses was relatively stable for the respective years ended 31 December 2020, 2021 and 2022 and the respective periods for the six months ended 30 June 2022 and 30 June 2023.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations have been and will continue to be affected by a number of factors, including those set out below:

The level of expenditure on cleaning and maintenance services by customers in the PRC

All of our revenue during the Track Record Period was derived from the provision of cleaning and maintenance services in the PRC, with a majority being derived from the provision of property cleaning services. According to Industry Report, due to the increasingly complicated cleaning requirements, property management groups, tenants, and owners will outsource the cleaning service to the professional cleaning services providers in order to reduce their overall operation costs. Furthermore, the volume of floor space completed per annual construction of property building in the PRC remains robust and serves as a strong market driver for the development and growth of the property cleaning sector (for details of markets drivers in the industry, please refer to the section headed "Industry overview – Environmental cleaning and maintenance service market analysis in the PRC – Market drivers" of this document). If there is any reduction in the level of expenditure on cleaning and maintenance services by customers in the PRC or its property cleaning sector, it may affect the demand for our services and affect our prices. If this were to occur, our business, financial condition and prospects may be materially and adversely affected.

Our ability to mitigate the impact of employee benefit expenses and subcontracting labour costs

Given that our business operation is labour-intensive, a significant portion of our operating costs comprises employee benefit expenses and subcontracting labour costs. For the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, our employee benefit expenses recorded in our cost of services were approximately RMB208.8 million, RMB254.5 million, RMB291.9 million, RMB142.4 million and RMB151.1 million, representing approximately 54.1%, 53.7%, 58.4%, 58.5% and 60.2% of our cost of services, respectively. Employee benefit expenses recorded in our general and administrative expenses amounted to approximately RMB23.3 million, RMB30.3 million, RMB32.1 million, RMB14.6 million and RMB14.8 million, representing approximately 69.2%, 67.3%, 62.9%, 54.8% and 61.8% of our general and administrative expenses, respectively. We have also outsourced certain general cleaning, high-altitude cleaning and water cleaning services to third party service providers. For the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, we incurred subcontracting labour costs of approximately RMB149.9 million, RMB188.9 million, RMB172.9 million, RMB84.4 million and RMB85.9 million, representing approximately 38.9%, 39.8%, 34.6%, 34.7% and 34.2% of our cost of services, respectively. Our employee benefit expenses is impacted by our strategy to offer attractive remuneration packages and bonuses to our workers. In the future, our employee benefit expenses and subcontracting labour costs may be affected by further increases in the size of our workforce, the costs charged by our third party service providers and the prescribed minimum wage and employee benefits in the provincial-level regions which we operate.

The following table sets forth the sensitivity analysis illustrating the impact of hypothetical fluctuations of our employee benefit expenses and subcontracting labour cost in our cost of services on our gross profit for the year during the Track Record Period with all other variables being held constant. The hypothetical fluctuation rate for our employee benefit expenses and subcontracting labour cost are set at 15% and 20% during the Track Record Period, which are determined by reference to the historical year-on-year fluctuation of employee benefit expenses and subcontracting labour cost during the Track Record Period.

	For the year ended 31 December			**For the six months ended 30 June**	
	2020	**2021**	**2022**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Employee benefit expenses					
Increase/(Decrease) by:					
+20%	(41,757)	(50,898)	(58,388)	(28,485)	(30,228)
+15%	(31,318)	(38,174)	(43,791)	(21,363)	(22,671)
-15%	31,318	38,174	43,791	21,363	22,671
-20%	41,757	50,898	58,388	28,485	30,228

	For the year ended 31 December			**For the six months ended 30 June**	
	2020	**2021**	**2022**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Subcontracting labour cost					
Increase/(Decrease) by:					
+20%	(29,988)	(37,776)	(34,582)	(16,873)	(17,188)
+15%	(22,491)	(28,332)	(25,937)	(12,654)	(12,891)
-15%	22,491	28,332	25,937	12,654	12,891
-20%	29,988	37,776	34,582	16,873	17,188

Our profitability is largely affected by our ability to control our operating costs, in particular, employee benefit expenses and subcontracting labour costs. If we are unable to control our operating costs or successfully pass on the cost impact to our customers, we may be unable to maintain our profitability and our business, financial condition and results of operation may be materially and adversely affected.

Our ability to compete effectively in a highly competitive market and offer competitive bids to attract new business

The environmental cleaning and maintenance service industry is highly competitive according to the Industry Report. Depending on the relevant sector within the industry, we may need to adjust our strategies to compete effectively against larger and smaller market players. According to the Industry Report, in relation to the public space cleaning sector, it is an industry norm that the local governments, which are the main clients in this sector, prefer large-scale service providers equipped with sufficient amount of machinery, equipment and vehicles such as garbage collection vehicles and waste suction vehicles. On the other hand, the property cleaning sector comparatively requires lower level of mechanisation than the public space cleaning sector. Generally, handy machinery and equipment are used, such as escalator cleaners, steam scrubbers, ride-on scrubber dryers, marble reconditioning machine and dust proofing device for angle grinder. Thus, small and medium-scale businesses are still able to acquire the contracts with relatively lower rates and higher flexibility compare to large-scale service providers. Given the above, we may need to invest more heavily in garbage collection vehicles and waste suction vehicles for bids in relation to larger projects in the public space cleaning sector and make more competitive bids by adjusting our prices for smaller projects in the property cleaning sector. If we do not adjust our tender strategies and business strategies effectively, we may lose business opportunities. Even if we are successful, our investments to secure our projects and our offer of competitive bids may reduce our profit margins and expose us to losses if our cost of services increases beyond expectation. Accordingly, if we cannot compete effectively, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Furthermore our customers typically award contracts through a competitive process, we generally secure our major contracts with customers through the tender process. For the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, our tender success rate was approximately 33.8%, 28.1%, 50.8%, 39.2% and 48.3%, respectively, for all tenders and approximately 87.0%, 73.5%, 77.3%, 81.0% and 78.7%, respectively, for tenders involving new contracts for existing projects. In the event of direct engagement by our customers, we may still need to submit quotation proposals attractive enough to our customers in the event they are seeking quotes from multiple service providers. There is no guarantee that we can successfully obtain contracts in the future as it is subject to our ability to meet the requirements imposed by our customers and offer competitive bids. If we are unable to identify and secure sufficient new contracts on commercially attractive terms, our financial results and prospects may be materially and adversely affected.

Branding positioning and pricing ability

Our financial position and results of operations are affected by our ability to maintain or increase the fee we charge for our services, which is, in part, affected by our ability to continuously maintain and enhance our brand recognition and industry position. We intend to further strengthen our brand recognition to expand our property cleaning business and facilitate our business development.

Our revenue is dependent on fees charged for our services. We generally price our cleaning and maintenance services by taking into account following major factors: (i) scope of services; (ii) service location(s) and area of coverage; (iii) timetable; (iv) prevailing market rates; (v) labour costs; (vi) management costs; (vii) tax; and (viii) determination of a reasonable profit margin. We have to achieve a balance between pricing our services competitively while maintaining our brand image as a quality cleaning and maintenance service provider and ensuring reasonable profit margins. Failure to balance various factors in determining our pricing could materially and adversely affect our financial position and results of operations.

BASIS OF PRESENTATION

Immediately prior to and after the Reorganisation, our business is conducted through Guangzhou Shenghui and its subsidiaries and controlled by our Controlling Shareholders. Pursuant to the Reorganisation, our business is transferred to and held by our Company. Our Company has not been involved in any other business prior to the Reorganisation and does not meet the definition of a business. The Reorganisation is merely a reorganisation of our business with no change in management of such business and the ultimate controlling shareholders of our business remain the same. For further details, please refer to Note 1.3 of the Accountant's Report in Appendix I to this document.

SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") as set out below. The Historical Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss which are measured at fair value. The significant accounting policies adopted by our Group and estimates which are important for the understanding of our financial conditions and results of operations are set forth in Note 2 and Note 34 of the Accountant's Report in Appendix I to this document.

Revenue recognition

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which our Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

The revenue of our Group arises from the provision of cleaning and maintenance services. Depending on the terms of the contract, control of the service may be transferred over time or at a point in time. Control of the service is transferred over time if our Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- 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 the 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 the goods or service.

When either party to a contract has performed, our Group presents the contract in the consolidated statements of financial position as a contract asset or a contract liability, depending on the relationship between our Group's performance and the customer's payment.

A contract asset is our Group's right to consideration in exchange for services that our Group has transferred to a customer. Incremental costs incurred to obtain a contact, if recoverable, are capitalised and presented as assets under "contract assets" and subsequently amortised when the related revenue is recognised.

If a customer pays consideration or our Group has a right to an amount of consideration that is unconditional, before the services are provided to the customer, our Group presents the amount as a contract liability when the payment is received or a receivable is recorded (whichever is earlier).

A receivable is recorded when our Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Employee benefits

(a) Pension obligations

Our Group only operates defined contribution pension plans. In accordance with the rules and regulations in the PRC, the PRC based employees of our Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which our Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, our Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of our Group in independently administrated funds managed by the governments.

Our Group's contributions to the defined contribution retirement scheme are expensed as incurred.

(b) Housing funds, medical insurances and other social insurances

Employees of our Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurances and other social insurances. Our Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. Our Group's liability in respect of these funds is limited to the contributions payable in each year. Contributions to the housing funds, medical insurances and other social insurances are expensed as incurred.

(c) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

Trade and other receivables

Trade receivables are amounts due from customer for services provided in the ordinary course of business.

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 to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Further information about our Group's accounting for trade receivables and other receivables and a description of our Group's impairment policies is set out in Note 21 and Note 3.1 (iii) of the Accountant's Report in Appendix I to this document respectively.

If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using effective interest method. They are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Leases

Our Group as a lessee

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by our Group. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by our Group under residual value guarantees;
- the exercise price of a purchase option if our Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects our Group exercising that option.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in the consolidated statements of comprehensive income. Short-term leases are leases with a lease term of 12 months or less.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Our lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in our Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Our Group's right-of-use assets consist of leases for building and machinery.

Right-of-use assets resulted from lease payments are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost represents consideration paid for the rights to use the assets and other direct related costs from the date when the respective rights were granted. Depreciation of lease payments is calculated on a straight-line basis over the lease terms as stated in the lease contracts and is charged to profit or loss.

Our Group as a lessor

Lease income from operating leases where our Group acts as the lessor is recognised on a straight-line basis over the lease term. Initial direct costs incurred in obtaining the operating lease are added to the carrying amount of the underlying asset and recognised as expenses over the lease term on the same basis as lease income. The respective leased assets are included in the consolidated statements of financial position based on their nature.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Our Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below. Further details are set out in Note 4 of the Accountant's Report in Appendix I to this document.

RESULTS OF OPERATIONS

The consolidated statements of comprehensive income during the Track Record Period are summarised below, which have been extracted from, and should be read in conjunction with, the Accountant's Report set out in Appendix I to this document:

	Year ended 31 December			Six months ended 30 June	
	2020	**2021**	**2022**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Revenue	465,664	563,541	594,204	289,173	298,251
Cost of services	(385,746)	(474,296)	(499,795)	(243,433)	(251,074)
Gross profit	79,918	89,245	94,409	45,740	47,177
Selling and marketing expenses	(3,111)	(3,076)	(3,983)	(1,966)	(2,730)
General and administrative expenses	(33,682)	(45,033)	(51,060)	(26,627)	(24,042)
Impairment losses on financial assets	(4,580)	(2,333)	(4,185)	(1,905)	(5,016)
Other income, net	8,238	7,155	5,109	3,437	2,235
Other gain/(loss), net	(7,345)	(3)	–	–	–
Operating profit	39,438	45,955	40,290	18,679	17,624
Finance expenses, net	(1,172)	(404)	(422)	(236)	(197)
Share of net profit of associates	236	–	–	–	–
Profit before income tax	38,502	45,551	39,868	18,443	17,427
Income tax expenses	(7,190)	(5,630)	(5,479)	(3,051)	(2,119)
Profit and total comprehensive income for the year/period attributable to owners of the Company	31,312	39,921	34,389	15,392	15,308

DESCRIPTION ON SELECTED ITEMS OF THE CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Revenue

During the Track Record Period, we derived our revenue primarily from (i) property cleaning services for various type of commercial building, residential building, transportation hub, shopping mall, public utilities and industrial park; (ii) public space cleaning services primarily for road sweeping and cityscape cleaning and (iii) other cleaning services such as river cleaning. For details, please refer to the paragraph headed "Business – Our services" in this document. We recorded revenue of approximately RMB465.7 million, RMB563.5 million, RMB594.2 million, RMB289.2 million and RMB298.3 million for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, respectively.

For the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, our revenue generated from property cleaning services accounted for 95.9%, 96.5%, 96.6%, 96.4% and 95.8%, respectively, of our total revenue. For the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, our revenue generated from public space cleaning accounted for 3.9%, 3.5%, 3.4%, 3.6% and 4.2%, respectively, of our total revenue. For the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, our revenue generated from other cleaning accounted for 0.1%, nil, nil, nil and nil, respectively, of our total revenue.

The following table sets out a breakdown of our revenue by principal service categories during 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*	*%*
Property cleaning										
– Commercial building	211,433	45.4	249,927	44.3	289,624	48.7	133,863	46.3	159,780	53.6
– Residential building	96,078	20.6	135,813	24.1	143,721	24.2	70,255	24.3	64,446	21.6
– Transportation hub	63,362	13.6	61,384	10.9	52,029	8.8	28,913	10.0	16,759	5.6
– Shopping mall	52,749	11.3	71,171	12.6	64,372	10.8	34,721	12.0	27,228	9.1
– Public utilities[Note 1]	16,691	3.6	12,696	2.3	11,981	2.0	4,724	1.6	9,122	3.1
– Industrial park	6,624	1.4	12,981	2.3	12,339	2.1	6,453	2.2	8,276	2.8
Public space cleaning[Note 2]	18,360	3.9	19,569	3.5	20,138	3.4	10,244	3.6	12,640	4.2
Other cleaning[Note 3]	367	0.1	–	–	–	–	–	–	–	–
	465,664	100.0	563,541	100.0	594,204	100.0	289,173	100.0	298,251	100.0

Notes:

(1) Public utilities cleaning primarily consists of government offices and school cleaning.

(2) Public space cleaning primarily consists of road sweeping and cityscape cleaning.

(3) Other cleaning primarily consists of river cleaning.

Revenue from property cleaning service

Our revenue generated from our property cleaning service amounted to approximately RMB446.9 million, RMB544.0 million, RMB574.1 million, RMB278.9 million and RMB285.6 million for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, respectively, representing approximately 95.9%, 96.5%, 96.6%, 96.4% and 95.8%, respectively, of our total revenue for the same period. Revenue from property cleaning service recorded an increasing trend during the Track Record Period. The increase was primarily driven by the increase in our number of projects during the years in property cleaning service. Our number of projects in property cleaning service during the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023 was 238, 252, 291, 251 and 285, respectively. For more details, please refer to the paragraph headed "– Period-to-period comparison of results of operations" in this section.

Revenue from public space cleaning service

Our revenue generated from our public space cleaning service amounted to approximately RMB18.4 million, RMB19.6 million, RMB20.1 million, RMB10.2 million and RMB12.6 million for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, respectively, representing approximately 3.9%, 3.5%, 3.4%, 3.6% and 4.2%, respectively, of our total revenue for the same period. Our revenue generated from public space cleaning service during the Track Record Period remained relatively stable but decrease in the percentage of total revenue, as our specialised vehicles, which are the core fixed assets for providing public space cleaning, were fully utilised. Our number of projects in public space cleaning service during the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023 was 4, 7, 5, 5 and 7, respectively. For more details, please refer to the paragraph headed "– Period-to-period comparison of results of operations" in this section.

Revenue from other cleaning service

Our revenue generated from our other cleaning service amounted to RMB0.4 million, nil, nil, nil and nil for the years ended 31 December 2020, 2021, 2022 and the six months ended 30 June 2022 and 2023, respectively, representing approximately 0.1%, nil, nil, nil and nil, respectively, of our total revenue for the same period. The continuous decrease in the revenue generated from our other cleaning service during the Track Record Period was primarily driven by the decrease in our number of projects during the years in other cleaning service. Our number of projects in other cleaning service during the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023 was 1, nil, nil, nil and nil, respectively. For more details, please refer to the paragraph headed "– Period-to-period comparison of results of operations" in this section.

The following table sets out a breakdown of our revenue generated from the sales by provincial-level regions in the PRC of the customers for the Track Record Period:

	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*	*%*
Guangdong	390,973	84.0	459,108	81.5	467,337	78.6	224,353	77.6	234,692	78.7
Hainan	45,382	9.7	43,287	7.7	42,936	7.2	25,303	8.8	15,870	5.3
Chongqing	9,047	1.9	21,200	3.8	24,384	4.1	12,247	4.2	13,036	4.4
Guangxi	8,767	1.9	10,100	1.8	10,545	1.8	5,107	1.7	5,527	1.8
Others[Note]	11,495	2.5	29,846	5.2	49,002	8.3	22,163	7.7	29,126	9.8
	465,664	100.0	563,541	100.0	594,204	100.0	289,173	100.0	298,251	100.0

Note: Others include Anhui, Fujian, Guizhou, Heilongjiang, Henan, Hubei, Hunan, Jiangxi, Shaanxi and Yunan.

During the Track Record Period, we generated majority of our sales from Guangdong which contributed approximately 84.0%, 81.5%, 78.6%, 77.6% and 78.7% of the total sales for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, respectively. Following Guangdong, Hainan contributed the second largest sales to our Group. Approximately 9.7%, 7.7%, 7.2%, 8.8% and 5.3% of the total sales were generated from Hainan for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, respectively. Starting from the year ended 31 December 2020, Chongqing contributed the third largest sales to our Group with a number of notable property cleaning projects. During the Track Record Period, the Group's revenue generated in Hainan Province and Chongqing, in aggregate, amounted to approximately RMB54.4 million, RMB64.5 million, RMB67.3 million, RMB37.6 million and RMB28.9 million respectively, representing approximately 11.6%, 11.5%, 11.3%, 13.0% and 9.7% of the total revenue for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, respectively.

During the Track Record Period, our revenue from Guangxi, Chongqing, Hainan and others was approximately RMB74.7 million, RMB104.4 million, RMB126.9 million and RMB64.8 million and RMB63.6 million, respectively, representing a CAGR of approximately 30.3% from 2020 to 2022 and a slightly decrease of approximately 1.9% from the six months ended 30 June 2022 to 30 June 2023.

Cost of services

Our cost of services primarily consisted of employee benefit expenses, subcontracting labour costs, cost of cleaning materials consumed, insurance expenses, depreciation, maintenance and utilities expenses and other expenses. Our employee benefit expenses consist primarily of (i) salaries, wages and bonuses; (ii) social insurance and housing provident fund contribution; and (iii) other employee benefits. Our subcontracting labour costs consist primarily of fees paid to third party service providers for cleaning service, high-altitude cleaning service, water cleaning services and other services. Cost of cleaning materials consumed mainly comprised cost of garbage bags, toilet papers, chemicals and detergents which used when providing general cleaning services. Our insurance expenses consist primarily of the pension insurance, work-related injury insurance, medical insurance, unemployment insurance and maternity insurance. Other expenses mainly related to taxes and surcharges, uniform expenses, motor vehicles expenses, short-term lease expenses and other sundry expenses.

The following table sets forth a breakdown of our cost of services during the years/periods indicated:

	For the year ended 31 December						For the six months ended 30 June			
	2020		2021		2022		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (Unaudited)	*%*	*RMB'000*	*%*
Employee benefit expenses	208,786	54.1	254,490	53.7	291,941	58.4	142,423	58.5	151,138	60.2
Subcontracting labour costs	149,939	38.9	188,882	39.8	172,910	34.6	84,363	34.7	85,939	34.2
Cost of cleaning materials consumed	12,897	3.3	17,034	3.6	18,903	3.8	9,175	3.9	7,732	3.1
Insurance expenses	4,594	1.2	2,261	0.5	3,664	0.7	1,958	0.8	957	0.4
Depreciation	2,134	0.6	2,582	0.5	2,572	0.5	1,267	0.5	1,335	0.5
Maintenance and utilities expenses	2,284	0.6	1,509	0.3	1,803	0.4	907	0.4	907	0.4
Other expenses[Note]	5,112	1.3	7,538	1.6	8,002	1.6	3,340	1.2	3,066	1.2
TOTAL	385,746	100.0	474,296	100.0	499,795	100.0	243,433	100.0	251,074	100.0

Note: Other expenses mainly related to taxes and surcharges, uniform expenses, motor vehicles expenses, short-term lease expenses and other sundry expenses.

During the Track Record Period, the main factors affecting our cost of services were our employee benefit expenses and subcontracting labour costs. The increase in employee benefit expenses and subcontracting labour costs was mainly due to the expansion of our scale of operations in different provincial-level regions in the PRC, given that our cleaning and maintenance services are labour intensive and we cannot permanently retain all necessary operation staff for project and execution and do not own a sufficient number of specialised vehicles to complete certain projects. Our employee benefit expenses included in cost of sales and our subcontracting labour costs in aggregate amounted to RMB358.7 million, RMB443.4 million, RMB464.9 million, RMB226.8 million and RMB237.1 million, accounting for approximately 93.0%, 93.5%, 93.0%, 93.2% and 94.4% of our cost of services for the years ended 31 December 2020, 2021 and 2022 and 30 June 2022 and 2023, respectively.

Gross profit and gross profit margin

The following table sets out a breakdown of our revenue, gross profit and gross profit margin according to principal service categories during the years/periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2020		2021		2022		2022		2023	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (Unaudited)	*%*	*RMB'000*	*%*
Property cleaning										
– Commercial building	38,637	18.3	44,303	17.7	51,126	17.7	23,546	17.6	27,765	17.4
– Residential building	12,918	13.4	14,761	10.9	15,727	10.9	7,755	11.0	6,798	10.5
– Transportation hub	10,338	16.3	9,602	15.6	8,367	16.1	4,573	15.8	2,600	15.5
– Shopping mall	10,515	19.9	12,138	17.1	10,985	17.1	5,886	17.0	4,623	17.0
– Public utilities[Note 1]	2,787	16.7	2,052	16.2	1,961	16.4	770	16.3	1,459	16.0
– Industrial park	1,345	20.3	2,672	20.6	2,536	20.6	1,260	19.5	1,658	20.0
Public space cleaning[Note 2]	3,367	18.3	3,717	19.0	3,707	18.4	1,950	19.0	2,274	18.0
Other cleaning[Note 3]	11	3.1	–	–	–	–	–	–	–	–
	79,918	17.2	89,245	15.8	94,409	15.9	45,740	15.8	47,177	15.8

Notes:

(1) Public utilities cleaning primarily consists of government offices and school cleaning.

(2) Public space cleaning primarily consists of road sweeping and cityscape cleaning.

(3) Other cleaning primarily consists of river cleaning.

We generated gross profit of approximately RMB79.9 million, RMB89.2 million, RMB94.4 million, RMB45.7 million and RMB47.2 million for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, respectively, representing gross profit margins of approximately 17.2%, 15.8%, 15.9%, 15.8% and 15.8% for the corresponding periods, respectively.

Other income

Our other income mainly comprised (i) rental income earned from the lease or sub-lease of our owned or leased properties in the PRC to Independent Third Parties, one of which is Guangzhou Pengsheng, which we previously held a majority interest in prior to its disposal in October 2020 to an Independent Third Party; (ii) penalty on late payment of rental income from the sub-lease of a leased property to Guangzhou Pengsheng; (iii) non-recurring net income/(losses) from the provision of ancillary services for a road construction project during the year ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and (iv) value added tax refund.

The following table sets forth a breakdown of our other income, net 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)	
Rental income	1,345	848	2,917	1,194	1,687
Penalty on late payment of rental income *(Note)*	1,241	–	–	–	–
Value-added tax refund	2,425	2,107	2,193	1,093	643
Government grant	172	37	777	768	–
Net income/(losses) from the provision of construction labor services	2,656	4,328	(822)	330	–
Dividend income from financial assets at fair value through profit or loss	84	–	–	–	–
Donation	(130)	–	(50)	(50)	(70)
Others	445	(165)	94	102	(25)
	8,238	7,155	5,109	3,437	2,235

Note: The penalty arising from the late payment of rental income represented an interest of 0.1% charged on the outstanding rental income receivable from Guangzhou Pengsheng during the Track Record Period. The late payment from Guangzhou Pengsheng was mainly due to the fact that we previously held a majority interest in it prior to its disposal until October 2020. Our Directors considered that there was no liquidity or operational negative impact for the late payment allowed to Guangzhou Pengsheng as it was controlled by Guangzhou Shenghui until October 2020. In January 2021, our Group reached a commercial settlement with Guangzhou Pengsheng to settle the total rental receivables at approximately RMB1.2 million and all remaining of rental receivables penalty on late payment of rental income previously charged, in total of RMB5,915,000 were waived and were written off as bad debts for the year ended 31 December 2021. Please refer to the section headed "History, Reorganisation and Group Structure – Reorganisation" of this document for details.

Other loss

Our other loss comprised (i) fair value loss on financial assets at fair value through profit or loss; (ii) loss on disposal of investments in associates; and (iii) loss on disposal of property, plant and equipment.

The following table sets forth a breakdown of our other loss 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*
Fair value loss on financial assets at fair value through profit or loss ("**FVTPL**")	(7,114)	–	–	–	–
Loss on disposal of investments in associates, net	(174)	–	–	–	–
Loss on disposal of property, plant and equipment, net	(57)	(3)	–	–	–
	(7,345)	(3)	–	–	–

Please refer to the paragraph headed "Financial assets at fair value through profit or loss" in this section for details.

Selling and marketing expenses

Our selling and marketing expenses primarily consisted of marketing and entertainment expenses, office and communication expenses and tendering expense with the increases in such expenses in line with the expansion of our operations. The following table sets forth a breakdown of our marketing expenses for the periods indicated:

	For the 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*	%
Marketing and entertainment expenses	1,862	59.8	2,635	85.7	3,434	86.2	1,855	94.3	2,113	77.4
Office and communication expenses	53	1.7	–	–	–	–	–	–	–	–
Tendering expenses	610	19.6	433	14.1	549	13.8	111	5.7	617	22.6
Others	586	18.9	8	0.2	–	–	–	–	–	–
TOTAL	3,111	100.0	3,076	100.0	3,983	100.0	1,966	100.0	2,730	100.0

General and administrative expenses

Our general and administrative expenses mainly comprised (i) employee benefit expenses payable to our Directors and staff in the administrative functions; (ii) cost of cleaning material consumed for research and development; (iii) **[REDACTED]** expenses; (iv) depreciation expenses of property, plant and equipment, investment properties and right-of-use assets; and (v) motor vehicle expenses. Our general and administrative expenses amounted to approximately, RMB33.7 million, RMB45.0 million, RMB51.1 million, RMB26.6 million and RMB24.0 million for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, respectively.

The following table sets forth a breakdown of our general and administrative expenses for the years/periods indicated:

	For the 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*	*%*
Employee benefit expenses	23,312	69.2	30,314	67.3	32,120	62.9	14,595	54.8	14,848	61.8
Cost of cleaning material consumed	1,215	3.6	2,373	5.3	1,125	2.2	784	2.9	813	3.4
[REDACTED] expenses	3,892	11.6	5,777	12.8	7,859	15.4	6,428	24.1	3,233	13.4
Depreciation	1,224	3.6	1,221	2.7	1,147	2.2	581	2.2	545	2.3
Motor vehicle expenses	459	1.4	1,073	2.4	741	1.5	350	1.3	592	2.5
Maintenance and utility expenses	247	0.7	144	0.3	310	0.6	141	0.5	101	0.4
Office and communication expenses	1,589	4.7	1,716	3.8	1,543	3.0	635	24	773	3.2
Travelling expenses	662	2.0	1,146	2.5	1,682	3.3	1,261	4.8	976	4.1
Short-term lease expense	110	0.3	144	0.3	2,175	4.3	1,007	3.8	1,168	4.9
Professional service fees	353	1.1	113	0.3	100	0.2	50	0.2	158	0.7
Other expenses*(Note)*	619	1.8	1,012	2.3	2,258	4.4	795	3.0	835	3.3
TOTAL	33,682	100.0	45,033	100.0	51,060	100.0	26,627	100.0	24,042	100.0

Note: Other general and administrative expenses mainly comprised of bank fees and charges, information technology expenses, telecommunication expenses and other miscellaneous administrative expenses.

Finance expenses, net

Our net finance expenses comprised interest income from banks and loan interest expense arising from bank borrowings and lease liabilities amounted to approximately RMB1.2 million, RMB0.4 million, RMB0.4 million, RMB0.2 million and RMB0.2 million for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, respectively. Please refer to the paragraph headed "Indebtedness" in this section for details.

The following table sets forth a breakdown of our finance costs 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*
Finance income					
Bank interest income	134	92	153	109	72
Finance expenses					
Interest expense on bank and other borrowings	(848)	(55)	(148)	(121)	(53)
Interest expense on lease liabilities	(458)	(441)	(427)	(224)	(216)
	(1,172)	(404)	(422)	(236)	(197)

Share of net profit of associates

Our share of net profit of associates were approximately RMB0.2 million, nil, nil, nil and nil for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, respectively. All investments in associates were disposed during the year ended 31 December 2020 due to reorganisation in preparation for the Listing. Please refer to the section headed "History, Reorganisation and Group structure – Reorganisation" of this document and Note 18 of the Accountant's Report in Appendix I to this document for details.

Income tax expenses

Our income tax expenses primarily consist of current income tax payable at the statutory rates applicable to our assessable profit before taxation as determined under relevant laws and regulations and deferred income tax expense/credit arising from the movement in deferred tax assets recognised for the reporting periods. For the year ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, our income tax expenses were approximately RMB7.2 million, RMB5.6 million and RMB5.5 million, RMB3.1 million and RMB2.1 million, respectively. The following table sets forth a breakdown of our income tax expenses for the periods indicated:

	Year ended 31 December			**Six months ended 30 June**	
	2020	**2021**	**2022**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Current income tax	6,618	6,160	6,108	3,337	2,871
Deferred income tax	572	(530)	(629)	(286)	(752)
	7,190	5,630	5,479	3,051	2,119

According to the applicable PRC tax regulations, the general enterprise income tax rate in PRC is 25% and our PRC entities had been subject to the statutory enterprise income rate during the Track Record Period. Guangzhou Shenghui has been qualified as a High and New Technology Enterprise and enjoyed a preferential income tax rate of 15% since 2020, which is subject to review and renewal once every three years. The High and New Technology Enterprise Certificate was obtained and be remained valid for 3 years from December 2020 to December 2023. No provision for Hong Kong Profits Tax has been made as we had no assessable profits arising in Hong Kong during the Track Record Period. Our effective income tax rates were 18.7%, 12.4%, 13.7%, 16.5% and 12.2% for the year ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, respectively. Our effective income tax rates decreased from 18.7% for the year ended 31 December 2020 to approximately 12.4% for the year ended 31 December 2021, which was mainly attributable to a subsidiary with a preferential income tax rate of 15% since December 2020. Our effective tax rate increased from approximately 12.4% for the year ended 31 December 2021 to approximately 13.7% for the year ended 31 December 2022, which was mainly attributable to the decrease in deductible expenses incurred for the year ended 31 December 2022. Our effective tax rate decreased from approximately 16.5% for the six months ended 30 June 2022 to approximately 12.2% for the six months ended 30 June 2023, which was mainly attributable to Guangzhou Shenghui enjoyed the increased additional tax deduction rate from 75% to 100% since 2023.

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, our Group did not have any unresolved tax issue or dispute with the relevant tax authorities.

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six months ended 30 June 2023 compared to six months ended 30 June 2022

Revenue

Our total revenue increased by approximately 3.1% from approximately RMB289.2 million for the six months ended 30 June 2022 to approximately RMB298.3 million for the six months ended 30 June 2023, primarily due to our overall business growth.

- Property cleaning service. Our revenue generated from our property cleaning service increased by approximately 2.4% from approximately RMB278.9 million for the six months ended 30 June 2022 to approximately RMB285.6 million for the six months ended 30 June 2023, which was mainly driven by the increase in cleaning service at commercial buildings, public utilities and industrial park. Our number of projects in property cleaning service increased from 251 projects during the six months ended 30 June 2022 to 285 projects during the six months ended 30 June 2023.

  – *Commercial building*. Our revenue generated from commercial building increased by approximately 19.3% from approximately RMB133.9 million for the six months ended 30 June 2022 to approximately RMB159.8 million for the six months ended 30 June 2023, which was primarily attributable to (i) 46 new projects which contributed approximately RMB20.4 million of revenue in total during the six months ended 30 June 2023, such as a project engaged by a leading property developer listed on the Hong Kong Stock Exchange; (ii) our broadened service scope such as not only providing basic cleaning and maintenance but also garbage collection and transportation in existing projects; and (iii) our increased service coverage due to increased serving units in the existing projects during the six months ended 30 June 2023 as a result of our business expansion contributed by our increased tendering efforts.

  – *Residential building*. Our revenue generated from residential building decreased by approximately 8.4% from approximately RMB70.3 million for the six months ended 30 June 2022 to approximately RMB64.4 million for the six months ended 30 June 2023, which was primarily attributable to several contracts in different projects which have ended during 2022 and partially offset by the 18 new projects which contributed approximately RMB6.6 million of revenue in total during the six months ended 30 June 2023, such as a project engaged by a leading property management company listed on the Hong Kong Stock Exchange, as a result of our business expansion contributed by our increased tendering efforts.

– *Transportation hub*. Our revenue generated from transportation hub decreased by approximately 41.9% from approximately RMB28.9 million for the six months ended 30 June 2022 to approximately RMB16.8 million for the year ended 30 June 2023, which was primarily attributable to several contracts in different projects which have ended during 2022 and first quarter of 2023 and partially offset by a new project which contributed approximately RMB1.3 million of revenue in total during the six months ended 30 June 2023 as a result of our business expansion contributed by our increased tendering efforts.

– *Shopping mall*. Our revenue generated from shopping mall decreased by approximately 21.6% from approximately RMB34.7 million for the six months ended 30 June 2022 to approximately RMB27.2 million for the six months ended 30 June 2023, which was primarily due to a project which contributed significant revenue has ended in 2022.

– *Public utilities*. Our revenue generated from public utilities increased by approximately 93.6% from approximately RMB4.7 million for the six months ended 30 June 2022 to approximately RMB9.1 million 30 June 2023, which was mainly due to four new projects which contributed approximately RMB5.2 million of revenue in total during the six months ended 30 June 2023, as a result of our business expansion contributed by our increased tendering efforts.

– *Industrial park*. Our revenue generated from industrial park increased by approximately 27.7% from approximately RMB6.5 million for the six months ended 30 June 2022 to approximately RMB8.3 million for the six months ended 30 June 2023, which was primarily due to four new projects which contributed approximately RMB2.5 million of revenue in total during the six months ended 30 June 2023 as a result of our business expansion contributed by our increased tendering efforts.

• *Public space cleaning service*. Our revenue generated from public space cleaning service increased by approximately 23.5% from approximately RMB10.2 million for the six months ended 30 June 2022 to approximately RMB12.6 million for six months ended 30 June 2023, which was primarily attributable to two new projects which contributed approximately RMB2.5 million of revenue in total during the six months ended 30 June 2023.

• *Other cleaning service*. There was no revenue generated from other cleaning service for the six months ended 30 June 2022 and 2023.

Cost of services

Our cost of services increased by approximately RMB7.7 million or 3.2% from approximately RMB243.4 million for the six months ended 30 June 2022 to approximately RMB251.1 million for the six months ended 30 June 2023. Such increase was mainly attributable to the increase in employee benefit expenses from approximately RMB142.4 million to approximately RMB151.1 million due to the increased number of workers employed over the corresponding periods in order to meet the manpower requirement of increased number of projects.

Gross profit and gross profit margin

As a result of the foregoing, our total gross profit increased by 3.3% from approximately RMB45.7 million for the six months ended 30 June 2022 to approximately RMB47.2 million for the six months ended 30 June 2023. Our gross profit margin remained relatively stable at 15.8% and 15.8% for the six months ended 30 June 2022 and 2023, respectively.

- *Property cleaning service*. Gross profit of our property cleaning service increased by approximately 2.5% from approximately RMB43.8 million for the six months ended 30 June 2022 to approximately RMB44.9 million for the six months ended 30 June 2023 due to the increase in revenue during the six months ended 30 June 2023, mainly driven by revenue generated from commercial building, public utilities and industrial park. Gross profit margin of our property cleaning service remained relatively stable at 15.7% and 15.7% for the six months ended 30 June 2022 and 2023, respectively.

  – *Commercial building*. Gross profit of our commercial building increased by approximately 18.3% from approximately RMB23.5 million for the six months ended 30 June 2022 to approximately RMB27.8 million for the six months ended 30 June 2023 which was mainly due to the increase in our revenue during the six months ended 30 June 2023. Gross profit margin of our commercial building remained relatively stable at 17.6% and 17.4% for the six months ended 30 June 2022 and 2023, respectively.

  – *Residential building*. Gross profit of our residential building decreased by approximately 12.8% from approximately RMB7.8 million for the six months ended 30 June 2022 to approximately RMB6.8 million for the six months ended 30 June 2023 which was mainly attributable to the decrease in our revenue during the six months ended 30 June 2023 and the gross profit margin of our residential building remained relatively stable at 11.0% and 10.5% for the six months ended 30 June 2022 and 2023, respectively.

– *Transportation hub*. Gross profit of our transportation hub decreased by approximately 43.5% from approximately RMB4.6 million for the six months ended 30 June 2022 to approximately RMB2.6 million for the six months ended 30 June 2023 which was mainly due to the decrease in our revenue during the six months ended 30 June 2023. Gross profit margin of our transportation hub remained relatively stable at 15.8% and 15.5% for the six months ended 30 June 2022 and 2023, respectively.

– *Shopping mall*. Gross profit of our shopping mall decreased by approximately 22.0% from approximately RMB5.9 million for the six months ended 30 June 2022 to approximately RMB4.6 million for the six months ended 30 June 2023 which was mainly due to the decrease in our revenue during the six months ended 30 June 2023. Gross profit margin of our shopping mall remained relatively stable at 17.0% and 17.0% for the six months ended 30 June 2022 and 2023, respectively.

– *Public utilities*. Gross profit of our public utilities increased by approximately 87.5% from approximately RMB0.8 million for the six months ended 30 June 2022 to approximately RMB1.5 million for the six months ended 30 June 2023 which was mainly due to the increase in our revenue during the six months ended 30 June 2023. Gross profit margin of our public utilities remained relatively stable at 16.3% and 16.0% for the six months ended 30 June 2022 and 2023, respectively.

– *Industrial park*. Gross profit of our industrial park increased by approximately 30.8% from approximately RMB1.3 million for the six months ended 30 June 2022 to approximately RMB1.7 million for the six months ended 30 June 2023 which was mainly due to the increase in our revenue during the six months ended 30 June 2023. Gross profit margin of our industrial park remained relatively stable at 19.5% and 20.0% for the six months ended 30 June 2022 and 2023, respectively.

• *Public space cleaning service*. Gross profit of our public space cleaning service increased by approximately 15.0% from approximately RMB2.0 million for the six months ended 30 June 2022 to approximately RMB2.3 million for the six months ended 30 June 2023 which was mainly due to the increase in revenue during the six months ended 30 June 2023. Gross profit margin of our public space cleaning service remained relatively stable at 19.0% and 18.0% for the six months ended 30 June 2022 and 2023, respectively.

• *Other cleaning service*. Gross profit of our other cleaning service remained at nil for the six months ended 30 June 2022 and 2023 as no revenue was derived from other cleaning service during the six months ended 30 June 2022 and 2023.

Other income

Our other income decreased by approximately RMB1.2 million or 35.3% from approximately RMB3.4 million for the six months ended 30 June 2022 to approximately RMB2.2 million for the six months ended 30 June 2023. The decrease was mainly attributable to the decrease in PRC government grant by RMB0.8 million and the decrease in value–added tax refund by approximately RMB0.5 million.

Other loss

Our other loss remained stable at nil and nil for the six months ended 30 June 2022 and 2023, respectively.

Selling and marketing expenses

Our selling and marketing expenses increased by approximately RMB0.7 million or 35.0% from approximately RMB2.0 million for the six months ended 30 June 2022 to approximately RMB2.7 million for the six months ended 30 June 2023. The increase was mainly attributable to the increase in tendering expenses by RMB0.5 million, which contributed to increase in number of tenders.

General and administrative expenses

Our general and administrative expenses decreased by approximately RMB2.6 million or 9.8% from approximately RMB26.6 million for the six months ended 30 June 2022 to approximately RMB24.0 million for the six months ended 30 June 2023. Such decrease was mainly attributable to the decrease in **[REDACTED]** expenses by approximately RMB3.2 million.

Finance expenses, net

Our finance expenses, net remained stable at RMB0.2 million and RMB0.2 million for the six months ended 30 June 2022 and 2023, respectively.

Income tax expenses

Our income tax expenses decreased by approximately RMB1.0 million or 32.3% from approximately RMB3.1 million for the six months ended 30 June 2022 to approximately RMB2.1 million for the six months ended 30 June 2023. Effective tax rate decreased from approximately 16.5% for the six months ended 30 June 2022 to 12.2% for the six months ended 30 June 2023, which was mainly attributable to Guangzhou Shenghui enjoyed the increased additional tax deducting rate from 75% to 100% since 1 January 2023. For details, please refer to Note 12 of the Accountant's Report in Appendix I to this document.

Net profit and net profit margin

As a result of the foregoing, our net profit slightly decreased from approximately RMB15.4 million for the six months ended 30 June 2022 to approximately RMB15.3 million for the six months ended 30 June 2023, and our net profit margin remained stable at 5.3% and 5.1% for the six months ended 30 June 2022 and 2023, respectively.

Year ended 31 December 2022 compared to year ended 31 December 2021

Revenue

Our total revenue increased by approximately 5.4% from approximately RMB563.5 million for the year ended 31 December 2021 to approximately RMB594.2 million for the year ended 31 December 2022, primarily due to our overall business growth.

- *Property cleaning service*. Our revenue generated from our property cleaning service increased by approximately 5.5% from approximately RMB544.0 million for the year ended 31 December 2021 to approximately RMB574.1 million for the year ended 31 December 2022, which was mainly driven by the increase in cleaning service at commercial buildings and residential buildings. Our number of projects in property cleaning service increased from 252 projects during the year ended 31 December 2021 to 291 projects during the year ended 31 December 2022.

  – *Commercial building*. Our revenue generated from commercial building increased by approximately 15.9% from approximately RMB249.9 million for the year ended 31 December 2021 to approximately RMB289.6 million for the year ended 31 December 2022, which was primarily attributable to (i) 54 new projects which contributed approximately RMB33.0 million of revenue in total during the year ended 31 December 2022, such as a project engaged by one of the largest property management companies in the PRC who listed on the Main Board in Hong Kong; (ii) our broadened service scope such as not only providing basic cleaning and maintenance but also garbage collection and transportation in existing projects; and (iii) our increased service coverage due to increased serving units in the existing projects during the year ended 31 December 2022 as a result of our business expansion contributed by our increased tendering efforts.

  – *Residential building*. Our revenue generated from residential building increased by approximately 5.8% from approximately RMB135.8 million for the year ended 31 December 2021 to approximately RMB143.7 million for the year ended 31 December 2022, which was primarily attributable to 23 new projects which contributed approximately RMB12.1 million of revenue in total during the year ended 31 December 2022, such as a project engaged by one of the largest property management companies in the PRC who listed on the Main Board in Hong Kong, as a result of our business expansion contributed by our increased tendering efforts.

- *Transportation hub*. Our revenue generated from transportation hub decreased by approximately 15.3% from approximately RMB61.4 million for the year ended 31 December 2021 to approximately RMB52.0 million for the year ended 31 December 2022, which was primarily attributable to a project which contributed significant revenue which has ended in 2021 and the completion of several contracts in different projects in 2022.

- *Shopping mall*. Our revenue generated from shopping mall decreased by approximately 9.6% from approximately RMB71.2 million for the year ended 31 December 2021 to approximately RMB64.4 million for the year ended 31 December 2022, which was primarily due to the completion of several contracts in different projects in 2022 and offset by three new projects which contributed approximately RMB1.9 million of revenue in total during the year ended 31 December 2022 as a result of our business expansion contributed by our increased tendering efforts.

- *Public utilities*. Our revenue generated from public utilities decreased by approximately 5.5% from approximately RMB12.7 million for the year ended 31 December 2021 to approximately RMB12.0 million 31 December 2022, which was mainly due to several contracts in different projects which have ended during 2022 and offset by eight new projects which contributed approximately RMB2.0 million in total in 2022 as a result of our business expansion contributed by our increased tendering efforts.

- *Industrial park*. Our revenue generated from industrial park decreased by approximately 5.4% from approximately RMB13.0 million for the year ended 31 December 2021 to approximately RMB12.3 million for the year ended 31 December 2022, which was primarily due to the completion of several contracts in different projects in 2022 and offset by two new projects which contributed approximately RMB1.0 million of revenue in total during the year ended 31 December 2022 as a result of our business expansion contributed by our increased tendering efforts.

• *Public space cleaning service*. Our revenue generated from public space cleaning service increased by approximately 2.6% from approximately RMB19.6 million for the year ended 31 December 2021 to approximately RMB20.1 million for year ended 31 December 2022, which was primarily attributable to a new project which contributed approximately RMB2.5 million of revenue in total during the year ended 31 December 2022.

• *Other cleaning service*. There was no revenue generated from other cleaning service for the years ended 31 December 2021 and 2022.

Cost of services

Our cost of services increased by approximately RMB25.5 million or 5.4% from approximately RMB474.3 million for the year ended 31 December 2021 to approximately RMB499.8 million for the year ended 31 December 2022. Such increase was mainly attributable to the increase in employee benefit expenses from approximately RMB254.5 million to approximately RMB291.9 million due to the increased number of workers employed over the corresponding periods in order to meet the manpower requirement of increased number of projects.

Gross profit and gross profit margin

As a result of the foregoing, our total gross profit increased by 5.8% from approximately RMB89.2 million for the year ended 31 December 2021 to approximately RMB94.4 million for the year ended 31 December 2022. Our gross profit margin remained relatively stable at 15.8% and 15.9% for the years ended 31 December 2021 and 2022, respectively.

- *Property cleaning service*. Gross profit of our property cleaning service increased by approximately 6.1% from approximately RMB85.5 million for the year ended 31 December 2021 to approximately RMB90.7 million for the year ended 31 December 2022 due to the increase in revenue during the year ended 31 December 2022, mainly driven by revenue generated from commercial building and residential building. Gross profit margin of our property cleaning service relatively stable at 15.7% and 15.8% for the years ended 31 December 2021 and 2022, respectively.

  – *Commercial building*. Gross profit of our commercial building increased by approximately 15.3% from approximately RMB44.3 million for the year ended 31 December 2021 to approximately RMB51.1 million for the year ended 31 December 2022 which was mainly due to the increase in our revenue during the year ended 31 December 2022. Gross profit margin of our commercial building remained relatively stable at 17.7% and 17.7% for the years ended 31 December 2021 and 2022, respectively.

  – *Residential building*. Gross profit of our residential building increased by approximately 6.1% from approximately RMB14.8 million for the year ended 31 December 2021 to approximately RMB15.7 million for the year ended 31 December 2022 which was mainly attributable to the increase in our revenue during the year ended 31 December 2022 and the gross profit margin of our residential building remained relatively stable at 10.9% and 10.9% for the years ended 31 December 2021 and 2022, respectively.

- *Transportation hub*. Gross profit of our transportation hub decreased by approximately 12.5% from approximately RMB9.6 million for the year ended 31 December 2021 to approximately RMB8.4 million for the year ended 31 December 2022 which was mainly due to the decrease in our revenue during the year ended 31 December 2022. Gross profit margin of our transportation hub remained relatively stable at 15.6% and 16.1% for the years ended 31 December 2021 and 2022, respectively.

- *Shopping mall*. Gross profit of our shopping mall decreased by approximately 9.1% from approximately RMB12.1 million for the year ended 31 December 2021 to approximately RMB11.0 million for the year ended 31 December 2022 which was mainly due to the decrease in our revenue during the year ended 31 December 2022. Gross profit margin of our shopping mall remained relatively stable at 17.1% and 17.1% for the years ended 31 December 2021 and 2022, respectively.

- *Public utilities*. Gross profit of our public utilities remained relatively stable at RMB2.1 million and RMB2.0 million for the years ended 31 December 2021 and 2022, respectively. Gross profit margin of our public utilities remained relatively stable at 16.2% and 16.4% for the years ended 31 December 2021 and 2022, respectively.

- *Industrial park*. Gross profit of our industrial park remained relatively stable at RMB2.7 million and RMB2.5 million for the years ended 31 December 2021 and 2022, respectively. Gross profit margin of our industrial park remained relatively stable at 20.6% and 20.6% for the years ended 31 December 2021 and 2022, respectively.

• *Public space cleaning service*. Gross profit of our public space cleaning service remained relatively stable at RMB3.7 million and RMB3.7 million for the years ended 31 December 2021 and 2022, respectively. Gross profit margin of our public space cleaning service remained relatively stable at 19.0% and 18.4% for the years ended 31 December 2021 and 2022, respectively.

• *Other cleaning service*. Gross profit of our other cleaning service remained at nil for the years ended 31 December 2021 and 2022 as no revenue was derived from other cleaning service during the years ended 31 December 2021 and 2022.

Other income

Our other income decreased by approximately RMB2.1 million or 29.2% from approximately RMB7.2 million for the year ended 31 December 2021 to approximately RMB5.1 million for the year ended 31 December 2022. The decrease was mainly attributable to decrease in net non-recurring income from the provision of ancillary services for a road construction project of approximately RMB5.2 million due to the provision of ancillary services has been completed and the decrease in contract sum led to negative income derived by input method. And offset by the increase in rental income by RMB2.1 million for the new sub-lease of our leased shops and carparks.

Other loss

Our other loss remained stable at RMB3,000 and nil for the years ended 31 December 2021 and 2022, respectively.

Selling and marketing expenses

Our selling and marketing expenses increased by approximately RMB0.9 million or 29.0% from approximately RMB3.1 million for the year ended 31 December 2021 to approximately RMB4.0 million for the year ended 31 December 2022. The increase was mainly attributable to the increase in marketing and entertainment expenses by RMB0.8 million, which contributed to our growth in project numbers.

General and administrative expenses

Our general and administrative expenses increased by approximately RMB6.1 million or 13.6% from approximately RMB45.0 million for the year ended 31 December 2021 to approximately RMB51.1 million for the year ended 31 December 2022. Such increase was mainly attributable to the increase in **[REDACTED]** expenses by approximately RMB2.1 million and the increase in short-term lease expenses by RMB2.0 million from our newly leased shops and carpark in the year ended 31 December 2022.

Finance expenses, net

Our finance expenses, net remained stable at RMB0.4 million and RMB0.4 million for the years ended 31 December 2021 and 2022, respectively.

Income tax expenses

Our income tax expenses decreased by approximately RMB0.1 million or 1.8% from approximately RMB5.6 million for the year ended 31 December 2021 to approximately RMB5.5 million for the year ended 31 December 2022. Effective tax rate increased from approximately 12.4% for the year ended 31 December 2021 to 13.7% for the year ended 31 December 2022, which was mainly attributable to less deductible expenses incurred for year ended 31 December 2022. For details, please refer to Note 12 of the Accountant's Report in Appendix I to this document.

Net profit and net profit margin

As a result of the foregoing, our net profit decreased slightly by approximately RMB5.5 million or 13.8% from RMB39.9 million for the year ended 31 December 2021 to approximately RMB34.4 million for the year ended 31 December 2022, whilst our net profit margin decreased from 7.1% for the year ended 31 December 2021 to 5.8% for the year ended 31 December 2022.

Year ended 31 December 2021 compared to year ended 31 December 2020

Revenue

Our total revenue increased by approximately 21.0% from approximately RMB465.7 million for the year ended 31 December 2020 to approximately RMB563.5 million for the year ended 31 December 2021, primarily due to our overall business growth.

- *Property cleaning service*. Our revenue generated from our property cleaning service increased by approximately 21.7% from approximately RMB446.9 million for the year ended 31 December 2020 to approximately RMB544.0 million for the year ended 31 December 2021, which was mainly driven by revenue generated from commercial building, shopping mall and residential building. Our number of projects in property cleaning service increased from 238 projects during the year ended 31 December 2020 to 252 projects during the year ended 31 December 2021.

  – *Commercial building*. Our revenue generated from commercial building increased by 18.2% from approximately RMB211.4 million for the year ended 31 December 2020 to approximately RMB249.9 million for the year ended 31 December 2021, which was primarily due to (i) 23 new projects which contributed approximately RMB10.5 million of revenue in total in 2021, such as Raffle City Chongqing (重慶來福士廣場); and (ii) our increased service coverage due to increased serving units in the existing projects in 2021 as a result of our business expansion contributed by our increased tendering effort.

- *Residential building.* Our revenue generated from residential building increased by 41.3% from approximately RMB96.1 million for the year ended 31 December 2020 to approximately RMB135.8 million for the year ended 31 December 2021, which was primarily due to (i) 18 new projects which contributed approximately RMB13.6 million of revenue in total in 2021, such as a project engaged by one of the largest established integrated property developers and largest real estate builders in the PRC who listed on the Main Board in Hong Kong; and (ii) our increased service coverage in terms of the number of residential units we served in the existing projects in 2021 as a result of our business expansion contributed by our increased tendering effort.

- *Transportation hub.* Our revenue generated from transportation hub decreased by 3.2% from approximately RMB63.4 million for the year ended 31 December 2020 to approximately RMB61.4 million for the year ended 31 December 2021, which was primarily attributable to several contracts in different projects ended in 2021 and partially offset by the revenue contribution of the project, Chongqing Jiangbei International Airport (重慶江北國際機場), since July 2020.

- *Shopping mall.* Our revenue generated from shopping mall increased by 35.1% from approximately RMB52.7 million for the year ended 31 December 2020 to approximately RMB71.2 million for the year ended 31 December 2021, which was primarily due to (i) seven new projects which contributed approximately RMB10.1 million of revenue in total in 2021, such as a project engaged by a leading property management company listed on the Main Board in Hong Kong with operations in 196 cities in the PRC as result of our business expansion contributed by our increased tendering effort; and (ii) a project which started in the last quarter of 2020 and contributed significant amount of revenue in 2021.

- *Public utilities.* Our revenue generated from public utilities decreased by approximately 24.0% from approximately RMB16.7 million for the year ended 31 December 2020 to approximately RMB12.7 million for the year ended 31 December 2021, which was mainly due to the completion of several contracts in different projects in 2021 and offset by three new projects which contributed approximately RMB1.8 million in total in 2021.

- *Industrial park.* Our revenue generated from industrial park increased by approximately 97.0% from approximately RMB6.6 million for the year ended 31 December 2020 to approximately RMB13.0 million for the year ended 31 December 2021, which was primarily due to a new project which contributed approximately RMB1.7 million of revenue in 2021 as a result of our business expansion contributed by our increased tendering effort and a project which started in the last quarter of 2020 and contributed significant amount of revenue in 2021.

- *Public space cleaning service*. Our revenue generated from public space cleaning service increased by approximately 6.5% from approximately RMB18.4 million for the year ended 31 December 2020 to approximately RMB19.6 million for year ended 31 December 2021, which was primarily attributable to the increase in number of projects in public space cleaning service from four projects during the year ended 31 December 2020 to seven projects during the year ended 31 December 2021 as a result of our business expansion contributed by our increased tendering effort.

- *Other cleaning service*. Our revenue generated from other cleaning services decreased from approximately RMB0.4 million for the year ended 31 December 2020 to nil for year ended 31 December 2021, which was primarily attributable to the decrease in number of projects in other cleaning service from one project during the year ended 31 December 2020 to nil project during the year ended 31 December 2021.

Cost of services

Our cost of services increased by approximately RMB88.6 million or 23.0% from approximately RMB385.7 million for the year ended 31 December 2020 to approximately RMB474.3 million for the year ended 31 December 2021. Such increase was mainly attributable to the increase in (i) employee benefit expenses from approximately RMB208.8 million to approximately RMB254.5 million due to increased number of workers employed over the corresponding periods in order to meet the manpower of increased number of projects; and (ii) the subcontracting labour costs increased from approximately RMB149.9 million for the year ended 31 December 2020 to approximately RMB188.9 million for the year ended 31 December 2021, which also mainly due to the increased manpower resources in order to support the business and revenue growth.

Gross profit and gross profit margin

As a result of the foregoing, our total gross profit increased by approximately 11.6% from approximately RMB79.9 million for the year ended 31 December 2020 to approximately RMB89.2 million for the year ended 31 December 2021. Our gross profit margin decreased from 17.2% for the year ended 31 December 2020 to 15.8% for the year ended 31 December 2021.

- *Property cleaning service*. Gross profit of our property cleaning service increased by approximately 11.8% from approximately RMB76.5 million for the year ended 31 December 2020 to approximately RMB85.5 million for the year ended 31 December 2021 due to the increase in revenue in 2021, mainly driven by commercial building, shopping mall and residential building. Gross profit margin of our property cleaning service decreased from 17.1% for the year ended 31 December 2020 to 15.7% for the year ended 31 December 2021, respectively, which was mainly driven by the decrease in gross profit margin in shopping mall and residential building.

– *Commercial building.* Gross profit of our commercial building increased by approximately 14.8% from approximately RMB38.6 million for the year ended 31 December 2020 to approximately RMB44.3 million for the year ended 31 December 2021 which was mainly due to the increase in our revenue during 2021. Gross profit margin of our commercial building remained relatively stable at 18.3% and 17.7% for the year ended 31 December 2020 and 2021, respectively.

– *Residential building.* Gross profit of our residential building increased by 14.3% from RMB12.9 million for the year ended 31 December 2020 to RMB14.8 million for the year ended 31 December 2021 which was mainly due to the increase in our revenue during 2021. Gross profit margin of our residential building decreased from 13.4% for the year ended 31 December 2020 to 10.9% for the year ended 31 December 2021, which was mainly attributable to (i) the decrease in cleaning workforce in residential building needed as the PRC government announced and encouraged the public to reduce outdoor activities in 2020, while the outbreak of COVID-19 is effectively controlled, viable treatments for COVID-19 became commercially available along with relaxation of the restrictions under the zero-COVID strategy and the subsequent normalised economic activities in 2021, so the cleaning workforce required increased during the year ended 31 December 2021; and (ii) the increase in cleaning materials consumed in residential building for the year ended 31 December 2021.

– *Transportation hub.* Gross profit of our transportation hub decreased by 6.8% from RMB10.3 million for the year ended 31 December 2020 to RMB9.6 million for the year ended 31 December 2021 which was mainly due to the decrease in our revenue during 2021. Gross profit margin of our transportation hub remained relatively stable at 16.3% and 15.6% for the year ended 31 December 2020 and 2021, respectively.

– *Shopping mall.* Gross profit of our shopping mall increased by 15.4% from RMB10.5 million for the year ended 31 December 2020 to RMB12.1 million for the year ended 31 December 2021 which was mainly due to the increase in our revenue during 2021. Gross profit margin of our shopping mall decreased from 19.9% for the year ended 31 December 2020 to 17.1% for the year ended 31 December 2021, which was mainly attributable to (i) the decrease in cleaning workforce in shopping mall needed as the PRC government announced and encouraged the public to reduce outdoor activities in 2020, while the outbreak of COVID-19 is effectively controlled, viable treatments for COVID-19 became commercially available along with relaxation of the restrictions under the zero-COVID strategy and the subsequent normalised economic activities in 2021, so the cleaning workforce required increased during the year ended 31 December 2021 and (ii) the increase in cleaning workforce was needed as the crowd volume increased in shopping mall in Guangzhou due to the active retail sales in

Guangzhou which was reflected by the increase in total retail sales of consumer goods by approximately 9.8% from the year ended 31 December 2020 to the year ended 31 December 2021.

– *Public utilities*. Gross profit of our public utilities decreased by 25.0% from approximately RMB2.8 million for the year ended 31 December 2020 to approximately RMB2.1 million for the year ended 31 December 2021 which was mainly due to the decrease in our revenue during 2021. Gross profit margin of our public utilities remained relatively stable at 16.7% and 16.2% for the year ended 31 December 2020 and 2021, respectively.

– *Industrial park*. Gross profit of our industrial park increased by approximately 107.7% from approximately RMB1.3 million for the year ended 31 December 2020 to approximately RMB2.7 million for the year ended 31 December 2021 which was mainly due to the increase in our revenue during 2021. Gross profit margin of our industrial park remained relatively stable at 20.3% and 20.6% for the year ended 31 December 2020 and 2021, respectively.

- *Public space cleaning service*. Gross profit of our public space cleaning service increased by approximately 8.8% from approximately RMB3.4 million for the year ended 31 December 2020 to approximately RMB3.7 million for the year ended 31 December 2021 which was mainly due to the increase in revenue in 2021. Gross profit margin of our public space cleaning service remained relatively stable at 18.3% and 19.0% for the year ended 31 December 2020 and 2021, respectively.

- *Other cleaning service*. Gross profit of our other cleaning service decreased from approximately RMB11,000 for the year ended 31 December 2020 to nil for the year ended 31 December 2021. Gross profit margin of our other cleaning service decreased from 3.1% for the year ended 31 December 2020 to nil for the year ended 31 December 2021 as no revenue was derived from other cleaning service during 2021.

Other income

Our other income decreased by approximately RMB1.0 million or 12.2% from approximately RMB8.2 million for the year ended 31 December 2020 to approximately RMB7.2 million for the year ended 31 December 2021. The decrease was mainly attributable to the decrease in penalty on the late payment of rental income due to the Group reached a commercial settlement with Guangzhou Pengsheng to settle the total rental receivables and all remaining of rental receivables and penalty on late payment of rental income previously charged were waived and were written off as bad debts for the year ended 31 December 2021.

Other loss

Our other loss decrease from approximately RMB7.3 million for the year ended 31 December 2020 to approximately RMB3,000 for the year ended 31 December 2021 was mainly attributable to the decrease in fair value loss on financial assets at fair value through profit or loss for year ended 31 December 2021 by approximately RMB7.1 million due to the investment in fund and wealth management product were all disposed during the year ended 31 December 2020.

Selling and marketing expenses

Our selling and marketing expenses remained stable at RMB3.1 million and RMB3.1 million for the year ended 31 December 2020 and 2021, respectively.

General and administrative expenses

Our general and administrative expenses increased by approximately RMB11.3 million or 33.5% from approximately RMB33.7 million for the year ended 31 December 2020 to approximately RMB45.0 million for the year ended 31 December 2021. Such increase was mainly attributable to (i) the increase in employee benefit expenses by RMB7.0 million due to the increase in salaries for staffs in research and development function and (ii) the increase in **[REDACTED]** expenses by RMB**[REDACTED]**. The increase in salaries for staff in research and development function was mainly attributable to the resources contributed to the development of 7 new patents (with 2 of them applying for registration), in which all patents are related to the enhancement of service efficiency and safety when performing our services. In 2021, we were awarded the Stone & Floor Application Conservation Specialty Qualification Certificate – AAAAA Grade by the Stone Application Conservation Specialty Committee of Guangdong Stone Materials Association, and the number of accidents occurred while performing our services decreased from 39 for the year ended 31 December 2020 to nil for the year ended 31 December 2021.

Finance expenses, net

Our finance expenses, net decreased by approximately RMB0.8 million or 66.7% from approximately RMB1.2 million for the year ended 31 December 2020 to approximately RMB0.4 million for the year ended 31 December 2021. Such decrease was mainly attributable to the decrease in interest expense on bank borrowings by RMB0.8 million due to (i) our bank borrowings were repaid during the year ended 31 December 2020 and (ii) we had new bank borrowings in late of December 2021.

Income tax expenses

Our income tax expenses decreased by approximately RMB1.6 million or 22.2% from approximately RMB7.2 million for the year ended 31 December 2020 to approximately RMB5.6 million for the year ended 31 December 2021. Effective tax rate decreased from approximately 18.7% for the year ended 31 December 2020 to 12.4% for the year ended 31 December 2021, which was mainly attributable to a subsidiary with a preferential income tax rate of 15% since December 2020. For details, please refer to Note 12 of the Accountant's Report in Appendix I to this document.

Net profit and net profit margin

As a result of the foregoing, our net profit increased by approximately RMB8.6 million or 27.5% from approximately RMB31.3 million for the year ended 31 December 2020 to approximately RMB39.9 million for the year ended 31 December 2021, whilst our net profit margin remained stable at 6.7% and 7.1% for the year ended 31 December 2020 and 2021, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Financial resources

Our principal sources of funds have historically been our equity capital, cash generated from our operations and bank borrowings. Our primary liquidity requirements are to finance our business operations, working capital needs and future plans. Going forward, we expect these sources of funds to continue to be our principal sources of liquidity, and we may use a portion of the **[REDACTED]** from the **[REDACTED]** due to us to finance some of our liquidity requirements. For details of our future plans, please refer to the sections headed "Business – Business strategies" and "Future plans and **[REDACTED]**" of this document.

We regularly monitor our liquidity requirements to ensure that we maintain sufficient cash resources for our working capital requirements and capital expenditure needs. During the Track Record Period and up to the Latest Practicable Date, we did not experience any difficulties in settling our obligations in the normal course of business which would otherwise have a material impact to our business, financial condition or results of operations.

Consolidated statements of Cash Flow

The following table summarises our consolidated statements of cash flows for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2020	**2021**	**2022**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Operating cash flow before changes in working capital	54,637	52,094	48,194	22,433	24,523
Changes in working capital	(26,273)	(32,993)	(37,256)	(45,647)	(25,702)
Interest paid and/or tax paid	(6,337)	(4,175)	(5,159)	(3,419)	(3,384)
Net cash generated from/(used in) operating activities	22,027	14,926	5,779	(26,633)	(4,563)
Net cash generated from/(used in) investing activities	(5,425)	(7,423)	1,823	3,079	(1,854)
Net cash generated from/(used in) financing activities	(5,215)	(22,749)	(5,071)	(6,529)	1,553
Net increase/(decrease) in cash and cash equivalents	11,387	(15,246)	2,531	(30,083)	(4,864)
Cash and cash equivalents at beginning of the year	56,050	67,437	52,191	52,191	54,722
Cash and cash equivalents at end of the year	67,437	52,191	54,722	21,108	49,858

Cash flow from operating activities

Our net cash generated from operating activities reflects (i) profit before income tax adjusted for non-cash and non-operating items such as depreciation, finance income and costs, dividend income, fair value (gain)/losses on financial assets at fair value through profit or loss, loss of disposal of property, plant and equipment, share of net (profit)/loss of associates, loss on disposal of investments in associates, impairment losses on financial assets, reversal of impairment losses on financial assets; (ii) the effects of movements in working capital, such as changes in trade and other receivables, trade and other payables; and (iii) income tax paid.

For the six months ended 30 June 2022, our net cash used in operating activities was RMB26.6 million, representing our profit before taxation of RMB18.4 million and adjusted by an increase in trade and other receivables of RMB**[REDACTED]** which was in line with our revenue growth, and partially offset by the increase in trade and other payables of RMB2.1 million which was mainly due to the increase in amount due to Mr. Li as we had advances from Mr. Li in order to settle **[REDACTED]** expenses and the increase in **[REDACTED]** expenses payable.

For the six months ended 30 June 2023, our net cash used in operating activities was RMB4.6 million, representing our profit before taxation of RMB17.6 million and adjusted by an increase in trade and other receivables of RMB**[REDACTED]** which was in line with our business growth, and partially offset by the increase in trade and other payables of RMB4.3 million which was mainly due to the increase in amount due to Mr. Li as we had advances from Mr. Li in order to settle **[REDACTED]** expenses and the increase in **[REDACTED]** expenses payable.

For the year ended 31 December 2022, our net cash generated from operating activities was RMB5.8 million, representing our profit before taxation of RMB39.9 million and adjusted by an increase in trade and other payables of RMB**[REDACTED]** which was mainly due to the increase in amount due to Mr. Li that we had advances from Mr. Li in order to settle **[REDACTED]** expenses, and partially offset by the increase in trade and other receivables of RMB44.5 million which was in line with our revenue growth.

For the year ended 31 December 2021, our net cash generated from operating activities was RMB14.9 million, representing our profit before taxation of RMB45.6 million and adjusted by an increase in trade and other payables of RMB**[REDACTED]** which was mainly due to the increase in amount due to Mr. Li that we had advances from Mr. Li in order to settle **[REDACTED]** expenses, and partially offset by the increase in trade and other receivables of RMB35.6 million which was in line with our revenue growth.

For the year ended 31 December 2020, our net cash generated from operating activities was RMB22.0 million, representing our profit before taxation of RMB38.5 million and adjusted by an increase in trade and other payables of RMB**[REDACTED]** mainly due to the increase in payroll, bonus and social insurance payables as our increased manpower resources in order to support our business expansion, and partially offset by the increase in trade and other receivables of RMB41.3 million which was in line with our revenue growth.

Cash flow from investing activities

Cash flow from investing activities mainly consisted of purchase of property, plant and equipment and acquisition and disposal of financial assets at fair value through profit or loss.

For the six months ended 30 June 2022, we had net cash generated from investing activities of approximately RMB3.1 million, which mainly resulted from (i) decrease in restricted bank deposits of approximately RMB4.1 million and partially offset by (ii) the purchase of property, plant and equipment of approximately RMB1.1 million.

For the six months ended 30 June 2023, we had net cash used in investing activities of approximately RMB1.9 million, which mainly resulted from the purchase of property, plant and equipment of approximately RMB2.3 million.

For the year ended 31 December 2022, we had net cash generated from investing activities of approximately RMB1.8 million, which mainly resulted from (i) decrease in restricted bank deposits of approximately RMB3.6 million and partially offset by (ii) the purchase of property, plant and equipment of approximately RMB1.9 million.

For the year ended 31 December 2021, we had net cash used in investing activities of approximately RMB7.4 million, which mainly resulted from (i) the purchases of property, plant and equipment of approximately RMB4.1 million and (ii) increase in restricted bank deposits of approximately RMB5.4 million and partially offset by (iii) the net repayment from Mr. Li and related parties of approximately RMB1.9 million.

For the year ended 31 December 2020, we had net cash used in investing activities of approximately RMB5.4 million, which mainly resulted from (i) net cash used in acquisition of and disposal for investment in financial assets of approximately RMB3.0 million; (ii) the purchase of property, plant and equipment of approximately RMB4.3 million; and partially offset by (iii) the **[REDACTED]** from disposal of associates of approximately RMB**[REDACTED]** due to Reorganisation purpose.

Cash flow from financing activities

Cash flow from financing activities mainly consisted of proceeds from and repayments of bank and other borrowings, dividend paid to controlling shareholders and capital reduction of a subsidiary and return of capital to controlling shareholders.

For the six months ended 30 June 2022, we had net cash used in financing activities of approximately RMB6.5 million, which mainly reflected the combined effects of (i) the repayments of bank and other borrowings of approximately RMB10.0 million; partially offset by (ii) the net advances from Mr. Chen and Mr. Li of approximately RMB5.0 million.

For the six months ended 30 June 2023, we had net cash generated from financing activities of approximately RMB1.6 million, which mainly due to the net advances from Mr. Chen and Mr. Li of approximately RMB2.3 million.

For the year ended 31 December 2022, we had net cash used in financing activities of approximately RMB5.1 million, which mainly reflected the combined effects of (i) the repayments of bank and other borrowings of approximately RMB10.0 million and partially offset by (ii) the net advances from Mr. Chen and Mr. Li of approximately RMB7.5 million.

For the year ended 31 December 2021, we had net cash used in financing activities of approximately RMB22.7 million, which mainly reflected the combined effects of (i) dividend paid to Controlling Shareholders of approximately RMB28.2 million; (ii) capital reduction of a subsidiary and return of capital of Controlling Shareholders of approximately RMB12.3 million; partially offset by (iii) the **[REDACTED]** from bank and other borrowings of approximately RMB10.0 million; (iv) the net advances from related companies, Mr. Chen and Mr. Li of approximately RMB5.0 million and (v) the issuance of share approximately RMB4.0 million.

For the year ended 31 December 2020, we had net cash used in financing activities of approximately RMB5.2 million, which mainly reflected the combined effects of (i) repayments of bank and other borrowing of approximately RMB44.4 million; (ii) lease payments for principal portion of lease liabilities of approximately RMB0.5 million; (iii) interest paid on lease liabilities and bank borrowings of approximately RMB0.5 million and RMB0.8 million, respectively; (iv) **[REDACTED]** expenses paid of approximately RMB0.7 million; partially offset by (v) the **[REDACTED]** from bank and other borrowings of approximately RMB39.4 million and (vi) disposal of excluded entities of approximately RMB2.1 million due to Reorganisation purpose.

Net current assets

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

	As at 31 December			As at 30 June	As at 30 September
	2020	**2021**	**2022**	**2023**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)
Current assets					
Trade and other receivables and prepayments	156,650	190,240	228,923	252,146	274,501
Financial assets at fair value through profit or loss	–	–	–	–	–
Restricted bank deposits	–	5,388	1,780	1,453	1,816
Cash and cash equivalents	67,437	52,191	54,722	49,858	50,507
	224,087	247,819	285,425	303,457	326,824
Current liabilities					
Trade and other payables	89,392	98,735	111,755	117,963	119,978
Current income tax payable	17,252	19,238	20,187	19,674	21,315
Bank borrowings	–	10,010	–	–	9,472
Lease liabilities	715	668	676	684	693
	107,359	128,651	132,618	138,321	151,458
Net current assets	116,728	119,168	152,807	165,136	175,366

Our Group maintained net current assets position of approximately RMB116.7 million, RMB119.2 million, RMB152.8 million, RMB165.1 million and RMB175.4 million as at 31 December 2020, 2021 and 2022 and 30 June 2023 and 30 September 2023, respectively.

Our net current assets increased from approximately RMB116.7 million as at 31 December 2020 to approximately RMB119.2 million as at 31 December 2021. The increase was mainly attributable to (i) the increase in trade and other receivables and prepayments by approximately RMB33.6 million which was in line with the growth in our revenue in 2021; (ii) the increase in restricted bank deposits by approximately RMB5.4 million; partially offset by (iii) the decrease in cash and cash equivalents by approximately RMB15.2 million; (iv) the increase in bank borrowings by approximately RMB10.0 million; (v) the increase in trade and other payables by approximately RMB**[REDACTED]** mainly due to the increase in amount due to Mr. Li as we had advances from Mr. Li in order to settle **[REDACTED]** expenses; and (vi) the increase in current income tax payable by approximately RMB2.0 million due to the VAT tax payable derived from our increase in revenue.

Our net current assets increased from approximately RMB119.2 million as at 31 December 2021 to approximately RMB152.8 million as at 31 December 2022. The increase was mainly due to (i) the increase in trade and other receivables and prepayments by approximately RMB38.7 million due to our increase in trade receivables; (ii) the decrease in bank borrowings by approximately RMB10.0 million; partially offset by (iii) the increase in trade and other payables by RMB**[REDACTED]** due to the increase in amount due to Mr. Li as we had advances from Mr. Li in order to settle **[REDACTED]** expenses and the increase in **[REDACTED]** expenses payable and (iv) the decrease in restricted bank deposits by approximately RMB3.6 million.

Our net current assets increased from approximately RMB152.8 million as at 31 December 2022 to approximately RMB165.1 million as at 30 June 2023. The increase was mainly attributable to (i) increase in trade receivables and other receivables and prepayments by approximately RMB**[REDACTED]** which was in line with the growth in our revenue; (ii) partially offset by the decrease in cash and cash equivalents by approximately RMB4.9 million; and (iii) the increase in trade and other payables by RMB**[REDACTED]** due to the increase in amount due to Mr. Li as we had advances from Mr. Li in order to settle **[REDACTED]** expenses and the increase in **[REDACTED]** expenses payable.

Our net current assets increased from approximately RMB165.1 million as at 30 June 2023 to approximately RMB175.4 million as at 30 September 2023. The increase was mainly attributable to the increase in trade receivables and other receivables and prepayments by approximately RMB**[REDACTED]** which was in line with the growth in our revenue; and partially offset by the increase in bank borrowings by approximately RMB9.5 million.

WORKING CAPITAL SUFFICIENCY

During the Track record Period, we met our working capital needs through a combination of cash generated from operations, bank borrowings and advances from Mr. Chen and Mr. Li. We manage our cash flow and working capital by closely monitoring and managing, among other things, the level of trade payables and receivables. We also review future cash flow requirements, assess our ability to meet debt repayment schedules and adjust our investment and financing plans, if necessary, to ensure that we maintain sufficient working capital to support our business operations and expansion plans.

We had net cash inflows in operating activities of approximately RMB22.0 million, RMB14.9 million and RMB5.8 million and cash outflow of approximately RMB26.6 million and RMB4.6 million for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 30 June 2023, respectively. We recorded negative operating cash flows for the six months ended 30 June 2022 and 30 June 2023, primarily due to the increase in our trade receivables. During the Track Record Period, we recorded positive operating profit before working capital changes. Our finance department regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in short and longer term. Due to the efforts of our finance department, the negative operating cash flows of approximately RMB26.6 million for the six months ended 30 June 2022 decreased significantly to RMB4.6 million for the six months ended 30 June 2023. We plan to improve our net operating cash outflow by (i) enhancing our internal credit risk management through the credit management system established by our Group, strictly adhering to our policy of dealing only with customers of appropriate creditworthiness and history, and carrying out regular internal reviews to ensure compliance with such policy to reduce our credit risk exposure; (ii) closely monitoring the settlement of receivables and the payment schedules of our customers, timely reminding them of due payments, taking active follow-up actions to collect outstanding trade receivables and recover any overdue debts, and routinely review our collection and recovery process; and (iii) further expand our business and market coverage to increase our profit from operating activities.

Our Directors are of the opinion that, taking into account the financial resources presently available to our Group, including our internal resources, cash generated from our operations and the estimated **[REDACTED]** from the **[REDACTED]**, we have sufficient working capital for our present working capital requirements and for at least the next 12 months from the date of this document.

Our Directors confirm that there was no material defaults in payment of trade and non-trade payments and bank borrowings, and/or breaches of financial covenants during the Track Record Period and up to the Latest Practicable Date.

DISCUSSION ON SELECTED ITEMS FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Property, plant & equipment

Our property, plant and equipment mainly consists of building, plant and machinery, motor vehicles, furniture, fixtures and office equipment. Our property, plant and equipment amounted to RMB14.8 million, RMB15.7 million, RMB14.5 million and RMB15.1 million, respectively, as at 31 December 2020, 2021 and 2022 and 30 June 2023. Please refer to Note 15 of the Accountant's Report in Appendix I to this document for details.

Investment properties

Our investment properties consist of (i) Property 1, which are buildings situated in the PRC amounted to approximately RMB1.4 million, RMB1.2 million, RMB1.1 million and RMB1.1 million as at 31 December 2020, 2021 and 2022 and 30 June 2023 and (ii) Property 2, which is a land use rights of property leased from an independent third party for 20 years and was sub-leased to Guangzhou Pengsheng of our Group for eight years under operating leases with rentals payable on a monthly basis. Property 2 was amounted to approximately RMB6.2 million, RMB5.8 million, RMB5.4 million and RMB5.1 million as at 31 December 2020, 2021 and 2022 and 30 June 2023. The lease for Property 2 was recognised as a right-of-use asset under HKFRS 16 and it was subsequently sub-leased to Guangzhou Pengsheng, it was therefore counted as an investment property under HKAS 40 in our consolidated statements of financial condition. Please refer to the section headed "Property valuation report – Summary of values" in Appendix III to this document for details of Property 1 and Property 2.

Property interest and property valuation

The statement below shows the reconciliation of aggregate amounts of certain properties as selected in our audited consolidated financial information as at 30 June 2023 as set forth in Appendix I to this document with the valuation of these properties as at 31 August 2023 as set forth in Appendix III to this document.

	RMB'000
Carrying amount of the properties being valued by the Property Valuer as at 30 June 2023	
Investment properties	6,239
Less: Depreciation during the period 1 July 2023 to 31 August 2023	(86)
Carrying amount of the properties as at 31 August 2023	6,153
Add: Net valuation surplus of Property 1 *(Note 1)*	2,017
Less: Investment properties of Property 2 with no commercial value *(Note 2)*	(5,100)
Valuation of properties of our Group as at 31 August 2023 as set out in the property valuation report in Appendix III to this document	3,070

Notes:

(1) The net revaluation surplus of investment properties was not included in our Group's financial information for the period ended 30 June 2023 in accordance with our accounting policy to state such property interests at costs less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

(2) Carrying amount of Property 2 as at 30 June 2023 was recognised as a investment property under relevant accounting policies for purposes of Appendix I to this document. However, for purposes of valuation of Property 2 as at 31 August 2023 in Appendix III, the property valuer assigned no commercial value due to the property interests being a leased by our Group.

Leases have been recognised in the form of an asset (for the right-of-use assets) and a financial liability (for the payment obligation for the lease) in our Group's consolidated statement of financial position. For details, see Note 34.6 to the Accountant's Report set out in Appendix I to this document.

Right-of-use assets

Our right-of-use assets represented the leases that we entered into in order to be used as our office and machinery. The carrying amount of these right-of-use assets was approximately RMB0.1 million, nil, nil and nil as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively. Please refer to Note 17 of the Accountant's Report in Appendix I to this document for details.

Trade and other receivables

The following table sets forth a breakdown of our trade and other receivables 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*
Trade receivables	142,358	175,591	220,774	251,957
Less: allowance for impairment	(6,712)	(9,088)	(13,273)	(18,186)
	135,646	166,503	207,501	233,771
Deposits	14,760	16,089	14,971	13,489
Less: allowance for impairment	(3,238)	(4,214)	(4,214)	(4,214)
	11,522	11,875	10,757	9,275
Less: deposits – non-current portion	(5,410)	(3,154)	(4,809)	(6,536)
Deposits – current portion	6,112	8,721	5,948	2,739
Other receivables				
– Tendering deposits	5,044	2,051	3,174	4,464
Less: allowance for impairment	–	(179)	(179)	(282)
	5,044	1,872	2,995	4,182
– Amounts due from related companies/parties/then related companies	7,136	111	–	–
Less: allowance for impairment	(7,113)	–	–	–
	23	111	–	–
– Amounts due from Mr. Li	2,034	–	–	–
– Receivables from the provision of construction labor service	3,761	9,605	6,957	5,457
	10,862	11,588	9,952	9,639

	As at 31 December			As at 30 June
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments on				
– Utilities expenses	760	619	743	732
– Insurance expenses	2,071	1,555	1,170	510
– Deferred **[REDACTED]** expenses	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
	4,030	3,428	5,522	5,997
Trade and other receivables and prepayment, net	156,650	190,240	228,923	252,146

Trade receivables

Our trade receivables mainly represented outstanding receivables from our customers. Our trade receivables increased from approximately RMB135.6 million as at 31 December 2020 to approximately RMB166.5 million as at 31 December 2021 increased to approximately RMB207.5 million as at 31 December 2022 and further increased to approximately RMB233.8 million as at 30 June 2023, which was in line with the growth in our revenue during Track Record Period and mainly attributable to the late settlement from customers and slow economic resurgence after lockdown policy of the PRC government during the year ended 31 December 2022.

We generally grant a credit term ranging from 30 days to 110 days to our customers.

The following table sets forth the ageing analysis of our trade receivables based on invoice dates as at the dates indicated and our trade receivables turnover days during the Track Record Period:

	As at 31 December			As at 30 June
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0–60 days	104,346	134,254	154,862	163,734
61–180 days	25,132	24,591	28,698	36,031
181–365 days	4,008	9,616	26,245	35,763
1–2 years	4,986	3,084	7,289	10,123
2–3 years	2,079	3,118	2,149	3,420
3–4 years	1,807	928	1,531	2,886
	142,358	175,591	220,774	251,957
Trade receivables turnover days *(Note)*	99.8	103.0	121.7	144.2

The following table sets forth the subsequent settlement of our trade receivables as at 30 June 2023 by age group:

	As at 30 June 2023	**Balance settled as at Latest Practicable Date**	**Balance overdue as at Latest Practicable Date**
	RMB'000	*RMB'000*	*RMB'000*
0–60 days	163,734	111,243	6,920
61–180 days	36,031	22,606	13,425
181–365 days	35,763	21,574	14,189
1–2 years	10,123	7,073	3,050
2–3 years	3,420	1,520	1,900
3–4 years	2,886	1,142	1,744
	251,957	165,158	41,228

Note: Trade receivables turnover days are calculated based on the average of the opening and closing balance of gross trade receivables divided by revenue for the corresponding period and multiplied by the number of days in the relevant period.

Our trade receivables turnover days were 99.8 days, 103.0 days, 121.7 days and 144.2 days for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, respectively. Our trade receivables turnover days remained relatively stable in 2020, 2021 and increased in 2022 and the six months ended 30 June 2023 which was mainly attributable to the late settlement from customers and slow economic resurgence after the lockdown policy of the PRC government during the year ended 31 December 2022. As at Latest Practicable Date, according to our general credit term ranging from 30 days to 110 days to our customers and the aging analysis of our trade receivables based on the invoice dates, approximately RMB41.2 million of trade receivables over 120 days were remain unsettled. In respect of the receivables which were past due, our management will follow up with such customers and monitor their creditworthiness. At the best knowledge of our Directors, there has been no any dispute between our Group and our customers, and none of our customers have experienced financial difficulties in settling their amounts due to us.

Our Group measures loss allowances for trade receivables at an amount equal to lifetime expected credit losses (ECLs), which is calculated using a provision matrix. The Group assesses the trade receivables for impairment on a collection group basis which focus on the customer's credit risk characteristics, past collection information and aging profiles. For details of credit risk and ECLs for accounts receivables, please refer to Note 3.1 to the Accountant's Report set out in Appendix I to this document. It is our Directors' view that the Group accounts for its credit risk of trade receivables by approximately providing for expected credit losses on timely basis, therefore, sufficient provision has been made and no recoverability issue for trade receivable is noted.

For the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, approximately RMB1.9 million, RMB2.4 million, RMB4.2 million and RMB4.9 million had been provided for impairment of trade receivables due from customers, respectively. As a result, the allowance for impairment of trade receivables was approximately RMB6.7 million, RMB9.1 million, RMB13.3 million and RMB18.2 million as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively.

As at Latest Practicable Date, approximately RMB141.4 million, RMB173.8 million, RMB183.8 million and RMB165.2 million, or 99.3%, 99.0%, 83.3% and 65.5%, respectively of trade receivables as at 31 December 2020, 2021 and 2022 and 30 June 2023 was settled. Taking into account our continuous attempts to collect the outstanding trade receivables from those customers and their subsequent settlement progress and past settlement pattern, it is our Directors' view that there is no material recoverability issue with our outstanding trade receivables.

Deposits

Our deposits represents the amount paid to customers for the guarantee of performance of the provision of cleaning services. Our deposits increased from approximately RMB11.5 million as at 31 December 2020 to approximately RMB11.9 million as at 31 December 2021 which was in line with our revenue growth during the Track Record Period. Our deposits decreased from approximately RMB11.9 million as at 31 December 2021 to RMB10.8 million as at 31 December 2022 which was mainly due to more tender deposits was repaid by the offerees and there was more tenders without the requirement of tender deposit during 2022. Our deposits decreased from approximately RMB10.8 million as at 31 December 2022 to RMB9.3 million as at 30 June 2023 which was mainly due to a certain project has ended during the six months ended 30 June 2023, which contributed significant amount of deposits.

Other receivables

Our other receivables increased from approximately RMB10.9 million as at 31 December 2020 to approximately RMB11.6 million as at 31 December 2021 mainly attributable to (i) the increase in receivable from the provision of certain ancillary services for a road construction project by approximately RMB5.8 million due to the ongoing progress of the project during the year ended 31 December 2021; partially offset by (ii) the decrease of amount due from Mr. Li by approximately RMB**[REDACTED]** due to the offset by the **[REDACTED]** expenses paid on behalf of the Group by Mr. Li during the year ended 31 December 2021; and (iii) the decrease in tender deposits of approximately RMB1.2 million due to more tender deposits was repaid by the tender offerees during 2021. Our other receivables decreased from approximately RMB11.6 million as at 31 December 2021 to approximately RMB10.0 million as at 31 December 2022 mainly attributable to the decrease in receivable from the provision of certain ancillary services for a road construction project by approximately RMB2.6 million due to the settlement received during the year ended 31 December 2022. Our other receivable decreased from approximately RMB10.0 million as at 31 December 2022 to approximately RMB9.6 million as at 30 June 2023 mainly attributable to the decrease in receivable from the provision of certain ancillary services by approximately RMB1.5 million due to the settlement received during the period ended 30 June 2023.

Prepayment

Prepayments mainly included utility expense, insurance expense paid for employees and deferred **[REDACTED]** expenses. Our prepayments decreased from approximately RMB4.0 million as at 31 December 2020 to approximately RMB3.4 million as at 31 December 2021 mainly due to the decrease of prepayment of insurances expenses by approximately RMB0.5 million due to PRC government launched new policy in 2021, which we could make single work-related injury insurance contribution, instead of making employer's liability insurance contribution, resulting in the decrease in insurance expense during 2021. Our prepayments increased from approximately RMB3.4 million as at 31 December 2021 to approximately RMB5.5 million as at 31 December 2022 mainly due to the prepayment in relation to **[REDACTED]** expenses of approximately RMB**[REDACTED]** which was recorded as at 31

December 2022. Our prepayments increased from approximately RMB5.5 million as at 31 December 2022 to approximately RMB6.0 million as at 30 June 2023 mainly due to the prepayment in relation to **[REDACTED]** expenses of approximately RMB**[REDACTED]** which was recorded as at 30 June 2023.

Financial assets at fair value through profit or loss

Our financial assets at fair value through profit or loss consist of investments in a fund and wealth management products.

During the Track Record Period, we invested in three types of investment products, namely investment in funds, wealth management products and listed securities in the PRC which were funded by our internal resources and other borrowings during the Track Record Period. Our investment in fund as at 31 December 2019 related to an investment in the principal amount of approximately RMB0.8 million in a mutual fund focusing on stocks in the healthcare sector which adopts a strategy for higher excess returns through moderate risk exposure and positive risk control. The fund does not guarantee repayment of the principal. In 2020, we also invested and disposed of our investments in three exchange-traded funds, one listed open-ended fund and two non-listed open-ended funds. Wealth management products were mainly related to our investment in the principal amount of RMB3.0 million in certain short-term low risk financial products issued by a large commercial bank in the PRC and which invests principally in highly liquid assets such as bonds and deposits, debts assets and other assets. In general, neither the principal nor the return of any wealth management products is protected or guaranteed by the issuing bank. Only our wealth management products were classified as level 3 financial assets in terms of inputs to valuation methods used to estimate fair value. For more details of such investment products including the expected investment income rates of such products and the fair value estimations, please see Note 22 of the Accountant's Report in Appendix I to this document. Our investment in listed securities in the PRC related to 34 companies which shares were listed on the Shenzhen Stock Exchange or the Shanghai Stock Exchange and all of such securities were all acquired and disposed of in 2020.

During the year ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, our fair value loss on these financial assets were approximately RMB7.1 million, nil, nil and nil, respectively.

Our financial assets at fair value through profit or loss remained stable at nil as of 31 December 2020, 2021 and 2022 and 30 June 2023, which was primarily due to the investment in fund and wealth management product were disposed during the year ended 31 December 2020.

We did not have any financial assets at fair value through profit or loss as at 31 December 2022 and up to the Latest Practicable Date. During the year ended 31 December 2020, our Group invested in listed securities which were traded in the Shenzhen Stock Exchange and Shanghai Stock Exchange, but all these listed securities were disposed during the same year. We made our investments from time to time to make use of our available cash for higher yield as compared to cash deposits and in 2020, we started investing in the listed securities in view of the material increase in available cash during the Track Record Period, a positive outlook of the mainland stock markets as well as the attractiveness of certain listed securities which our Directors considered also to be highly liquid. With sufficient working capital for operation and in view of the favourable condition of the mainland stock market, in which the Shanghai Stock Exchange Composite Index increased by approximately 26.6% and the Shenzhen Stock Exchange Composite Index increased by approximately 39.9% from April 2020 to December 2020, our Group intended to benefit from such increase with an aim of improving its cash position and assisting its future funding needs. Moreover, the securities trading account was followed up by a licensed senior investment consultant with over 12 years of experience in equity research and investment and obtained the required regulatory licence, who provided investment advice and communicated with our Group, while our Group studied the equity research reports and obtained the required authorisation under the memorandum and articles of our Group.

However, in preparation for the **[REDACTED]**, our Directors wished to focus more on our core business and the funding needs of our business and its development and therefore we disposed of such investments and settled associated borrowings in 2020. The total amount invested by our Group in these listed securities amounted to RMB142.8 million, among which 18.1% of the amount was financed by borrowings. After the disposal of the corresponding securities and up to the Latest Practicable Date, the Group did not participate in any new securities trading activities. Our Directors confirm that all future investments will be conducted pursuant to our investment management policy (the "**Investment Management Policy**") (for further details of the policy, please refer to the section headed "Business – Investment Management Policy" of this document). After the **[REDACTED]**, investing in investment products will be subject to the Group's compliance with the requirements under Chapter 14 of the Listing Rules.

We carry out our investment activities with a balance of capital preservation and yield enhancement, and during the Track Record Period our investment portfolio has been focused mainly on funds and securities listed and traded in the Shenzhen Stock Exchange and the Shanghai Stock Exchange. To control our risk exposure, the Investment Management Policy shall prohibit us from (i) conducting any securities trading activities in secondary markets including, but not limited to, the trading of stocks, bonds, options, futures and derivatives, and (ii) borrowing to wholly or partially fund any investments. Our Directors are aware of the "Guidance note on directors' duties in the context of valuations in corporate transactions" issued by the SFC on 15 May 2017 and will also take it into account for future investments. Taking into account (i) the prohibitions and restrictions on future investments and related borrowings as set out in our new internal control policies; (ii) the more thorough and multi-level assessment for such issues will be conducted by the finance department as overseen by our Investment Committee in the future; and (iii) the finance department will have more time than our Directors to analyse and monitor the on-going performance of investments ensuring compliance with our policies, our Directors believe that our enhanced internal control policies are adequate and effective to mitigate our past practices regarding the historical investments.

The Sole Sponsor's view on the suitability of our Directors, and the adequacy and effectiveness of our Company's enhanced internal control measures

Under Rules 3.08 and 3.09 of the Listing Rules, every director must (a) act honestly and in good faith in the interests of the company as a whole; (b) act for proper purpose; (c) be answerable to the issuer for the application or misapplication of its assets; (d) avoid actual and potential conflicts of interest and duty; (e) disclose fully and fairly his interests in contracts with the issuer; and (f) apply such degree of skill, care and diligence as may reasonably be expected of a person of his knowledge and experience and holding his office within the issuer.

– *Act honestly and in good faith in the interests of the company as a whole; Be answerable to the issuer for the application or misapplication of its assets; Avoid actual and potential conflicts of interest and duty.* Our Directors were aware of and understood the potential investment risk exposure in the interests of our Company by the risk tolerance assessment report during the securities account opening. Prior to making investment decision, our Directors acted honestly and avoided actual and potential conflicts of interest and duty by obtaining the required authorisation under the memorandum and articles of our Company as mentioned in the internal control policy.

  During the investing activities, for the sake of protecting the interests of our Company, our Directors set a stop-profit and cut-loss boundary at a profit or loss percentage within 20% for each security, limiting any potential loss and ensuring our Group had sufficient working capital for operation, this resulted in no defaulted payment or significant delay in payment to employee and suppliers during the Track Record Period. In addition, for the best interest of the Group, our Directors have stopped trading of security since 1 January 2021 and established an investment management policy enhancing the internal control and established our Investment Committee monitored by competent personnel to ensure the policy being properly implemented after recording a significant loss from a certain of security.

– *Act for proper purpose.* Our Directors conducted investment activities with an aim to improve the cash position for future funding needs. The mainland stock market was experiencing growth back in 2020. The Shanghai Stock Exchange Composite Index increased by approximately 26.6% and the Shenzhen Stock Exchange Composite Index increased by approximately 39.9% from April 2020 to December 2020. With the guidance and assistance of the licensed consultant, our Directors were aware of the investment opportunities and have decided to adopt margin financing under the favourable market situation with a view to magnify the return from investment to as to further improve the cash position for our Group's future funding needs and expansion.

  During the time when such investment decision was made, our Directors considered the expected return with and without using margin financing. Our Directors also evaluated the risk of incurring loss and considered that our Group was able to bear any possible loss.

During the year ended 31 December 2020, we experienced investment losses due to the impact of a certain security with the stock price fluctuating significantly during the trading period. With the use of margin financing, the significant losses contributed by this particular security magnified from approximately RMB4.8 million to RMB6.6 million.

Despite the fact that the Group experienced investment losses and losses were magnified by the use of margin financing, our Directors act for a proper purpose to improve the cash position for our Group's future funding needs and expansion. Notwithstanding such loss, there was no impact on our Group's working capital for operation during the Track Record Period.

– *Disclose fully and fairly his interests in contracts with the issuer.* Not applicable.

– *Apply such degree of skill, care and diligence as may reasonably be expected of a person of his knowledge and experience and holding his office within the issuer.*

Before investment

With the guidance and explanation of the licensed consultant, our Directors applied skill, care and diligence through understanding the potential risk exposure of investing securities by the risk tolerance assessment report as mentioned above. Moreover, after receiving the investment advice from the competent and licensed senior investment consultant, who had over 12 years of experience in equity research and investment, our Directors communicated with the consultant, held discussion and studied the equity research reports before making any investment decision.

During investment

Our Directors applied skill, care and diligence by setting a stop-profit and cut-loss at profit or loss percentage limit within 20% for each security, which is a widespread understanding of a general investor, during investment. Hence, potential loss can be limited and our Group shall be able to ensure a sufficient working capital for operation.

After investment

After experiencing loss from securities, our Directors applied skill, care and diligence by establishing an investment management policy to enhance the internal control and established our Investment Committee monitored by competent personnel to ensure the policy being properly implemented.

In light of the above, the Sole Sponsor is of the view that our Directors have satisfied the requirements under Rules 3.08 and 3.09 and are suitable of being our Directors.

Upon reviewing the enhanced internal control measures implemented by our Group, which set out clear guidance on investment research, decision-making, execution of transactions and verification procedures, the Sole Sponsor is of the view that with clear segregation of duties, scope of authorisation and approval procedures, different internal control procedures, review procedures and analysis procedures, the enhanced internal control policy is adequate and effective for our Group to minimise the risk in investment activities and enhance the appropriateness of usage of working capital.

Trade and other payables

The following table sets forth a breakdown of our trade and other payables 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*
Trade payables	28,482	32,672	31,511	30,818
Other payables				
– Utility	182	388	388	533
– **[REDACTED]** expenses	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
– Amount due to Mr. Chen	180	1,405	1,405	1,405
– Amount due to Mr. Li	–	6,274	13,765	16,075
– Amount due to related parties/companies/then related companies	317	17	1	1
– Payroll, bonus and social insurance payables	53,779	49,755	52,006	52,912
– Other tax payable	3,642	4,613	6,720	7,531
	60,910	66,063	80,244	87,145
Trade and other payables	89,392	98,735	111,755	117,963

Trade payables

Our trade payables mainly represented amounts due to our suppliers (including our subcontractors).

Our trade payables increased from approximately RMB28.5 million as at 31 December 2020 to approximately RMB32.7 million as at 31 December 2021, which was mainly due to our revenue growth and increased purchase of supplies and subcontracting labor cost. Our trade payables decreased from RMB32.7 million as at 31 December 2021 to RMB31.5 million as at 31 December 2022 and further decreased to RMB30.8 million as at 30 June 2023, which was mainly due to our settlement to suppliers during 2022 and the six months ended 30 June 2023.

Our trade payables were due according to the terms on the relevant contracts. In general, our suppliers (including our subcontractors) grant us a credit term of up to 30 days from the date of performed services and we settle our payment by bank transfer.

The following table sets forth the ageing analysis of our trade payables based on invoice date as at the dates indicated and our trade payables turnover days during the Track Record Period:

	As at 31 December			**As at 30 June**
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0–60 days	21,660	28,755	25,302	22,802
61–180 days	3,149	2,670	1,711	2,006
181–365 days	1,568	174	996	2,538
More than 1 years	2,105	1,073	3,502	3,472
	28,482	32,672	31,511	30,818
Trade payables turnover days *(Note)*	26.3	23.5	23.4	22.5

Note: Trade payables turnover days are calculate based on the average of the opening and closing balance of trade payables divided by the adjusted cost of services for the corresponding period and multiplied by the number of days in the relevant period.

Our trade payables turnover days were 26.3 days, 23.5 days, 23.4 days and 22.5 days for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, respectively. Our trade payable turnover days remained relatively stable for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023.

As at Latest Practicable Date, approximately RMB22.2 million or 72.1% of trade payables as at 30 June 2023 has been settled.

Other payables

Other payables mainly comprised (i) utility and **[REDACTED]** expenses; (ii) payroll, bonus and social insurance payable; (iii) other tax payable; and (iv) amount due to Mr. Chen, Mr. Li and related parties/companies.

Our other payables were recorded at approximately RMB60.9 million, RMB66.1 million, RMB80.2 million and RMB87.1 million as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively. Our other payables increased from approximately RMB60.9 million as at 31 December 2020 to approximately RMB66.1 million as at 31 December 2021 primarily attributable to (i) the increase in amount due to Mr. Li by approximately RMB**[REDACTED]** as we had advances from Mr. Li in order to settle **[REDACTED]** expenses and the result of the consideration of acquiring the interest in Guangzhou Shenghui from Mr. Li; (ii) the increase in amount due to Mr. Chen by approximately RMB1.2 million as the result of the consideration of acquiring the interest in Guangzhou Shenghui from Mr. Chen; (iii) the increase in other tax payable by approximately RMB1.0 million due to the VAT tax payable derived from our increase in revenue; (iv) the increase in **[REDACTED]** expenses payable by RMB**[REDACTED]**; and partially offset by (v) the decrease in payroll, bonus and social insurance payables by approximately RMB4.0 million mainly due to the decrease in bonus during the year ended 31 December 2021.

Our other payables increased from approximately RMB66.1 million as at 30 December 2021 to approximately RMB80.2 million as at 31 December 2022 primarily attributable to (i) the increase in amount due to Mr. Li by approximately RMB**[REDACTED]** as we had advances from Mr. Li in order to settle **[REDACTED]** expenses; (ii) the increase in **[REDACTED]** expenses payable by approximately RMB**[REDACTED]**; and (iii) the increase in other tax payable by approximately RMB2.1 million.

Our other payables increased from approximately RMB80.2 million as at 31 December 2022 to approximately RMB87.1 million as at 30 June 2023 primarily attributable to (i) the increase in amount due to Mr. Li by approximately RMB2.3 million as we had advances from Mr. Li in order to settle **[REDACTED]** expenses; (ii) the increase in **[REDACTED]** expenses payable by approximately RMB2.7 million; and (iii) the increase in other tax payable by approximately RMB0.8 million.

INDEBTEDNESS

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

	As at 31 December			As at 30 June	As at 30 September
	2020	**2021**	**2022**	**2023**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Current position					
Bank borrowings	–	10,010	–	–	9,472
Lease liabilities	715	668	676	684	693
	715	10,678	676	684	10,165
Non-current position					
Lease liabilities	6,998	6,771	6,524	6,394	6,323
TOTAL	7,713	17,449	7,200	7,078	16,488

During the Track Record Period and up to 30 September 2023, being the Latest Practicable Date for determining indebtedness, our Group's total indebtedness consisted of bank borrowings and lease liabilities.

As at the Latest Practicable Date, we had unutilised banking facilities of approximately RMB20.0 million from reputable commercial bank in China.

Bank borrowings

The following table sets forth a breakdown of our bank borrowings as at the dates indicated:

	As at 31 December			As at 30 June	As at 30 September
	2020	**2021**	**2022**	**2023**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Bank borrowings:					
– secured and guaranteed					
Within one year	–	10,010	–	–	–
– unsecured					
Within three months	–	–	–	–	9,472

Our bank borrowings as at 31 December 2021 were all denominate in RMB and were interest-bearing at the interest rates ranging from 4.0% to 5.0% per annum and secured by certain buildings, restricted bank deposits of our Group and the personal guarantees by Mr. Li and Mr. Chen. As at 31 December 2022, our bank borrowings as at 31 December 2021 were fully repaid and the above securities and personal guarantees were released as at the Latest Practicable Date.

Our unsecured bank borrowings as at 30 September 2023 were all dominate in RMB and were interest-bearing at the interest rate 4.1% per annum and repayable within three months. As at the Latest Practicable Date, our unsecured bank borrowings as at 30 September 2023 were fully repaid and we had unutilised banking facilities of approximately RMB20.0 million.

Lease liabilities

We recognised right-of-use assets, investment properties and the corresponding lease liabilities in respect of all leases, except for short-term leases in our consolidated statements of financial position.

Our lease liabilities were denominated in RMB and discount rate applied was 5.8% to 6.3% as at 31 December 2020, 2021 and 2022 and 30 June 2023.

A maturity analysis of our lease liabilities is shown in the table below:

	As at 31 December			As at 30 June	As at 30 September
	2020	**2021**	**2022**	**2023**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
The present value of lease liabilities is as follows:					
Within 1 year	715	668	676	684	693
Later than 1 year but not later than 2 years	628	636	659	667	667
Later than 2 years but not later than 5 years	1,737	1,787	1,823	1,846	1,861
Over 5 years	4,633	4,348	4,042	388	3,795
	7,713	7,439	7,200	7,078	7,016

As at 31 December 2020, 2021 and 2022 and 30 June 2023 and 30 September 2023, our Group has lease liabilities amounted to approximately RMB7.7 million, RMB7.4 million, RMB7.2 million, RMB7.1 million and RMB7.0 million, respectively.

During the Track Record Period, our Group leased buildings and machinery for its operations. Lease contracts are entered into for fixed term of 1 to 5 years. One of the investment properties was leased from an Independent Third Party for 20 years and was sub-leased to Guangzhou Pengsheng for 8 years under operating leases with rentals payable on a monthly basis.

Contingent liabilities

As at 30 September 2023, our Directors confirmed that, up to the date of this document, our Group did not record any other contingent liabilities and our Directors are not aware of any litigation or claims of material importance pending or threatened against any member of our Group.

Material indebtedness change

Our Directors have confirmed that there was no material adverse change in our Group's indebtedness and contingent liabilities since 30 September 2023, being the latest practicable date for determining our Group's indebtedness, and up to the date of this document.

Save as disclosed in this paragraphs headed "Indebtedness" and "Related party transactions" in this section, during the Track Record Period and up to 30 September 2023, being the latest practicable date for the purpose of the indebtedness statement in this document, we do not have any debt securities, term loans, borrowings or indebtedness in the nature of borrowing, mortgages, charges, hire purchase commitments, contingent liabilities, debentures or guarantees. Our Directors confirmed that we had neither experienced any difficulties in obtaining or repaying, nor breached any major covenant or restriction of our bank loans or other bank facilities during the Track Record Period. As at the Latest Practicable Date, there are no material covenants that would materially limit our ability to undertake additional debt or equity financing. As at the Latest Practicable Date, save as disclosed in this paragraph headed "bank borrowings", we did not have any bank borrowings or banking facilities.

CAPITAL EXPENDITURE AND COMMITMENTS

Capital expenditure

Our capital expenditure for the years ended 31 December 2020, 2021 and 2022 and 30 June 2023 amounted to approximately RMB4.3 million, RMB4.1 million, RMB1.9 million and RMB2.3 million, respectively, comprising mainly expenditures for the purchase of property, plant and equipment.

Since 30 June 2023 and up to 30 September 2023, our Group did not incur any material capital expenditure which were not provided for in our consolidated statements of financial position.

Capital commitments

Our Group did not have any significant capital commitments as at 31 December 2020 and 2021 and 2022 and 30 June 2023.

OFF-BALANCE SHEET TRANSACTIONS

Our Directors confirmed that, our Group had not entered into any material off-balance sheet commitments and arrangements during the Track Record Period and up to 30 September 2023.

RELATED PARTY TRANSACTIONS

During the Track Record Period, we had certain related party transactions, mainly in relation to (i) purchase or sales of goods and services; (ii) rental income and rental expense which the relative balances were impaired during the years ended 31 December 2020, 2021 and 2022 and 30 June 2023; (iii) loans to or from related parties and interest income and expenses; and (iv) key management compensation. The following table sets forth the breakdown of our balances with related parties 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*
Trade in nature:				
Amounts due from/(to) related parties				
Trade payables	(259)	(17)	(1)	(1)
Non-trade in nature:				
Amounts due from/(to) related parties				
Other receivables	2,057	–	–	–
Other payables	(238)	(7,679)	(15,170)	(17,480)

Amounts due to related parties totalling approximately RMB0.3 million, RMB17,000 and RMB1,000 and RMB1,000 as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively, were arising from ordinary course of business, which were related to the provision of garbage collection and cleaning services to our Group and such business relationship has ceased.

As at 31 December 2020, amounts due from related parties totalling approximately RMB2.1 million were of non-trade nature, which mainly comprised amount due from a related company which has been fully settled, and the advances due from Mr. Li which was settled during 31 December 2021. As at 31 December 2020, 2021 and 2022 and 30 June 2023, amounts due to related parties totalling approximately RMB238,000, RMB7.7 million, RMB15.2 million and RMB17.5 million, respectively, were of non-trade nature, which the balance of RMB7.7 million, RMB15.2 million and RMB17.5 million as at 31 December 2021 and 2022 and 30 June 2023, respectively was mainly comprised of the advances from Mr. Li from the settlement of **[REDACTED]** expenses. The amount due to related parties mainly comprised the advances from Mr. Chen and Mr. Li and will be waived before the **[REDACTED]**.

Balances with related parties above are unsecured, interest-free and repayable on demand, except for the loan due from Mr. Li amounting to RMB5.6 million as at 31 December 2020 which carried an interest of RMB12,600 was settled in January 2021 and the amount due to Mr. Li of approximately RMB11.8 million as at 31 December 2021 which carried an interest rate of approximately 0.36% per annum was settled in December 2021. As advised by the PRC Legal Advisers, Guangzhou Shenghui has carried out internal procedures for the lending and entered into a loan contract with Mr. Li to agree upon the loan amount, interest and other relevant matters. Thus, the loan due from Mr. Li which carried interest is in compliance with relevant laws and regulations.

Our Directors confirmed that these transactions were conducted on normal commercial terms and/or that such terms were no less favourable to our Group than terms otherwise available to Independent Third Parties and were fair, reasonable and in the interest of our Shareholders as a whole.

For further details on related party transactions and balances, see Note 30 to our consolidated financial statements set forth in the Accountant's Report included in Appendix I to this document.

KEY FINANCIAL RATIOS

The following table provides a summary of our key financial ratios for the periods indicated or as at the dates indicated and should be read in conjunction with the Accountant's Report set out in Appendix I to this document:

		As at 31 December			As at 30 June
	Note	**2020**	**2021**	**2022**	**2023**
Return on equity *(%)*	1	22.1	28.0	19.4	N/A
Return on total assets *(%)*	2	12.2	14.4	10.9	N/A
Current ratio *(times)*	3	2.1	1.9	2.2	2.2
Gearing ratio *(%)*	4	5.5	12.2	4.1	3.7
Net debt to equity ratio *(%)*	5	Net Cash	Net Cash	Net Cash	Net Cash
Interest coverage *(times)*	6	30.5	92.8	70.3	65.8

Notes:

1. Return on equity is calculated based on the net profit divided by the total equity as at the end of the respective period and multiplied by 100.0%.

2. Return on total assets is calculated based on the net profit divided by the total assets as at the end of the respective period and multiplied by 100.0%.

3. Current ratio is calculated based on the total current assets divided by the total current liabilities as at the end of the respective period.

4. Gearing ratio is calculated based on the total borrowings and lease liabilities divided by total equity as at the end of the respective period and multiplied by 100.0%.

5. Net debt to equity ratio is calculated based on the net debts (total debts net of cash and cash equivalents) divided by total equity as at the end of the respective period and multiplied by 100.0%.

6. Interest coverage is calculated by dividing profit before taxation and interest by the finance cost as at the end of the respective period.

Return on equity

Our return on equity was approximately 22.1%, 28.0% and 19.4% for the years ended 31 December 2020, 2021 and 2022, respectively. The increase in our return on equity for the year ended 31 December 2021 was mainly due to the increase in net profits compared to 2020. The decrease in our return on equity for the year ended 31 December 2022 was mainly due to the decrease in net profits and increase in total equity compared to 2021.

Return on total assets

Our return on total assets was approximately 12.2%, 14.4% and 10.9% for the years ended 31 December 2020, 2021 and 2022, respectively. The increase in our return on total assets for the year ended 31 December 2021 was mainly due to the increase in net profits compared to 2020. The decrease in our return on total assets for the year ended 31 December 2022 was mainly due to the decrease in net profits and increase in current assets compared to 2021.

Current ratio

Our current ratio was approximately 2.1 times, 1.9 times, 2.2 times and 2.2 times as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively. The decrease in our current ratio as at 31 December 2021 was mainly attributable to (i) the increase in bank borrowings by approximately RMB10.0 million; and (ii) the increase in trade and other payables of approximately RMB9.3 million. The increase in our current ratio as at 31 December 2022 was mainly attributable to combined effect of (i) the increase in trade and other receivables of approximately RMB44.7 million; (ii) the decrease in bank borrowings of approximately RMB10.0 million and (iii) the decrease in cash and cash equivalents of approximately RMB30.1 million. The increase in our current ratio as at 31 December 2022 was mainly due to (i) the increase in trade and other receivables and prepayment of approximately RMB38.7 million; (ii) the decrease in bank borrowings by approximately RMB10.0 million and (iii) the increase in cash and cash equivalents of approximately RMB2.5 million. Our current ratio as at 30 June 2023 remained stable at 2.2 times.

Gearing ratio

Our gearing ratio was approximately 5.5%, 12.2%, 4.1% and 3.7% as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively. The increase in our gearing ratio at 31 December 2021 was mainly attributable to the increase in bank borrowings by approximately RMB10.0 million in 2021. The decrease in our gearing ratio at 31 December 2022 was mainly attributable to the decrease in bank borrowings by approximately RMB10.0 million as at 31 December 2022. Our gearing ratio as at 30 June 2023 remained stable at 3.7%.

Net debt to equity ratio

We recorded net cash positions as our cash and cash equivalents balances were in excess of our borrowings as at 31 December 2020, 2021 and 2022 and 30 June 2023.

Interest coverage

Our interest coverage was approximately 30.5 times, 92.8 times, 70.3 times and 65.8 times for the years ended 31 December 2020, 2021 and 2022 and 30 June 2023, respectively. The increase in our interest coverage for the year ended 31 December 2021 was mainly attributable to (i) lower finance costs incurred as a result of our bank borrowings fully repaid during the year ended 31 December 2020; and (ii) we had new bank borrowings in late of December 2021. The decrease in our interest coverage for the year ended 31 December 2022 was mainly attributable to the lower profit before taxation and interest for the year ended 31 December 2022. The decrease in our interest coverage for the six months ended 30 June 2023 was mainly attributable to the lower profit before taxation and interest for the period ending 30 June 2023.

FINANCIAL RISK MANAGEMENT

During the normal course of business, our Group is exposed to various types of financial risks including interest rate risk, credit risk, liquidity risk and capital risk. Please refer to the section headed "Business – Risk management and internal control" of this document for other key risk management discussion. Our Board is responsible for setting the objectives and underlying principles of financial risk management, further details of which are set out in Note 3 of the Accountant's Report in Appendix I to this document.

Interest rate risk

Our Group is exposed to interest rate risk on its borrowings and bank deposits. The interest rates and terms of repayment of our borrowings are disclosed in Note 27 of the Accountant's Report in Appendix I to this document.

We currently do not have an interest rate hedging policy and have not entered into any interest rate swaps and/or contracts to hedge our exposure, but will monitor our interest rate risk exposure in the future.

Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to our Group. Our Group is exposed to credit risk in relation to our cash and bank deposits as well as trade receivables and other receivables. For trade receivables, our Group has established a credit management system as detailed in the section headed "Business – Risk management and internal control" in this document and adopts the policy of dealing only with customers of appropriate creditworthiness and history. For financial assets, our Group adopts the policy of only dealing with financial institutions and other counterparties with high credit ratings. Our bank deposits are held by reputable banks that are considered to have limited credit risk as they are leading players with good reputation. Credit risk to an individual counterparty is restricted by credit limits which are approved by our Directors based on ongoing credit assessments. The counterparty's payment profile and credit exposure are monitored by our Directors continuously.

We consider the probability of default upon initial recognition of assets and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. We consider available reasonable and supportive forward-looking information, including indicators such as internal credit rating, external credit rating, actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to a customer's ability to meet its obligations, actual or expected significant changes in our debtor or customer's operating results, significant increases in credit risk on other financial instruments of the same customer, or significant changes in the expected performance and behaviour of a customer.

We adopt the general approach for expected credit loss of other receivables including amounts due from related parties. We consider these financial assets have not significantly increased in credit risk from initial recognition, and thus, they are classified in stage one and only considered 12-month expected credit losses. Considering the history of default and forward looking factor, the expected credit loss is immaterial.

Credit exposure to an individual counter-party is restricted by credit limits that are approved by the directors based on on-going credit evaluation. The counter-party's payment profile and credit exposure are continuously monitored by the directors of our Group.

Our Group is exposed to credit risk concentration as detailed in Note 3.1(iii) of the Accountant's Report in Appendix I to this document. Our major customers are reputable organisations and therefore, management considers our credit risk limited.

Liquidity risk

Liquidity risk is the risk that our Group will encounter difficulties in raising funds to meet commitments associated with financial instruments. In the management of liquidity risk, our Group ensures that we have adequate funding through our ability to operate profitably and ensuring we have sufficient cash balance to meet our normal operating commitments and adequate amount of committed credit facilities. For details of the maturity profile of our Group's financial liabilities, please see Note 3.1(iv) of the Accountant's Report in Appendix I to this document.

Capital risk

Our Group regularly reviews and manages our capital structure to ensure optimal capital structure and shareholder returns, taking into account our future capital requirements of our Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Our Group currently has not adopted any formal dividend plan.

In order to maintain or adjust the capital structure, our Group may adjust the amount of dividends paid to the shareholder, return capital to the shareholder, issue new shares or sell assets to reduce debt.

Gearing has a significant influence on our capital structure and we monitor our capital using gearing ratio as well as our current and expected liquidity requirement and adjusting our capital structure to reflect the change in economic conditions affecting our Group. For further details of our Group's gearing ratio, please refer to Note 3.3 of the Accountant's Report in Appendix I to this document.

[REDACTED] EXPENSES

Our Directors estimate that the total amount of expenses in relation to the **[REDACTED]** is approximately RMB**[REDACTED]** (equivalent to approximately HK$**[REDACTED]**), which amounted to **[REDACTED]**% of gross proceeds of the initial **[REDACTED]** based on an **[REDACTED]** of HK$**[REDACTED]** per **[REDACTED]** (being the mid-point of the **[REDACTED]** range stated in this document), of which (i) **[REDACTED]**-related expenses, including **[REDACTED]** and other expenses are approximately RMB**[REDACTED]** (equivalent to approximately HK$**[REDACTED]**) and (ii) non-**[REDACTED]**-related expenses are approximately RMB**[REDACTED]** (equivalent to approximately HK$**[REDACTED]**), comprising **[REDACTED]** of approximately RMB**[REDACTED]** (equivalent to approximately HK$**[REDACTED]**) and **[REDACTED]** of approximately RMB**[REDACTED]** (equivalent to approximately HK$**[REDACTED]**). Out of the amount of approximately RMB**[REDACTED]**, approximately RMB**[REDACTED]** is directly attributable to the issue of the **[REDACTED]** and is expected to be accounted for as a deduction from equity upon **[REDACTED]**. The remaining amount of approximately RMB**[REDACTED]**, which cannot be so deducted, shall be charged to profit or loss. Of the approximatelyRMB**[REDACTED]** that shall be charged to profit or loss, approximately RMB**[REDACTED]** has been charged during the Track Record Period and approximately RMB**[REDACTED]** is expected to be incurred for after the Track Record Period. Expenses in relation to the **[REDACTED]** are non-recurring in nature. Our financial performance and results of operations for the years after Track Record Period will be adversely affected by the estimated expenses in relation to the **[REDACTED]**.

Our Directors would like to emphasise that the amount of the **[REDACTED]** expenses is a current estimate for reference only and the final amount to be recognised in our consolidated financial statements for the year ending 31 December 2023 is subject to adjustment based on audit and the then changes in variables and assumptions.

DIVIDEND AND DIVIDEND POLICY

During the Track Record Period, Guangzhou Shenghui declared and distributed dividends of approximately RMB28.2 million to its then shareholders in January 2021. The payment of such dividends was financed by our Group's internal resources. Our historical declarations of dividends may not reflect our future declarations of dividends. We have no current plans for future dividend payments. Our Company currently does not have any predetermined dividend payout ratio.

Under Cayman Island law, dividends may be paid out of the profits of our Company or out of sums standing to the credit of our share premium account provided that under no circumstances may dividends be paid if this would result in the Company being unable to pay its debts as they fall due in the ordinary course of business. Future dividend payments will also depend on the availability of dividends we will receive from our subsidiaries in the PRC. The recommendation of the payment of dividend is subject to the absolute discretion of our Board, subject to certain requirements of Cayman Islands Law. Our Shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our Directors. The amount of any dividends to be declared and paid in the future will depend on, among other things, our results of operations, cash flows and financial condition, operating and capital requirements and other relevant factors. There will be no assurance that our Company will be able to declare or distribute any dividend in the amount set out in any plan of our Board or at all.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 4 January 2021. As at 30 June 2023, our Company had no distributable reserves available for distribution to our Shareholders.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

See "Unaudited Pro Forma Financial Information" in Appendix II to this document for further details.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that, as at the date of this document, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

RECENT DEVELOPMENT

Please refer to the section headed "Summary – Recent developments" of this document.

NO MATERIAL ADVERSE CHANGE

As far as our Directors are aware, there had been no material adverse change in the market conditions or the industry and environment in which our Group operates that materially and adversely affect our financial and operation position since 30 June 2023 and up to the date of this document.

Save for the expenses in connection with the **[REDACTED]**, up to the date of this document, our Directors confirm that there has been no material adverse change in our financial or trading position or prospects since 30 June 2023, being the date on which the latest audited financial statements of our Group were made up and there had been no events since 30 June 2023 which would materially affect the information shown in our consolidated financial statements included in the Accountant's Report set out in Appendix I to this document.