You should read the following discussion and analysis with our historical financial information, including the notes thereto, included in the Accountants' Report in Appendix I to this document. Our historical financial information has been prepared in accordance with IFRS Accounting Standards.

The following discussion and analysis contain forward-looking statements that involve risk and uncertainties. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. In evaluating our business, you should carefully consider the information provided in this document, including but not limited to the sections headed "Risk Factors" and "Business."

For the purposes of this section, unless the context otherwise requires, references to the years of 2021, 2022 and 2023 refer to the years ended December 31 of such years.

OVERVIEW

We are a construction group based in Tianjin that provided comprehensive construction services. According to the Frost & Sullivan Report, we ranked fourth among all the private enterprises engaged in municipal public construction in Tianjin in terms of revenue from municipal public construction works in 2022, representing a market share of approximately 0.2%. During the Track Record Period, we primarily engaged in construction business and strove to provide high quality construction services to our customers by leveraging our self-developed Jiexiao System, a comprehensive construction management software equipped with multiple functions including cost monitoring, progress measuring and resources tracking.

Our total revenue increased from RMB274.9 million in 2021 to RMB319.4 million in 2023 at a CAGR of 7.8%. Such continuous increase was mainly attributable to a combined effect of (i) the expansion of our construction business by capturing the business opportunities arising from substantial investment in infrastructure projects of larger size by the local government in Tianjin and leveraging our experience accumulated in municipal public construction works and (ii) our undertaking of more large scale projects (i.e. projects with original contract value (not including VAT) of more than RMB10.0 million). During the Track Record Period, the average contract amount for new project increased from RMB4.5 million in 2021 to RMB12.4 million in 2023. Our gross profit also increased from RMB71.7 million in 2021 to RMB80.3 million in 2023 at a CAGR of 5.8%.

BASIS OF PREPARATION

Our Company was established in the PRC on November 4, 2010 as a limited liability company under the laws of the PRC and was converted into a joint stock limited liability company on June 6, 2023. Our Group is principally engaged in construction business. The information of the subsidiaries is set out in Note 1 to Accountants' Report in Appendix I to this document.

The statutory financial statements of the Company for the years ended December 31, 2021 and 2022 were prepared in accordance with the Accounting Standards for Business Enterprises applicable to the enterprises in the PRC and were audited by the auditors named in Note 1 to the Accountants' Report as set out in Appendix I to this document. No audited statutory financial statements for the year ended 31 December 2023 were available as of the Latest Practicable Date.

Our financial information during the Track Record Period (the "**Historical Financial Information**") has been prepared in accordance with all applicable IFRS Accounting Standards as issued by the International Accounting Standards Board (the "**IASB**"). Further details of the material accounting policy information adopted are set out in Note 2 to the Accountants' Report as set out in Appendix I to this document.

The IASB has issued a number of new and revised IFRS Accounting Standards. For the purpose of preparing this Historical Financial Information, our Group has adopted all applicable new and revised IFRS Accounting Standards consistently throughout the Track Record Period. Our Group has not adopted any new standards or interpretations that are not yet effective for the accounting period beginning on January 1, 2023. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period beginning on January 1, 2023 are set out in Note 33 to the Accountants' Report as set out in Appendix I to this document.

The Historical Financial Information also complies with the applicable disclosure provisions of the Listing Rules.

The accounting policies set out in Note 2 to the Accountants' Report as set out in Appendix I to this document have been applied consistently to all periods presented in the Historical Financial Information.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, materially affected by a number of factors, many of which are outside of our control. These factors include but are not limited to the following.

General economic conditions in China and government policies related to the PRC construction industry

The PRC construction industry is to a large extent affected by the conditions of the PRC economy. General economic conditions in China have affected and may continue to affect our business and results of operations. Our revenue directly correlates with the level of construction activities in China, particularly in Tianjin, where a majority of our construction projects were located during the Track Record Period. According to Frost & Sullivan, the future growth and level of profitability of the construction industry in the PRC is likely to depend primarily upon the continued availability of major construction works projects. The nature, extent and timing of such projects will, however, be determined by the interplay of a variety of factors, in particular, the PRC government's spending patterns on the construction and infrastructure industry in the PRC, the investment by property developers and the general conditions and prospects of the PRC economy. These factors may affect the amount of construction projects offered by the public sector, private sector or institutional bodies. Apart from the public spending of the PRC government, there are numerous factors affecting the construction industry, including cyclical trends in the economy as a whole, fluctuations in the interest rates and the availability of new projects in the private sector. Any changes in the national or local regulatory environment in respect of the PRC construction industry may also affect the level of activities in this industry, as well as the supply of land for property development, project financing, taxation and foreign investment. An occurrence of recession in the PRC, deflation or any changes in the PRC's currency policy, or decrease in the demand for construction works in the PRC may adversely affect our operations and profits.

Nature of the projects

We are awarded construction projects by our customers on a project-by-project basis with no long-term commitment. As of December 31, 2023, we had a total of 27 ongoing construction projects, and accordingly, upon the completion of these ongoing construction projects, our existing customers are not obligated to award projects to us again in subsequent construction project. Moreover, for the construction project which we will potentially engage in, we are required to undergo the entire tender selection process in order to be awarded with a new project. As such, the revenue attributable to our construction service is not recurring in nature.

There is no guarantee that our existing customers will award new construction projects to us or that our existing customers will require our construction service again after completion of the projects despite the established relationships we may have with certain customers. As a result, our revenue and the number of projects we are able to secure may vary from period to period and it is difficult to forecast the volume of our business in the future. In the event that we are unable to secure new construction works projects from our current customers or to attract new customers, our Group's revenue or profit may decrease significantly and our business, financial condition or results of operation may be adversely affected.

Timing of collection on our construction projects and retention amounts

During the Track Record Period, our revenue was mainly generated from our construction business. For the years ended December 31, 2021, 2022 and 2023, our total revenue was RMB274.9 million, RMB288.0 million and RMB319.4 million, respectively. In general, we receive progress payments upon achievement of key milestones as set forth in our construction contracts, or on a periodic basis, in which we are able to start billing at an agreed percentage, generally ranging from 70.0% to 85.0%, of the total certified value of work we performed. As our construction projects usually take one month to one year to complete, the number of contracts and progress of each contract we undertake in any period may affect our results of operations and lead to fluctuations in revenue recognized from period to period. Further, our customers generally retain a retention fee of no more than 3.0% of the settlement amount calculated upon completion and acceptance of the construction projects payable to us. The retention fee will generally be returned to us at the end of the warranty period. The length of the warranty period typically ranges from one to two years, depending on the type of construction project.

Cost fluctuations in construction projects

The major costs components of our construction projects are costs of materials consumed, labor subcontracting costs, professional subcontracting costs and machinery usage costs. For the years ended December 31, 2021, 2022 and 2023, costs of materials consumed accounted for 48.0%, 41.4% and 28.8% of our cost of sales, respectively; labor subcontracting costs and staff costs accounted for 27.3%, 30.4% and 16.6% of our cost of sales, respectively; professional subcontracting costs accounted for 17.0%, 18.1% and 34.5% of our cost of sales, respectively; and machinery usage costs accounted for 5.1%, 9.0% and 13.0% of our costs of sales, respectively. For descriptions of our cost of sales, see "— Description of Selected Items in the Consolidated Statements of Profit or Loss and Other Comprehensive Income — Cost of sales" in this section.

Our quotation price at the tender or negotiation stage was derived based on a number of factors. We usually adopt the cost plus premium approach to determine our quotation price, taking into account factors such as: (i) estimated costs of raw materials, equipment and labor; (ii) scope and complexity of works; (iii) delivery schedule; (iv) expected profitability; (v) the prices that may be offered by other bidders; and (vi) information or indices published in the market or by the government. We will also consider the general project profitability and strategic cooperation with the customer within the price cap mentioned in the tender from time to time.

Generally, as we do not purchase raw materials or lease equipment until we enter into a contract with a customer, there may be unanticipated cost fluctuations or cost changes due to time spans, as a result of which the actual costs of the project undertaken may be higher than our estimated costs. Where construction contracts allow us to make adjustments and revise our estimated project costs in response to changing circumstances, such cost increase may be passed on to the customer, otherwise any cost increase may not be passed on to the customer. During the Track Record Period, as the project period of our projects are relatively short and we did not experience material cost fluctuations, there were no material differences between the estimated costs and the actual costs of our projects. Hence, no cost adjustment arrangements were made with our customers during the Track Record Period. In order to minimize the impact of possible fluctuations in costs and raw material prices during the course of a project, we usually select a fixed unit price or a fixed total price at the time of procurement and establish a price adjustment mechanism from time to time based on actual negotiations. In addition, we will also base our procurement on the actual needs of the project schedule, estimate the amount of labor and raw materials required during the project preparation phase, consider possible future changes in the price of raw materials, and closely monitor the use of raw materials during the project to minimize waste.

Generally, the price of our fixed lump sum contracts is subject to adjustment, if (i) we are required to provide additional services; (ii) certain force majeure occurs; or (iii) the project is materially delayed due to causes not attributable to us. The fees included in our fixed unit price contracts are determined by the unit price and the amount of work actually performed.

As mentioned above, no cost adjustment arrangements were made with our customers during the Track Record Period, any material fluctuation in our cost of sales may adversely impact our financial performance. Please refer to the paragraph headed "— Cost of Sale — Sensitivity analysis" in this section below for sensitivity analysis illustrating the impact of hypothetical fluctuations in our cost of sales on our profit before tax during the Track Record Period.

Performance and availability of our subcontractors

We may subcontract our construction works to our subcontractors. The subcontracting agreements with subcontractors may expose us to risks associated with non-performance, late performance or substandard performance by our subcontractors, which may have impact on our profitability, financial performance, operational cash flow and reputation, and may lead to potential litigation or damage claims. In addition, as we do not sign any long-term contracts with our subcontractors, there is no assurance that our Group will always be able to secure suitable subcontractors when required, or be able to negotiate acceptable prices and terms of service with subcontractors. In such event, our operations and financial position may be adversely affected.

Access to and cost of financing

Our operation is capital intensive. During the Track Record Period, we mainly funded our operations from cash flows generated from operating activities and our cash and bank balances. The accessibility of bank borrowings depends on the prevailing policies of the government or other regulatory bodies in the PRC, and the implementation of the relevant policies by our financing banks on acquisition or construction of properties with bank financing. Our future expansion may be adversely affected in the event that we are not able to obtain sufficient financing to take up construction projects should suitable opportunities arise.

As of December 31, 2023, we had bank borrowings of RMB20.0 million in total, consisting of three bank loans which bear interest rates of 3.45% to 4.50% per annum. Our Directors expect that following the [REDACTED], our Company may, relying on our [REDACTED] status, be able to seek more external funding like bank facilities to fund our business expansion in the future. Therefore, any increase in interest rate may negatively affect our finance costs and thus, our results of operation.

Taxation

Our Company has been accredited as a High and New Technology Enterprise* (高新技術企業) and entitled to a preferential tax rate of 15.0% from 2019 to 2024. There is no assurance that we will continue to enjoy the preferential tax treatment after the term expires. Please refer to the section headed "Risk Factors — Risks Relating to Our Business and Industry — Discontinuation of any of the preferential tax treatments currently available to us can adversely affect our financial conditions and results of operations." If we could not maintain the status of High and New Technology Enterprise* (高新技術企業) of our Company, it may have an adverse effect on our cash flow and results of operation. According to the relevant tax rules in the PRC, qualified research and development expenses are allowed for additional tax deduction based on 75% of such expenses for the year ended December 31, 2021, and such ratio was raised to 100% from the fourth quarter of 2022. As a result, our effective tax rates during the Track Record Period were 13.0%, 10.4% and 12.6%, respectively.

On April 4, 2018, MOF and SAT jointly promulgated the Circular of the Ministry of Finance and the State Administration of Taxation on Adjustment of Value-Added Tax Rates (《關於調整增值税税率的通知》), or Circular 32, according to which for VAT taxable sales acts or importation of goods originally subject to value-added tax rates of 17% and 11% respectively, such tax rates shall be adjusted to 16% and 10%, respectively. Circular 32 became effective on May 1, 2018 and shall supersede existing provisions inconsistent with Circular 32. On March 20, 2019, MOF, SAT and GAC jointly promulgated the Announcement on Policies for Deepening the VAT Reform (《關於深化增值税改革有關政策的公告》), or Circular 39, which came into force on April 1, 2019 and according to which for general VAT payers' sales activities or imports that were subject to VAT at a current applicable rate of 16% or 10%, the applicable VAT rate was adjusted to 13% or 9%, respectively. Any termination or change in the various preferential tax treatments that we and our certain subsidiaries currently enjoy may have an adverse effect on our results of operation and financial position.

MATERIAL ACCOUNTING POLICY INFORMATION, JUDGMENT AND ESTIMATES

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments related to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and operational results. Our management continuously evaluates such estimates, assumptions and judgments based on past experience and other factors, including industry practices and expectations of future events which are deemed to be reasonable under the circumstances. There has not been any material deviation from our management's estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes to these estimates and assumptions in the foreseeable future.

Set forth below are accounting policies that we believe are of critical importance to us or involve the most significant estimates, assumptions and judgments used in the preparation of our financial statements. Further details are set forth in Notes 2 and 3 to the Accountants' Report as set out in Appendix I to this document.

Revenue recognition

Revenue is recognized 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. We derive our revenue primarily from construction business. Our construction business is further divided into municipal public construction works, foundation works, building construction related works, petrochemical engineering works and other. Revenue derived from construction project is recognized progressively over time using the cost-to-cost method. Under the cost-to-cost method, revenue is recognized based on the proportion of the actual costs incurred relative to the estimated total costs to provide a faithful depiction of the transfer of those services. The estimated total construction costs for each project is prepared by our procurement department and commercial contact department mainly by reference to the contract amount, the amount of labor input and raw materials required, the market prices and quotations provided by the relevant suppliers and subcontractors on the raw materials required and such labor input involved in each of the projects as well as the prior experience of the management of our Group in similar projects. The record of actual costs incurred for a project was prepared by, with the assistance of our Jiexiao System, our on-site project manager of each of the projects from time to time during the project execution phase. Meanwhile, if our construction services include sales of construction materials, the revenue from sales of construction materials is recognized when the customer takes possession of and accepts the construction materials. For our other revenue (i.e. an insignificant part of revenue generated from the provision of software services during the Track Record Period), the revenue is recognized in the amount to which our Group has the right to invoice based on the value of performance completed on a monthly basis. If contracts involve the provision of multiple software services, the transaction prices are allocated to each performance obligation based on their relative stand-alone selling prices.

Construction business

Revenue generated from construction business mainly comprises the agreed contract amount.

Revenue of construction contracts is recognized progressively over time using the cost-to-cost method. Under the cost-to-cost method, revenue is recognized based on the proportion of the actual costs incurred relative to the estimated total costs to provide a faithful depiction of the transfer of those services.

Contract costs incurred in construction contracts comprise the costs of materials consumed, labor subcontracting costs, staff costs, professional subcontracting costs, machinery usage costs, freight fees and others. The record of actual costs incurred for a project was prepared by, with the assistance of our Jiexiao System, our on-site project manager of each of the projects from time to time during the project execution phase. In addition, our management conducts reviews of the project budgets by comparing the estimated costs to the actual costs from time to time.

An onerous contract exists when our Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of fulfilling the contract. The cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling that contract.

We review and revise the estimates of contract revenue and total estimated contract costs prepared for each construction contract as the contract progresses. Estimated construction costs are prepared by our procurement department and commercial contact department mainly by reference to the contract amount, the amount of labor input and raw materials required, the market prices and quotations provided by the relevant suppliers and subcontractors on such labor input involved in each of the projects as well as the prior experience of the management of our Group in similar projects.

Impairment of receivables and contract assets

We recognize a loss allowance for financial assets at amortized cost (including trade receivables, deposits and other receivables), contract assets and lease receivables for expected credit losses ("**ECLs**"), which are a probability weighted estimate of credit losses. In measuring ECLs, we take into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions. Loss allowances for trade receivables, leases receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a forward-looking model that takes into account loss given default ("**LGD**"), probability of default ("**PD**"), exposure of default ("**EAD**") and other factors. According to the model, ECL = PD * LGD * Forward looking adjustment * EAD * discount factor (the discount factor is not a material component in the model). A number of significant judgements, including determining the criteria for significant increase in credit risk, are also required in applying the accounting requirements for measuring ECLs. In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, we compare the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, our Group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to us in full, without recourse by us to actions such as realizing securities (if any is held). In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to our Group.

If the actual impairment losses are higher than the ECLs, we would be required to revise the basis for making the allowance and future results would be affected.

RESULTS OF OPERATIONS OF OUR GROUP

The following table sets forth a summary of the results of operations of our Group for the years indicated, as derived from the Accountants' Report set out in Appendix I to this document.

	Year ended December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Revenue	274,944	287,960	319,437
Cost of sales	(203,238)	(215,365)	(239,131)
Gross profit	71,706	72,595	80,306
Other net income	4,729	1,012	1,141
Operating and administrative expenses	(24,960)	(24,281)	(28,789)
Impairment losses on trade receivables, lease receivables and other receivables and contract assets	(3,853)	(10,149)	(5,344)
Profit from operations	47,622	39,177	47,314
Finance cost	—	—	(366)
Profit before taxation	47,622	39,177	46,948
Income tax	(6,208)	(4,087)	(5,903)
Profit and total comprehensive income for the year attributable to equity owners/ shareholders of the Company	41,414	35,090	41,045
Earnings per share			
Basic and diluted *(RMB yuan)*	0.28	0.23	0.27

DESCRIPTION OF SELECTED ITEMS IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

During the Track Record Period, we generated our revenue mainly from our construction business. Our total revenue amounted to RMB274.9 million, RMB288.0 million and RMB319.4 million for the years ended December 31, 2021, 2022 and 2023.

Revenue breakdown by types of construction services

The following table sets forth a breakdown of revenue by types of construction services for the periods indicated:

	Year ended December 31,					
	2021		2022		2023	
	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue
	RMB'000		*RMB'000*		*RMB'000*	
Municipal public construction works	144,712	52.6	86,469	30.0	186,201	58.3
— Traffic facilities construction	50,048	18.2	3,683	1.3	43,980	13.8
— Road construction	94,664	34.4	82,786	28.7	142,221	44.5
Foundation works	89,153	32.4	20,476	7.1	83,265	26.1
— Foundation construction	84,373	30.7	20,287	7.0	38,027	11.9
— Earthwork	4,780	1.7	189	0.1	45,238	14.2
Building construction related works	19,236	7.0	171,286	59.5	41,155	12.9
Petrochemical engineering works	21,703	8.0	8,918	3.1	8,195	2.5
Other(1)	140	*	811	0.3	621	0.2
Total	274,944	100.0	287,960	100.0	319,437	100.0

* *less than 0.1*

Note:

(1) Our other revenue included service income generated from the provision of software services such as Jiexiao System. During the Track Record Period, we provided software services in relation to Jiexiao System to external parties such as our suppliers and other market users while charging them with platform subscription fee and other services fee.

During the Track Record Period, our construction projects can be divided into: (i) municipal public construction works, (ii) foundation works, (iii) building construction related works and (iv) petrochemical engineering works.

Our total revenue increased by RMB13.1 million or 4.8% from RMB274.9 million for the year ended December 31, 2021 to RMB288.0 million for the year ended December 31, 2022, and further increased by RMB31.4 million or 10.9% to RMB319.4 million for the year ended December 31, 2023, mainly attributable to the overall expansion of our business and our undertaking of more large scale construction projects during the Track Record Period.

According to the Frost & Sullivan Report, in the future, according to the "Outline of the 14th Five-Year Plan (2021 –2025) for National Economic and Social Development and Vision 2035 of the People's Republic of China" (《國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要》), the Tianjin Municipal Government is actively implementing urban renewal actions and promoting high quality urban transformation to enhance the operational quality of municipal infrastructure. Efforts are being made to create green urban areas and to complete the renovation of old urban communities built before the year-end of 2000 by 2025. In addition, as construction projects become more complex and larger in scale with the increasing urbanization rate and the rapid development of the construction industry in the PRC, opportunities are created for construction companies, which require higher standards of project management in terms of modeling, evaluation and control to achieve an overall balance of time, cost, quality and safety. Further, the Tianjin municipal government is advancing the development of Binhai New Area (濱海新區) to accelerate the improvement of infrastructure and public services. As a city with well-established infrastructure and high environmental quality, Tianjin is expected to witness rapid development from 2023 to 2027. Tianjin's municipal public construction market is forecast to reach approximately RMB71.2 billion in 2027, representing a CAGR of approximately 9.2% from 2022.

Since late 2020, in order to capture the business opportunities arising from the substantial investment in infrastructure projects of larger size by the local government in Tianjin, our Company adjusted our business focus from small-to-mid size construction projects to large scale construction projects to expand its business and enhance its market position in the construction industry in Tianjin. Subsequently, we were awarded several large scale municipal public construction projects and building construction related projects with individual contract value of over RMB10.0 million during the Track Record Period. Since 2021, our Group has enhanced its resources allocation for marketing activities and increased its tendering activities. Our Group has also identified suppliers with strong capabilities that matched with our project requirements and hired more project managers to cope with our business scale. The above measures enabled our Group to cope with our business expansion since 2021. In 2021, we undertook several large scale municipal public construction projects such as the Hengsheng Flood Control Bulk Yard Project (恒盛防汛散貨堆場項目), Hangu East Expansion Project (漢沽東擴區項目) and Tianjin Nangang LNG Emergency Reserve Project (天津南港LNG應急儲備項目), which generated RMB49.2 million, RMB18.7 million and RMB16.1 million, representing 17.9%, 6.8% and 5.9% of our total revenue for the year ended December 31, 2021, respectively. Meanwhile, we also undertook some large scale foundation construction projects in 2021 such as Tianjin Nangang Foundation Pre-treatment Project (天津南港地基預處理項目), which generated a revenue of RMB47.8 million, representing 17.4% of our total revenue for the year ended December 31, 2021. In 2022, we undertook 10 out of 11 of the Tianjiang Apartment Projects (天江公寓項目). Those 10 projects had an aggregate contract amount (exclude variation orders) of approximately RMB135.2 million, which generated a total revenue of RMB129.7 million in the second half of 2022, representing 45.0% of our total revenue for the year ended December 31, 2022, in which we provided a wide range of building renovation, remodeling and upgrading services. A substantial part of our revenue for the year ended December 31, 2022 was recognized in the second half of the year, which was contributed by the following major projects:

Project name	Customer	Project type	Commencement date	Completion/ Expected completion date[1]	Contract amount[2] (RMB'000)	Revenue recognized in the second half of 2022 (RMB'000)
Tianjiang Apartment Xintai Mechanical and Electrical Material Procurement — Yu Jia Cheng (天江公寓鑫泰機電材料採購 — 裕嘉程)	Xintai Zhihui[3]	Building construction related works	September 2022	August 2023	26,846	24,904
Hengsheng Flood Control Bulk Yard Project (恒盛防汛散貨堆場工程)	Tianjin Hengsheng Municipal Engineering Company Limited* (天津市恒盛市政工程有限公司)[4]	Municipal public construction works	May 2021	November 2022	90,985	23,890
Xintai Mechanical and Electrical Labor Subcontracting for Tianjiang Apartment Project — Jianfa (天江公寓鑫泰機電勞務分包 — 建發)	Xintai Zhihui[3]	Building construction related works	September 2022	June 2023	21,137	20,673
Outdoor Professional Subcontracting Project of Tianjiang Apartment Project (天江公寓室外工程專業分包)	Customer C[5]	Building construction related works	September 2022	August 2023	31,363	18,194
Decoration and Renovation Professional Subcontracting Project of Tianjiang Apartment Affordable Rental Housing Improvement and Renovation Project — Jianfa (天江公寓裝修專業分包 — 建發)	Customer C[5]	Building construction related works	September 2022	August 2023	22,090	16,815
Tianjiang Apartment Decoration Professional Subcontracting — Binhai Construction (天江公寓裝修專業分包 — 濱海建設)	Customer C[5]	Building construction related works	November 2022	August 2023	17,040	15,867
Tianjiang apartment construction labor professional subcontracting-Jianfa (天江公寓施工勞動專業分包 — 建發)	Customer C[5]	Building construction related works	September 2022	December 2022	15,128	15,128

Project name	Customer	Project type	Commencement date	Completion/ Expected completion date[(1)]	Contract amount[(2)] *(RMB'000)*	Revenue recognized in the second half of 2022 *(RMB'000)*
Infrastructure Project of Huanggang Vocational Education Industrial Park in Binhai New Area (Phase I) (濱海新區黃港職教產業園區基礎設施工程(一期))	Customer I[(6)]	Municipal public construction works	September 2022	August 2023	18,794	15,097
Tianjian Apartment Low Voltage Professional Construction Contracting — Jianfa (天江公寓弱電專業分包 — 建發)	Customer C[(5)]	Building construction related works	September 2022	August 2023	11,940	11,065
Tianjiang Apartment Changhong Fire Protection Material Purchasing-Yu Jia Cheng (天江公寓昌弘消防材料採購 — 裕嘉程)	Customer Z[(7)]	Building construction related works	September 2022	August 2023	4,141	3,793

Notes:

1. Expected completion date was based on the respective contract or progress schedule amended from time to time.

2. The contract amount does not include VAT.

3. Xintai Zhihui is a private enterprise established in the PRC with limited liability and a registered capital of approximately RMB76 million. It is mainly engaged in construction design, building renovation and decoration.

4. Tianjin Hengsheng Municipal Engineering Company Limited* (天津市恒盛市政工程有限公司) is a private enterprise established in the PRC with limited liability and a registered capital of RMB8 million. It is mainly engaged in municipal public construction and sales of construction related materials.

5. A group of companies based in the PRC and the holding company of which is Customer C, a state-owned enterprise established in the PRC with limited liability and a registered capital of RMB30,000 million. It is mainly engaged in real estate development, design and construction works and project management.

6. Customer I is a state-owned enterprise established in the PRC with limited liability and a registered capital of RMB5,080 million. It is mainly engaged in construction works, real estate development and investment management.

7. Customer Z is a private enterprise established in the PRC with limited liability and a registered capital of approximately RMB102 million. It is mainly engaged in building engineering construction, electric power engineering construction and landscaping engineering construction.

In 2023, we undertook several large scale projects, including Tianjin Wangzi East Project (Phase I) (天津市汪子東項目一標段), Tianjin Wangzi East Project (Phase II) (天津市汪子東項目二標段), Tianjin Binhai New Area Pharmaceutical Industrial Park Construction Project Soil Backfilling Project (天津市濱海新區醫藥產業園建設專案土方回填工程) and Professional Subcontracting of Pile Foundation Works for Tianjin Shuren Secondary and Higher Specialized School Project (天津市樹人中等、高等專科學校樁基礎工程專業分包). The aggregate contract amount of these four projects amounted to approximately RMB179.4 million, which generated a total revenue of RMB166.7 million, representing 52.2% of our total revenue for the year ended December 31, 2023.

As a result of the overall expansion of our construction business, our total revenue experienced a continuous increase during the Track Record Period.

Municipal public construction works

During the Track Record Period, we undertook municipal public construction works including traffic facilities construction and road construction. For the years ended December 31, 2021, 2022 and 2023, our revenue generated from municipal public construction works amounted to RMB144.7 million, RMB86.5 million and RMB186.2 million, respectively, and accounted for 52.6%, 30.0% and 58.3% of our total revenue during the same period, respectively.

The revenue generated from municipal public construction works decreased by RMB58.2 million or 40.2% from RMB144.7 million for the year ended December 31, 2021 to RMB86.5 million for the year ended December 31, 2022 mainly due to the decrease in our revenue generated from traffic facilities construction projects by RMB46.4 million from 2021 to 2022 as we focused on and deployed most of our resources in Tianjiang Apartment Projects (天江公寓項目) and other building construction related works in 2022.

The revenue generated from municipal public construction works increased by RMB99.7 million or 115.3% from RMB86.5 million for the year ended December 31, 2022 to RMB186.2 million for the year ended December 31, 2023, mainly due to the commencement and completion of certain large-scale projects in 2023, including Tianjin Wangzi East Project (Phase I) (天津市汪子東項目一標段), Tianjin Wangzi East Project (Phase II) (天津市汪子東項目二標段) and New Construction of Temporary Parking Lot at Wangzi East Area No. 10 (10號汪子東區臨時停車場新建工程), which generated a total revenue of RMB122.8 million.

Foundation works

During the Track Record Period, we undertook foundation works which included foundation construction and earthworks. We possessed the first-grade qualification in foundation construction professional contracting* (地基基礎工程專業承包一級) as of the Latest Practicable Date. For the years ended December 31, 2021, 2022 and 2023, our revenue generated from foundation works amounted to RMB89.2 million, RMB20.5 million and RMB83.3 million, and accounted for 32.4%, 7.1% and 26.1% of our total revenue during the same period, respectively.

The revenue generated from foundation works decreased by RMB68.7 million or 77.0% from RMB89.2 million for the year ended December 31, 2021 to RMB20.5 million for the year ended December 31, 2022 mainly due to the decrease in revenue of RMB64.1 million generated from our foundation construction projects as we substantially completed two large scale foundation construction projects in 2021.

The revenue generated from foundation works increased by RMB62.8 million or 306.3% from RMB20.5 million for the year ended December 31, 2022 to RMB83.3 million for the year ended December 31, 2023, mainly attributable to the commencement and completion of the Tianjin Binhai New Area Pharmaceutical Industrial Park Construction Project Soil Backfilling Project (天津市濱海新區醫藥產業園建設專案土方回填工程) in 2023, which recognized revenue of RMB43.7 million in 2023.

Building construction related works

During the Track Record Period, we undertook building construction related works, mainly including building renovation and decoration, and intelligent building construction. For the years ended December 31, 2021, 2022 and 2023, our revenue generated from building construction related works amounted to RMB19.2 million, RMB171.3 million and RMB41.2 million, and accounted for 7.0%, 59.5% and 12.9% of our total revenue during the same year, respectively.

The revenue generated from building construction related works significantly increased by RMB152.1 million or 792.2% from RMB19.2 million for the year ended December 31, 2021 to RMB171.3 million for the year ended December 31, 2022 mainly attributable to the Tianjiang Apartment Projects (天江公寓項目), which contributed an aggregate revenue of RMB129.7 million in 2022.

The revenue generated from building construction related works decreased by RMB130.1 million or 75.9% from RMB171.3 million for the year ended December 31, 2022 to RMB41.2 million for the year ended December 31, 2023, mainly due to the substantial completion of the Tianjiang Apartment Projects (天江公寓項目) in 2022.

Petrochemical engineering works

During the Track Record Period, we also undertook petrochemical engineering works, mainly including filling station upgrading and renovation, equipment installation and oil tank overhaul. We possessed the first-grade qualification in petrochemical engineering construction general contracting (石油化工工程施工總承包壹級資質) as of the Latest Practicable Date. For the years ended December 31, 2021, 2022 and 2023, our revenue generated from petrochemical engineering works amounted to RMB21.7 million, RMB8.9 million and RMB8.2 million and accounted for 8.0%, 3.1% and 2.5% of our total revenue during the same year, respectively.

The revenue generated from petrochemical engineering works decreased by RMB12.8 million or 59.0% from RMB21.7 million for the year ended December 31, 2021 to RMB8.9 million for the year ended December 31, 2022 mainly due to the substantial completion of our petrochemical engineering projects in 2021 and our focus on and deployment of most of our resources in the Tianjiang Apartment Projects (天江公寓項目) in 2022.

The revenue generated from petrochemical engineering works remained relatively stable at RMB8.9 million for the year ended December 31, 2022 and RMB8.2 million for the year ended December 31, 2023.

Cost of sales

Our cost of sales includes costs of materials consumed, labor subcontracting costs, staff costs, professional subcontracting costs, machinery usage costs, freight fees and others. The following table sets forth a breakdown of our cost of sales by nature for the periods indicated:

	Year ended December 31,					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Costs of materials consumed	97,522	48.0	89,172	41.4	68,775	28.8
Labor subcontracting costs	50,770	25.0	62,055	28.8	35,615	14.9
Staff costs	4,743	2.3	3,454	1.6	4,109	1.7
Professional subcontracting costs	34,577	17.0	39,085	18.1	82,402	34.5
Machinery usage costs	10,384	5.1	19,482	9.0	31,172	13.0
Freight fees	1,647	0.8	133	0.1	14,940	6.2
Others	3,595	1.8	1,984	1.0	2,118	0.9
	203,238	100.0	215,365	100.0	239,131	100.0

Costs of materials consumed

Our costs of materials consumed represent direct costs for purchase of concrete, steel and other construction materials used in our projects. The main materials as well as various other auxiliary materials required vary depending on different types of project. Our costs of materials consumed accounted for 48.0%, 41.4% and 28.8% of our cost of sales for the years ended December 31, 2021, 2022 and 2023, respectively.

Our costs of materials consumed decreased by RMB8.3 million or 8.5% from RMB97.5 million for the year ended December 31, 2021 to RMB89.2 million for the year ended December 31, 2022, mainly due to the Tianjiang Apartment Projects (天江公寓項目) undertaken by us in 2022, which mainly involved building renovation and remodeling works. Therefore, we incurred less costs of materials consumed in 2022. Our cost of materials consumed decreased by RMB20.4 million or 22.9% from RMB89.2 million for the year ended December 31, 2022 to RMB68.8 million for the year ended December 31, 2023 mainly due to (i) our engagement of professional subcontractors to perform most of the ancillary and non-major parts of the Tianjin Wangzi East Project (Phase I) (天津市汪子東項

目一標段) and Tianjin Wangzi East Project (Phase II) (天津市汪子東項目二標段); and (ii) our undertaking of a large scale soil backfilling project, namely the Tianjin Binhai New Area Pharmaceutical Industrial Park Construction Project Soil Backfilling Project (天津市濱海新區醫藥產業園建設專案土方回填工程) in 2023, which mainly involved soil backfilling works, resulting in lower costs of materials consumed.

Labor subcontracting costs and staff costs

Our labor subcontracting costs represent costs paid to labor subcontractors for providing works in construction projects. Our staff costs represent salaries, wages, insurance and other benefits of our staff in project department. Our total labor subcontracting costs and staff costs amounted to RMB55.5 million, RMB65.5 million and RMB39.7 million, accounting for 27.3%, 30.4% and 16.6% of our cost of sales for the years ended December 31, 2021, 2022 and 2023, respectively.

Our total labor subcontracting costs and staff costs increased by RMB10.0 million or 18.0% to RMB65.5 million for the year ended December 31, 2022, mainly due to the Tianjiang Apartment Projects (天江公寓項目), which mainly involved building renovation and remodeling works and were relatively more labor intensive, hence incurring more labor subcontracting costs and staff costs. Our total labor subcontracting costs and staff costs decreased by RMB25.8 million or 39.4% from RMB65.5 million for the year ended December 31, 2022 to RMB39.7 million for the year ended December 31, 2023, mainly due to the engagement of professional subcontractors to perform most of the ancillary and non-major parts of two large scale projects in 2023, namely Tianjin Wangzi East Project (Phase I) (天津市汪子東項目一標段) and Tianjin Wangzi East Project (Phase II) (天津市汪子東項目二標段).

Professional subcontracting costs

Our professional subcontracting costs mainly represent costs paid to professional subcontractors for certain ancillary construction services which require a certain level of expertise (including electricity system construction, fire protection, and waterproofing works). Our professional subcontracting costs accounted for 17.0%, 18.1% and 34.5% of our cost of sales for the years ended December 31, 2021, 2022 and 2023, respectively.

Our professional subcontracting costs increased by RMB4.5 million or 13.0% from RMB34.6 million for the year ended December 31, 2021 to RMB39.1 million for the year ended December 31, 2022 due to our engagement of more professional subcontractors to perform ancillary parts of our construction process for Tianjiang Apartment Projects (天江公寓項目). Our professional subcontracting costs increased by RMB43.3 million or 110.8% from RMB39.1 million for the year ended December 31, 2022 to RMB82.4 million for the year ended December 31, 2023 mainly due to the engagement of professional subcontractors to perform most of the non-major parts of our construction process and other ancillary construction services such as cement production and cement stabilization of Tianjin Wangzi East Project (Phase I) (天津市汪子東項目一標段) and Tianjin Wangzi East Project (Phase II) (天津市汪子東項目二標段) in 2023.

Machinery usage costs

Our machinery usage costs represent costs incurred in the use of machinery and equipment, such as cranes, excavators, loaders, and bulldozers. Our machinery usage costs accounted for 5.1%, 9.0% and 13.0% of our cost of sales for the years ended December 31, 2021, 2022 and 2023, respectively.

Our machinery usage costs increased by RMB9.1 million or 87.5% from RMB10.4 million for the year ended December 31, 2021 to RMB19.5 million for the year ended December 31, 2022. The significant increase of machinery usage costs in 2022 was mainly due to our undertaking of two foundation construction projects in 2022 which mainly relied on the use of pile drivers to carry out the works, hence incurring more machinery usage costs. Our machinery usage costs increased by RMB11.7 million or 60.0% from RMB19.5 million for the year ended December 31, 2022 to RMB31.2 million for the year ended December 31, 2023, mainly due to our undertaking of the foundation construction project of Tianjin Port Collection and Distribution Foundation Construction Project (天津港集疏運路基工程), Infrastructure Project of Huanggang Vocational Education Industrial Park in Binhai New Area (Phase I) (濱海新區黃港職教產業園區基礎設施工程(一期)) and Tianjin Binhai New Area Pharmaceutical Industrial Park Construction Project Soil Backfilling Project (天津市濱海新區醫藥產業園建設專案土方回填工程), which required the use of excavators, bulldozers, loaders and pile drivers to carry out the excavation and filling of pile foundation work.

Freight fees

Our freight fees mainly represent the costs incurred for transportation of cement, sand and concrete and freight for construction in earthwork projects. Our freight fees accounted for 0.8%, 0.1% and 6.2% of our cost of sales for the year ended December 31, 2021, 2022 and 2023, respectively. Our freight fees remained at relatively low level for the two years ended December 31, 2022 as we did not undertake large scale projects that involved transportation of large volume of construction materials in 2021 and 2022. Our freight fees increased significantly by RMB14.8 million from RMB0.1 million for the year ended December 31, 2022 to RMB14.9 million for the year ended December 31, 2023, mainly due to the soil backfilling works of the land remediation project for the Tianjin Binhai New Area Pharmaceutical Industrial Park Construction Project Soil Backfilling Project (天津市濱海新區醫藥產業園建設專案土方回填工程) which commenced in 2023 and involved transportation of large volume of construction materials such as sand, concrete and stones.

Others

Other costs represent project related construction testing costs, sporadic auxiliary production costs, fuel costs, etc. Our other costs accounted for 1.8%, 1.0% and 0.9% of our cost of sales for the years ended December 31, 2021, 2022 and 2023, respectively.

Our other costs decreased by RMB1.6 million or 44.4% from RMB3.6 million for the year ended December 31, 2021 to RMB2.0 million for the year ended December 31, 2022, mainly attributable to our enhanced control over project related expenses to reduce unnecessary expenditures since late 2021. Our other costs remained relatively stable at RMB2.0 million for the year ended December 31, 2022 and RMB2.1 million for the year ended December 31, 2023.

Sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in the costs of sales, with all other variables held constant, of our profit before tax during the Track Record Period:

	Year ended December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Costs of sales increase/(decrease) by			
+3.0%	(6,097)	(6,461)	(7,174)
+5.0%	(10,162)	(10,768)	(11,957)
– 3.0%	6,097	6,461	7,174
– 5.0%	10,162	10,768	11,957

Gross profit and gross profit margin

As our business is project based, we may have different mix of construction services works rendered from time to time. We price our construction projects based on a cost plus premium approach, and under the terms of certain of our contracts, the prices we submit in our bid or negotiate in our contracts are fixed. Our cost plus premium approach to determine our fee quotation, taking into account factors such as: (i) estimated costs of raw materials, equipment and labor; (ii) scope and complexity of works; (iii) delivery schedule; (iv) expected profitability; (v) the prices that may be offered by other bidders; and (vi) information or indices published in the market or by the government. We would also consider the general project profitability and strategic cooperation with the customer within the price cap mentioned in the tender from time to time. We typically entered into fixed price contracts with our customers. Occasionally, we may also intentionally undertake contracts for which we expect lower gross profit margins due to our strategic considerations, e.g., expansion of our customer network, maintain our market shares or entrance into regional markets or business within certain industries. As a result of the above, our overall profitability as well as gross profit margin may vary from time to time.

Since late 2020, in order to capture the business opportunities arising from the substantial investment in infrastructure projects of larger size by the local government in Tianjin, we adjusted our business focus from small-to-mid size construction projects to large scale construction projects (i.e. projects with original contract value (not including VAT) of more than RMB10.0 million), particularly municipal public construction projects, to expand our business and enhance our market position in the construction industry in Tianjin. Despite we adjusted our business focus from small-to-mid size construction projects to large scale construction projects, there was no material change in our profitability during the Track Record Period, and our gross profit margin maintained relatively stable at 26.1%, 25.2% and 25.1% respectively during the Track Record Period. The gross profit margin of our municipal public construction projects also remained relatively stable at 29.1%, 24.6% and 27.6% respectively during the Track Record Period.

The following table sets forth our gross profit and gross profit margin by types of construction services for the periods indicated:

	Year ended December 31,					
	2021		2022		2023	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Municipal public construction works	42,091	29.1	21,297	24.6	51,477	27.6
— Traffic facilities construction	20,818	41.6	981	26.6	13,445	30.6
— Road construction	21,273	22.5	20,316	24.5	38,032	26.7
Foundation works	24,705	27.7	5,559	27.2	18,343	22.0
— Foundation construction	22,926	27.2	5,507	27.1	7,998	21.0
— Earthworks	1,779	37.2	52	27.4	10,345	22.9
Building construction related works	2,471	12.8	43,154	25.2	7,656	18.6
Petrochemical engineering works	2,299	10.6	1,774	19.9	2,209	26.9
Other(1)	140	100.0	811	100.0	621	100.0
Total	**71,706**	**26.1**	**72,595**	**25.2**	**80,306**	**25.1**

Note:

(1) The gross profit margin of provision of software service was 100.0% during the Track Record Period since the software service was fully expensed with no corresponding amortized cost.

During the Track Record Period, we recorded gross profit of RMB71.7 million, RMB72.6 million and RMB80.3 million, and overall gross profit margin of 26.1%, 25.2% and 25.1%, respectively.

Our gross profit remained relatively stable from RMB71.7 million for the year ended December 31, 2021 to RMB72.6 million for the year ended December 31, 2022. Our gross profit increased by RMB7.7 million or 10.6% from RMB72.6 million for the year ended December 31, 2022 to RMB80.3 million for the year ended December 31, 2023, mainly due to the increase in our revenue during the same period.

Our gross profit margin remained relatively stable at 26.1% in 2021 and 25.2% in 2022 and 25.1% in 2023.

The gross profit of municipal public construction works decreased by RMB20.8 million from RMB42.1 million for the year ended December 31, 2021 to RMB21.3 million for the year ended December 31, 2022 and then increased by RMB30.2 million from RMB21.3 million for the year ended December 31, 2022 to RMB51.5 million for the year ended December 31, 2023. The gross profit margin of municipal public construction works decreased from 29.1% in 2021 to 24.6% in 2022 and returned to 27.6% in 2023. The fluctuations of our gross profit of municipal public construction works were in line with the fluctuations of the revenue generated from municipal public construction works. The relatively higher gross profit margin of municipal public constructions works in 2021 was mainly due to a higher revenue contribution by our traffic facilities construction projects as one of our large scale traffic facilities, namely Nangang Industrial District Traffic Facilities Construction Project (南港工業區交通設施工程項目), which generated a revenue of RMB12.3 million in 2021 and reaped a higher gross profit margin. The relatively higher gross profit margin of Nangang Industrial District Traffic Facilities Construction Project (南港工業區交通設施工程項目) was mainly attributable to our carrying out most of works in this project, hence incurred less labor subcontracting costs.

The gross profit of foundation works decreased by RMB19.1 million from RMB24.7 million for the year ended December 31, 2021 to RMB5.6 million for the year ended December 31, 2022, which was in line with the decrease in revenue generated from foundation works during the same year. The gross profit margin of foundation works remained stable at 27.7% and 27.2% in 2021 and 2022.

The gross profit of foundation works increased by RMB12.7 million from RMB5.6 million for the year ended December 31, 2022 to RMB18.3 million for the year ended December 31, 2023, and the gross profit margin of foundation works decreased from 27.2% for the year ended December 31, 2022 to 22.0% for the year ended December 31, 2023. The increase in our gross profit of foundation works was in line with the increase in revenue generated from foundation works for the year ended December 31, 2023. The decrease in gross profit margin of foundation works was mainly due to the our undertaking of a large scale project, the Professional Subcontracting of Pile Foundation Works for Tianjin Shuren Secondary and Higher Specialized School Project (天津市樹人中等、高等專科學校樁基礎工程專業分包), which incurred relatively higher amount of cost of materials and, led to lower gross profit margin in 2023.

The gross profit of building construction related works increased from RMB2.5 million for the year ended December 31, 2021 to RMB43.2 million for the year ended December 31, 2022. Meanwhile, the gross profit margin of building construction related works increased from 12.8% in 2021 to 25.2% in 2022. The significant increase in gross profit and gross profit margin of building construction related works in 2022 was mainly attributable to the Tianjiang Apartment Projects (天江公寓項目), in which we were mainly responsible for building renovation and remodeling services. As building renovation and remodeling works are generally labor intensive, we incurred relatively less costs of materials consumed in Tianjiang Apartment Projects (天江公寓項目), hence attaining higher gross profit margin in 2022.

The gross profit of building construction related works decreased by RMB35.5 million from RMB43.2 million for the year ended December 31, 2022 to RMB7.7 million for the year ended December 31, 2023, and the gross profit margin of building construction related works decreased from 25.2% for the year ended December 31, 2022 to 18.6% for the year ended December 31, 2023. The decrease in our gross profit of building construction related works was mainly due to the decrease in revenue generated from building construction related works and the decrease in the gross profit margin of building construction related works, mainly attributable to the substantial completion of Tianjiang Apartment Projects (天江公寓項目) and Xincheng Jiayuan Comprehensive Environmental Improvement Project (新城家園小區環境綜合整治工程) in 2022, which had higher gross profit margin due to the building renovation and remodeling works are generally labor intensive, thus incurred relatively less costs of materials and attained a higher gross profit margin for the year ended December 31, 2022.

The gross profit of petrochemical engineering works decreased by RMB0.5 million from RMB2.3 million for the year ended December 31, 2021 to RMB1.8 million for the year ended December 31, 2022, which was in line with the fluctuations of the revenue generated from petrochemical engineering works. The gross profit margin of petrochemical engineering works, however, increased from 10.6% in 2021 to 19.9% in 2022, which was mainly attributable to our business strategy to expand our petrochemical engineering works business outside Tianjin since 2020. We adopted a competitive pricing strategy in regions outside Tianjin in 2020 when we first set foot into new markets in order to establish our market presence. After being awarded certain projects in the new markets in 2021, including Nanchang, we gradually adjusted our pricing strategy since 2022 of petrochemical engineering works to enhance our profitability in this type of construction projects.

The gross profit of petrochemical engineering works increased by RMB0.4 million from RMB1.8 million for the year ended December 31, 2022 to RMB2.2 million for the year ended December 31, 2023, and the gross profit margin of petrochemical engineering works increased from 19.9% for the year ended December 31, 2022 to 26.9% for the year ended December 31, 2023. The increase in our gross profit of petrochemical engineering works was mainly due to the increase in the gross profit margin of petrochemical engineering works. The increase in the gross profit margin of petrochemical engineering works was attributable to (i) the Fengxi New City Natural Gas High-pressure Gas Supply Pipeline Project (Phase II) (灃西新城天然氣高壓供氣管道工程二標段), which generated a revenue of RMB4.9 million and had a higher gross profit margin as, to the understanding of our Directors, the project involved higher technical knowhow; and (ii) the higher mark-up in pricing that we charged in relation to the additional work that were not included in the original work scope of the existing petrochemical engineering projects as requested by our customers. In future, we may adjust our pricing in such projects if and when our customers request additional work and also considering that we have now established market presence and some reputation in the petrochemical engineering work segment outside Tianjin. For details in relation to our qualification in petrochemical engineering works, please refer to the section headed "Business — Overview" in this document.

Other net income

Our other net income mainly consist of net gain on sales of demolition right, income from property management services, interest income on finance lease, interest income on bank deposits, government grants, net gain on disposal of property, plant and equipment and others. The following table sets forth a breakdown of our other net income for the years indicated:

	Year ended December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Net gain on sales of demolition right	3,284	—	—
Property management services	572	572	572
Interest income on finance lease	565	550	534
Interest income on bank deposits	21	25	20
Government grants	290	171	26
Net gain on disposal of property, plant and equipment	—	80	—
Others	(3)	(386)	(11)
	4,729	1,012	1,141

Net gain on sales of demolition right

Our net gain on sales of demolition right represented the income from a sale of the demolition right of a petroleum refining station in Gansu Province in 2021, which mainly comprised refinery machinery units and ancillary plant facilities. We acquired such demolition right through bidding which we submitted in 2020 at a total consideration of RMB9.9 million. Subsequently, we decided not to proceed with the project and sold the demolition right by way of tender for better allocation of our resources in other projects after taking in account our capacity at the relevant material time. We received consideration in the amount of RMB14.9 million from Customer T for such sales of demolition right, which was the highest price among the tenders submitted to us. To the best knowledge of our Directors, the price was determined by Customer T after taking into consideration the resale value of the underlying assets. The net gain on sales of demolition right of RMB3.3 million was arrived at after deducting our original cost of acquiring such demolition right (being RMB9.9 million) and the relevant tax expenses (being RMB1.7 million) from the selling price of RMB14.9 million. Customer T acquired such demolition right from us as Customer T was principally engaged in trading of construction materials, recycling of scrap materials and has participated in certain demolition projects in recent years. We did not provide any financing to Customer T to fund the acquisition of such demolition right from us. For further details of our relationship with Customer T, please refer to "— Prepayments, deposits and other receivables" in this section.

Property management services

Our income from property management services derived from provision of car-parking space and cleaning services to a portion of our Group's properties leased out to the Independent Third Parties for office use during the Track Record Period. Our income from property management services remained stable at RMB0.6 million for the years ended December 31, 2021, 2022 and 2023.

Interest income on finance lease

Our interest income on finance lease derived from the finance lease of a portion of our Company's properties to the Independent Third Parties for office use during the Track Record Period. The external leasing was treated as a finance lease.

Our interest income on finance lease remained stable at RMB0.6 million, RMB0.6 million and RMB0.5 million, respectively, for the years ended December 31, 2021, 2022 and 2023.

Government grants

Our government grants in 2021 amounted to RMB0.3 million, which consisted of (i) the subsidy granted by the Human Resources and Social Security Bureau for the return of social security (人力資源和社會保障局 — 社保穩崗返還補貼); (ii) the incentives for municipal high-tech certification in Tianjin (天津市市級高新認定獎勵金); (iii) the award for being selected as gazelle enterprises for the first time (首次入選瞪羚企業的獎勵款); and (iv) subsidies for research and development expenses.

Our government grants in 2022 amounted to RMB0.2 million, which consisted of (i) post-research and development subsidies for enterprises awarded by the Science and Technology Innovation Bureau of Tianjin Economic-Technological Development Zone (天津經濟技術開發區科技創新局 — 企業研發後補助); (ii) job stabilization subsidies and unemployment insurance refunds (穩崗補貼失業險返還), and re-evaluation awards for gazelle enterprises in Tianjin (天津市瞪羚企業復評獎勵).

Our government grants for the year ended December 31, 2023 amounted to RMB26,000, which mainly consisted of the unemployment insurance granted by Tianjin Social Insurance Fund Management Center (天津市社會保險基金管理中心退失業保險).

Operating and administrative expenses

Our operating and administrative expenses mainly consist of R&D costs, staff costs, depreciation of property, plant and equipment, office costs, entertainment and travel expenses, [REDACTED], utility fee and others. The following table set forth a breakdown of our operating and administrative expenses for the periods indicated:

	Year ended December 31					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
R&D costs	11,092	44.4	10,233	42.1	8,309	28.9
Staff costs	5,228	20.9	5,819	24.0	8,270	28.7
Entertainment and travel expenses	1,082	4.3	1,154	4.8	3,888	13.5
Depreciation of property, plant and equipment	3,185	12.8	3,179	13.1	4,091	14.2
Office costs	1,141	4.6	745	3.1	1,089	3.8
Utility fee	598	2.4	690	2.8	592	2.1
[REDACTED]	197	0.8	863	3.6	331	1.1
Others	2,437	9.8	1,598	6.5	2,219	7.7
Total	**24,960**	**100.0**	**24,281**	**100.0**	**28,789**	**100.0**

R&D costs

During the Track Record Period, our R&D costs were incurred mainly for our R&D projects of a treatment method of roadbed hazard (路基危害的處理方法), a construction method of underground pipes (地下管道施工方法), a construction method of bite pile (咬合樁施工方法) and upgrading and improvements of Jiexiao System.

Our R&D costs slightly decreased by RMB0.9 million or 8.1% from RMB11.1 million for the year ended December 31, 2021 to RMB10.2 million for the year ended December 31, 2022, mainly due to the decrease in the number of our R&D staff in 2022. Our R&D costs decreased by RMB1.9 million or 18.8% from RMB10.2 million for the year ended December 31, 2022 to RMB8.3 million for the year ended December 31, 2023, mainly due to the decrease in the cost for R&D machinery rental fee and R&D materials for our R&D projects in 2023.

Entertainment and travel expenses

Our entertainment and travel expenses remained relatively stable at RMB1.1 million and RMB1.2 million for the years ended December 31, 2021 and 2022, respectively. Our entertainment and travel expenses increased by RMB2.7 million or 236.9% from RMB1.2 million for the year ended December 31, 2022 to RMB3.9 million for the year ended December 31, 2023, mainly due to the increase in travelling expenses incurred during our Group's [REDACTED] and was in line with the increase in revenue for the year ended December 31, 2023.

Staff costs

Our staff costs represent the expenses of salaries, bonus and other benefits paid or payable by us to our staff other than staff in our project department and R&D department for their benefit.

Our staff costs remained relatively stable at RMB5.2 million for the year ended December 31, 2021 and RMB5.8 million for the year ended December 31, 2022. Our staff costs increased by RMB2.5 million or 42.1% from RMB5.8 million for the year ended December 31, 2022 to RMB8.3 million for the year ended December 31, 2023, mainly due to the increase in the number of staff in 2023.

Depreciation of property, plant and equipment

Our depreciation of property, plant and equipment represents depreciation of buildings improvements, motor vehicles and other equipment.

Our depreciation of property, plant and equipment remained stable at RMB3.2 million for the years ended December 31, 2021 and 2022. The depreciation of property, plant and equipment increased by RMB0.9 million or 28.7% from RMB3.2 million for the year ended December 31, 2022 to RMB4.1 million for the year ended December 31, 2023, mainly due to the depreciation of our fixed assets purchased in the second half of 2022.

Office costs

Our office costs mainly represent costs of office supplies.

Our office costs decreased from RMB1.1 million for the year ended December 31, 2021 to RMB0.7 million for the year ended December 31, 2022, mainly due to less office costs incurred in 2022. Our office costs increased by RMB0.3 million or 46.2% from RMB0.7 million for the year ended December 31, 2022 to RMB1.1 million for the year ended December 31, 2023, mainly due to procurement of additional office supplies.

Utility fee

Our utility fee remained relatively stable at RMB0.6 million, RMB0.7 million and RMB0.6 million for the years ended December 31, 2021, 2022 and 2023, respectively.

[REDACTED]

[REDACTED] represent professional services fees incurred for the purpose of the [REDACTED]. We incurred [REDACTED] of RMB[REDACTED] in 2021, RMB[REDACTED] in 2022 and RMB[REDACTED] in 2023. For details, please refer to the section headed "Financial Information — [REDACTED]" in this document.

Others

Others of operating and administrative expenses consist of insurance fees, transportation fees, membership fees for the professional associations that we joined, and other miscellaneous expenses. Our other operating and administrative expenses remained relatively stable at RMB2.4 million and RMB1.6 million for the years ended December 31, 2021 and 2022. Our other operating and administrative expenses increased by RMB0.6 million or 38.9% from RMB1.6 million for the year ended December 31, 2022 to RMB2.2 million for the year ended December 31, 2023, mainly due to the increase in number of staff and the relevant administrative expenses.

Impairment losses on trade receivables, lease receivables and other receivables and contract assets

We recorded impairment losses on trade receivables, lease receivables and other receivables and contract assets during the Track Record Period, which represented the ECLs on our trade and bills receivables, lease receivables, contract assets, prepayments, deposits and other receivables. We conducted impairment analysis at the end of each year during the Track Record Period. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flow due to our Group in accordance with the contract and cash flows that our Group expects to receive). In measuring ECLs, our Group takes into account reasonable and supportable information that is available without undue cost and effort. This includes information about past events, current conditions and forecast of future economic conditions. An impairment loss is reversed if there has been a favorable change in estimates used to determine the recoverable amount.

The following table sets forth the details of impairment losses on the trade receivables, lease receivables and other receivables and contract assets for the periods indicated:

	Year ended December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Impairment losses on trade and bills receivables	1,564	4,015	672
Impairment losses/(reversal of impairment losses) on lease receivables	35	34	(66)
Impairment losses on contract assets	2,121	3,505	7,406
Impairment losses/(reversal of impairment losses) on prepayments, deposits and other receivables	133	2,595	(2,668)
	3,853	10,149	5,344

For the year ended December 31, 2021, we recorded impairment losses on trade receivables, lease receivables and other receivables and contract assets of RMB3.9 million mainly due to the impairment losses on trade and bills receivables of RMB1.6 million and the impairment losses on contract assets of RMB2.1 million, which was in line with the increase in our revenue as a result of expansion of our business in 2021. Our impairment losses on trade receivables, lease receivables and other receivables and contract assets increased by RMB6.2 million or 159.0% to RMB10.1 million for the year ended December 31, 2022 mainly due to increasing aging balance of trade and bills receivables, contract assets and other receivables of over one year. Our impairment losses on trade receivables, lease receivables and other receivables and contract assets decreased by RMB4.8 million or 47.5% to RMB5.3 million for the year ended December 31, 2023 mainly attributable to a reversal of impairment losses on trade receivables of RMB9.0 million due to the transfer of Bishui Properties to us in May 2023. For details, please refer to the section headed "Business — Property" in this document.

The following tables set forth the ECL rates applied to different age groups of our contract assets and trade and bills receivables for the periods indicated:

Contract assets

	Year December 31,					
	2021		2022		2023	
	ECL rate	ECLs	ECL rate	ECLs	ECL rate	ECLs
	%	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*
Within 1 year	2.09%	2,446	2.29%	4,568	2.52%	4,669
1 to 2 years	3.80%	415	3.99%	413	4.96%	1,770
2 to 3 years	5.67%	81	6.02%	611	7.55%	411
Over 3 years	—	—	63.33%	855	81.55%	7,003
Total		2,942		6,447		13,853

Trade and bills receivables

	Year December 31,					
	2021		2022		2023	
	ECL rate	ECLs	ECL rate	ECLs	ECL rate	ECLs
	%	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*
Within 1 year	1.83%	1,352	1.87%	1,918	2.74%	5,282
1 to 2 years	3.76%	344	3.98%	646	4.96%	1,914
2 to 3 years	5.73%	570	6.04%	384	7.55%	501
Over 3 years	—	—	63.29%	3,333	79.51%	8,299
Total		2,266		6,281		15,996

Our Group elected to measure loss allowances for contract assets and trade receivables using IFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. With the support of the valuation performed by the independent valuer engaged by our Group, our Group has established a formula that is based on exposure at default ("**EAD**"), loss given default ("**LGD**") (i.e. the magnitude of the loss if there is a default) and probability of default ("**PD**"), adjusted for forward-looking factors ("**FLF**") with reference to the prevailing macro-economic environment condition.

The above ECL rates adopted by our Group for each year during the Track Record Period were determined based on a number of parameters, among others, (i) the average PD and LGD of the construction and building industry as published by Moody's, one of the world's largest credit-rating agencies which regularly publishes annual default rates and recovery rates of defaulted bonds by industry in its annual default study ("**Annual Default Study**"), and therefore is an authoritative and reliable source of credit-related information and is widely used in the field of credit risk assessment; and (ii) FLF adjustment based on the latest development of the macro-economic environment with reference to the PRC's latest GDP growth. The ECL rate adopted by our Group for each year during the Track Record Period therefore fluctuated corresponding with the changes in the above parameters and aging structure of our Group's trade and bills receivables and contract assets. The ECL is regularly reviewed by our management to ensure relevant information about specific directions or reason for project is updated.

Our Directors are of the view that the ECL rates are fair and reasonable, our provision for impairment losses on trade and bills receivables and contract assets was sufficient during the Track Record Period, on the basis that, among others:

(i) the valuation methodology adopted was in accordance with IFRS 9;

(ii) the PD and LGD were based on information from the Annual Default Study published by Moody's, one of the largest global credit rating agencies. Our Directors consider such information to be appropriate as (a) the Annual Default Study is regarded as an authoritative and reliable source of credit related information and is widely used in the field of credit risk assessment and were prepared based on a proprietary database of default rates and credit-rating covering approximately 30,000 companies in the world that have long term rated bonds and/or loans; (b) notwithstanding that our Company's customers are based in China, there is no publicly available dataset or study on default rates of construction companies in China that is authoritative, commonly referred to and regularly published. The Annual Default Study covers Chinese companies and companies in other countries. It provides a relevant starting point and is also information that could be obtained by our Company without undue cost and effort; (c) for PD, our Directors have referred to the average default rate of the entities in the construction and building industry in the Annual Default Study, because the Company's vast majority customers are in the construction and building industry. In addition, the default rate in the Annual Default Study reflects the probability of default by the entities in the industry, i.e. it is not specific to the type of instruments (e.g. loans, bonds, trade receivables etc.); (d) the recovery rate of the unsecured bonds issued by entities in the construction and building industry was adopted for LGD, given that our Company's trade receivables and contract assets are not secured or collateralized; (e) EAD is based on the gross carrying amount of the trade receivables and contract assets; (f) given that the development of the construction and building industry in China and hence the performance of our Company' customers, which in turn affects their ability to pay, is closely linked to macroeconomic factors, such as GDP, the loss allowance has been adjusted based on China's GDP growth rate to take into account current and forward looking information; and (g) it is also considered whether a provision matrix could be used to estimate the loss allowance for the trade receivables and contract assets, since it is a method that is commonly used in practice. However, our business is still in its development stage before the Track Record Period, is of a relatively small scale with a relatively few number of construction projects and thus has limited historical information to generate a provision matrix that is suitable for estimating the loss rate. Therefore, taking into account the above, the use of inputs from the Annual Default Study represents a sound approach and reasonable information that are available without undue cost and effort for the purpose of calculating expected credit loss;

(iii) the independent valuer was engaged to perform the assessment which was in line with the market practice;

(iv) no specific provisions were being made during the Track Record Period as we were not aware of any material deterioration in our customers' creditability;

(v) we had no material disputes with our customers regarding subsequent billing for our contract assets and subsequent settlement of our trade and bills receivables during the Track Record Period and up to the Latest Practicable Date; and

(vi) based on our latest understanding from publicly available information and to the best knowledge of our Directors, we are not aware of any of our trade receivable and contract asset debtors as of December 31, 2023 has been wound-up or dissolved as of the Latest Practicable Date.

Our ECL rates remained stable throughout the Track Record Period, as there were no material changes to the parameters for determining the ECL rate.

Income tax expenses

For the years ended December 31, 2021, 2022 and 2023, our income tax expenses were RMB6.2 million, RMB4.1 million and RMB5.9 million, respectively, and our effective tax rate during the same year was 13.0%, 10.4% and 12.6%, respectively.

During the Track Record Period, we did not have any material dispute or unresolved issues with relevant tax authorities.

Profit and total comprehensive income

Our profit and total comprehensive income for the years ended December 31, 2021, 2022 and 2023 was RMB41.4 million, RMB35.1 million and RMB41.0 million, respectively.

REVIEW OF HISTORICAL RESULTS OF OUR OPERATIONS

2023 compared to 2022

Revenue

Our revenue increased by RMB31.4 million or 10.9% from RMB288.0 million for the year ended December 31, 2022 to RMB319.4 million for the year ended December 31, 2023, mainly attributable to the substantial completion of certain large scale projects, such as Tianjin Wangzi East Project (Phase I) (天津市汪子東項目一標段), Tianjin Wangzi East Project (Phase II) (天津市汪子東項目二標段), Tianjin Binhai New Area Pharmaceutical Industrial Park Construction Project Earth Backfill Project (天津市濱海新區醫藥產業園建設專案土方回填工程) and Professional Subcontracting of Pile Foundation Works for Tianjin Shuren Secondary and Higher Specialized School Project (天津市樹人中等、高等專科學校樁基礎工程專業分包), all of which commenced in 2023 with an aggregate contract amount of approximately RMB179.4 million, resulting in an increase in revenue for the year ended December 31, 2023.

Cost of sales

Our cost of sales increased by RMB23.7 million or 11.0% from RMB215.4 million for the year ended December 31, 2022 to RMB239.1 million for the year ended December 31, 2023. Such increase was largely in line with the increase in our revenue for the same period.

Gross profit and gross profit margin

Our gross profit increased by RMB7.7 million or 10.6% from RMB72.6 million for the year ended December 31, 2022 to RMB80.3 million for the year ended December 31, 2023, which was largely in line with the increase in revenue for the same period.

Our gross profit margin remained relatively stable at 25.2% for the year ended December 31, 2022 and 25.1% for the year ended December 31, 2023.

Other net income

Our other net income remained relatively stable at RMB1.0 million for the year ended December 31, 2022 and RMB1.1 million for the year ended December 31, 2023.

Operating and administrative expenses

Our operating and administrative expenses increased by RMB4.5 million or 18.5% from RMB24.3 million for the year ended December 31, 2022 to RMB28.8 million for the year ended December 31, 2023, mainly due to the increase in entertainment and travel expenses attributable to the travelling expenses incurred during our Group's [REDACTED] and the increase in staff cost attributable to the increase in our number of staff for the year ended December 31, 2023.

Impairment losses on trade receivables, lease receivables and other receivables and contract assets

Our impairment losses on trade receivables, lease receivables and other receivables and contract assets decreased by RMB4.8 million from RMB10.1 million for the year ended December 31, 2022 to RMB5.3 million for the year ended December 31, 2023, mainly due to the transfer of the Bishui Properties to our Company to satisfy debt payment pursuant to a court ruling dated September 29, 2018. Subsequent to the completion of the legal procedures in relation to the transfer of the Bishui Properties, such properties were recognized as investment properties of RMB9.0 million in May 2023 based on its market value as of May 31, 2023, and a corresponding amount of reversal of impairment losses on trade and bills receivables of RMB9.0 million which was recognized for the year ended December 31, 2023.

Income tax expenses

Our income tax expenses increased by RMB1.8 million or 43.9% from RMB4.1 million for the year ended December 31, 2022 to RMB5.9 million for the year ended December 31, 2023, mainly due to the increase in taxable profit for the year ended December 31, 2023.

Our effective tax rate increased from 10.4% for the year ended December 31, 2022 to 12.6% for the year ended December 31, 2023 primarily due to the decrease in the percentage of tax deduction of the qualified R&D expenses in the taxable profit in 2023.

Profit and total comprehensive income for the period and net profit margin

As a result of the foregoing, our Group recognized an increase of profit and total comprehensive income from RMB35.1 million for the year ended December 31, 2022 to RMB41.0 million for the year ended December 31, 2023. Our net profit margin remained relatively stable at 12.2% for the year ended December 31, 2022 and 12.8% for the year ended December 31, 2023, respectively.

2022 compared to 2021

Revenue

Our revenue increased by RMB13.1 million or 4.8% from RMB274.9 million for the year ended December 31, 2021 to RMB288.0 million for the year ended December 31, 2022. Such increase was mainly attributable to the significant increase of RMB152.1 million in revenue generated from our building construction related works as we undertook Tianjiang Apartment Projects (天江公寓項目), partially offset by the decrease of RMB58.2 million in revenue generated from our municipal public construction works and the decrease of RMB68.7 million in revenue generated from our foundation works. Given the size and tight construction schedule of Tianjiang Apartment Projects (天江公寓項目), we focused on and deployed most of our resources to ensure the quality and timely completion of Tianjiang Apartment Projects (天江公寓項目) in 2022. Hence, we undertook comparatively fewer projects of other construction types.

Cost of sales

Our cost of sales increased by RMB12.2 million or 6.0% from RMB203.2 million for the year ended December 31, 2021 to RMB215.4 million for the year ended December 31, 2022. Such increase was in line with the increase in our revenue for the same year.

Gross profit and gross profit margin

Our gross profit remained relatively stable at RMB71.7 million for the year ended December 31, 2021 and RMB72.6 million for the year ended December 31, 2022. Our overall gross profit margin also remained relatively stable at 26.1% for the year ended December 31, 2021 and 25.2% for the year ended December 31, 2022.

Other net income

Our other net income decreased from RMB4.7 million for the year ended December 31, 2021 to RMB1.0 million for the year ended December 31, 2022 as we recorded the net gain on sales of demolition right in 2021.

Operating and administrative expenses

Our operating and administrative expenses remained relatively stable at RMB25.0 million for the year ended December 31, 2021 and RMB24.3 million for the year ended December 31, 2022.

Impairment losses on trade receivables, lease receivables and other receivables and contract assets

Our impairment losses on trade receivables, lease receivables and other receivables and contract assets increased by RMB6.2 million or 159.0% from RMB3.9 million for the year ended December 31, 2021 to RMB10.1 million for the year ended December 31, 2022 mainly due to impairment losses on trade and bills receivables and impairment losses on contract assets of RMB4.0 million and RMB3.5 million, respectively, and the impairment losses on prepayments, deposits and other receivables of RMB2.6 million in 2022, mainly due to longer aging of the relevant trade and bills receivables, contract assets and prepayments, deposits and other receivables.

Income tax expenses

Our income tax expenses decreased by RMB2.1 million or 33.9% from RMB6.2 million for the year ended December 31, 2021 to RMB4.1 million for the year ended December 31, 2022 mainly attributable to the decrease in taxable profit.

Our effective tax rates decreased from 13.0% for the year ended December 31, 2021 to 10.4% for the year ended December 31, 2022 mainly attributable to the increase in the percentage of tax deduction of the qualified R&D expenses in the taxable profit in 2022.

Profit and total comprehensive income for the year and net profit margin

As a result of the foregoing, our Group recognized a decrease of profit and total comprehensive income from RMB41.4 million for the year ended December 31, 2021 to RMB35.1 million for the year ended December 31, 2022. Our net profit margin decreased from 15.1% for the year ended December 31, 2021 to 12.2% for the year ended December 31, 2022.

LIQUIDITY AND CAPITAL RESOURCES

We have historically met our working capital requirements through cash flows from operations. Our primary liquidity requirements are to meet working capital sufficiency, fund the payment of other payables and loans due on our indebtedness, and realize growth of our operations. We expect these sources to continue to be our principal sources of liquidity, and we may use a portion of the [REDACTED] from the [REDACTED] to finance a portion of our working capital requirements.

Our cash and cash equivalents as of December 31, 2021, 2022 and 2023 was RMB11.3 million, RMB20.2 million and RMB6.4 million, respectively. The reason for such fluctuation in the balance of our cash and cash equivalents was mainly attributable to that our business is project-based and our progress of construction work varied among projects at different point of time. We may experience significant amount of cash outflow at a specific point of time when certain projects, in particular large scale projects, are at the initial stage which we may incur significant amount of upfront cost, which may lead to a decrease in the amount of cash and cash equivalents at the relevant point of time.

Despite our cash and cash equivalents fluctuated from time to time during the Track Record Period, we managed to expand our business since 2021 without experiencing financial difficulties. Coupled with our internal control measures, our Directors are of the view that our business operations have not been affected by the fluctuations in our cash and cash equivalents during the Track Record Period.

As of February 29, 2024, we had cash and cash equivalents of RMB2.1 million. Substantially all of our Group's cash and bank balances are held in RMB.

Working capital sufficiency

In order to manage our liquidity position in view of our working capital requirement for paying the upfront cost of our construction projects, we have adopted the following measures:

- we manage our cash flow and working capital by closely monitoring and managing, among other things, (i) a similar level of trade and bills receivables and contract assets to that of the trade and bills payables, and (ii) the settlement rate of trade and bills payables due to our suppliers by leveraging our bargaining power in the market;

- we also diligently review future cash flow requirements and assess our ability to meet debt repayment schedules, and if necessary, adjust our investment and financing to ensure that we maintain sufficient working capital;

- before undertaking each new contract, our finance department will prepare an analysis of the forecasted amount and timing of cash inflows and outflows in relation to the project as well as our other liquidity requirements associated with our ongoing projects and our overall business operations so as to ensure the sufficiency of our financial resources;

- to enhance our internal control on cashflow and liquidity management, our designated staff makes cashflow projection on a monthly basis and closely monitors the cash flow position. If it is anticipated that there is operating cash outflow in the following month our senior management will assess the impact and consider measures to strengthen the cashflow position; and

- if, based on the regular monitoring by our designated staff, there is any expected shortage of internal financial resources, we will consider different financing alternatives, including obtaining adequate committed lines of funding from banks and other financial institutions.

Taking into account the estimated [REDACTED] from the [REDACTED], available banking facilities, cash and cash equivalents and cash flows from our operations, our Directors are of the opinion that we have sufficient working capital to meet our financial requirements for at least the next 12 months from the date of this document.

Cash flows

The following table sets out a summary of our consolidated statements of cash flows for the periods indicated:

	Year ended December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Operating profit before working capital changes	47,622	39,177	46,948
Changes in working capital	(42,612)	(34,227)	(82,950)
Income tax paid	(380)	(6,579)	(6,865)
Net cash generated from/(used in) operating activities	11,167	11,150	(33,600)
Net cash (used in)/generated from investing activities	(12,672)	748	9,300
Net cash generated from/(used in) financing activities	615	(3,010)	10,522
Net (decrease)/increase in cash and cash equivalents	(890)	8,888	(13,778)
Cash and cash equivalents at the beginning of the year	12,202	11,312	20,200
Cash and cash equivalents at the end of the year	11,312	20,200	6,422

Operating activities

During the Track Record Period, we mainly generated our cash inflow from the receipt of payments from our construction business. Our cash used in operations principally comprises costs of materials consumed, labor subcontracting costs, staff costs, professional subcontracting costs, machinery usage costs, freight fees and operating and administrative expenses.

For the year ended December 31, 2021, we recorded a profit before tax of RMB47.6 million and net cash generated from operating activities of RMB11.2 million. The difference of RMB36.4 million was mainly due to the increase in our contract assets of RMB82.3 million and the increase in our trade and bills receivables of RMB60.4 million, partially offset by the increase in our trade and bills payables of RMB89.0 million.

For the year ended December 31, 2022, we recorded a profit before tax of RMB39.2 million and net cash generated from operating activities of RMB11.2 million. The difference of RMB28.0 million was mainly due to the increase in contract assets of RMB91.6 million, the increase in our trade and bills receivables of RMB37.3 million and the income tax paid of RMB6.6 million, partially offset by the increase in our trade and bills payables of RMB90.7 million.

For the year ended December 31, 2023, we recorded a profit before tax of RMB46.9 million and net cash used in operating activities of RMB33.6 million. The difference of RMB80.5 million was mainly due to increase in trade and bills receivables of RMB118.2 million, as a result of our completion of certain large scale projects in the second half of 2023 and the certification process of such projects were substantially completed in late 2023 (such trade and bills receivables were pending settlement of payment by the relevant customers as of December 31, 2023), and the income tax paid of RMB6.9 million, partially offset by the increase in our trade and bills payables of RMB44.3 million.

Although we recorded a temporary net cash used in operating activities for the year ended December 31, 2023, the increase in trade and bills receivables for the year as a result of the certification process of large scale projects were aged within one year. Besides, no material dispute was noted between us and the relevant customers in relation to payment settlement and our Directors were not aware of any customers with trade receivables aging over one year having any specific financial liquidity problems.

In order to improve our operating cash flow position, we attempt to align the payment terms of our customers with our suppliers in order to minimize the chance of temporary cash flow mismatch. Furthermore, we regularly monitor the settlement and aging of our trade receivables. Based on aging analysis of contract assets and trade receivables prepared by the finance department, the project management team under our engineering management department monitors and discusses with our customers the collection of trade receivables through telephone and emails, identifies projects with long outstanding contract assets and trade receivables and assesses the recoverability of outstanding sum for each project individually. In particular, the key measures that our Group will take in relation to the long outstanding sum from customers are summarized as follows:

- the designated person shall formulate a follow-up plan on the collection of trade receivables and closely communicate with the customer to agree on a payment schedule to ensure that the outstanding sum will be settled within reasonable time, usually within 12 months. For example, among the trade and bills receivables of Hengsheng Flood Control Bulk Yard Project (恒盛防汛散貨堆場項目) and Tianjiang Apartment Xintai Mechanical and Electrical Material Procurement — Yu Jia Cheng (天江公寓鑫泰機電材料採購 — 裕嘉程), RMB19.2 million were aged over one year as of December 31, 2023 and RMB8.3 million were subsequently settled as of the Latest Practicable Date pursuant to our active approach and continuous effort in following-up with the relevant customers; and

- for outstanding amounts that aged significantly longer than expected, subject to the discussion among the general manager and the responsible personnel of the finance department and the engineering management department, we will communicate with the relevant customers to promote the customers to speed up the certification and settlement process. We will also refrain from tendering for projects of such customers.

Investing activities

During the Track Record Period, our net cash used in investing activities was primarily for payment for the purchase of property, plant and equipment and advances to related parties and third parties. Our net cash generated from investing activities primarily consisted of proceeds from disposal of property, plant and equipment, net of transaction cost and decrease in advances to related parties and third parties.

For the year ended December 31, 2021, we had net cash used in investing activities of RMB12.7 million mainly due to the payment for advances granted to related parties of RMB11.6 million and the payment for the purchase of property, plant and equipment of RMB3.5 million.

For the year ended December 31, 2022, we had net cash generated from investing activities of RMB0.7 million mainly due to the proceeds from repayment of advances granted to third parties of RMB40.0 million and the proceeds from repayment of the advances to related parties of RMB9.0 million, partially offset by the payments for advances granted to third parties of RMB40.0 million and the payment for the purchase of property, plant and equipment of RMB8.3 million.

For the year ended December 31, 2023, we had net cash generated from investing activities of RMB9.3 million mainly due to the rentals received of RMB2.6 million and the proceeds from repayment of advances granted to third parties of RMB8.2 million, partially offset by the purchase of property, plant and equipment of RMB1.4 million.

Financing activities

During the Track Record Period, our net cash generated from financing activities consisted of proceeds from capital contribution and advances from third parties and related parties. Our net cash used in financing activities consisted primarily of payments for share issuance expenses, net decrease in advances from third parties and related parties.

For the year ended December 31, 2021, our net cash generated from financing activities amounted to RMB0.6 million mainly due to the advances from third parties of approximate RMB5.4 million and the proceeds from capital contribution of RMB1.0 million, partially offset by the repayment to third parties of RMB5.9 million.

For the year ended December 31, 2022, our net cash used in financing activities amounted to RMB3.0 million mainly due to the repayment to related parties of RMB32.2 million and payments for issuance costs in connection with the proposed [REDACTED] of our Company's [REDACTED] of RMB[REDACTED] partially offset by our advances from related parties of RMB32.1 million.

For the year ended December 31, 2023, we had net cash generated from financing activities of RMB10.5 million mainly due to the proceeds from bank loans of RMB30.0 million, the proceeds from capital contributions of RMB10.0 million, partially offset by the repayment of bank loans of RMB10.0 million and the repayment of advances received from related parties of RMB5.4 million.

CURRENT ASSETS AND CURRENT LIABILITIES

Net current assets

The table below sets forth selected information from our consolidated statements of financial positions as of the dates indicated, which have been extracted from our historical financial information in the Accountants' Report in Appendix I to this document:

	As of December 31,			As of February 29,
	2021	2022	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)
Current assets				
Inventories	175	194	282	47
Contract assets	126,628	214,735	221,275	184,134
Trade and bills receivables	90,680	123,983	232,497	222,663
Lease receivables	2,335	3,135	1,473	713
Prepayments, deposits and other receivables	20,860	12,160	25,010	25,586
Restricted bank deposits	575	575	4,369	4,369
Cash and cash equivalents	11,312	20,200	6,422	2,082
	252,565	374,982	491,328	439,594
Current liabilities				
Trade and bills payables	140,811	231,469	275,784	222,050
Contract liabilities	365	746	749	515
Accrued expenses and other payables	36,051	37,459	27,797	25,370
Lease liabilities	—	—	81	83
Short-term bank loan	—	—	20,000	30,000
Income tax payable	6,644	5,546	6,682	2,452
	183,871	275,220	331,093	280,470
Net current assets	68,694	99,762	160,235	159,124

We recorded net current assets as of December 31, 2021, 2022 and 2023 at RMB68.7 million, RMB99.8 million and RMB160.2 million, respectively.

Our net current assets increased by RMB31.1 million from RMB68.7 million as of December 31, 2021 to RMB99.8 million as of December 31, 2022 mainly due to the increase in our contract assets of RMB88.1 million and the increase in trade and bills receivables of RMB33.3 million in 2022, partially offset by the increase in trade and bills payables of RMB90.7 million.

Our net current assets increased by RMB60.4 million from RMB99.8 million as of December 31, 2022 to RMB160.2 million as of December 31, 2023 mainly due to the increase in trade and bills receivables of RMB108.5 million and increase in prepayments, deposits and other receivables of RMB12.9 million, partially offset by the increase in bank loans of RMB20.0 million and the increase in trade and bills payables of RMB44.3 million.

As of February 29, 2024, our unaudited net current assets decreased to RMB159.1 million.

DESCRIPTION OF SELECTED ITEMS OF THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Property, plant and equipment

The following table sets out the respective net book value of our Group's property, plant and equipment as of the dates as indicated:

	As of December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Buildings and buildings improvements	43,320	42,029	39,635
Motor vehicles and other equipment	2,136	6,270	5,749
Total	45,456	48,299	45,384

Our property, plant and equipment mainly consist of (i) buildings and buildings improvements and (ii) motor vehicles and other equipment. The net book value of our property, plant and equipment increased from RMB45.5 million as of December 31, 2021 to RMB48.3 million as of December 31, 2022 mainly attributable to the purchase of additional R&D related machinery and equipment. The net book value of our property, plant and equipment decreased from RMB48.3 million as of December 31, 2022 to RMB45.4 million as of December 31, 2023 mainly due to the depreciation recognized.

Inventories

During the Track Record Period, we maintained a low level of inventory for our business operations as the raw materials we procured were delivered from our suppliers to our construction sites and were used shortly after the delivery.

Contract assets

Recognition of contract assets and the composition of our contract assets

Contract assets represent our right to consideration for work completed but have yet to reach relevant billing milestone at the reporting date on revenue related to the provision of construction services. Contract assets are recognized when our Group recognizes revenue based on the progress of our construction projects but before being unconditionally entitled to consideration under the payment terms as set out in the contract, which is usually upon certification or completion of settlement audit of our construction projects. We recognize revenue over time with cost-to-cost method which is measured by the proportion of the actual costs incurred relative to the estimated total construction costs as a percentage of the total contract value of the corresponding project. For details of our revenue recognition policy, please refer to "— Material Accounting Policies, Judgment and Estimates" in this section. In practice, after commencement of the project and subject to the terms of the contract, we would assess the volume of work that we have performed. We have established effective internal control measures to ensure that (i) the total cost of each construction project is estimated accurately; and (ii) the revenue of each construction project is recognized in the same year as those relevant costs incurred to avoid timing differences between the recognition of revenue and costs. For details of such internal control measures, please refer to "Description of Selected Items of The Consolidated Statements of Financial Position — Trade and bills receivables — Trade receivables and contract assets control policy" in this section. During the Track Record Period, there were no material differences between our estimated costs and the actual costs incurred for our construction projects.

Contract assets of our Group comprise:

(i) work performed by us which was recognized as revenue, but not yet submitted to the customers for certification mainly because we performed our works near the end of year and we were still preparing the necessary documents as requested by the customers for certification of such works;

(ii) work performed by us which was recognized as revenue, and has been submitted to the customers for certification, but the customers' certifications have not yet been granted; and

(iii) work performed by us which has been certified by the customers but are yet to become unconditionally entitled for billing under the payment terms of the contracts (i.e. upon completion of settlement audit, transfer of completed construction works or other payment milestones as stipulated in the contract).

Contract assets in situations (i) and (ii) above are classified as "overdue" whilst item (iii) above is classified as "not overdue".

Contract assets are reclassified to trade receivables when our Group has an unconditional right to receive consideration. Contract assets are assessed for ECLs in accordance with our accounting policies.

The certification process of our construction work and the industry norm about billing progress of contract assets

Generally, during the performance of the construction work, we would submit progress reports to the construction inspectors engaged by our customers and our customers showing the work we have performed on a monthly basis or upon achievement of certain major milestones as set out in the contract for the customers' certification. We are entitled to make progress billing to our customers according to the terms stipulated in the contract, based on an agreed progress billable percentage of the agreed certified value of the work performed by us.

- In general, according to the terms of the contract, our Group would be able to bill 70% to 85% of the certified value of work performed for each certification. Such 70% to 85% of the value of work performed which is originally recognized as contract assets (overdue), would be reclassified from contract assets to trade receivables upon the completion of the certification process. As such, our Group would generally be able to bill our customers after the completion of the certification process and the certified value of work performed is typically determined by construction inspectors engaged by our customers. Subject to the complexity and scale of the projects, it may take several months or even up to years for the customers to go through their internal process for the certification.

- For the remaining 15% to 30% of the certified value of work performed, it will continue to be recognized as contract assets (not overdue) and would only be reclassified as trade receivables when it becomes unconditional for billing (other than the retention fee which usually accounts for approximately 3% of the final settlement value) upon the completion of the settlement audit. The retention fee is billed in full at the end of the warranty period, which usually takes another one to two years from the acceptance of our submission of the completion inspection report to our customers.

According to Frost & Sullivan, the percentage of performed work that we are entitled to bill our customers out of the total certified value before completion of settlement audit is comparable to that of our industry peers, which are generally entitled to bill their customers 50% to 90% of the total certified value of the work performed before completion of the settlement audit. It is not uncommon that it may take years from the commencement of a project until the completion of settlement audit, when construction companies are entitled to bill most of the settlement value of a project. The industry range for period of conversion of contract assets to trade receivables is approximately half year to three years, depending on the complexity and scale of the projects. In particular, the certification and settlement audit process are generally longer for large scale projects, complex projects and projects with government authorities or state-owned enterprises as customers.

For details of the payment term of our typical construction contracts, please refer to the section headed "Business — Customers, Sales And Marketing — Construction contracts" in this document.

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

	As of December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Contract assets			
Arising from performance under construction contracts			
— due from a related party	2,548	—	—
— due from third parties	127,022	221,182	235,128
	129,570	221,182	235,128
Less: loss allowance	(2,942)	(6,447)	(13,853)
	126,628	214,735	221,275

The following tables set forth details of our top five contract assets by projects as of each of December 31, 2021, 2022 and 2023:

As of December 31, 2021

Project Name	Customer Name	Customer type	Project description	Contract assets (gross amount)	ECLs	Contract assets (net amount)	Aging analysis Not overdue and within one year	Over one year	Amount of subsequent billing of contract assets up to the Latest Practicable Date
				RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Hengsheng Flood Control Bulk Yard Project (恒盛防汛散貨堆場工程)	Tianjin Hengsheng Municipal Engineering Company Limited* (天津市恒盛市政工程有限公司)	Private enterprises	Road construction	35,126	(644)	34,482	34,482	—	33,697
Wuyi Yangguang Piling Project (五一陽光樁基項目)	Customer F	Private enterprises	Foundation construction	11,436	(210)	11,226	11,226	—	1,751
Nangang Industrial District Traffic Facilities Construction Project (南港工業區交通設施工程)	Customer L	Government authorities and state-owned enterprise	Traffic facilities construction	6,474	(166)	6,308	6,308	—	6,474
Hangu East Expansion Project (漢沽東擴區項目)	Customer G	Government authorities and state-owned enterprise	Traffic facilities construction	5,472	(116)	5,356	5,356	—	1,998
Wannianqiao North Road Upgrade Project (萬年橋北路道路提升工程)	Customer D	Government authorities and state-owned enterprise	Road construction	5,285	(105)	5,180	5,180	—	1,771

As of December 31, 2022

Project Name	Customer Name	Customer type	Project description	Contract assets (gross amount)	ECLs	Contract assets (net amount)	Aging analysis: Not overdue and within one year	Aging analysis: Over one year	Amount of subsequent billing of contract assets up to the Latest Practicable Date
				RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Hengsheng Flood Control Bulk Yard Project (恒盛防汛散貨堆場工程)	Tianjin Hengsheng Municipal Engineering Company Limited* (天津市恒盛市政工程有限公司)	Private enterprises	Road construction	27,296	(525)	26,771	26,771	—	25,866
Tianjiang Apartment Decoration Professional Subcontracting — Binhai Construction (天江公寓裝修專業分包 — 濱海建設)	Customer C	Government authorities and state-owned enterprise	Building construction related work	15,867	(305)	15,562	15,562	—	15,867
Tianjiang Apartment Construction Labor Professional Subcontracting (天江公寓施工勞務專業分包)	Customer C	Government authorities and state-owned enterprise	Building construction related work	15,128	(291)	14,837	14,837	—	13,615
Infrastructure Project of Huanggang Vocational Education Industrial Park in Binhai New Area (Phase I) (濱海新區黃港職教產業園區基礎設施工程(一期))	Customer I	Government authorities and state-owned enterprise	Road construction	15,097	(481)	14,616	14,616	—	9,209
Outdoor Professional Subcontracting Project of Tianjiang Apartment Project (天江公寓室外工程專業分包)	Customer C	Government authorities and state-owned enterprise	Pipe construction work	11,851	(227)	11,624	11,624	—	11,851

As of December 31, 2023

Project Name	Customer Name	Customer type	Project description	Contract assets (gross amount)	ECLs	Contract assets (net amount)	Aging analysis: Not overdue and within one year	Aging analysis: Over one year	Amount of subsequent billing of contract assets up to the Latest Practicable Date
				RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Professional Subcontracting of Pile Foundation Works for Tianjin Shuren Secondary and Higher Specialized School Project (天津市樹人中等、高等專科學校樁基礎工程專業分包)	Customer C	Government authorities and state-owned enterprise	Pile foundation works	27,876	(673)	27,203	27,203	—	27,876
New Construction of Temporary Parking Lot at Wangzi East Area No.10 in Binhai New Area (Phase I)	Tianjin Hezhong Trading Company Limited* (天津市和眾工貿有限公司)	Private enterprises	Road surface works	27,757	(670)	27,087	27,087	—	27,757
Outdoor Professional Subcontracting Project of Tianjiang Apartment Project (天江公寓室外工程專業分包)	Customer C	Government authorities and state-owned enterprise	Pipe construction work	16,648	(443)	16,205	14,684	1,521	11,851
Engineering and Social Infrastructure Construction Projects in High-Tech Area (Phase II) (高新區兩類設施建設工程二期)	Customer D	Government authorities and state-owned enterprise	Traffic facilities construction	14,809	(358)	14,451	14,451	—	7,794
Huaze Weiye New Factory Construction Project (華澤偉業新建廠房項目)	Tianjin Huaze Weiye Technology Company Limited* (天津市華澤偉業科技有限公司)	Private enterprises	Road construction	10,721	(532)	10,189	—	10,189	8,855

Aging analysis of our contract assets

As of December 31, 2021, 2022 and 2023, the aging analysis of contract assets based on overdue dates and classified by types of debtors, and the subsequent billing of contract assets based on overdue dates up to the Latest Practicable Date are as follows:

As of December 31,

2021	Government authorities or stated-owned enterprises	Private enterprises	Total	% of total contract assets	Less: amount subsequently billed up to the Latest Practicable Date	Remaining balances up to the Latest Practicable Date
	RMB'000	*RMB'000*	*RMB'000*	*%*	*RMB'000*	*RMB'000*
Not overdue	28,488	46,617	75,105	59.3	57,501	17,604
Within 1 year	34,992	4,666	39,658	31.3	37,742	1,916
1–2 years	9,475	1,044	10,519	8.3	8,376	2,143
2–3 years	1,271	75	1,346	1.1	96	1,250
Over 3 years	—	—	—	—	—	—
	74,226	52,402	126,628	100.0	103,715	22,913

2022	Government authorities or stated-owned enterprises	Private enterprises	Total	% of total contract assets	Less: amount subsequently billed up to the Latest Practicable Date	Remaining balances up to the Latest Practicable Date
	RMB'000	*RMB'000*	*RMB'000*	*%*	*RMB'000*	*RMB'000*
Not overdue	28,644	36,701	65,345	30.4	34,751	30,594
Within 1 year	102,445	26,981	129,426	60.3	129,426	—
1–2 years	9,747	180	9,927	4.6	7,314	2,613
2–3 years	9,297	244	9,541	4.4	7,550	1,991
Over 3 years	496	—	496	0.3	—	496
	150,629	64,106	214,735	100.0	179,041	35,694

2023	Government authorities or stated-owned enterprises	Private enterprises	Total	% of total contract assets	Less: amount subsequently billed up to the Latest Practicable Date	Remaining balances up to the Latest Practicable Date
	RMB'000	*RMB'000*	*RMB'000*	*%*	*RMB'000*	*RMB'000*
Not overdue	37,311	5,441	42,752	19.3	113	42,639
Within 1 year	97,047	40,940	137,987	62.4	87,072	50,915
1–2 years	21,104	12,813	33,917	15.3	13,204	20,713
2–3 years	4,947	88	5,035	2.3	2,365	2,670
Over 3 years	1,541	43	1,584	0.7	1,584	—
	161,950	59,325	221,275	100.0	104,338	116,937

Our Directors considered that the aging analysis of our contract assets prepared based on recognition date could reflect the period in which the underlying construction works were performed, which would be useful for indicating the amount of contract assets recognized in each of the age groups.

As of December 31, 2021, 2022 and 2023, our contract assets which were not overdue amounted to RMB75.1 million, RMB65.3 million and RMB42.8 million, representing 59.3%, 30.4% and 19.3% of our total contract assets at the respective time. The decrease in our contract assets which were not overdue as of December 31, 2023 was primarily due to the completion of the settlement audit process of Hengsheng Flood Control Bulk Yard Project (恒盛防汛散貨堆場工程) in mid-2023, resulting in the transfer of RMB27.3 million of contract assets which were not overdue to trade and bills receivables.

While we would submit progress reports to our customers on a monthly basis or upon achievement of certain milestones, a large portion of our contract assets were overdue during the Track Record Period. As of December 31, 2021, 2022 and 2023, our contract assets which were overdue amounted to RMB51.5 million, RMB149.4 million and RMB178.5 million, representing 40.7%, 69.6% and 80.7% of our total contract assets at the respective time. A large portion of our contract assets were overdue during the Track Record Period as (a) we have not submitted the certification requests to our customers mainly because we may have performed our works but have yet to prepare the necessary documents as requested by the customers for certification of such works; or (b) we have submitted the certification requests to our customers but the customers' certifications have not yet been granted due to reasons beyond our control. As of December 31, 2021, 2022 and 2023, our contract assets which were aged within one year amounted to RMB39.7 million, RMB129.4 million and RMB138.0 million, representing 31.3%, 60.3% and 62.4% of our total contract assets at the respective time. The ratio of our contract assets aged over one year to our total contract assets remained relatively stable at 9.4% as of December 31, 2021 and 9.3% as of December 31, 2022, respectively, and increased to 18.3% as of December 31, 2023.

Our Directors are of the view that adopting the threshold of one year in the aging analysis of our contract assets is appropriate, taking into account that (i) based on our Directors' experience, a significant portion of our contract assets could be settled within one year from the time of revenue recognition; (ii) the average of our Group's contract assets turnover days for the years ended December 31, 2021, 2022 and 2023 was 200.1 days (i.e. within one year); and (iii) according to Frost & Sullivan, the range of average contract assets turnover days of our industry peers were from 199.6 days to 265.0 days for the years ended December 31, 2021, 2022 and 2023 (i.e. within one year). The contract assets turnover days of our industry peers for the year ended December 31, 2023 were annualized figures calculated based on the six months ended June 30, 2023 financials of such industry peers.

We are able to maintain a relatively healthy aging of contract assets

As illustrated in the table above, the percentage of our contract assets aged over one year to our total contract assets remained relatively stable at 9.4% as of December 31, 2021 and 9.3% as of December 31, 2022 notwithstanding that there was a general increase in the amount of our total contract assets. Such ratio was increased to 18.3% as of December 31, 2023 primarily due to our undertaking of more large scale projects since 2021, which such larger projects usually require longer time for certification and settlement audit. For example, the Huaze Weiye New Factory Construction Project (華澤偉業新建廠房項目), with a contract amount of RMB19.3 million, had RMB10.2 million of contract assets aged over one year as of December 31, 2023, among which RMB8.9 million were subsequently transferred to our trade and bills receivables as of the Latest Practicable Date. Accordingly, whilst the total amount of our contract assets increased as we achieved growth in our revenue during the Track Record Period, we were able to convert most contract assets into trade and bills receivables within one year of due date, by facilitating certification, keeping a healthy trend in the overall aging portfolio of our contract assets.

The fluctuation of our contract assets during the Track Record Period

Our contract assets balance: During the Track Record Period, the balance of our contract assets increased from RMB126.6 million as of December 31, 2021 to RMB214.7 million as of December 31, 2022, primarily because the revenue recognized from Tianjiang Apartment Projects (天江公寓項目) was greater than the certified progress billings as a result of the resurgence of COVID-19 in various provinces across the PRC in 2022. Our contract assets remained relatively stable at RMB214.7 million as of December 31, 2022 and RMB221.3 million as of December 31, 2023, respectively.

Our average contract amount: During the Track Record Period, our total revenue increased from RMB274.9 million in 2021 to RMB319.4 million in 2023 at a CAGR of 7.8%. On the other hand, the average contract amount of our new projects increased from RMB4.5 million in 2021 to RMB12.4 million in 2023, as we undertook more large scale projects since 2021. According to Frost & Sullivan, the project duration and the certification and settlement audit process of large scale projects are relatively longer when compared to those of small scale projects. Hence the contract asset amount of large scale projects is generally greater than small scale projects. Accordingly, due to our business expansion in 2021, our contract assets increased during the Track Record Period.

Our contract assets aged over one year: Our contract assets aged over one year increased by RMB8.1 million or 68.2% from RMB11.9 million as of December 31, 2021 to RMB20.0 million as of December 31, 2022 mainly due to the impact of COVID-19, which led to travel restriction in relevant areas of our projects, resulting in delay in the certification process. Our contract assets aged over one year further increased to RMB40.5 million as of December 31, 2023 primarily due to our undertaking of more large scale projects since 2021, which such larger projects usually require longer time for certification and settlement audit. For example, the Huaze Weiye New Factory Construction Project (華澤偉業新建廠房項目), with a contract amount of RMB19.3 million, had RMB10.2 million of contract assets aged over one year as of December 2023, among which RMB8.9 million were subsequently transferred to our trade and bills receivables as of the Latest Practicable Date.

During the Track Record Period, the balance of our contract assets recognized from government authorities or stated-owned enterprises increased from RMB74.2 million as of December 31, 2021 to RMB150.6 million as of December 31, 2022, which was mainly attributable to the revenue recognized from Tianjiang Apartment Projects (天江公寓項目) was greater than the certified progress billings as a result of the resurgence of COVID-19 in various provinces across the PRC in 2022. Our balance of our contract assets recognized from government authorities or stated-owned enterprises remained relatively stable at RMB150.6 million as of December 31, 2022 and RMB162.0 million as of December 31, 2023, respectively.

During the Track Record Period, the balance of our contract assets recognized from private enterprises increased from RMB52.4 million as of December 31, 2021 to RMB64.1 million as of December 31, 2022, which was in line with the increase in our revenue derived from private enterprises for the year ended December 31, 2022. Our balance of our contract assets recognized from private enterprises decreased from RMB64.1 million as of December 31, 2022 to RMB59.3 million as of December 31, 2023, which was mainly attributable to the completion of the settlement audit process of Hengsheng Flood Control Bulk Yard Project (恒盛防汛散貨堆場工程).

Analysis of contract assets turnover days

The following table sets forth our average contract assets turnover days as of the dates indicated:

	As of December 31,		
	2021	**2022**	**2023**
Average contract assets turnover days[1]	117.4	222.3	260.7

Note:

(1) Average contract assets turnover days is equal to the average of the opening and closing balances of gross contract assets of the relevant period divided by revenue of the relevant period and multiplied by 365 days for each of the years ended December 31, 2021, 2022 and 2023.

As of December 31, 2021, 2022 and 2023, our average contract assets turnover days were 117.4 days, 222.3 days and 260.7 days, respectively.

Our contract assets turnover day increased from 117.4 days for the year ended December 31, 2021 to 222.3 days for the year ended December 31, 2022. Such increase was mainly attributable to the substantial completion of a number of projects during the year, including Tianjiang Apartment Projects (天江公寓項目) and Infrastructure Project of Huanggang Vocational Education Industrial Park in Binhai New Area (Phase I) (濱海新區黃港職教產業園區基礎設施工程), which the certification or settlement audit process were delayed as a result of the resurgence of COVID-19 in 2022 and we were required to submit additional information for certification purpose by the relevant customers.

Our contract asset turnover days for the year ended December 31, 2023 further increased to 260.7 days primarily due to our undertaking of more large scale projects since 2021, which such larger projects usually require longer time for certification and settlement audit. For example, the Huaze Weiye New Factory Construction Project (華澤偉業新建廠房項目), with a contract amount of RMB19.3 million, had RMB10.2 million of contract assets aged over one year as of December 31, 2023, among which RMB8.9 million were subsequently transferred to our trade and bills receivables as of the Latest Practicable Date.

Reasons for fluctuations in our contract assets during the Track Record Period

During the Track Record Period, our Group experienced increase in the amount of contract assets, primarily due to the following reasons:

- *A majority of our customers were government authorities or state-owned enterprises*

  During the Track Record Period, our revenue was mainly derived from government authorities or state-owned enterprises, which in total amounted to RMB175.4 million, RMB176.5 million and RMB180.6 million, respectively, representing 63.8%, 61.5% and 56.7% of our total revenue generated from construction projects for the relevant year. We encountered longer certification and settlement audit process for such customers. As of December 31, 2021, 2022 and 2023, our contract assets attributable to government authorities or state-owned enterprises were RMB74.2 million, RMB150.6 million and RMB161.9 million, respectively, representing 58.6%, 70.1% and 73.2% of our total contract assets, respectively. According to Frost & Sullivan, government authorities or state-owned enterprises usually have more internal procedures relating to certification and settlement audit due to the involvement of multiple departments and/or personnels, which may require many rounds of discussion and communication in order to determine the amount of and agree on the certification. Such prolonged internal approval procedure of these customers often resulted in delay in the certification process, hence delaying the conversion of our contract assets to trade receivables. For example, the Infrastructure Project of Huanggang Vocational Education Industrial Park in Binhai New Area (Phase I) (濱海新區黃港職教產業園區基礎設施工程(一期)), which was one of our top 10 projects for the year ended December 31, 2022, recorded RMB5.6 million of contract assets aged over one year as of December 31, 2023, representing 13.8% of our total contract assets aged over one year as of December 31, 2023.

  In addition, during the Track Record Period, the certification processes of our certain projects with government authorities or state-owned enterprises as customer were further delayed because, to the understanding of the Directors, (i) certain customers underwent reorganization or corporate restructuring; and (ii) the responsible personnel of certain projects have changed during the duration of the relevant projects, therefore, more time was required by them to become familiar with the project progress and certification status and complete the internal approval procedure for all those projects. These projects include: (i) the Tianjin Longyuan Pile Construction Project (天津龍源樁施工項目), which recorded RMB3.0 million of contract assets aged over one year, representing 7.5% of the total contract assets aged over one year as of December 31, 2023; and (ii) Yanguang Power Generation Project (鹽光發電項目), which recorded RMB2.6 million of contract assets aged over one year, representing for 6.5% of the total contract assets aged over one year as of December 31, 2023.

Despite the longer certification process of these customers, throughout the Track Record Period, none of our Group's contract asset debtors which were government authorities or state-owned enterprise had material dispute with our Group with regard to the certification and settlement audit;

- *The certification and settlement audit process for certain types of projects*

  (i) Sizable and large scale projects

  During the Track Record Period, we have been expanding our construction business by capturing the business opportunities arising from substantial investment in infrastructure projects of larger size from Tianjin government and undertaking more large scale projects. The average contract amount for new projects during the Track Record Period has increased from RMB4.5 million in 2021, to RMB12.4 million in 2023. According to Frost & Sullivan, larger projects usually require longer time for certification and settlement audit processes because such projects often involve more detailed inspection by different parties and are often accompanied with frequent variations on the scope of works to be performed. For example, Tianjin Nangang LNG Emergency Reserve Project (天津南港LNG應急儲備項目) with an original contract sum of RMB15.1 million, which was undertaken by our Group in 2021, had an aggregate amount of variation orders of RMB20.1 million. The project duration was around two years due to several adjustments on the overall scope of works to be performed by us, which prolonged the construction schedule. This project recorded contract assets in the amount of RMB7.5 million as of December 31, 2022.

  (ii) Settlement audit would be performed only after completion of the entire project

  During the Track Record Period, our Group was engaged as a subcontractor for certain projects and was only involved in certain part(s) of these projects, such as foundation work, and the settlement audit would be performed only after completion of the entire project. For example, we undertook the Tianjin Longyuan Pile Construction Project (天津龍源樁施工項目) with a contract sum of RMB7.5 million in 2022 as a subcontractor. We completed the construction works for this project in late 2022. We recorded contract assets in the amount of RMB6.1 million for this project as of December 31, 2022. As of December 31, 2023, we were still pending the completion of the settlement audit of this project and recorded RMB3.0 million of contract assets aged over one year. As our Group did not have control over the completion time of other parts in such projects, there were circumstances where significant delay was experienced in the settlement audit process of such projects.

- *Regional outbreak of COVID-19 in the PRC in 2022*

  We believe that the COVID-19 pandemic in the past few years also contributed to the increase and large amount of our contract assets to a certain degree, though the impact thereof was short-term and one-off. According to the Frost & Sullivan Report, the construction industry in the PRC was adversely affected by the COVID-19 pandemic in 2020 and the resurgence of COVID-19 in various provinces across the PRC in 2022. The COVID-19 pandemic had short-term adverse impact on the construction industry in the PRC, including delay in the certification process and the settlement audit processes due to the social isolation measures imposed to prevent the spreading of COVID-19, including lockdowns and travel restrictions, quarantine measures and mandatory temporary suspension of business operations across certain regions. Under the mandatory lockdown measures in Tianjin in late 2022, the certification or settlement audit process of our certain projects experienced delays. For example, we recorded contract assets in the amount of RMB72.6 million for the Tianjiang Apartment Projects (天江公寓項目) as of December 31, 2022. Subsequent to the lifting of the COVID-19 restrictions in the PRC in early 2023, RMB88.2 million of the contract assets for the Tianjiang Apartment Projects (天江公寓項目) as of December 31, 2022 were transferred to our trade and bills receivables due to substantial completion of the certification process for this project for the year ended December 31, 2023.

Our Directors acknowledged the prolonged certification and settlement audit of our certain projects (which had taken more than three years in some extreme cases) and endeavored to shorten the settlement period of the completed projects during the Track Record Period. We have adopted an internal control policy on monitoring the certification and settlement processes of our contract assets, our commercial contract department will designate employees to follow up on the progress of the certification of our works performed and the settlement audit for the completed projects together with the project management team. For details of our contract assets control policy, please refer to "— Description of Selected Items of The Consolidated Statements of Financial Position — Trade and bills receivables — Trade receivables and contract assets control policy" in this section. To the best knowledge of our Directors, there was no material dispute (i.e. legal proceeding or complaint filed by the customers) between us and our contract asset debtors during the Track Record Period, with regards to certification and settlement audit.

Approximately RMB103.7 million, RMB179.3 million and RMB104.3 million, or 81.9%, 83.4% and 47.2% of our contract assets as of December 31, 2021, 2022 and 2023 were subsequently transferred to trade receivables upon billing up to the Latest Practicable Date, respectively, resulting in a net balance of approximately RMB22.9 million, RMB35.7 million and RMB116.9 million, respectively. The net balance of RMB22.9 million as of December 31, 2021 has not yet been transferred to trade receivables up to the Latest Practicable Date mainly due to the prolonged certification process of our certain projects with government authorities or state owned enterprises as customers.

As of the Latest Practicable Date, approximately RMB104.3 million or 47.2% of our contract assets as of December 31, 2023 were subsequently transferred to trade receivables. The progress of our conversion of contract assets to trade and bills receivables was slowed down during the first quarter of 2024 mainly due to the suspension in construction activities during Chinese New Year and some of the responsible personnel and administration staff of our Group and our customers were on holiday during that period, leading to the slow down in the certification progress of our projects in that period. According to Frost & Sullivan, it is an industry norm for construction companies to suspend their projects and operations for around two to four weeks during Chinese New Year period.

Our Directors are of the view that our contract assets as of December 31, 2023 would be recoverable considering that:

— we are able to maintain a relatively healthy aging of contract assets during the Track Record Period. Whilst the total amount of our contract assets increased as we achieved growth in our revenue during the Track Record Period, we were able to convert most contract assets into trade and bills receivables within one year of due date, by facilitating certification, keeping a healthy trend in the overall aging portfolio of our contract assets.

— we have been proactively communicating with the customers of projects with relatively larger contract assets balance, to follow up on the certification and settlement audit progress of our projects. For example, as of the Latest Practicable Date, it is expected that work performed for the Tianjin Binhai New Area Pharmaceutical Industrial Park Construction Project Soil Backfilling Project (天津市濱海新區醫藥產業園建設專案土方回填工程), Infrastructure Construction Project of Nandaigang Coastal Industrial Park — South Erjing Road (南大港濱海產業園區基礎設施建設項目 — 二經路南路) and Wannianqiao North Road Upgrade Project (萬年橋北路道路提升工程), with an aggregated contract sum of RMB78.0 million, will be certified and the corresponding amount of contract assets of these projects will be transferred to trade and bills receivables in April 2024. Furthermore, it is expected that the settlement audit of the Wuyi Yangguang Piling Project (五一陽光樁基項目), Hangu East Expansion Project (漢沽東擴區項目) and Infrastructure Project of Huanggang Vocational Education Industrial Park in Binhai New Area (Phase I) (濱海新區黃港職教產業園區基礎設施工程(一期)), with an aggregated contract sum of RMB75.8 million, will be completed by the first half of 2024 and the corresponding amount of contract assets of these projects certified will be transferred to trade and bills receivables;

— we have made sufficient provision for impairment losses for our contract assets as of December 31, 2023 by applying different ECL rates in different age groups and no specific provisions were made as our Directors were not aware of any customers having any specific financial liquidity problems and no material dispute was noted between us and the relevant customers in relation to certification or settlement audit.

— we are able to successfully bill our long aging contract assets. For example, RMB1.6 million of contract assets that were overdue three years as of December 31, 2023 were fully subsequently billed as of the Latest Practicable Date.

Trade and bills receivables

Our trade and bills receivables mainly represent the outstanding balance due from our customers in relation to the services we provided. The following table sets forth details of our trade and bills receivables as of the dates indicated:

	As of December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables for contract work due from:			
— third parties	92,896	130,214	248,493
Bills receivable	50	50	—
	92,946	130,264	248,493
Less: loss allowance	(2,266)	(6,281)	(15,996)
	90,680	123,983	232,497

The fluctuation of our trade and bills receivables during the Track Record Period

Our trade and bills receivables increased from RMB90.7 million as of December 31, 2021 to RMB124.0 million as of December 31, 2022, primarily due to the substantial billing of the Hengsheng Flood Control Bulk Yard Project (恆盛防汛散貨堆場項目) and Engineering and Social Infrastructure Construction Projects in High-Tech Area (Phase II) (高新區兩類設施建設工程二期), which had not been fully settled as of December 31, 2022. Our trade and bills receivables increased from RMB124.0 million as of December 31, 2022 to RMB232.5 million as of December 31, 2023 mainly due to the completion of the certification process of Tianjin Wangzi East Project (Phase I) (天津市汪子東項目一標段), Tianjin Wangzi East Project (Phase II) (天津市汪子東項目二標段) and the substantial completion of the certification process of Tianjin Binhai New Area Pharmaceutical Industrial Park Construction Project Soil Backfilling Project (天津市濱海新區醫藥產業園建設專案土方回填工程), which in aggregate amounted to RMB105.4 million of trade and bills receivables.

During the Track Record Period, our trade and bills receivables from government authorities or stated-owned enterprises decreased from RMB67.2 million as of December 31, 2021 to RMB51.8 million as of December 31, 2022, which was mainly attributable to the impact of COVID-19, which led to travel restriction in relevant areas of our projects, resulting in delay in the certification process. Our trade and bills receivables from government authorities or stated-owned enterprises increased from RMB51.8 million as of December 31, 2022 to RMB85.4 million as of December 31, 2023, which was mainly attributable to the substantial completion of certification of Tianjin Binhai New Area Pharmaceutical Industrial Park Construction Project Soil Backfilling Project (天津市濱海新區醫藥產業園建設專案土方回填工程) and Tianjin Port Collection and Distribution Foundation Construction Project (天津港集疏運路基工程).

During the Track Record Period, our trade and bills receivables from private enterprises increased from RMB23.5 million as of December 31, 2021 to RMB72.1 million as of December 31, 2022, which was mainly attributable to the substantial completion of certification of Hengsheng Flood Control Bulk Yard Project (恆盛防汛散貨堆場工程). Our trade and bills receivables from private enterprises increased from RMB72.1 million as of December 31, 2022 to RMB147.1 million as of December 31, 2023, which was mainly attributable to the substantial completion of the certification process of Tianjin Wangzi East Project (Phase I) (天津市汪子東項目一段) and Tianjin Wangzi East Project (Phase II) (天津市汪子東項目二段).

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

As of December 31, 2021

Project Name	Customer Name	Customer type	Project description	Trade and bills receivables (gross amount)	ECLs	Trade and bills receivables (net amount)	Aging analysis		Amount of subsequent settlement of trade and bills receivables up to Latest Practicable Date
							Within one year	Over one year	
				RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Tianjin Nangang Foundation Pre-treatment Project (天津南港地基預處理項目)	Customer E	Government authorities and state-owned enterprise	Earthwork	15,944	(291)	15,653	15,653	—	15,944
Hengsheng Flood Control Bulk Yard Project (恒盛防汛散貨堆場工程)	Tianjin Hengsheng Municipal Engineering Company Limited* (天津市恒盛市政工程有限公司)	Private enterprises	Road construction	15,316	(281)	15,035	15,035	—	15,316
Hangu East Expansion Project (漢沽東擴區項目)	Customer G	Government authorities and state-owned enterprise	Traffic facilities construction	9,449	(173)	9,276	9,276	—	5,000
Rizhao Station 3# Tank Overhaul Project (日照站3#罐大修項目)	Customer M	Government authorities and state-owned enterprise	Petrochemical engineering works	4,932	(90)	4,842	4,842	—	4,932
Engineering and Social Infrastructure Construction Projects in High-Tech Area (Phase II) (高新區兩類設施建設工程二期)	Customer D	Government authorities and state-owned enterprise	Traffic facilities construction	4,015	(74)	3,941	3,941	—	4,015

As of December 31, 2022

Project Name	Customer Name	Customer type	Project description	Trade and bills receivables (gross amount)	ECLs	Trade and bills receivables (net amount)	Aging analysis: Within one year	Aging analysis: Over one year	Amount of subsequent settlement of trade and bills receivables up to Latest Practicable Date
				RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Hengsheng Flood Control Bulk Yard Project (恒盛防汛散貨堆場工程)	Tianjin Hengsheng Municipal Engineering Company Limited* (天津市恒盛市政工程有限公司)	Private enterprises	Road construction	38,521	(740)	37,781	37,781	—	38,521
Tianjiang Apartment Xintai Mechanical and Electrical Material Procurement — Yu Jia Cheng (天江公寓鑫泰機電材料採購 — 裕嘉程)	Xintai Zhihui	Private enterprises	Building construction related work	23,142	(391)	22,751	22,751	—	11,219
Engineering and Social Infrastructure Construction Projects in High-Tech Area (Phase II) (高新區兩類設施建設工程二期)	Customer D	Government authorities and state-owned enterprise	Traffic facilities construction	5,457	(192)	5,265	1,419	3,846	5,457
Ya'anli Housing Renovation Project (雅安里房屋裝修工程)	Customer J	Government authorities and state-owned enterprise	Building construction related work	5,103	(87)	5,016	5,016	—	1,500
Hangu East Expansion Project (漢沽東擴區項目)	Tianjin Hanbin Investment Group Co., Ltd. (天津市漢濱投資集團有限公司)	Government authorities and state-owned enterprise	Traffic facilities construction	4,449	(150)	4,299	—	4,299	—

As of December 31, 2023

Project Name	Customer Name	Customer type	Project description	Trade and bills receivables (gross amount)	ECLs	Trade and bills receivables (net amount)	Aging analysis Within one year	Over one year	Amount of subsequent settlement of trade and bills receivables up to Latest Practicable Date
				RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Tianjin Wangzi East Project (Phase II) (天津市汪子東項目二標段)	Tianjin Hezhong Trading Company Limited* (天津市和眾工貿有限公司)	Private enterprises	Road surface works	58,708	(1,418)	57,290	57,290	—	—
Hengsheng Flood Control Bulk Yard Project (恒盛防汛散貨堆場工程)	Tianjin Hengsheng Municipal Engineering Company Limited* (天津市恒盛市政工程有限公司)	Private enterprises	Road construction	31,723	(1,573)	30,150	23,600	6,550	11,810
Tianjin Wangzi East Project (Phase I) (天津市汪子東項目一標段)	Tianjin Hezhong Trading Company Limited* (天津市和眾工貿有限公司)	Private enterprises	Road surface works	30,608	(739)	29,869	29,869	—	5,800
Tianjiang Apartment Xintai Mechanical and Electrical Material Procurement — Yu Jia Cheng (天江公寓鑫泰機電材料採購 — 裕嘉程)	Xintai Zhihui	Private enterprises	Building construction related work	25,197	(948)	24,249	11,575	12,674	1,413
Tianjin Binhai New Area Pharmaceutical Industrial Park Construction Project Soil Backfilling Project (天津市濱海新區醫藥產業園建設專案土方回填工程)	Customer B	Government authorities and state-owned enterprise	Earthworks	18,700	(452)	18,248	18,248	—	18,700

Aging analysis of our trade and bills receivables

The following is an aging analysis of trade and bills receivables based on the invoice date and net of loss allowance:

	As of December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	72,486	100,502	187,537
1 to 2 years	8,813	15,575	36,682
2 to 3 years	9,381	5,973	6,139
Over 3 years	—	1,933	2,139
	90,680	123,983	232,497

As of December 31, 2021, 2022 and 2023, the aging analysis of trade and bills receivables, based on due dates and classified by types of debtors, and the amount of subsequent settlement of trade and bills receivables up to the Latest Practicable Date are as follows:

	As of December 31,																	
	2021						2022						2023					
	Government authorities or stated-owned enterprises	Private enterprises	Total	% of total trade and bills receivables	Less: amount subsequently settled up to the Latest Practicable Date	Remaining balances up to the Latest Practicable Date	Government authorities or stated-owned enterprises	Private enterprises	Total	% of total trade and bills receivables	Less: amount subsequently settled up to the Latest Practicable Date	Remaining balances up to the Latest Practicable Date	Government authorities or stated-owned enterprises	Private enterprises	Total	% of total trade and bills receivables	Less: amount subsequently settled up to the Latest Practicable Date	Remaining balances up to the Latest Practicable Date
	RMB'000	*RMB'000*	*RMB'000*	*%*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*%*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*%*	*RMB'000*	*RMB'000*
Within 1 year	54,121	18,365	72,486	79.9	65,231	7,255	31,046	69,456	100,502	81.1	75,209	25,243	63,052	124,485	187,537	80.7	46,318	141,219
1–2 years	6,188	2,625	8,813	9.7	3,649	5,164	14,882	693	15,575	12.6	8,370	7,205	14,458	22,224	36,682	15.8	11,694	24,988
2–3 years	6,895	2,486	9,381	10.4	6,617	2,764	4,220	1,753	5,973	4.8	980	4,993	6,132	7	6,139	2.6	—	6,139
Over 3 years	—	—	—	—	—	—	1,688	245	1,933	1.5	1,933	—	1,744	395	2,139	0.9	400	1,739
	67,204	23,476	90,680	100.0	75,497	15,183	51,836	72,147	123,983	100.0	86,492	37,441	85,386	147,111	232,497	100.0	58,412	174,085

During the Track Record Period, we collected most of our trade and bills receivables within one year, as after we bill our customers, the majority of our trade and bills receivables were generally aged within one year. The amount of trade and bills receivables aged over one year as of December 31, 2021, 2022 and 2023 was RMB18.2 million, RMB23.5 million and RMB45.0 million, representing 20.1%, 18.9% and 19.3% of our total trade and bills receivables. Whilst the total amount of our trade and bills receivables, respectively increased as we achieved growth in our revenue during the Track Record Period, we maintained a stable overall aging portfolio of our trade and bills receivables during the Track Record Period.

Our trade and bills receivables aged over one year increased in terms of amount from RMB18.2 million as of December 31, 2021 to RMB23.5 million as of December 31, 2022, but remained stable in terms of its ratio to the total trade and bills receivables for the year at 20.1% and 18.9%, respectively, mainly due to the delay of the construction schedule of the Engineering and Social Infrastructure Construction Projects in High-Tech Area Traffic (Phase II) (高新區兩類設施建設二期項目) attributable to adjustment on the design of the project, resulting in a prolonged settlement of an amount of RMB5.3 million, among which, RMB3.8 million was aged over one year of this project.

Despite our trade and bills receivables aged over one year remained stable in terms of its ratio to the total trade and bills receivables at 19.3% as of December 31, 2023 as compared to that of 2021 and 2022, the amount of trade and bills receivables aged over one year increased to RMB45.0 million, as of December 31, 2023 mainly due to the long processing time for the settlement of the balance of the Hengsheng Flood Control Bulk Yard Project (恒盛防汛散貨堆場項目) and Tianjiang Apartment Xintai Mechanical and Electrical Material Procurement — Yu Jia Cheng (天江公寓鑫泰機電材料採購 — 裕嘉程), which were large scale projects that generally have longer payment settlement periods. The trade and bills receivables of these projects amounted to RMB54.4 million, among which, RMB19.2 million were aged over one year as of December 31, 2023 and RMB13.2 million were subsequently settled as of the Latest Practicable Date. During the Track Record Period, we have been receiving payment from the customers of these two projects from time to time. As of the Latest Practicable Date, we have received payment of RMB11.8 million and RMB1.4 million for Hengsheng Flood Control Bulk Yard Project (恒盛防汛散貨堆場項目) and Tianjiang Apartment Xintai Mechanical and Electrical Material Procurement — Yu Jia Cheng (天江公寓鑫泰機電材料採購 — 裕嘉程), respectively.

The amount of trade and bills receivables aged over two years increased from RMB7.9 million as of December 31, 2022 to RMB8.3 million as of December 31, 2023 while its ratio to the trade and bills receivables decreased from 6.3% as of December 31, 2022 to 3.6% as of December 31, 2023.

Analysis of trade and bills receivables turnover days

The following table sets forth our average trade and bills receivables turnover days as of the dates indicated:

	As of December 31,		
	2021	2022	2023
Average trade and bills receivables turnover days(1)	83.3	141.5	216.4

Note:

(1) Average trade and bills receivables turnover days is equal to the average of the opening and closing balances of gross trade and bills receivables of the relevant period divided by revenue of the relevant period and multiplied by 365 days for each of the years ended December 31, 2021, 2022 and 2023.

As of December 31, 2021, 2022 and 2023, our average trade and bills receivables turnover days were 83.3 days, 141.5 days and 216.4 days, respectively. Our average trade and bills receivables turnover days increased from 83.3 days in 2021 to 141.5 days in 2022, which was mainly due to our undertaking of more large scale construction projects during the year and the relatively long aging of trade and bills receivables from our large scale projects including Hengsheng Flood Control Bulk Yard Project (恆盛防汛散貨堆場項目). In accordance with our accounting policies in relation to ECL, provisions were made on trade and bills receivables and contract assets of all our projects. Our average trade and bills receivables turnover days increased from 141.5 days as of December 31, 2022 to 216.4 days as of December 31, 2023 due to the completion of the substantial certification process of the Tianjiang Apartment Projects (天江公寓項目), Tianjin Wangzi East Project (Phase I) (天津市汪子東項目一標段) and Tianjin Wangzi East Project (Phase II) (天津市汪子東項目二標段) for the year ended December 31, 2023, while the corresponding balances were not yet settled as of December 31, 2023. According to Frost & Sullivan, the turnover days of trade receivables for large scale construction projects in the PRC is generally longer, as a substantial portion of progress payment is generally settled at the later stage of the project.

According to the Frost & Sullivan Report, the long turnover days of trade and bills receivables is common in the construction industry in the PRC, especially for some government authorities or state-owned enterprises customers and large scale projects. The average of our Group's turnover days for trade and bills receivables for the years ended December 31, 2021, 2022 and 2023 was 147.1 days, which was within the range of that of our industry peers (being 93.5 days to 190.9 days). The trade and bills receivables turnover days of our industry peers for the year ended December 3l, 2023 were annualized figures calculated based on the six months ended June 30, 2023 financials of such industry peers.

Taking the above into account, the Directors are of the view that our trade and bills receivables turnover days is in line with our business development and the industry norm.

Reasons for fluctuation in trade and bills receivables during the Track Record Period

During the Track Record Period, our Group experienced continued increase in the amount of trade and bills receivables aged both within and over one year, primarily due to the following reasons:

- *For our government authorities or state-owned enterprises customers*

  During the Track Record Period, a significant portion of our customers were government authorities or state-owned enterprises, the revenue derived from government authorities or state-owned enterprises amounted to RMB175.4 million, RMB176.5 million and RMB180.6 million, respectively and they accounted for a high portion of our long aging trade and bills receivables. As of December 31, 2021, 2022 and 2023, our trade and bills receivables aged over one year attributable to government authorities or state-owned enterprises were RMB13.1 million, RMB20.8 million and RMB22.3 million, respectively, representing 72.0%, 88.5% and 32.6% of our total trade and bills receivables aged over one year, respectively.

  Our trade and bills receivables aged over one year attributable to government authorities or state-owned enterprises temporarily accounted for less significant proportion of our total trade and bills receivables aged over one year as of December 31, 2023, primarily because Hengsheng Flood Control Bulk Yard Project (恒盛防汛散貨堆場項目) and Tianjiang Apartment Xintai Mechanical and Electrical Material Procurement — Yu Jia Cheng (天江公寓鑫泰機電材料採購 — 裕嘉程), which the customers of these projects were private enterprises, contributed to RMB19.2 million of our trade and bills receivables aged over one year, representing 42.7% of our total trade and bills receivables aged over one year. Among such RMB19.2 million, RMB8.3 million were subsequently settled on the Latest Practicable Date. During the Track Record Period, we have been receiving payment from the customers of these two projects from time to time. As of the Latest Practicable Date, we have received payment of RMB11.8 million and RMB1.4 million for Hengsheng Flood Control Bulk Yard Project (恒盛防汛散貨堆場項目) and Tianjiang Apartment Xintai Mechanical and Electrical Material Procurement — Yu Jia Cheng (天江公寓鑫泰機電材料採購 — 裕嘉程), respectively.

  (i) Settlement procedures involving multiple levels of approval

  According to Frost & Sullivan, it is an industry norm for companies in the construction industry to have a relatively high proportion of trade and bills receivables that remains unsettled and aged over one year. In particular, for projects with government authorities or state-owned enterprises as customers or ultimate project owners, the industry range for settlement period of trade and bills receivables can range from three months to two years depending on the scale of the project because this type of customers generally have complicated internal settlement procedures, including but not limited to approvals by various levels of management and leadership of such entities, and therefore require more time to settle their trade and bills payables.

(ii) Working capital management of our customers

According to Frost & Sullivan, customers that are government authorities or state-owned enterprises usually have more rigid working capital management policies, leading to prolonged settlement of trade and bills receivables. Despite usually bigger in size and have a higher capital base, such customers may impose stringent internal treasury controls to safeguard their financial position and liquidity situation. They usually will be more cautious in the settlement of trade receivables with us.

- *For projects that our Group was engaged as a subcontractor*

During the Track Record Period, our Group was engaged as a subcontractor for some projects and our customers, which are the main contractors of the project, normally would only arrange to settle our bills after they have received payment from their customers to preserve their working capital. As our Group did not have control over the payment schedule of the customers of the main contractors in those projects, there were circumstances where significant delay was experienced in the settlement of our bills of these projects. For example, we were engaged as a subcontractor to procure electrical and mechanical equipment in the Tianjin Apartment Xintai Mechanical and Electrical Material Procurement — Yu Jia Cheng (天江公寓鑫泰機電材料採購 — 裕嘉程) in 2022. The trade and bills receivable aged over one year for this project amounted to RMB12.7 million as of December 31, 2023. During the Track Record Period, we have been receiving payment from the customer of this project from time to time and have received payment of RMB12.6 million as of the Latest Practicable Date.

Comparison of our trade and bills receivables with our industry peers

According to the Frost & Sullivan Report, in comparison of our aging position with our industry peers, the average of our Group's ratios of trade and bills receivables aged more than one year to the total trade and bills receivables as of December 31, 2021, 2022 and 2023 of 19.4% was lower than that of our industry peers (being 26.1% to 36.8% according to the Frost & Sullivan Report). The ratios of trade and bills receivables aged over one year to the total trade and bills receivables of our industry peers as of December 3l, 2023 were annualized figures calculated based on the June 30, 2023 financial of such industry peers.

The following tables set forth details of our top five trade and bills receivables that were past due over one year by project as of each of December 31, 2021, 2022 and 2023:

As of December 31, 2021

						Revenue recognition in accordance with IFRS 15								Aging analysis		
Project name	Customer	Customer type	Group's role	Project commencement date	Expected/actual project completion date	Original contract sum (A)[1]	Accumulated amount of variation orders/adjustments (B)[1][2]	Percentage of completion of the project (C)[3]	Accumulated value of work performed (i.e. revenue recognized) ((D)=(A+B) × C)[1][3]	Revenue recognized for the year ended December 31, 2021[1]	Trade receivables (gross amount)	ECL Loss Allowance	Trade receivables (net amount)	Amount of trade receivables not overdue and aged within one year	Trade receivables that were past due over one year	Amount of subsequent settlement up to the Latest Practicable Date
						RMB'000	*RMB'000*	*%*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Binhai New Area New Small Town Phase II Road and Auxiliary Facilities Construction Project (Haihe South Road) (濱海新區小城鎮二期道路及附屬設施工程(海河南路))	Customer C	Government authorities and state-owned enterprises	Subcontractor	January 2017	July 2021	12,048	2,004	100	14,052	260	3,486	154	3,332	–	3,332	–
Tianjin Binhai New Area Public Security Bureau Traffic Management Branch Technology Facilities Construction Electronic Police Project (天津市濱海新區公安局交通管理分局交通管理科技設施建設路口電子警察項目)	Zhongxing Intelligent System Technology Co., Ltd.* (中星智能系統技術有限公司)	Private enterprises	Main contractor	April 2019	September 2020	5,321	(732)	100	4,589	–	2,100	117	1,983	–	1,983	1,967
Tianjin Port Container Logistics Center Project (天津港集裝箱物流中心項目)	Customer A	Government authorities and state-owned enterprises	Subcontractor	September 2019	December 2020	16,392	–	100	16,392	–	3,755	102	3,653	2,147	1,506	3,732
Traffic Management Technology and Safety Facilities Maintenance, Management and Service Projects (交通管理科技及安全設施養管運維服務項目)	Customer R	Private enterprises	Main contractor	July 2019	July 2020	1,741	(199)	100	1,542	–	1,449	66	1,383	–	1,383	–
Binhai New Area Small Town Phase I Road and Auxiliary Facilities Construction Project (Cigan Road One) (濱海新區小城鎮一期道路及附屬設施工程(次干路一))	Customer X	Government authorities and state-owned enterprises	Subcontractor	April 2017	December 2019	11,154	–	100	11,154	–	1,170	65	1,105	–	1,105	–

As of December 31, 2022

Project name	Customer	Customer type	Group's role	Project commencement date	Expected/actual project completion date	Revenue recognition in accordance with IFRS 15							Aging analysis			
						Original contract sum (A)[1]	Accumulated amount of variation orders/adjustments (B)[1][2]	Percentage of completion of the project (C)[3]	Accumulated value of work performed (i.e. revenue recognized) ((D) = (A + B) × C)[1][3]	Revenue recognized for the year ended December 31, 2022[1]	Trade receivables (gross amount)	ECL Loss Allowance	Trade receivables (net amount)	Amount of trade receivables not overdue and aged within one year	Trade receivables that were past due over one year	Amount of subsequent settlement up to the Latest Practicable Date
						RMB'000	*RMB'000*	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Hangu East Expansion Project (漢沽東擴區項目)	Customer G	Government authorities and state-owned enterprises	Main contractor	June 2021	December 2021	18,728	–	100	18,728	–	4,449	150	4,299	–	4,299	–
Engineering and Social Infrastructure Construction Projects in High-Tech Area (Phase II) (高新區兩類設施建設工程二期)	Customer D	Government authorities and state-owned enterprises	Subcontractor	June 2021	December 2023	30,244	–	44	13,158	1,324	5,457	192	5,265	1,419	3,846	5,457
Binhai New Area New Small Town Phase II Road and Auxiliary Facilities Construction Project (Haihe South Road) (濱海新區小城鎮二期道路及附屬設施工程(海河南路))	Customer C	Government authorities and state-owned enterprises	Subcontractor	January 2017	July 2021	12,048	2,004	100	14,052	–	3,486	835	2,651	–	2,651	–
Huaidong Road Traffic Facilities Project (淮東路交通設施工程)	Tianjin Urban Road Pipeline Network Supporting Construction Investment Company Limited (天津城市道路管網配套建設投資有限公司)	Government authorities and state-owned enterprises	Main contractor	July 2020	September 2021	2,994	250	100	3,244	–	1,477	81	1,396	–	1,396	300
Tianjin Subway, Line 11 Earthworks Project (天津地鐵11號線土石工程項目)	Customer K	Government authorities and state-owned enterprises	Subcontractor	March 2020	December 2023	14,591	–	76	11,030	182	2,446	75	2,371	1,109	1,262	2,446

As of December 31, 2023

						Revenue recognition in accordance with IFRS 15							Aging analysis			
Project name	Customer	Customer type	Group's role	Project commencement date	Expected/actual project completion date	Original contract sum (A)[1]	Accumulated amount of variation orders/adjustments (B)[1][2]	Percentage of completion of the project (C)[3]	Accumulated value of work performed (i.e. revenue recognized) ((D)=(A+B) × C)[1][3]	Revenue recognized for the year ended December 31, 2023[1]	Trade receivables (gross amount)	ECL Loss Allowance	Trade receivables (net amount)	Amount of trade receivables not overdue and aged within one year	Trade receivables that were past due over one year	Amount of subsequent settlement up to the Latest Practicable Date
						RMB'000	*RMB'000*	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Tianjiang Apartment Xintai Mechanical and Electrical Material Procurement — Yu Jia Cheng (天江公寓鑫泰機電材料採購 — 裕嘉程)	Xintai Zhihui	Private enterprises	Subcontractor	September 2022	December 2023	26,846	4,130	100	30,976	6,072	25,197	948	24,249	11,575	12,674	1,413
Hengsheng Flood Control Bulk Yard Project (恒盛防汛散貨堆場工程)	Tianjin Hengsheng Municipal Engineering Company Limited* (天津市恒盛市政工程有限公司)	Private enterprises	Main contractor	May 2021	November 2022	90,985	–	100	90,985	–	31,723	1,573	30,150	23,600	6,550	11,810
Ya'anli Housing Renovation Project (雅安里房屋裝修工程)	Customer J	Government authorities and state-owned enterprises	Main contractor	May 2022	September 2022	14,760	(301)	100	14,459	(301)	4,802	238	4,564	–	4,564	1,500
Hangu East Expansion Project (漢沽東擴區項目)	Customer G	Government authorities and state-owned enterprises	Main contractor	June 2021	December 2021	18,728	–	100	18,728	–	4,449	336	4,113	–	4,113	–
Nangang Industrial District Traffic Facilities Construction Project (南港工業區交通設施工程)	Customer L	Government authorities and state-owned enterprises	Main contractor	April 2021	December 2021	10,277	2,023	100	12,300	–	3,342	166	3,176	–	3,176	–

Notes:

1. The amounts do not include any VAT.

2. The amount of variation orders represent the adjustment or additional amounts to the original contract sum as may be agreed between the parties to the original contract from time to time, and such variation orders may be in the form of supplemental agreements for additional construction works undertaken by us or modifications of the scope of work previously agreed in the original contracts.

3. Revenue from construction contract is recognized according to the percentage of completion of individual construction contract, which is measured by reference to the contract costs incurred as a proportion to the total budgeted costs.

As of December 31, 2021, 2022 and 2023, our provisions for the impairment of trade receivables were RMB2.3 million, RMB6.3 million and RMB16.0 million, respectively, representing 2.4%, 4.8% and 6.9% of the aggregate amount of our trade and bills receivables, respectively.

As of the Latest Practicable Date, approximately RMB58.4 million or 25.1% of our trade and bills receivables, net of loss allowances as of December 31, 2023 were subsequently settled by our customers. For details of our Group's ECL provision, please refer to "— Description of Selected Items in the Consolidated Statements of Profit or Loss and Other Comprehensive Income — (Reversal of impairment losses)/impairment losses on trade receivables, lease receivables and other receivables and contract assets" in this section.

Combined analysis of contract assets and trade and bills receivables

The following table sets forth the number of turnover days during the Track Record Period based on the aggregate amount of our contract assets and trade and bills receivables:

	As of December 31,		
	2021	2022	2023
Average contract assets and trade and bills receivables turnover days(1)	200.7	363.8	477.1

Note:

(1) Average contract assets and trade and bills receivables turnover days is equal to the average of the aggregate amount of opening and closing balances of gross contract assets and trade and bills receivables of the relevant period divided by revenue of the relevant period and multiplied by 365 days for each of the years ended December 31, 2021, 2022 and 2023.

Our average turnover days based on the aggregate amount of contract assets and trade and bills receivables were approximately 200.7 days, 363.8 days and 477.1 days as of December 31, 2021, 2022 and 2023, respectively.

The increase in turnover days for contract assets and trade and bills receivables from 200.7 days as of December 31, 2021 to 477.1 days as of December 31, 2023 was primarily due to a majority of our customers were government authorities or state-owned enterprises and our undertaking of more large scale projects, where the aging of those contract assets and trade and bills receivables are relatively long as elaborated in the paragraphs headed "Contract assets" and "Trade and bills receivables" under the section headed "Financial Information — Description of selected items of the consolidated statements of financial position" of this document. According to the Frost & Sullivan Report, the long turnover days of contract assets and trade and bills receivables is not uncommon in the construction industry in the PRC, especially for some government authorities or state-owned enterprises customers and large scale projects.

In particular, our average contract assets and trade and bills receivables turnover days increased from 200.7 days as of December 31, 2021 to 363.8 days as of December 31, 2022 was mainly due to (i) our substantial completion of certain large scale projects, including Hengsheng Flood Control Bulk Yard Project (恒盛防汛散貨堆場項目) and Tianjiang Apartment Projects (天江公寓項目) (which consists of 11 projects in building construction with a contract sum of RMB137.3 million in total); and (ii) the delay of certification process of certain projects as a result of the resurgence of COVID-19 in 2022. Our average contract assets and trade and bills receivables turnover days increased from 363.8 days as of December 31, 2022 to 477.1 days as of December 31, 2023 was due to the substantial completion of our construction works, including Tianjin Wangzi East Project (Phase I) (天津市汪子東項目一標段) and Tianjin Wangzi East Project (Phase II) (天津市汪子東項目二段), and the completion of the settlement audit of Hengsheng Flood Control Bulk Yard Project (恒盛防汛散貨堆場項目), and the completion of substantial certification process of the Tianjiang Apartment Projects (天江公寓項目) for the year ended December 31, 2023, while the corresponding balances were not yet settled as of December 31, 2023.

Recoverability of our Group's contract assets and trade and bills receivables

- ***Majority of our contract assets were not overdue or were aged within one year***

During the Track Record Period, the majority of our contract assets were not overdue or were aged within one year, which accounted for 90.6%, 90.7% and 81.7% of our total contract assets as of December 31, 2021, 2022 and 2023. Similarly, most of the trade and bills receivables of our Group were aged within one year, which accounted for 79.9%, 81.1%, 80.7% of our total trade and bills receivables as of December 31, 2021, 2022 and 2023. During the Track Record Period, our Group has managed to control the aging of its contract assets and trade and bills receivables such that there was a general improvement in the aging of its contract assets and trade and bills receivables in terms of the percentage of contract assets aged over one year to total contract assets and the percentage of trade and bills receivables aged over one year to total trade and bills receivables.

- ***Majority of our contract assets and trade and bills receivables aged over one year were attributable to customers that are government authorities or state-owned enterprises***

During the Track Record Period, a substantial portion of our contract assets and trade and bills receivables aged over one year were attributable to customers that are government authorities or state-owned enterprises, representing 90.6%, 97.9% and 68.1% of our total contract assets aged over one year, respectively and 71.9%, 88.5% and 49.7% of our total trade and bills receivables aged over one year, respectively. Our trade and bills receivables aged over one year attributable to government authorities or state-owned enterprises temporarily accounted for less significant proportion of our total trade an bills receivables aged over one year for the year ended December 31, 2023, primarily because Hengsheng Flood Control Bulk Yard Project (恒盛防汛散貨堆場項目) and Tianjiang Apartment Xintai Mechanical and Electrical Material Procurement — Yu Jia Cheng (天江公寓鑫泰機電材料採購 — 裕嘉程) contributed to RMB19.2 million of our trade and bills receivables aged over one year, representing 42.8% of our total trade and bills receivables aged over one year. Among such RMB19.2 million, RMB8.3 million were subsequently settled as the Latest

Practicable Date. According to Frost & Sullivan, government-related entity customers in general have sound creditability, and thus a lower risk of default. It is also an industry norm for government authorities or state-owned enterprises to have longer aging in contract assets and trade and bills receivables, as these entities usually have prolonged internal approval procedure and often result in delay in the certification and billing process.

- ***Adoption of effective internal control policies***

Our Group has adopted internal control policies on monitoring the certification and settlement procedures of its contract assets and the settlement of its trade and bills receivables. Our Group has designated employees to follow up on the progress of the certification of our works performed and the settlement audit for the completed projects. Our Group has also formulated designated working groups to closely communicate with its customers and remind them of any overdue or upcoming outstanding sums. For the debts that may not be recovered, the finance department shall put forward the bad debt treatment requests for its management's approval. In case of long outstanding contract assets and trade and bills receivables that our Group has followed up with for a long period of time but with no avail, the management of our Group, after due consideration, may choose to proceed with legal action to recover the debt or request the customer to complete certification or settlement. For further details of our internal control policies, please refer to the paragraph headed "Trade receivables and contract assets control policy" in this section below.

- ***Establishment of stable business relationships with major customers***

During the Track Record Period, our Group has established stable business relationships with a number of customers which contributed to the top five contract assets or trade and bills receivables by projects aged over one year. Some of these customers had more than one project with us during the Track Record Period and they contributed to our revenue throughout the Track Record Period. Despite these customers had prolonged certification and settlement processes in certain projects, our Group was able to make progress billing and/or receive progress payment from these customers in other projects during the Track Record Period.

- ***We were able to receive settlement for some long aging trade and bills receivables***

Subsequent to the Track Record Period and up to the Latest Practicable Date, we received settlement of trade and bills receivables for three of our projects with aging over 2 years in the aggregate amount of RMB0.4 million.

- ***No material dispute was noted between us and relevant customers in relation to payment settlement, or between us and our contract asset debtors in relation to progress certification or settlement audit***

- ***The average of our Group's contract assets and trade and bills receivables turnover days for the years ended December 31, 2021, 2022 and 2023 (being 347.2 days) was lower than that of our industry peers (being 358.5 days to 390.5 days) according to Frost & Sullivan. The average of contract assets and trade and bills receivables turnover days of our industry peers as of December 3l, 2023 were annualized figures calculated based on the June 30, 2023 financial of such industry peers***

- ***To the best of our Directors' knowledge, our Directors were not aware of any customers with contract assets or trade receivables aging over one year having any specific financial liquidity problems***

In light of the above, despite our Group has a significant amount of contract assets and trade and bills receivables as of December 31, 2022 and December 31, 2023, our Directors are of the view that it is in line with the industry norm and the Group does not and did not have any specific recoverability issues. Our Directors are of the view that the ECL provision made against our contract assets and trade and bills receivables was reasonable and sufficient. For details of our Group's ECL provision, please refer to "— Description of Selected Items in the Consolidated Statements of Profit or Loss and Other Comprehensive Income — (Reversal of impairment losses)/impairment losses on trade receivables, lease receivables and other receivables and contract assets" in this section.

Trade receivables and contract assets control policy

We have established effective internal control measures to ensure that (i) the total cost of each construction project is estimated accurately; and (ii) the revenue of each construction project is recognized in the same year as those relevant costs incurred to avoid timing differences between the recognition of revenue and costs. The estimated total costs of each construction project are prepared by the procurement department and commercial contract department collectively after taking into account (i) the estimated amount of workforce, equipment and raw materials required; (ii) the quotations provided by the relevant suppliers and subcontractors; and (iii) our prior experience in similar projects. On the other hand, we regularly monitor and review the amount and time of actual costs incurred during the project period of each construction project to ensure the cost incurred is recognized in the corresponding financial year.

We have formulated a number of internal control policies, which stipulate regular review of the aging of trade receivables and contract assets and relevant follow-up procedures. We have designated a working group responsible for reminding customers of overdue or upcoming contract assets and collection of outstanding sum with an aim to clear debts. The working group comprises the general manager, the financial manager, the project department, and the responsible personnel of the commercial contract department of our Group.

Our Group monitors the aging of our contract assets and trade receivables on a monthly basis. The project management team under our engineering management department follows up and discusses with our customers the billing of contract assets and collection of trade receivables through telephone and emails, identifies projects with the long outstanding contract assets and trade receivables and assesses the recoverability of outstanding sum for each project individually.

In particular, the key measures that our Group will take in relation to the long outstanding sum from customers are summarized as follows:

- the designated person shall formulate a follow-up plan on the certification process, collection of trade receivables and closely communicate with the customer; and

- for outstanding amounts that aged significantly longer than expected, subject to the discussion among the general manager and the responsible personnel of the finance department and the engineering management department, we may suspend or slow down the project construction to promote the customers to speed up the certification and settlement process.

The project accountants are required to provide the commercial contract department with trade receivables report on a monthly basis, which lists out details of the contract assets and trade receivables. The responsible person for settlement in the commercial contract department shall generate a monthly debt settlement summary after communicating with each responsible person for debt collection. For the debts that may not be recovered, the finance department shall put forward the bad debt treatment requests for our management's approval.

In case of long outstanding contract assets and trades and bills receivables that we have followed up with for a long period of time but with no avail, the management, after due consideration, may choose to proceed with legal action to recover the debt or request the customer to complete certification or settlement.

Lease receivables

During the Track Record Period, we leased a portion of our properties to the Independent Third Parties. The following table sets forth our lease receivables as of the dates indicated:

	As of December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Total minimum lease payments	15,308	15,308	12,958
Less: Amounts representing finance charges	(6,109)	(5,490)	(5,099)
	9,199	9,818	7,859
Less: loss allowance	(47)	(81)	(15)
	9,152	9,737	7,844
Less: Current portion	(2,335)	(3,135)	(1,473)
	6,817	6,602	6,371

Our lease receivables derived from our finance lease with a fixed term from 2020 to 2040. The effective interest rates on our finance lease receivables were 7.3%.

Prepayments, deposits and other receivables

Our prepayments, deposits and other receivables mainly consist of advances to third parties, advances to staff, advances to a related party and deposits for bidding and performance of construction contracts. The following table sets forth details of our prepayments, deposits and other receivables as of the dates indicated:

	As of December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Advances to third parties	8,184	8,184	—
Advances to staff	356	1,064	584
Advances to a related party(1)	9,011	—	—
VAT recoverable	1,299	155	356
Prepayments for purchase of inventories and services	700	1,796	1,093
Deposits for bidding and performance of construction contracts	1,277	1,571	996
Prepayments for costs incurred in connection with the proposed [REDACTED] of the Company's [REDACTED](2)	[REDACTED]	[REDACTED]	[REDACTED]
Others	395	107	378
	[REDACTED]	[REDACTED]	[REDACTED]
Less: loss allowance	(362)	(2,957)	(289)
	[REDACTED]	[REDACTED]	[REDACTED]

All of the prepayments, deposits, and other receivables are expected to be recovered, recognized as expenses or transferred to equity within one year.

Notes:

(1) The related party, namely Jiangshengyuan, is a company controlled by Mr. Wang's cousins.

(2) The balance as of December 31, 2023 will be transferred to the capital reserve account within equity upon [REDACTED].

Advances to third parties were of non-trade nature and mainly represented advances we made to (i) our customers and suppliers; and (ii) Mr. Wang's acquaintances for short-term funding. As of December 31, 2021, 2022 and 2023, the advances to third parties amounted to RMB8.2 million, RMB8.2 million and nil, respectively, among which, RMB7.9 million, RMB7.9 million and nil were made to our customers and suppliers, representing 96.3%, 96.3% and nil of the advances to third parties, respectively; while the remainings were made to Mr. Wang's acquaintances.

Such advances were unsecured, non-interest bearing, and repayable on demand. During the Track Record Period, the balances of such advances gradually decreased and were settled as of December 31, 2023. Saved as disclosed, we have no other past and present relationships with such third parties. The Directors are of the view that there will be no adverse impact on our Group's customer retention/supplier sourcing after our Group has ceased to provide advances to them because (i) the provision of advances to them was not a requirement or prerequisite to establish business relationships or dealings, and is irrelevant to our Group's selection criteria for projects or suppliers, and we believe the tender selection criteria of our customers did not take into account our provision of advances to them; (ii) the advances to such customers and suppliers were a corresponding and reciprocal gesture given that those relevant parties too, have provided advances to us; (iii) according to Frost & Sullivan, it was not uncommon for such advances arrangements in the construction industry; and (iv) we did not terminate our business with such customers and suppliers after the settlement of the balances of the advances.

The table below sets forth a breakdown of the advances to third parties during the Track Record Period:

	Balance as of January 1, 2021	*Payment*	*Collection*	Balance as of December 31, 2021	*Payment*	*Collection*	Balance as of December 31, 2022	*Payment*	*Collection*	Balance as of December 31, 2023
					(RMB'000)					
Business related										
Customer S[(1)]	—	—	—	—	*40,000*	*(40,000)*	—	—	—	—
Non-business related										
Type 1: Customers										
Customer T[(2)]	5,786	*1,065*	—	6,851	—	—	6,851	—	*(6,851)*	—
	5,786			6,851			6,851			—
Type 2: Suppliers										
Tianjin Mingsheng Trading Co., Ltd.[(3)] (天津鳴晟商貿有限公司)	748	*315*	—	1,063	—	—	1,063	—	*(1,063)*	—
Supplier G[(4)]	—	*220*	*(220)*	—	—	—	—	—	—	—
	748			1,063			1,063			—
Type 3: Mr. Wang's acquaintances										
Company A[(5)]	1,000	—	*(1,000)*	—	—	—	—	—	—	—
Company B[(6)]	270	—	—	270	—	—	270	—	*(270)*	—
Company C[(7)]	66	—	*(66)*	—	—	—	—	—	—	—
Company E[(8)]	—	*10*	*(10)*	—	—	—	—	—	—	—
	1,336			270			270			—
Total	7,870	*1,610*	*(1,296)*	8,184	*40,000*	*(40,000)*	8,184	—	*(8,184)*	—

Notes:

(1) Customer S is the project owner of Tianjiang Apartment Projects, in which we acted as a subcontractor. It is principally engaged in the development and operation of real estate, urban renewal, construction, investment and operation of infrastructure and affordable housing. The advance represented a one-off earnest payment as requested by Customer S for the demonstration of our financial capacity for undertaking the Tianjiang Apartment Projects in August 2022. Such balance was subsequently returned to us through two installments in August and October 2022, respectively.

(2) Customer T is one of our tenants leasing our office property, in which Mr. Wang was interested as to 10% in the relevant time. It is a private enterprise established in the PRC with limited liability and a registered capital of RMB50 million, principally engaged in the organization and planning of sports competitions, mainly including organizing carrier pigeon competitions, research and development of carrier pigeon competitions related software and hardware, and breeding of carrier pigeons, as well as trading of construction materials, recycling of scrap materials and has participated in certain demolition projects in recent years. In 2021, we sold the demolition right of a petroleum refining station in Gansu Province to Customer T. As confirmed by our Directors, our Group did not provide any financing to Customer T to fund the acquisition of the demolition right of the petroleum refining station from us. For details, please refer to the section headed "Financial Information — other net income" in the document. Most advances were made prior to the Track Record Period with RMB1.1 million of advances made in the year ended December 31, 2021. Such amount were short-term financings mainly for organizing carrier pigeon competitions. The balance of RMB6.9 million was repaid in the year ended December 31, 2023. Saved as disclosed, there is no other past or present relationship, transaction or arrangement (family, employment, shareholding, trust, financing, sharing of personnel, premises or other resources, or otherwise) between Customer T and our Company and its subsidiaries, including their directors, shareholders or senior management, and their respective associates.

(3) Tianjin Mingsheng Trading Co., Ltd. (天津鳴晟商貿有限公司) is principally engaged in the sales of building materials including sand and stone materials and labor services. It is a supplier of our construction projects during the Track Record Period. The advances were for short-term financing needs. Most of the advances of RMB0.8 million was made prior to the Track Record Period, and RMB0.3 million were made in the years ended December 31, 2021. The balance of RMB1.1 million was repaid in the year ended December 31, 2023.

(4) Supplier G is principally engaged in sales of building materials, machinery and equipment and electronic products. It is a supplier of our construction projects during the Track Record Period. The one-off advance was mainly for short-term financing.

(5) Company A is principally engaged in organizing and participating in carrier pigeon competitions, carrier pigeon breeding and relevant training and exchange activities. Mr. Wang was acquainted to the controlling shareholder of Company A. The one-off advance was made prior to the Track Record Period for short-term financing needs and was repaid in the year ended December 31, 2021.

(6) Company B is principally engaged in organizing and participating in carrier pigeon competitions, carrier pigeon breeding and relevant training and exchange activities. Mr. Wang was acquainted to the controlling shareholder of Company B. The advances were made prior to the Track Record Period mainly for short-term operation needs and was repaid in the year ended December 31, 2023.

(7) Company C is principally engaged in engineering construction activities, labor subcontracting and road freight transportation. Mr. Wang was acquainted to the controlling shareholder of Company C. The advances were made for short-term financing needs and was repaid in the year ended December 31, 2021.

(8) Company E is principally engaged in the development, consulting, services, transfer of computer software and computer network technology. Mr. Wang was acquainted to the controlling shareholder of Company E. The one-off advance was for short-term financing needs.

Advances to staff mainly represented the advances made to our staff for the purpose of conducting our business activities such as payment for tax and sundry expenses. The advances to staff increased from RMB0.4 million as of December 31, 2021 to RMB1.1 million as of December 31, 2022 due to the increase in our business operation in 2022 which entailed more prepayments to staff for their settlement of expenses for our operation activities. The advances to staff decreased from RMB1.1 million as of December 31, 2022 to RMB0.6 million as of December 31, 2023 mainly due to the stricter policy adopted to monitor and control the prepayments to our staff.

Advances to a related party were of non-trade nature and mainly represented advances we made to Jiangshengyuan, a company controlled by Mr. Wang's cousins, for short-term funding. During the Track Record Period, Jiangshengyuan was our customer for two of our construction projects, which contributed RMB2.0 million, nil and nil of our revenue for the years ended December 31, 2021, 2022 and 2023, respectively. Jiangshengyuan was also our previous Shareholder prior to the Track Record Period. For details, please refer to the section headed "History, Reorganization and Corporate Structure — Our Group Companies — Transfer of Equity interest with Jiangshengyuan and Tianjin Yicheng" in this document. Advances to a related party amounted to RMB9.0 million, nil and nil during the Track Record Period, respectively. Advances of RMB0.2 million and RMB11.6 million was made prior to the Track Record Period and in the year ended December 31, 2021, respectively, for short-term financings. Advances of RMB2.8 million was repaid in the year ended December 31, 2021, while all of the remaining balance of RMB9.0 million was repaid in the year ended December 31, 2022. Such advances were unsecured, non-interest bearing and repayable on demand and has been settled as of December 31, 2022 and had not been incurred since then and up to the Latest Practicable Date.

As of the Latest Practicable Date, we have ceased to make any such non-trade nature advances to third parties, and implemented enhanced internal control measures since May 2023 to ensure any lending and short-term financing activities will be reviewed and approved by the Board before execution.

Trade and bills payables

Our trade and bills payables mainly represent payables to our suppliers and subcontractors. The following table sets forth our trade and bills payables as of the dates indicated:

	As of December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Trade and bills payables — due to third parties	140,811	231,469	275,784

Our trade and bills payables increased from RMB140.8 million as of December 31, 2021 to RMB231.5 million as of December 31, 2022, primarily due to the increase in billings by our suppliers and subcontractors mainly for Tianjiang Apartment Projects (天江公寓項目) which were substantially completed in late 2022. Our trade and bills payables increased from RMB231.5 million as of December 31, 2022 to RMB275.8 million as of December 31, 2023, which was in line with the increase of cost of sales in 2023.

The following table sets forth our average trade and bills payables turnover days as of the dates indicated:

	As of December 31,		
	2021	**2022**	**2023**
Average trade and bills payables turnover days(1)	172.9	315.5	387.1

Note:

(1) Average trade and bills payables turnover days is equal to the average of the opening and closing balances of gross trade and bills payables of the relevant period divided by cost of sales of the relevant period and multiplied by 365 days for each of the years ended December 31, 2021, 2022 and 2023.

As of December 31, 2021, 2022 and 2023, our average trade and bills payables turnover days were 172.9 days, 315.5 days and 387.1 days, respectively. Our average trade and bills payables turnover days increased from 172.9 days in 2021 to 315.5 days in 2022 and further increased to 387.1 days as of December 31, 2023, which was mainly due to substantial amount of billing by our suppliers and subcontractors attributable to the substantial completion of certain large scale projects in late 2023. We managed the settlement of trade and bills payables in accordance with our recovery of trade and bills receivables to manage cash flow by negotiating with our suppliers and subcontractors for extension of payment dates prior to receipt of payments from our customers of the relevant projects. According to Frost & Sullivan, such practice is customary in the construction industry in the PRC).

The following table sets forth an aging analysis of trade and bills payables based on the invoice date as of the dates indicated:

	As of December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	129,228	178,927	182,260
1 to 3 years	11,583	51,644	88,171
Over 3 years	—	898	5,353
	140,811	231,469	275,784

During the Track Record Period, a majority of our trade and bills payables had been outstanding within one year.

All of the trade and bills payables are expected to be settled within one year or are repayable on demand.

As of the Latest Practicable Date, RMB68.7 million, or 24.9%, of our trade and bills payables as of December 31, 2023 were settled.

Accrued expenses and other payables

Our accrued expenses and other payables mainly comprise amounts due to related parties, amounts due to third parties, payables for cost incurred in connection with the proposed [REDACTED] of the Company's [REDACTED], payables for staff related costs, others, financial liabilities measured at amortized cost and other payables. The following table sets forth the components of our accrued expenses and other payables as of the dates indicated:

	As of December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Amounts due to related parties[(1)]	17,563	17,452	—
Amounts due to third parties	6,056	5,396	—
Payables for cost incurred in connection with the proposed [REDACTED] of the Company's [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Payables for staff related costs	3,501	3,809	4,824
Others	3,854	2,220	1,383
Financial liabilities measured at amortized cost	30,974	28,877	12,407
Other tax payables	5,077	8,582	15,390
	36,051	37,459	27,797

Note:

(1) The related parties comprised Mr. Wang and a company controlled by his cousins, namely Jiangshengyuan.

Our accrued expenses and other payables remained stable at RMB36.0 million as of December 31, 2021 and RMB37.5 million as of December 31, 2022. Our accrued expenses and other payables decreased from RMB37.5 million as of December 31, 2022 to RMB27.8 million as of December 31, 2023 mainly due to the settlements of amounts due to related parties and amounts due to third parties in 2023, partially offset by payables for cost incurred in connection with the proposed [REDACTED] of the Company's [REDACTED].

Amounts due to related parties were of non-trade nature and mainly represented the advances made by Mr. Wang to us in 2019 to support our Company's acquisition of the property where our headquarters are situated, amounted to RMB17.5 million, RMB17.2 million and nil as of December 31, 2021, 2022, and 2023, respectively. The balances (included advances from Jiangshengyuan, a company controlled by Mr. Wang's cousins) amounted to RMB50,000, RMB0.2 million and nil as of December 31, 2021, 2022, and 2023, respectively. Advances from Jiangshengyuan of RMB0.1 million and RMB32.1 million were made during the years ended December 31, 2021 and 2022, respectively, for our short-term financing needs. Most of the advances of RMB32.0 million was repaid in the year ended December 31, 2022 and the remaining balance of RMB0.2 million was repaid in the year ended December 31, 2023. For further details of our relationship with Jiangshengyuan, please refer to "— Description of Selected Items of the Consolidated Statements of Financial Position — Prepayments, deposits and other receivables" in this section and "History, Reorganization and Corporate Structure — Our Group Companies — Transfer of Equity interest with Jiangshengyuan and Tianjin Yicheng" in this document. Such balances were unsecured, non-interest bearing, and repayable on demand and will be settled prior to the [REDACTED].

Amounts due to third parties were of non-trade nature and mainly represented advances made by (i) our customers and suppliers to us; and (ii) Mr. Wang's acquaintances to us for short-term funding. Amounts due to third parties amounted to RMB6.1 million, RMB5.4 million and nil as of December 31, 2021, 2022, and 2023, respectively, among which, RMB1.2 million, RMB1.2 million and nil were made by our customers and suppliers to us, representing 19.7%, 22.2% and nil of the amounts due to third parties, respectively; while the remainings were mainly made by Mr. Wang's acquaintances to us. Such advances were unsecured, non-interest bearing, repayable on demand. During the Track Record Period, the balances of such advances gradually decreased and are expected to be settled prior to the [REDACTED]. As of the Latest Practicable Date, we have terminated all such advances arrangements. We have no other past and present relationships with such third parties.

The table below sets forth a breakdown of the amounts due to third parties during the Track Record Period:

	Balance as of January 1, 2021	*Repayment*	*Proceed*	Balance as of December 31, 2021	*Repayment*	*Proceed*	Balance as of December 31, 2022	*Repayment*	*Proceed*	Balance as of December 31, 2023
						(RMB'000)				
Non-business related										
Type 1: Customers										
Customer U[1]	23	—	—	23	—	—	23	*(23)*	—	—
Customer Y[2]	—	—	*39*	39	—	—	39	*(39)*	—	—
	23			62			62			—
Type 2: Suppliers										
Xintai Wisdom (Tianjin) Technology Co., Ltd.[3] (鑫泰智慧(天津)科技有限公司)	1,676	*(1,676)*	—	—	—	—	—	—	—	—
Supplier E[4]	1,500	*(1,500)*	*562*	562	—	—	562	*(562)*	—	—
Supplier H[5]	589	—	—	589	—	—	589	*(589)*	—	—
Supplier I[6]	367	*(367)*	—	—	—	—	—	—	—	—
	4,132			1,151			1,151			—
Type 3: Mr. Wang's acquaintances										
Company F[7]	300	*(300)*	—	—	—	—	—	—	—	—
Company G[8]	2,000	*(2,000)*	—	—	—	—	—	—	—	—
Individual A[9]	—	—	*4,500*	4,500	*(500)*	—	4,000	*(4,000)*	—	—
Company C[10]	—	—	*343*	343	*(343)*	*183*	183	*(183)*	—	—
	2,300			4,843			4,183			—
Type 4: Other individuals[11]										
Individual B	19	*(19)*	—	—	—	—	—	—	—	—
Individual C	10	*(10)*	—	—	—	—	—	—	—	—
Individual D	4	*(4)*	—	—	—	—	—	—	—	—
	33			—			—			—
Total	6,488	*(5,876)*	*5,444*	6,056	*(843)*	*183*	5,396	*(5,396)*	—	—

Notes:

1. Customer U is principally engaged in research and development of emerging energy technologies, sales of station hydrogenation and hydrogen storage facilities, vehicle sales and leasing and charging pile business. Customer U is our customer in which we have acted as the main contractor of its construction project during the Track Record Period. The one-off advance was made prior to the Track Record Period for short-term financing needs.

2. Customer Y is one of our tenants leasing our office property. It is principally engaged in car rental, general freight road passenger transport and online ride-hailing business. The one-off advance was made in year ended December 31, 2021 as prepayment for the meal that our Group's canteen provided to their staff.

3. Xintai Wisdom (Tianjin) Technology Co., Ltd. is a supplier of our construction projects since 2019. The advances were made prior to the Track Record Period for the short-term financing needs and was repaid in the year ended December 31, 2021.

4. Supplier E is principally engaged in sales of building materials and building decoration materials such as steel structure, lamps, plates and other building materials. It is a supplier of our construction projects during the Track Record Period. The advances in the amount of RMB1.5 million and RMB0.6 million were made prior to the Track Record Period and in the year ended December 31, 2021, respectively for short-term financing needs. The advances were repaid in the year ended December 31, 2021 and the year ended December 31, 2023 with RMB1.5 million and RMB0.6 million, respectively.

5. Supplier H is principally engaged in building construction works, landscaping works, municipal road works and labor services. It is a supplier of our construction projects during the Track Record Period. The one-off advance was for short-term financing needs.

6. Supplier I is principally engaged in labor service, construction works, landscaping and municipal administration, pipeline construction and steel structure works. It is a supplier of our construction projects since 2020. The advances were for short-term financing needs. The advances made prior to the Track Record Period and was repaid in the year ended December 31, 2021.

7. Company F is principally engaged in building construction works, municipal construction works, pipeline water supply and drainage supporting works, pile foundation works. Mr. Wang was acquainted to the controlling shareholder of Company F. The advances made were prior to our Track Record Period was for short-term financing needs and was repaid in the year ended December 31, 2021.

8. Company G is principally engaged in demolition of buildings, labor subcontracting and general contracting of building construction and municipal infrastructure projects. Mr. Wang was acquainted to the controlling shareholder of Company G. The advances were made prior to the Track Record Period for short-term financing needs and was repaid in the year ended December 31, 2021.

9. Individual A owns a company which is principally engaged in municipal infrastructure, decoration and other construction projects. Mr. Wang was acquainted to him. The one-off advance was made in the year ended December 31, 2021 for short-term financing needs and was partly repaid in the year ended December 31, 2022 while the remaining balance was repaid in the year ended December 31, 2023.

10. Company C is principally engaged in engineering construction activities, labor subcontracting and road freight transportation. Mr. Wang was acquainted to the controlling shareholder of Company C. The advances in the amount of RMB0.3 million and RMB0.2 million were made in the years ended December 31, 2021 and 2022, respectively for the short-term financing needs. Most of the advances of RMB0.3 million were repaid in the year ended December 31, 2022, while the remaining balance of RMB0.2 million was repaid in the year ended December 31, 2023.

11. These sums represented the return of social insurance and housing provident funds contribution to certain employees by the local government. The amounts were first paid to us for distribution and then subsequently returned to relevant employees in the same year.

Payables for staff related costs mainly represent remuneration, bonus and social welfare contribution of our staff. Payables for staff related costs increased from RMB3.5 million as of December 31, 2021 to RMB3.8 million as of December 31, 2022, which was due to the provisions for underpayment of our employees' social insurance and housing provident funds. For details, please refer to the section headed "Business — Legal and

Compliance Events" in this document. Payables for staff related costs increased to RMB4.8 million as of December 31, 2023 was in line with the increase in the number of staff in 2023.

During the Track Record Period, we received and provided advances to and from third parties respectively, these included certain customers, suppliers and acquaintances of our Group's Controlling Shareholder. These advances were recurring during the course of the year. The reasons for receiving advances from third parties, in lieu of bank loans, were out of convenience and the absence of interest costs. Our Group could have obtained borrowings from banks through the use of its office property as collateral for bank loans, however, the terms of such loans in particular the determination of value of the collateral, may not be beneficial to our Group as generally the leasehold improvements are disregarded. Thus our Group did not pursue such bank borrowing during the Track Record Period. The availability of bank financing is illustrated by the fact our Group has obtained three bank loans of RMB20.0 million in aggregate in late 2023, without collateral and guarantee provided by our Controlling Shareholders.

According to Frost & Sullivan, providing advances to and obtaining advances from customers, suppliers, and related parties in the construction industry is not uncommon.

All of the other payables are expected to be settled within one year or are repayable on demand.

Lease liabilities

For details of our lease liabilities, please refer to the paragraph headed "— Indebtedness — Lease Liabilities" in this section.

INDEBTEDNESS

As of February 29, 2024, being the most recent practicable date for the purpose of this indebtedness statement, save as disclosed below, our Group did not have outstanding mortgages, charges, debentures, bank overdrafts, loan or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits or any guarantees or other material contingent liabilities outstanding.

Our Directors confirm that as of February 29, 2024, being the most recent practicable date for the purpose of this indebtedness statement, there was no material covenant on any of our outstanding debt and there was no breach of any covenant during the Track Record Period and up to the most recent practicable date. Our Directors further confirm that our Group did not experience any difficulty in obtaining bank loans and other borrowings, default in payment of bank loans and other borrowings or breach of covenants during the Track Record Period and up to the most recent practicable date. Our Directors confirm that there has not been any material change in our indebtedness since the most recent practicable date up to the date of this document.

The table below sets out the breakdown of the indebtedness of our Group as of the dates indicated:

	As of December 31,			As of February 29,
	2021	2022	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)
Bank loans:				
Unguaranteed and unsecured	—	—	20,000	30,000
Lease liabilities	—	—	223	226
Amounts due to related parties	17,563	17,452	—	—
Amounts due to third parties	6,056	5,396	—	—
	23,619	22,848	20,223	30,226

Bank loans

As of February 29, 2024, we had bank loans of RMB30.0 million unguaranteed and unsecured. As of February 29, 2024, we did not have any unutilized banking facilities.

Lease liabilities

As of December 31, 2021 and 2022, our Group did not have any lease liabilities. As of December 31, 2023 and February 29, 2024 we recorded lease liabilities in the amount of RMB0.2 million and RMB0.2 million respectively.

Amounts due to related parties and third parties

The amounts due to related parties were non-trade in nature and represented the amounts due to Mr. Wang and a company controlled by his cousins, which amounted to RMB17.6 million, RMB17.5 million, nil and nil as of December 31, 2021, 2022, and 2023 and February 29, 2024, respectively.

The amounts due to third parties, amounted to RMB6.0 million, RMB5.4 million, nil and nil as of December 31, 2021, 2022, and 2023 and February 29, 2024, respectively.

The above amounts due to related parties and amounts due to third parties are unsecured, non-interest bearing and are repayable on demand, and will be settled prior to [REDACTED].

CONTINGENT LIABILITIES

As of the Latest Practicable Date, our Company was named as a defendant in a lawsuit. If our Company is eventually found to be liable by the PRC court, the total expected additional monetary compensation may amount to approximately RMB2,506,000. Based on the legal advices and assessment from our Directors, no provision has been provided in respect of this claim. Please refer to "Business — Legal and Compliance — Litigation and claims" and Note 30 in the Accountants' Report as set out in Appendix I to this document for details. Notwithstanding the above claim, we were not involved in any material legal, arbitration or administrative proceedings which, if adversely determined, we expect would materially and adversely affect our financial position or results of operations. Our Directors confirm that as of February 29, 2024, being the latest practicable date for the purpose of indebtedness statement in this document, there was no covenant on any of outstanding debt and there was no breach of any covenants during the Track Record Period and up to February 29, 2024.

Our Directors further confirm that there has been no material adverse change in our contingent liabilities since December 31, 2023.

CAPITAL COMMITMENTS

The following table sets forth our capital commitments as of the dates indicated:

	As of December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Contracted for	—	77	—

CAPITAL EXPENDITURES

The following table sets forth our capital expenditures for the periods indicated:

	For the year ended December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Building and buildings improvements	1,737	1,210	74
Motor vehicles and other equipment	286	4,893	786
Total	2,023	6,103	860

Our capital expenditures during the Track Record Period primarily consisted of expenditures on acquisitions of property and procurement of plants and equipment in the course of our operation. For the years ended December 31, 2021, 2022, and 2023, our capital expenditures incurred were RMB2.0 million, RMB6.1 million and RMB0.9 million, respectively. We funded our capital expenditures during the Track Record Period mainly from cash inflow generated from operations.

We expect to fund our planned capital expenditures with our internal resources, bank loans and other borrowings and [REDACTED] from the [REDACTED]. Our planned capital expenditures may be subject to alterations due to variations in our future cash flows, results of operations and financial conditions, changes in the PRC and world economy, the availability of financing on terms acceptable to us, technical and other problems, obtaining and installing equipment, changes in the regulatory environment in the PRC and other factors.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of February 29, 2024, being the latest practicable date for the purpose of the indebtedness statement in this document, we had not entered into any off-balance sheet transactions.

MATERIAL RELATED PARTY TRANSACTIONS

Our Directors are of the view that the following parties were the related parties that had transactions or balances with our Group during the Track Record Period:

Name of related parties	Relationship
Mr. Wang	One of our Controlling Shareholders
Jiangshengyuan	A company controlled by Mr. Wang's cousins

For more details about our related party transactions during the Track Record Period, please see the paragraphs headed "Description of Selected Items of the Consolidated Statements of Financial Position — Prepayments, deposits and other receivables" and "Description of Selected Items of the Consolidated Statements of Financial Position — Accrued expenses and other payables", as well as Note 29 to Accountants' Report as set out in Appendix I to this document.

Our Directors confirm that our transactions with related parties during the Track Record Period were conducted on an arm's length basis, and they did not distort our results of operations or make our historical results not reflective of our future performance.

KEY FINANCIAL RATIOS

The table below sets forth a summary of our key financial ratios as of the dates or for the periods indicated:

	As of December 31,		
	2021	2022	2023
Current ratio	1.4 times	1.4 times	1.5 times
Quick ratio	1.4 times	1.4 times	1.5 times
Gearing ratio	N/A[1]	N/A[1]	8.9%

	For the year ended December 31,		
	2021	2022	2023
Return on equity	34.0%	22.4%	18.2%
Return on assets	13.5%	8.1%	7.4%
Interest coverage ratio	N/A[(1)]	N/A[(1)]	129.3 times
Gross profit margin	26.1%	25.2%	25.1%
Net profit margin	15.1%	12.2%	12.8%

Notes:

1. As of December 31, 2021 and 2022, the Group did not have any interest-bearing bank and other borrowings. Accordingly, the gearing ratio and the interest coverage ratio are not available.

Current Ratio

Our current ratio is calculated based on total current assets divided by total current liabilities as of the end of the respective period. Our current ratio remained relatively stable at 1.4 times, 1.4 times and 1.5 times as of December 31, 2021, 2022, and 2023, respectively.

Quick ratio

Our quick ratio is calculated based on total current assets less inventories and divided by total current liabilities as at the end of the respective period. Our quick ratios as of December 31, 2021, 2022, and 2023 were the same as our current ratios as we maintained a low level of inventory during the Track Record Period.

Gearing ratio

Our gearing ratio is calculated based on total bank loans divided by total equity as of the end of the respective period. Our Group did not have any borrowings as of December 31, 2021 and 2022, therefore, the gearing ratio was not applicable. The gearing ratio as of December 31, 2023 was 8.9%, as we obtained interest bearing bank loans in aggregate of RMB30.0 million in 2023 for working capital and general corporate purposes, among which, RMB10.0 million was repaid in 2023 and the balance of bank loans amounted to RMB20.0 million as at December 31, 2023.

Return on equity

Our return on equity is calculated based on the net profit for the year divided by the total equity at the end of the respective year and multiplied by 100%. Our return on equity decreased from 34.0% for the year ended December 31, 2021 to 22.4% for the year ended December 31, 2022, primarily due to the decrease in net profit and increase in equity. Our return on equity further decreased to 18.2% for the year ended December 31, 2023 primarily due to the increase in equity, partially offset by the increase in net profit.

Return on assets

Our return on assets is calculated based on the net profit for the respective year divided by the total assets at the end of the respective year and multiplied by 100%. Our return on assets decreased from 13.5% for the year ended December 31, 2021 to 8.1% for the year ended December 31, 2022, primarily due to the decrease in net profits and the increase in total assets. Our return on assets remained relatively stable at 7.4% for the year ended December 31, 2023.

Interest coverage ratio

Our interest coverage ratio is calculated based on profit before interest and tax divided by finance costs for the respective period. Our Group did not incur finance costs for the year ended December 31, 2021 and 2022, therefore, the interest coverage ratio is not applicable. We entered into interest bearing loans in aggregate of RMB30.0 million in 2023, among which RMB10.0 million was repaid as of December 31, 2023. Our interest coverage ratio for the year ended December 31, 2023 was 129.3 times with a financial cost of RMB0.4 million incurrence during such period.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

During the Track Record Period, we were principally subject to liquidity risk and credit risk arising in the normal course of our business. Please refer to Note 27 in the Accountants' Report as set out in Appendix I to this document for details.

DIVIDEND

During the Track Record Period and up to the Latest Practicable Date, we did not declare any dividends.

Although we do not have a formal dividend policy or a fixed dividend distribution ratio, a decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on, among other factors, the results of our operations, cash flows, financial conditions, our Articles of Association, statutory and regulatory restrictions and other factors that we may consider relevant. There is no assurance that dividends of such amount or any amount will be declared or distributed each year or in any year.

DISTRIBUTABLE RESERVES

Under PRC laws, distributable reserves consist of net profit calculated according to PRC accounting principles, which, in many aspects, differs from the generally accepted accounting principles in other jurisdictions, including IFRS Accounting Standards. In addition, PRC laws and regulations also require a PRC-incorporated enterprise to set aside at least 10% of its after-tax profits calculated based on PRC accounting standards each year, if any, to fund certain statutory reserves, which may not be distributed as cash dividends (when the statutory reserve reaches and is maintained at or above 50% of their registered capital, no further allocations to this statutory reserve will be required). These statutory reserves are not available for distribution as cash dividends.

As of December 31, 2023, our Company had reserves available for distribution to our shareholders in an aggregate amount of RMB27.3 million.

PROPERTY INTERESTS AND PROPERTY VALUATION

During the Track Record Period, our Group owned three types of property: (i) property held for its own occupation; (ii) property held for investment; and (iii) property held for sale. In respect of the property held for investment, as it has been leased out for a term of 20 years and classified as finance lease, its book value of related assets has been derecognized and lease receivables has been recognized. Hence, a reconciliation between its net book value as of December 31, 2023 and the fair value is not needed. The table below sets forth the reconciliation between the net book value of our property held for our own occupation as of December 31, 2023 as extracted from the Accountants' Report as set out in the Appendix I to this document and the fair value as of January 31, 2024 as stated in the Property Valuation Report in Appendix III to this document.

	RMB'000
Net book value of property as of December 31, 2023	**48,374**
Add: Valuation surplus	6,042
Less: depreciation-charged	(277)
Valuation of the subject property as of January 31, 2024 set out in Appendix III to this document	54,139

UNAUDITED [REDACTED] ADJUSTED NET TANGIBLE ASSETS

The following unaudited [REDACTED] statement of adjusted net tangible assets of our Group is prepared in accordance with Rule 4.29 of the Listing Rules and is set out below to illustrate the effect of the [REDACTED] on the consolidated net tangible assets of our Group as of December 31, 2023 as if the [REDACTED] had taken place on December 31, 2023.

The unaudited [REDACTED] statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the [REDACTED] been completed as of December 31, 2023 or at any future date.

	Consolidated net tangible assets of our Group as of December 31, 2023(1)	Estimated [REDACTED] from the [REDACTED](2)	Unaudited [REDACTED] adjusted consolidated net tangible assets of our Group	Unaudited [REDACTED] adjusted consolidated net tangible assets of our Group per Share(3)	
	RMB'000	*RMB'000*	*RMB'000*	*RMB(3)*	*HK$(4)*
Based on an [REDACTED] of HK$[REDACTED] per [REDACTED]	225,187	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on an [REDACTED] of HK$[REDACTED] per [REDACTED]	225,187	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Notes:

(1) The consolidated net tangible assets of our Group as of December 31, 2023 is extracted from the Accountants' Report as set out in Appendix I to this document which is based on the consolidated net assets of our Group as of December 31, 2023 of RMB225,187,000.

(2) The estimated [REDACTED] from the [REDACTED] are based on [REDACTED] to be [REDACTED] pursuant to the [REDACTED] and the indicative [REDACTED] of HK$[REDACTED] per [REDACTED] and HK$[REDACTED] per [REDACTED], being the low end and high end of [REDACTED] range respectively, after deduction of the estimated [REDACTED] and other related expenses paid or payable by our Group (excluding the [REDACTED] that have been charged to profit or loss up to December 31, 2023), and does not take into account any [REDACTED] which may be [REDACTED] upon the exercise of the [REDACTED]. The estimated [REDACTED] of the [REDACTED] have been converted to RMB at the exchange rate of HK$1.0000 to RMB0.9091 prevailing on December 31, 2023. No representation is made that the HK$ amounts have been, could have been or could be converted into RMB, or vice versa, at that rate or at any other rates.

(3) The unaudited [REDACTED] adjusted consolidated net tangible assets of our Group per Share is arrived at by dividing the unaudited [REDACTED] adjusted consolidated net tangible assets of our Group by [REDACTED] (being 161,844,749 Shares in issue and outstanding as of December 31, 2023 and [REDACTED] to be newly [REDACTED] pursuant to the [REDACTED]), and does not take into account any [REDACTED] which may be [REDACTED] upon the exercise of the [REDACTED].

(4) The unaudited [REDACTED] adjusted consolidated net tangible assets of our Group per Share amounts in RMB are converted to HK$ at the exchange rate of RMB0.9091 to HK$1.0000 prevailing on December 31, 2023. No representation is made that RMB amounts have been, could have been or could be converted into HK$, or vice versa, at that rate or at any other rates.

(5) Our Group's buildings and buildings improvements and investment properties included in the consolidated financial statements as of January 31, 2024 have been valued by King Kee Appraisal and Advisory Limited, an independent property valuer. Details of the valuation is set out in Appendix III to this Document. The above unaudited [REDACTED] statement of adjusted net tangible assets does not take into account the surplus arising from the revaluation of our Group's property interests amount to approximately RMB6,042,000. Revaluation surplus has not been recorded in the historical financial information of our Group and will not be recorded in the consolidated financial statements of our Group in future periods as our Group's property, plant and equipment and investment properties are stated at cost less accumulated depreciation and impairment loss, if any. If the valuation surplus are recorded in our Group's consolidated financial statements, additional annual depreciation of approximately RMB426,000 would be charged against the profit in the future periods.

(6) No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to December 31, 2023.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that they have performed sufficient due diligence to ensure that, up to the date of this document, there has been no material adverse change in our financial or trading position since December 31, 2023 (being the end date of the periods reported in Appendix I to this document) and there has been no event since December 31, 2023, which would materially affect the information shown in the Accountants' Report as set out in Appendix I to this document.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, they were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to Rules 13.19 of the Listing Rules.

[REDACTED]

Based on the mid-point of the [REDACTED] stated in this document and assuming that the [REDACTED] is not exercised, the total estimated [REDACTED] (including [REDACTED] commission) in connection with the [REDACTED] are expected to be RMB[REDACTED] or [REDACTED] of the gross [REDACTED] from the [REDACTED], among which, RMB[REDACTED] is directly attributable to [REDACTED] of [REDACTED] and will be charged to equity upon completion of the [REDACTED], and RMB[REDACTED] has been charged or is expected to be charged to our consolidated statement of profit and loss and other comprehensive income. Our [REDACTED] are categorized into [REDACTED] expenses, which consists of [REDACTED] fee and commission of approximately RMB[REDACTED] and [REDACTED] expenses of approximately RMB[REDACTED]. The [REDACTED] expenses can be further classified into (i) fees and expenses for legal advisors and accountants of approximately RMB[REDACTED]; and (ii) other fees and expenses of approximately RMB[REDACTED]. During the Track Record Period, we incurred [REDACTED] of RMB[REDACTED] of which RMB[REDACTED] was included in prepayments and will be charged to equity upon completion of the [REDACTED], and RMB[REDACTED] was charged to consolidated statement of profit and loss and other comprehensive income.