

SUMMARY

OVERVIEW

We are a cleaning and maintenance services provider in the PRC and one of the well-established property cleaning service providers in Guangdong province. 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. For the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, the total revenue of the Group was approximately RMB465.7 million, RMB563.5 million, RMB594.2 million, RMB289.2 million and RMB298.3 million, respectively, while profit for the year was approximately RMB31.3 million, RMB39.9 million, RMB34.4 million, RMB15.4 million and RMB15.3 million, respectively.

We serve a wide range of premises including commercial buildings, transportation hub such as airports, residential premises, shopping malls and commercial complex, streets, parks and other public space. Our cleaning and maintenance services cover high-end commercial properties such as Guangzhou International Finance Center (廣州國際金融中心), Guangzhou Taikoo Hui (廣州太古匯), Leatop Plaza (利通廣場), Pearl River Tower (珠江城大廈), Raffles City Chongqing (重慶來福士廣場), Raffles City Shenzhen (深圳來福士廣場); public transportation hubs such as Chongqing Jiangbei International Airport (重慶江北國際機場), Guangzhou Baiyun International Airport (廣州白雲國際機場), Zhengzhou Xinzheng International Airport (鄭州新鄭國際機場), Hong Kong Zhuhai-Macao Bridge Zhuhai port (港珠澳大橋珠海口岸); high-end residential premises such as One Shenzhen Bay (深圳灣一號); and shopping malls such as Yue City (悅滙城).

Our service variety is one of our competitive advantages in providing comprehensive and one-stop services to our customers. Our service capabilities include the provision of basic cleaning and maintenance service, garbage collection and transportation service, waste collection and transportation service, water tank cleaning service and ancillary services. We also offer specialised cleaning services such as stone cleaning and restoration and high-altitude cleaning with mobile elevated platforms.

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

	Year ended 31 December						Six months ended 30 June													
	2020			2021			2022			2023										
	RMB'000	%	Gross profit margin	RMB'000	%	Gross profit margin	RMB'000 (Unaudited)	%	Gross profit margin (Unaudited)	RMB'000	%	Gross profit margin								
Property cleaning	211,433	45.4	38,637	18.3	249,927	44.3	44,303	17.7	289,624	48.7	51,126	17.7	133,863	46.3	23,546	17.6	159,780	53.6	27,765	17.4
– Commercial building	96,078	20.6	12,918	13.4	135,813	24.1	14,761	10.9	143,721	24.2	15,727	10.9	70,255	24.3	7,755	11.0	64,446	21.6	6,798	10.5
– Residential building	63,362	13.6	10,338	16.3	61,384	10.9	9,602	15.6	52,029	8.8	8,367	16.1	28,913	10.0	4,573	15.8	16,759	5.6	2,600	15.5
– Transportation hub	52,749	11.3	10,515	19.9	71,171	12.6	12,138	17.1	64,372	10.8	10,985	17.1	34,721	12.0	5,886	17.0	27,228	9.1	4,623	17.0
– Shopping mall	16,691	3.6	2,787	16.7	12,696	2.3	2,052	16.2	11,981	2.0	1,961	16.4	4,724	1.6	770	16.3	9,122	3.1	1,459	16.0
– Public utilities ^{Note 1}	6,624	1.4	1,345	20.3	12,981	2.3	2,672	20.6	12,339	2.1	2,536	20.6	6,453	2.2	1,260	19.5	8,276	2.8	1,658	20.0
– Industrial park	18,360	3.9	3,367	18.3	19,569	3.5	3,717	19.0	20,138	3.4	3,707	18.4	10,244	3.6	1,950	19.0	12,640	4.2	2,274	18.0
Public space cleaning ^{Note 2}	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Other cleaning ^{Note 3}	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
	465,664	100.0	79,918	17.2	563,541	100.0	89,245	15.8	594,204	100.0	94,409	15.9	289,173	100.0	45,759	15.8	298,251	100.0	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.

Our Guangzhou Headquarters was established in 2000 and is situated at Panyu District, Guangzhou City, Guangdong province. In May 2017, we established our Haikou Branch with a view to allocate more resources and business focus to the provision of cleaning services in Hainan Province. Significant projects include general cleaning service for Sanya Phoenix International Airport (三亞鳳凰國際機場) and various high-end residential properties in Hainan province managed by an integrated conglomerate specialised in property development with operations in over 200 cities in Hainan province. In December 2020, following the success in Hainan Province, our Chongqing Branch was established as the second branch office of the Group. Significant projects in Chongqing include Chongqing Jiangbei International Airport (重慶江北國際機場) and Raffles City Chongqing (重慶來福士廣場), the award-winning commercial complex which features a 300-metre-long horizontal skybridge. In May 2023, our Zhengzhou Branch was established as the third branch office of the Group, and was able to secure a project in Zhengzhou Xinzheng International Airport (鄭州新鄭國際機場), the principal airport serving Zhengzhou, the central city of Henan province.

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Our contracts, tender success rates and our projects

We secure our contracts with customers through the tender process or by direct engagement. Most of our revenue is derived from contracts awarded through competitive tendering. For the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 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. Moreover, our Group’s tender success rate for new customers within the Track Record Period was approximately 28.2%, 25.6%, 41.3% and 43.9% for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, respectively.

The following table sets forth the breakdown of the number and approximate value offered by our Group in the tender documents in relation to successful tenders/quotations by business segments during the Track Record Period. The value of the tenders/quotations refers to the tender/quotation price offered by our Group in the tender documents (without including the tenders which only provide the unit prices that are subject to actual staff involved/service area covered/service hours involved), based on the assumption that our Group will enter into contracts with the tender offerors for one year for tenders/quotations with monthly/yearly quotation should the tender/quotation price be accepted:

	For the years ended 31 December						For the six months ended 30 June			
	2020		2021		2022		2022		2023	
	No. tender/ quotations	Approximate value of tender/ quotations (RMB'000)	No. tender/ quotations	Approximate value of tender/ quotations (RMB'000)	No. tender/ quotations	Approximate value of tender/ quotations (RMB'000)	No. tender/ quotations	Approximate value of tender/ quotations (RMB'000)	No. tender/ quotations	Approximate value of tender/ quotations (RMB'000)
Property cleaning	107	651,813	108	420,828	121	464,042	39	93,137	79	194,146
Public space cleaning	3	67,725	6	25,032	-	-	-	-	4	26,899
Total	110	719,538	114	445,860	121	464,042	39	93,137	83	221,045

Our customer retention rates in each year/period during the Track Record Period amounted to 61.8%, 62.0%, 64.7% and 73.3% for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, respectively.

For further details of our tender strategy, tender success rate and overall contracts awarded, please refer to the section headed “Business – Operation flow – Tender strategy, tender success rate and overall contracts awarded” of this document.

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Marketing strategy and pricing policy

During the Track Record Period, we did not conduct any major marketing activities as we currently rely on publicly available tender information, direct engagements, referrals and our reputation for obtaining new business opportunities. As we expand to new geographic markets and enhance our capabilities in the public space cleaning sector, we intend to pursue additional promotional efforts.

Our pricing policy takes into account the 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.

COMPETITIVE LANDSCAPE AND OUR COMPETITIVE STRENGTHS

According to the Industry Report, the environmental cleaning and maintenance service market is largely dominated by two major sectors, namely the property cleaning and public space cleaning. The overall market is highly competitive, and the competitive landscapes of those two sectors are different primarily due to the nature of their services. The top five market participants in 2022, accounting for an aggregated market share of 15.7%, are all primarily working in the public space cleaning sector. Our Group had a market share of approximately 0.1% of the environmental cleaning and maintenance industry in the PRC in 2022 in terms of revenue.

We believe the following competitive strengths contribute to our success and distinguish us from our competitors:

- We are one of the well-established service providers for property cleaning in Guangdong province with a strong brand recognition and proven track record
- We are able to provide a variety of cleaning and maintenance services and have strong capabilities to support our service offering
- We have a diversified customer base and strong relationship with our major customers
- We are committed to the management of risks and adopted stringent quality, safety and environmental management systems
- We are led by a seasoned and stable management team

Despite the adverse impact of COVID-19 on the PRC's economy, we continued to receive new contracts. In fact, the rising public awareness and standard of hygiene during the pandemic has boosted demand for our cleaning and maintenance services, as reflected in the steady increase in the number of our projects and increasing revenue during the Track Record Period. However, adverse impact may arise from the macroeconomic shutdown due to the pandemic or inefficiency in service delivery, which could contribute to the downturn in property development and property management industries in the PRC, bringing negative impacts to our Group's business.

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OUR BUSINESS STRATEGIES

Our principal business objectives are to further strengthen the position and overall competitiveness of our cleaning and maintenance business in the PRC and increase our market share in the industry. We intend to achieve our business objectives with the following business strategies: (i) continue to increase our market share by expanding our presence in the PRC in both existing and new markets; (ii) enhance our capabilities to capture additional opportunities in the public space cleaning sector; (iii) adopt technological advances in the industry and upgrade our information technology systems to improve our service quality and efficiency; and (iv) enhance our brand recognition through strengthening our human resources and promotional activities.

OUR CUSTOMERS AND SUPPLIERS

Our customers

We have a diversified customer base for our services including government authorities and institutions, state-owned enterprises, companies (or subsidiaries thereof) listed on the Stock Exchange or other major stock exchanges and private enterprises. Our five largest customers for each year during the Track Record Period were (i) property management companies in the PRC; (ii) airport management and operation companies; (iii) companies (or subsidiaries thereof) listed on the Stock Exchange, the London Stock Exchange or stock exchanges in the PRC; or (iv) companies falling within more than one of the above categories. Revenue from our five largest customers for each year during the Track Record Period amounted to approximately RMB119.9 million, RMB137.6 million, RMB152.0 million, RMB74.5 million and RMB67.7 million, representing approximately 25.6%, 24.4%, 25.6%, 25.8% and 22.6% of our total revenue for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, respectively.

Our suppliers

Our five largest suppliers for each year during the Track Record Period were third party service providers, a substantial portion of which were subcontractors assisting our workforce in the provision of our services. Other than the above, we also have suppliers of insurance services and recruitment and administration services given the size and fluctuation in the numbers of our workforce as well as the cross-provincial and labour-intensive nature of our operations. The purchases from our five largest suppliers for each year amounted to approximately RMB136.2 million, RMB173.5 million, RMB153.6 million, RMB74.6 million and RMB81.0 million, representing approximately 35.3%, 36.5%, 30.7%, 30.6% and 32.3% of the cost of services for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, respectively.

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RISK FACTORS

Our operations involve certain risks, some of which are beyond our control. The major risks generally associated with our business and industry include the following: (i) there is no guarantee that our customers will award new contracts to us in the future or that we will be able to secure contracts on commercially attractive terms;(ii) our projects are subject to risks such as cost overrun, reduction in service scope and early termination; (iii) there is no guarantee that our business strategies and future plans will be successfully implemented or bring us the amount of revenue or other benefits as planned; (iv) our business operations are labour-intensive, labour shortages and labour strikes may materially and adversely affect our reputation and business operation; and (v) we may be liable for any sub standard service or misconduct of our employees and third party service providers and we may incur substantial costs to remedy any defects caused by them.

You should carefully consider all of the information set forth in this document and, in particular, should evaluate the specific risks set forth in the section headed “Risk factors” of this document in deciding whether to invest in our Shares.

OUR CONTROLLING SHAREHOLDERS

Immediately after completion of the [REDACTED] and the Capitalisation Issue (without taking into account any Shares that may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), [REDACTED] of the issued share capital of our Company will be owned by Prosperity Cleanness, which is a company wholly-owned by Mr. Li; and [REDACTED] of the issued share capital of our Company will be owned by Sunrise Cleanness, which is a company wholly-owned by Mr. Chen. Mr. Li and Mr. Chen have confirmed that they are a group of Controlling Shareholders. For further details, please refer to the section headed “Relationship with our Controlling Shareholders” of this document.

OUR [REDACTED] INVESTOR

Mr. Tam Yat Kin Ken is the [REDACTED] Investor of our Company. Immediately after completion of the [REDACTED] and the Capitalisation Issue (without taking into account any new Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme), the [REDACTED] Investor through his nominee company, Dash Dazzling, will hold [REDACTED] of our Company’s entire issued share capital. For further details of the [REDACTED] Investment, please refer to the section headed “History, Reorganisation and Group structure – [REDACTED] Investment” of this document.

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SUMMARY HISTORICAL FINANCIAL INFORMATION

The selected financial data from our consolidated financial statements (the details of which are set out in Appendix I to this document) set forth in the table below should be read in conjunction with the financial information (including related notes) set out in Appendix I to this document and the information set out in the section headed “Financial information” of this document.

Summary of consolidated statements of comprehensive income

	Year ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Revenue	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
Operating profit	39,438	45,955	40,290	18,679	17,624
Profit and total comprehensive income for the year/period attributable to owners of our Company	31,312	39,921	34,389	15,392	15,308

Our 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, whereas our 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 approximately 17.2% for the year ended 31 December 2020 to approximately 15.8% for the year ended 31 December 2021, primarily due to the decrease in gross profit margin of our property cleaning service for shopping malls and residential buildings during the year ended 31 December 2021. During the year ended 31 December 2020, there was a decrease in cleaning workforce required in residential buildings and shopping malls as the PRC government announced and encouraged the public to reduce outdoor activities in order to control the outbreak of COVID-19, therefore, the cost of services for the cleaning of residential buildings and shopping malls decreased. With COVID-19 being effectively controlled, viable treatments became commercially available along with the relaxation of the restrictions and subsequent normalised economic activities in 2021, the cleaning workforce required during the year ended 31 December 2021 increased leading to a decrease in gross profit margin.

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Our 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, whereas our gross profit increased by approximately 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 year ended 31 December 2021 and 2022, respectively.

Our 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, whereas our 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.

Movement in the value of backlog of our projects during the Track Record Period and up to the Latest Practicable Date

The following table sets out the movement in the value of backlog of the projects during the Track Record Period and up to the Latest Practicable Date:

	Year ended 31 December			Six months ended 30 June		From 1 July 2023 up to the Latest Practicable Date
	2020	2021	2022	2022	2023	Date
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Opening value of backlog	285,694	417,657	494,949	494,949	537,646	717,975
Total value of new confirmed contracts	597,627	640,833	636,901	244,614	478,580	129,713
Revenue recognised	(465,664)	(563,541)	(594,204)	(289,173)	(298,251)	(278,385)
Ending value of backlog	<u>417,657</u>	<u>494,949</u>	<u>537,646</u>	<u>450,390</u>	<u>717,975</u>	<u>569,303</u>

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The following table sets out the ending value of backlog of the projects by business segments during the Track Record Period and up to the Latest Practicable Date and from 1 January 2023 up to the Latest Practicable Date:

	Year ended 31 December			Six months ended 30 June		From 1 July 2023 up to the Latest Practicable Date
	2020	2021	2022	2022	2023	Date
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(unaudited)
<i>Property cleaning</i>						
Commercial building	144,163	242,964	267,162	195,144	385,747	290,199
Residential building	105,274	84,955	126,214	96,330	170,550	136,864
Transportation hub	75,496	64,975	27,111	38,567	28,018	15,468
Shopping mall	61,116	57,086	40,633	34,358	44,437	42,631
Public Utilities	7,692	14,384	13,123	8,730	12,790	26,306
Industrial Park	5,870	7,776	5,676	8,793	14,730	9,401
<i>Public space cleaning</i>	18,046	22,809	57,727	68,468	61,703	48,434
<i>Other cleaning</i>	-	-	-	-	-	-
Total	<u>417,657</u>	<u>494,949</u>	<u>537,646</u>	<u>450,390</u>	<u>717,975</u>	<u>569,303</u>

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	%	RMB'000	%
										(Unaudited)
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
	<u>465,664</u>	<u>100.0</u>	<u>563,541</u>	<u>100.0</u>	<u>594,204</u>	<u>100.0</u>	<u>289,173</u>	<u>100.0</u>	<u>298,251</u>	<u>100.0</u>

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

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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. During the Track Record Period, our total revenue from Guangxi, Chongqing, Hainan and provincial-level regions other than Guangdong was approximately RMB74.7 million, RMB104.4 million, RMB126.9 million, 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..

Other income and other gain/(loss), net

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, in which we previously held a majority interest 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 income from the provision of ancillary services for a road construction project in 2020 and 2021; and (iv) value added tax refund. Our other gain/(loss), net comprised (i) fair value gain/(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. For details, please refer to the paragraphs headed “Financial information – Description on selected items of the consolidated statements of comprehensive income – Other income” and “Financial information – Description on selected items of the consolidated statements of comprehensive income” of this document.

Net profit

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. The increase is mainly due to (i) the increase in gross profit by RMB9.3 million; (ii) the decrease in other losses by RMB7.3 million; (iii) the decrease in impairment losses on financial assets by RMB2.2 million; and partially offset by (iv) the increase in general and administrative expenses by RMB11.4 million.

Our net profit decreased by approximately RMB5.5 million or 13.8% from approximately RMB39.9 million for the year ended 31 December 2021 to approximately RMB34.4 million for the year ended 31 December 2022. The decrease is mainly due to (i) the increase in general and administrative expenses by approximately RMB6.1 million; (ii) the decrease in other income by approximately RMB2.0 million; (iii) the increase in net impairment losses on financial assets by approximately RMB2.1 million; and partially offset by (iv) the increase in gross profit by approximately RMB5.2 million.

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Our net profit slightly decreased by approximately RMB0.1 million or 0.6% 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. The decrease is mainly due to (i) the increase in selling and marketing expenses by approximately RMB0.7 million; (ii) the increase in impairment losses on financial assets by approximately RMB3.1 million; (iii) the decrease in other income by approximately RMB1.2 million; partially offset by (iv) the decrease in general and administrative expense by approximately RMB2.6 million and (v) the increase in gross profit by approximately RMB1.5 million.

Summary of consolidated statements of financial position

	As at [REDACTED]			As at
	2020	2021	2022	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets	31,705	30,246	30,749	33,598
Current assets	224,087	247,819	285,425	303,457
Total assets	255,792	278,065	316,174	337,055
Non-current liabilities	6,998	6,771	6,524	6,394
Current liabilities	107,359	128,651	132,618	138,321
Total liabilities	114,357	135,422	139,142	144,715
Total equity and liabilities	255,792	278,065	316,174	337,055
Net current assets	116,728	119,168	152,807	165,136
Net assets	141,435	142,643	177,032	192,340

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 RMB9.3 million mainly due to the increase in amount due to Mr. Li as we had advances from Mr. Li in order to settle [REDACTED]; 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.

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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 RMB13.0 million due to the increase in amount due to Mr. Li as we had advances from Mr. Li in order to settle [REDACTED] and the increase in [REDACTED] 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 RMB23.2 million which was in line with the growth in our revenue; partially offset by (ii) the decrease in cash and cash equivalents by approximately RMB4.8 million; and (iii) the increase in trade and other payables by RMB6.2 million due to the increase in amount due to Mr. Li as we had advances from Mr. Li in order to settle [REDACTED] and the increase in [REDACTED] payable.

Our net assets increased from approximately RMB141.4 million as at 31 December 2020 to approximately RMB142.6 million as at 31 December 2021. The increase was mainly due to (i) the contribution of the profit for the year of 2021 of approximately RMB39.9 million; (ii) the issuance of shares of approximately RMB4.0 million; partially offset by (iii) the dividend paid to controlling shareholders of approximately RMB28.2 million and (iv) the capital reduction of a subsidiary of approximately RMB12.3 million.

Our net assets increased from approximately RMB142.6 million as at 31 December 2021 to approximately RMB177.0 million as at 31 December 2022. The increase was mainly due to the contribution of the profit for the year of 2022 of approximately RMB34.4 million.

Our net assets increased from approximately RMB177.0 million as at 31 December 2022 to approximately RMB192.3 million as at 30 June 2023. The increase was mainly due to the contribution of the profit for six months ended 30 June 2023 of approximately RMB15.3 million.

SUMMARY

Summary of consolidated statements of cash flows

	As at 31 December			As at 30 June	
	2020	2021	2022	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Cash flows from operating activities					
Net cash generated from/(used in) operating activities	22,027	14,926	5,779	(26,633)	(4,563)
Cash flows from investing activities					
Net cash generated from/(used in) investing activities	(5,425)	(7,423)	1,823	3,079	(1,854)
Cash flows from financing activities					
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 during the year/period	<u>11,387</u>	<u>(15,246)</u>	<u>2,531</u>	<u>(30,083)</u>	<u>(4,864)</u>
Cash and cash equivalents at end of the year/period	<u>67,437</u>	<u>52,191</u>	<u>54,722</u>	<u>22,108</u>	<u>49,858</u>

For the six months ended 30 June 2022 and 30 June 2023, our net cash used in operating activities was RMB26.6 million and RMB4.6 million, respectively, which was mainly attributable to the increase in account receivable. The increase was mainly because of the slow economic resurgence and delays in settlement of account receivable by some of our customers based in/or operated in provinces severely affected by the COVID-19 pandemic during the respective periods. Please refer to the section headed “Financial Information – Liquidity and Capital Resources” in this document for further details.

SUMMARY

SUMMARY OF KEY FINANCIAL RATIOS

The following table sets forth certain financial ratios relating to our Group as at the dates or for the periods indicated:

	As at 31 December			As at 30 June
	2020	2021	2022	2023
Gross profit margin (%)	17.2	15.8	15.9	15.8
Net profit margin (%)	6.7	7.1	5.8	5.1
Return on equity (%) ^{Note 1}	22.1	28.0	19.4	N/A
Return on total assets (%) ^{Note 2}	12.2	14.4	10.9	N/A
Current ratio (<i>times</i>) ^{Note 3}	2.1	1.9	2.2	2.2
Gearing ratio (%) ^{Note 4}	5.5	12.2	4.1	3.7
Net debt to equity ratio (%) ^{Note 5}	Net Cash	Net Cash	Net Cash	Net Cash
Interest coverage (<i>times</i>) ^{Note 6}	30.4	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 year 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 year 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 year.
4. Gearing ratio is calculated based on the total borrowings and lease liabilities divided by total equity as at the end of the respective year 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 year 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 year.

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Subsequent to 30 June 2023 (being the latest date of the consolidated financial information of our Group as set out in Appendix I to this document) and up to the date of this document, we continued our focus as a cleaning and maintenance services provider. Our business model, revenue structure, cost structure, and the industry, market and regulatory environment in which we operate remained substantially unchanged since 30 June 2023 and up to the date of this document.

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Our Directors consider that our projected net profit for the year ending 31 December 2023 is expected to record a decrease, compared to the net profit for the year ended 31 December 2022, which is affected by (i) an expected increase in general and administrative expenses and (ii) an expected increase in net impairment losses on financial assets. The expected increase in general and administrative expenses is primarily attributable to the expected increase in [REDACTED], including [REDACTED] in connection with the [REDACTED]. The expected increase in net impairment losses on financial assets is primarily attributable to our Group measures loss allowance for the trade receivables at an amount equal to lifetime expected credit loss and in view of the slowing economy in the PRC, for prudence’s sake, our Group expected to increase the provision of impairment loss on financial assets in FY2023. Our Directors confirm that save for the estimated non-recurring [REDACTED] as disclosed in the paragraph headed “[REDACTED]” in this section, since 30 June 2023 (being the latest date of the consolidated financial information of our Group as set out in Appendix I to this document) and up to the date of this document, (i) there was no material adverse change on the market conditions and the industry and the regulatory environment in which our Group operates that affects our financial or operating position materially and adversely; (ii) there was no material adverse change in the business, revenue structure, trading, profitability, cost structure, financial position and prospects of our Group, and (iii) no event had occurred that would affect the information shown in our Accountant’s Report in Appendix I to this document materially and adversely.

As at the date of this document, Shenghui Cleanness (Beijing) was established and we have successfully secured a project for provision of property cleaning service.

Impact of COVID-19

An outbreak of COVID-19 was first reported in December 2019, and the COVID-19 pandemic spread around the world during the Track Record Period. Since the beginning of 2022, another wave of COVID-19 broke out in the PRC, which caused surging numbers of COVID-19 cases in certain regions, such as Shenzhen, Guangzhou, Shanghai and Beijing. Local governments have taken certain lockdown measures at particular districts to prevent further spread of the virus. However, as confirmed by the Directors, such lockdown measures did not have significant impact on our Group’s business operation, as cleaning services were essential services especially during the pandemic and our the Group was generally still able to provide services during the lockdown period. However, adverse impact may arise from the macroeconomic shutdown due to the pandemic or inefficiency in service delivery, which could contribute to the downturn in property development and property management industries in the PRC, bringing negative impacts to our Group’s business.

In December 2022, the PRC government eased the restrictions previously imposed with respect to the control of the COVID-19 pandemic. In May 2023, the World Health Organisation ended the global emergency status for COVID-19, declaring that it is now an established and ongoing health issue which no longer constitutes a public health emergency of international concern. As a result, regional lockdown, quarantine requirements and inter-region travel restrictions have been gradually lifted.

SUMMARY

For further details on the impact of COVID-19 on our Group business operation and financial performance, please refer to the sections headed “Business – Impact of COVID-19” and “Financial information – Period-to-period comparison of results of operation” of this document. Our Directors confirm that given the nature of our business, during the Track Record and up to the Latest Practicable Date, our projects had not been halted, delayed or cancelled due to the COVID-19 outbreak.

Despite the adverse impact of COVID-19 on the PRC’s economy, we continued to receive new contracts. In fact, the rising public awareness and standard of hygiene during the pandemic has boosted demand for our cleaning and maintenance services, as reflected in the steady increase in the number of our projects and increasing revenue during the Track Record Period. According to the Industry Report, the growing demand in the environmental cleaning and maintenance service market in the PRC is anticipated to continue even at the post-pandemic stage. We cannot guarantee, however, that we will be able to effectively compete and capture new business opportunities in this highly competitive industry despite the expected growth, and that before the pandemic is effectively and continuously contained, it will not escalate to an extent that will disrupt our operations in any way.

For further details of the risk of COVID-19 or other natural disasters, please refer to the section headed “Risk factors – Market opportunities arising out of the COVID-19 outbreak may not be sustainable. Any material negative development of COVID-19 and any other unforeseeable market circumstances such as the occurrence of a natural disaster, economic changes and any other incidents may affect our business, financial conditions and results of operations” of this document.

Regulations relating to overseas securities [REDACTED] and [REDACTED] by domestic companies

On 17 February 2023, the CSRC released the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies (《境內企業境外發行證券和上市管理試行辦法》) and the relevant supporting guidelines (collectively, the “**Listing Trial Measures**”) which came effect on 31 March 2023. The Listing Trial Measures is formulated to regulate overseas securities [REDACTED] and [REDACTED] activities by domestic companies, either in direct or indirect form (hereinafter referred to as “**overseas [REDACTED] and [REDACTED]**”). The Listing Trial Measures not only list out the circumstances where overseas [REDACTED] and [REDACTED] is forbidden, but also set out the conditions for determining the overseas [REDACTED] and [REDACTED] in indirect form. Domestic companies that seek to [REDACTED] and list securities in overseas [REDACTED] shall fulfill the filing procedures with and report relevant information to the CSRC, and the filing shall be submitted within three business days after the application for an initial [REDACTED] is submitted. As advised by our PRC Legal Advisers, we have completed the filing procedures with the CSRC for the [REDACTED] and on 20 October 2023, the CSRC issued a notification to us confirming the completion of the filing procedures for the overseas [REDACTED] on the Stock Exchange.

SUMMARY

Material adverse changes

As far as our Directors are aware, there had been no material adverse change in the [REDACTED] 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.

Our Directors confirm that, up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since 30 June 2023, 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.

[REDACTED] STATISTICS

	Based on an [REDACTED] of HK\$[REDACTED] per [REDACTED]	Based on an [REDACTED] of HK\$[REDACTED] per [REDACTED]
Market capitalisation of our Shares ^{Note 1}	HK\$[REDACTED]	HK\$[REDACTED]
Unaudited pro forma adjusted consolidated net tangible assets per Share ^{Notes 2 and 3}	HK\$[REDACTED]	HK\$[REDACTED]

Notes:

- (1) The calculation of [REDACTED] is based on [REDACTED] Shares expected to be in issue immediately following the completion of the [REDACTED] and the Capitalisation Issue without taking into account any Shares to be issued pursuant to the exercise of any options to be granted under the Share Option Scheme.
- (2) Please refer to Appendix II to this document for the bases and assumptions in calculating these figures.
- (3) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of our Group entered into subsequent to 30 June 2023.

SUMMARY

[REDACTED]

Our Directors estimate that the total amount of expenses in relation to the [REDACTED] is approximately [REDACTED] (equivalent to approximately HK\$[REDACTED]), which amounted to [REDACTED] of gross proceeds of the [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], are approximately RMB[REDACTED] (equivalent to approximately HK\$[REDACTED]) and (ii) [REDACTED] are approximately RMB[REDACTED] (equivalent to approximately HK\$[REDACTED]), comprising (a) [REDACTED] of approximately RMB[REDACTED] (equivalent to approximately HK\$[REDACTED]) and (b) [REDACTED], of approximately RMB[REDACTED] (equivalent to approximately HK\$[REDACTED]). Out of the total expenses 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 [REDACTED]. Of the approximately RMB[REDACTED] that shall be charged to [REDACTED], 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].

[REDACTED]

We estimate that we will receive [REDACTED] of approximately HK\$[REDACTED] from the [REDACTED], after deducting the [REDACTED] payable by us in connection with the [REDACTED], assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED], being the mid-point of the [REDACTED] range stated in this document. We intend to use such [REDACTED] from the [REDACTED] for the following purposes: (i) approximately [REDACTED]% (approximately HK\$[REDACTED]), for expanding our geographic presence across the PRC, particularly establishing new subsidiaries or opening new branches locally and strategic acquisition(s); (ii) approximately [REDACTED]% (approximately HK\$[REDACTED]) would be used for enhancing our service capabilities to capture opportunities in the public space cleaning sector; (iii) approximately [REDACTED]% (approximately HK\$[REDACTED]) would be used for adoption of technological advances in the industry and upgrading our information technology system; (iv) approximately [REDACTED]% (approximately HK\$[REDACTED]) would be used to expand our marketing department and strengthen our brand recognition through promotional activities; and (v) approximately [REDACTED]% (approximately HK\$[REDACTED]) would be used as our working capital and for general corporate purposes. We will not receive any of the proceeds from the sale of the [REDACTED] by our [REDACTED] in the [REDACTED]. For details, please refer to the section headed “Future plans and [REDACTED]” of this document.

SUMMARY

DIVIDEND AND DIVIDEND POLICY

During the Track Record Period, we declared and paid dividends of approximately RMB28.2 million in January 2021. The recommendation of the payment of dividend is subject to the absolute discretion of our Board, and, after [REDACTED], any declaration of final dividend for the year will be subject to the approval of our Shareholders. Our Directors may recommend a payment of dividend in the future after taking into account, among others, our results of operations, cash flows and financial condition, operating and capital requirements and other relevant factors our Board may deem relevant. Our Company currently does not have any predetermined dividend payout ratio. After the Track Record Period and up to the date of this document, no dividend was declared or paid by the Company. For details, please refer to the section headed “Financial information – Dividend and dividend policy” of this document.

HISTORICAL NON-COMPLIANCE INCIDENTS

During the Track Record Period, (i) we failed to make full contribution to the social security and housing provident funds for our employees as required by relevant PRC laws and regulations; (ii) we did not obtain the relevant qualification for a specific project prior to entering into the contract and (iii) we failed to register our lease agreements. For further details, please refer to the section headed “Business – Historical non-compliance incidents” of this document.