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## FINANCIAL INFORMATION

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*You should read this section in conjunction with the historical financial information of the Group, including the notes thereto, as set out in the Accountants’ Report set out in Appendix I to this document (the “Historical Financial Information”). The Historical Financial Information has been prepared in accordance with the HKFRSs. You should read the entire Accountants’ Report and not merely rely on the information contained in this section.*

*The following discussion and analysis contains certain forward-looking statements that reflect the current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by the Group in light of the experience and perception of historical trends, current conditions and expected future developments of the Group, as well as other factors the Group believes are appropriate under the circumstances. However, whether actual outcomes and developments will meet the expectations and projections depend on a number of risks and uncertainties over which the Group does not have control. Please refer to the section headed “Risk Factors” for details.*

*Discrepancies between totals and sums of amounts listed herein in any table or elsewhere in this document may be due to rounding.*

### OVERVIEW

Established in 2002, the Group is a reputable integrated service provider and software developer in Jiangxi Province with particular focus on the provision of Telecommunications Infrastructure Services and Digitalisation Solution Services. Since its founding, it has established long and stable business relationships with the key players in the telecommunications industry including the Big Three, being the three largest telecommunications network operators in the PRC, and the largest telecommunications tower infrastructure service provider in the world. According to the Ipsos Report, the Group ranked third amongst all telecommunications network infrastructure construction and maintenance services companies in Jiangxi Province in terms of revenue in 2023, with a market share of approximately 3.1%.

Telecommunications Infrastructure Services provided by the Group comprise Infrastructure Construction Services and Infrastructure Maintenance Services and are mainly provided to telecommunications network operators. Infrastructure Construction Services mainly involve the construction of telecommunications networks and the supporting infrastructure including the construction of base stations, the configuration of telecommunications equipment, the laying of cables, the construction of electricity generation facilities and foundation works. Infrastructure Maintenance Services mainly involve routine basic maintenance and repairs and restoration works for the telecommunications networks as well as emergency troubleshooting in the event of network failure in order to ensure the reliability and stability of the overall telecommunications network. These services are essential for telecommunications operators to ensure their business to run smoothly while also improving the service quality and user experience of the telecommunications network.

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Since 2018, the Group has been providing Digitalisation Solution Services to customers including telecommunications network operators and local governments, quasi-government institutions, state-owned enterprises and private companies in the PRC. The Digitalisation Solution Services provided by the Group comprise Integrated Solution Services, System Maintenance Services and Software Solution Services. The Digitalisation Solution Services provided by the Group generally involve the provision of turnkey and other solutions encompassing system design, software development, installation, implementation and commissionings for use in infrastructure digitalisation related projects which cover various sectors such as digital healthcare, digital education, digital surveillance, digital government, digital industrial management and digital urban management, etc. For Integrated Solution Services, the Group provides and integrates hardware and software, while for Software Solution Services, the Group provides and integrates software only. To complement the Integrated Solution Services, the Group also provides commissioned System Maintenance Services to ensure the proper functioning of the hardware and software systems.

### BASIS OF PRESENTATION AND PREPARATION

The Company was incorporated in the Cayman Islands on 20 April 2022 as an exempted company with limited liability under the Cayman Islands Companies Act. The Company is an investment holding company and has not carried on any business since the date of its incorporation save for the group reorganisation mentioned below.

Prior to the incorporation of the Company and completion of the group reorganisation mentioned below, the principal activities of the Group were carried out by Zhonggan Communication and its subsidiaries. To rationalise the corporate structure in preparation of the [REDACTED], the Group underwent the group reorganisation, as detailed in the section headed “History, Reorganisation and Corporate Structure” in the Document (the “**Reorganisation**”). On 25 August 2022, the Company became the holding company of the companies now comprising the Group.

The Reorganisation only involved inserting newly formed investment entities with no substantive operations as holding companies of Zhonggan Communication, and there were no changes in the economic substance of the ownership, business and operations of the Group before and after the Reorganisation. Accordingly, the Historical Financial Information has been prepared and presented as a continuation of the consolidated financial statements of Zhonggan Communication with the assets and liabilities of Zhonggan Communication recognised and measured at their historical carrying amounts prior to the Reorganisation. Intra-group balances, transactions and unrealised gains/losses on intra-group transactions are eliminated in full in preparing the Historical Financial Information.

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### CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

The consolidated financial information of the Group has been prepared in accordance with all applicable HKFRSs accounting policies. The material accounting policy information adopted by the Group are set forth in note 2 of the Accountants’ Report set out in Appendix I to this document. Some of the accounting policies involve judgments, estimates and assumptions made by the Group’s management. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant, please refer to note 3 of the Accountants’ Report for details. When reviewing the Group’s financial statements, the prospective investors should consider: (i) the Group’s selection of material accounting policies; (ii) the judgments and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Historical Financial Information, the Group has adopted all applicable new and revised HKFRSs to the Track Record Period consistently throughout the Track Record Period. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period beginning on 1 January 2023 are set out in note 30 of the Accountants’ Report in Appendix I to this document.

#### Critical accounting policies

Set out below are details related to certain material accounting policy information of the Group:

##### 1. Revenue recognition

Revenue is recognised when the Group satisfies a performance obligation in a contract. A performance obligation represents a distinct good or service that is transferred by the Group to the customer, and is satisfied when the customer obtains control over that distinct a good or service. The Group recognises revenue at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following conditions is met: (i) the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs; (ii) the customer is able to control goods in the progress during the Group’s performance; (iii) the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Otherwise, revenue is recognised at a point of time when the customer obtains control over the relevant goods or services.

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Where the contract contains a financing component which provides a significant financing benefit to the customer, the Group adjusts the promised amount of consideration for the effects of time value of money by using a discount rate that would be reflected in a separate financing transaction with the customer and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue recognition policies are as follows:

**(a) Provision of Infrastructure Construction Services**

The Group recognises revenue from provision of Infrastructure Construction Services over time because the Group's construction activities create or enhance assets controlled by the customers. The Group adopts the input method to measure performance progress and revenue is recognised based on the proportion of the actual costs incurred relative to the estimated total costs. Where the performance progress cannot be determined reasonably, revenue is recognised based on the amount of cost that is expected to be compensated based on the cost already incurred, until the performance progress can be reasonably determined.

The likelihood of the Group suffering settlement amount adjustments resulting from final completion inspection and project settlement audit are taken into account in making these estimates, such that revenue is only recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The Group applies the most likely amount approach to estimate such variable consideration by considering the single most likely amount in a limited range of possible consideration amounts, taking into account the Group's current progress and adjustment rates over historical periods.

**(b) Provision of Digitalisation Solution Services**

In this business model, the Group provides the following three types of services based on customers' needs:

**(i) Integrated Solution Services**

The Group designs and provides integrated IT solutions for the customers by integrating different hardware and software based on the service specifications of the customers. The Group develops the integrated IT solutions at the sites designated by the customers. As the Group's performance creates or enhances assets that the customers control as the Group performs, the Group recognises revenue over time. The Group adopts the input method to measure performance progress and revenue is recognised based on the proportion of the actual costs incurred relative to the estimated total costs. Where the performance progress cannot be determined

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reasonably, revenue is recognised based on the amount of cost that is expected to be compensated based on the cost already incurred, until the performance progress can be reasonably determined.

*(ii) System Maintenance Services*

The Group offers optional System Maintenance Services to provide on-site support to the customers of the Integrated Solution Services. If the customer chooses to purchase System Maintenance Services, the Group allocates the transaction price to the Integrated Solution Services and System Maintenance Services based on their relative stand-alone selling prices. As the Group does not sell the System Maintenance Services separately, it uses expected cost plus a margin approach to estimate the stand-alone selling price of the System Maintenance Services. Revenue from the System Maintenance Services is recognised over time on a straight-line basis as the customer simultaneously receives and consumes the benefits as the Group performs and the Group's efforts are expended evenly during the on-site support period.

*(iii) Software Solution Services*

In this service type, the Group grants a licence to customers which allows them to use the software developed by the Group. As the software has standalone functionality and the Group will not undertake future activities that will significantly change the functionality of the software, the Group recognises revenue from the software licensing at a point in time when the customers are able to use the software.

**(c) Provision of Infrastructure Maintenance Services**

The Group provides maintenance and repair to fix and rectify technical issues of infrastructure owned by third parties within contracted period. Revenue from maintenance and repair service is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

Additionally, the Group provides emergency and sporadic repair and maintenance service for customers case by case, the Group recognises revenue upon the completion of the emergency and sporadic service because the service is completed within one day.

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### 2. Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECLs and are transferred to trade receivables when the right to the consideration has become unconditional. For Infrastructure Construction Services projects, the Group generally recognises contract assets and corresponding revenue based on work progress. Upon issuance of invoices for the progress payment, the relevant portion of contract assets is transferred to trade receivables. Upon completion of settlement audit by its customers, the entitlement to the remaining consideration for the projects becomes unconditional. Meaning that the Group has fulfilled its obligations under the contract and is entitled to receive payment from its customers. At this point, the remaining portion of contract assets is transferred to trade receivables.

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

### Critical accounting estimates and judgements

Set out below are details related to certain critical accounting estimates and judgements of the Group:

#### 1. Loss allowances of trade receivables and contract assets

Loss allowances for trade receivables and contract assets is estimated by the Group through assessing the ECLs. This requires the use of estimates and judgements. ECLs are based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecasted general economic conditions at the end of each Track Record Period. The Group keeps assessing the expected credit loss of trade receivables and contract assets during their expected lives.

#### 2. Recognition of deferred tax assets

Deferred tax assets are recognised in respect of deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised, management's judgement is required to assess the probability of future taxable profits. The Group's management's assessment is revised as necessary and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

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### KEY FACTORS AFFECTING RESULTS OF OPERATIONS

The Group’s results of operations and financial condition have been and will continue to be, affected by a number of factors, which primarily include the following:

#### **Market conditions and trends in the telecommunications industry and overall economy in the PRC**

The Group’s operations and management are currently located in the PRC as such its business is subject to the overall macro-economic conditions in the PRC as well as other factors which drive the growth in demand for Telecommunications Infrastructure Services and Digitalisation Solution Services such as the rate of urbanisation and rural development, end consumer demand for mobile services and technology and demand for digitalisation and IoT devices. The aforementioned factors together with the PRC Government’s spending patterns will likely affect the availability of Telecommunications Infrastructure Services and Digitalisation Solution Services projects in the PRC as well as the future growth and level of profitability of the Group. Aside, policy changes by the PRC Government whether they relate to taxation, interest rates or otherwise may also affect the level of activity in the industry as well as the availability of capital. An occurrence of recession in the PRC, deflation or any changes in the PRC’s currency policy may also have an adverse effect upon the Group’s business, financial condition and results of operations.

#### **Non-recurring nature of the Group’s projects**

The services provided by the Group during the Track Record Period were generally offered on a project-by-project basis with no long term commitments from its customers to further engage the Group for similar related types of work and the Group had a total of 78 On-going Projects and 52 Pre-revenue Projects as at the Latest Practicable Date. Accordingly, the Group’s projects were non-recurring in nature and upon completion of these projects on hand, there is no guarantee that the Group’s existing customers will award any further projects to the Group.

Given the non-recurring nature of the Group’s projects, in order for the Group to maintain its level of revenue or achieve revenue growth, the Group would have to obtain new projects. There is no guarantee that the Group will be able to secure new projects from its current customers or attract new customers. In the event that there is a significant decrease in the number of projects or scale in terms of contract value of the projects awarded by the Group’s customers, the Group’s revenue or profit may decrease and its business, financial condition and results of operations may be adversely affected.



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### **Accuracy in the estimation of project time and costs at the project identification stage**

The Group’s projects are typically awarded by the Group’s customers via a competitive tender process. In determining the offer price, the Group would conduct a feasibility study having taken into account the possible costs and time required based on the information specified in the tender invitation documents as well as the Group’s own required margins. However, the actual time and costs incurred in the Group’s projects may be adversely affected by a series of factors, some of which may be beyond its control, such as: (i) unanticipated geological conditions; (ii) unfavourable weather conditions; (iii) availability of workers; and (iv) unforeseen disputes with customers, suppliers and other relevant parties. Accordingly, the Group cannot guarantee that the actual cost and time incurred for any given project would be consistent with its initial estimates and where the Group has inaccurately estimated the costs and time required for any project, it may be required to bear the costs of such cost increases and delays which in turn would affect its profitability and expose it to claims from customers. In the event that the Group’s actual costs significantly exceeds its estimated costs and any price adjustments is not adequate to cover the increased costs, the Group’s financial condition and results of operations could be materially and adversely affected.

### **Fluctuations in the Group’s labour procurement costs**

During the Track Record Period, the Group would generally engage labour suppliers to supply workers and to perform or to assist the Group in performing labour intensive works in respects of its projects. The Group employs the use of labour suppliers as its projects are located across different areas of the PRC and thus the use of labour suppliers alleviates the need by the Group to maintain a large pool of workers and allows the Group to achieve greater cost savings and increase its profitability.

The Group’s labour procurement costs represented the largest component of the its cost of sales for the years ended 31 December 2021, 2022 and 2023 accounting for approximately 78.4%, 91.5% and 89.5% respectively. Accordingly, fluctuations in the Group’s labour procurement costs directly impact the Group’s operational and financial results. In general, the Group would enter into framework agreements with its labour suppliers which would be valid for one year, however these framework agreements merely set out the basic terms of their engagement. Rather, a separate work order would be required to engage the relevant labour suppliers and the fees charged by the Group’s labour suppliers would vary based on the nature and complexity of the work involved, duration and number of as well as the availability of workers.



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The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the Group’s labour procurement costs on its profit before tax during the Track Record Period, assuming all other variables, including the Group’s revenue remains constant. Fluctuations in the Group’s labour procurement costs are included in the Group’s total cost of sales and are set at 5%, 10% and 15% having taken into account historical fluctuations.

Hypothetical fluctuations	-15%	-10%	-5%	+5%	+10%	+15%
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Change in labour procurement costs</b>						
Year ended 31 December 2021 . . . . .	(45,604)	(30,403)	(15,201)	15,201	30,403	45,604
Year ended 31 December 2022 . . . . .	(42,467)	(28,312)	(14,156)	14,156	28,312	42,467
Year ended 31 December 2023 . . . . .	(61,765)	(41,177)	(20,588)	20,588	41,177	61,765
<b>Change in profit before tax</b>						
Year ended 31 December 2021 . . . . .	45,604	30,403	15,201	(15,201)	(30,403)	(45,604)
Year ended 31 December 2022 . . . . .	42,467	28,312	14,156	(14,156)	(28,312)	(42,467)
Year ended 31 December 2023 . . . . .	61,765	41,177	20,588	(20,588)	(41,177)	(61,765)

### Fluctuations in the Group’s finance costs

The Group’s operations were mainly financed by bank borrowings during the Track Record Period. The Group’s finance costs during the Track Record Period mainly comprised interest expenses on borrowings and finance leases. For the years ended 31 December 2021, 2022 and 2023 the Group’s finance costs amounted to approximately RMB11.5 million, RMB15.3 million and RMB16.7 million, respectively.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the Group’s finance costs on its profit before tax during the Track Record Period, assuming all other variables remain constant. Fluctuations in the Group’s finance costs are set at 5%, 10% and 15% having taken into account the historical fluctuations.

Hypothetical fluctuations	-15%	-10%	-5%	+5%	+10%	+15%
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Change in finance cost</b>						
Year ended 31 December 2021 . . . . .	(1,722)	(1,148)	(574)	574	1,148	1,722
Year ended 31 December 2022 . . . . .	(2,300)	(1,533)	(767)	767	1,533	2,300
Year ended 31 December 2023 . . . . .	(2,502)	(1,668)	(834)	834	1,668	2,502
<b>Change in profit before tax</b>						
Year ended 31 December 2021 . . . . .	1,722	1,148	574	(574)	(1,148)	(1,722)
Year ended 31 December 2022 . . . . .	2,300	1,533	767	(767)	(1,533)	(2,300)
Year ended 31 December 2023 . . . . .	2,502	1,668	834	(834)	(1,668)	(2,502)

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### RESULTS OF OPERATIONS

The following table summarises the Group’s consolidated statements of profit or loss for the Track Record Period, extracted from the Accountants’ Report in Appendix I to this document.

	Year ended 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b> . . . . .	479,118	413,091	609,301
Cost of sales . . . . .	<u>(387,930)</u>	<u>(309,453)</u>	<u>(459,982)</u>
<b>Gross profit</b> . . . . .	91,188	103,638	149,319
Other net income . . . . .	5,850	4,750	5,018
Selling expenses . . . . .	(5,080)	(3,436)	(3,298)
Administrative expenses . . . . .	<b>[REDACTED]</b>	<b>[REDACTED]</b>	<b>[REDACTED]</b>
Research and development expenses . . . . .	<u>(19,208)</u>	<u>(17,680)</u>	<u>(25,873)</u>
<b>Profit from operations</b> . . . . .	52,399	54,272	86,692
Finance costs . . . . .	<u>(11,480)</u>	<u>(15,332)</u>	<u>(16,682)</u>
<b>Profit before taxation</b> . . . . .	40,919	38,940	70,010
Income tax . . . . .	<u>(4,746)</u>	<u>(3,965)</u>	<u>(1,339)</u>
<b>Profit for the year</b> . . . . .	<b><u>36,173</u></b>	<b><u>34,975</u></b>	<b><u>68,671</u></b>
<b>Attributable to:</b>			
Equity shareholders of the Company . . . . .	36,173	34,473	68,592
Non-controlling interests . . . . .	<u>–</u>	<u>502</u>	<u>79</u>
	<b><u>[REDACTED]</u></b>	<b><u>[REDACTED]</u></b>	<b><u>[REDACTED]</u></b>

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### DESCRIPTION OF SELECTED ITEMS IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

#### Revenue

The following table sets forth a breakdown of the Group’s revenue by business segments during the Track Record Period:

	Year ended 31 December					
	2021		2022		2023	
	Revenue	% of total	Revenue	% of total	Revenue	% of total
	<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>	
<b>Telecommunications Infrastructure Services</b>						
– Infrastructure Construction Services . . . . .	344,631	71.9%	309,276	74.9%	463,367	76.0%
– Infrastructure Maintenance Services . . . . .	25,160	5.3%	33,224	8.0%	37,990	6.2%
Sub-total . . . . .	<u>369,791</u>	<u>77.2%</u>	<u>342,500</u>	<u>82.9%</u>	<u>501,357</u>	<u>82.2%</u>
<b>Digitalisation Solution Services</b>						
– Integrated Solution Services . . . . .	107,364	22.4%	10,148	2.5%	41,258	6.8%
– System Maintenance Services . . . . .	1,963	0.4%	2,044	0.5%	470	0.1%
– Software Solution Services . . . . .	–	–	58,399	14.1%	66,216	10.9%
Sub-total . . . . .	<u>109,327</u>	<u>22.8%</u>	<u>70,591</u>	<u>17.1%</u>	<u>107,944</u>	<u>17.8%</u>
<b>Total . . . . .</b>	<u><b>479,118</b></u>	<u><b>100.0%</b></u>	<u><b>413,091</b></u>	<u><b>100.0%</b></u>	<u><b>609,301</b></u>	<u><b>100.0%</b></u>

During the Track Record Period, the revenue from the Telecommunications Infrastructure Services business segment, comprising the Infrastructure Construction Services and Infrastructure Maintenance Services business sub-segments, accounted for approximately 77.2%, 82.9% and 82.2% of the Group’s total revenue for the years ended 31 December 2021, 2022 and 2023, respectively. The revenue from the Digitalisation Solution Services business segment, comprising Integrated Solution Services, System Maintenance Services and Software Solution Services business sub-segments, accounted for approximately 22.8%, 17.1% and 17.8% of the Group’s total revenue for the years ended 31 December 2021, 2022 and 2023, respectively.

The Group’s revenue decreased from approximately RMB479.1 million for the year ended 31 December 2021 to approximately RMB413.1 million for the year ended 31 December 2022 and increased to approximately RMB609.3 million for the year ended 31 December 2023. Overall for the period from the year ended 31 December 2021 to the year ended 31 December 2023, the Group’s revenue grew at a CAGR of approximately 12.8%.

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### Cost of sales

The Group’s cost of sales during the Track Record Period primarily comprised labour procurement costs, direct material costs and direct labour costs. The following table sets out a breakdown of the Group’s cost of sales during the Track Record Period:

	Year ended 31 December					
	2021		2022		2023	
	Amount	% of total	Amount	% of total	Amount	% of total
	<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>	
Labour procurement costs . . . . .	304,026	78.4%	283,117	91.5%	411,767	89.5%
Direct material costs . . . . .	56,609	14.6%	7,952	2.6%	29,183	6.3%
Direct labour costs . . . . .	12,997	3.4%	11,618	3.8%	9,396	2.0%
Technical service fees . . . . .	4,217	1.1%	1,651	0.5%	2,826	0.6%
Installation service fees . . . . .	4,110	1.1%	–	–	917	0.2%
Office expenses . . . . .	1,924	0.5%	1,657	0.5%	1,787	0.4%
Fuel expenses . . . . .	1,758	0.4%	1,984	0.6%	3,140	0.7%
Tax and surcharges . . . . .	1,343	0.3%	495	0.2%	857	0.2%
Others . . . . .	946	0.2%	979	0.3%	109	0.1%
<b>Total . . . . .</b>	<b>387,930</b>	<b>100.0%</b>	<b>309,453</b>	<b>100.0%</b>	<b>459,982</b>	<b>100.0%</b>

Labour procurement costs mainly represented charges and fees paid to labour suppliers who provided the necessary labour for the completion of the Group’s Telecommunications Infrastructure Services projects located across different areas of the PRC. By engaging labour suppliers that are based in different regions across the PRC, the Group can streamline and minimise its labour force and reduce the burden in maintaining significant labour force. Further, through the use of labour suppliers for labour intensive works, the Group can focus its resources on more complex tasks, such as project management and quality control, thus improving its operational efficiency. The Group’s labour procurement cost represented the largest component of the Group’s cost of sales and accounted for approximately 78.4%, 91.5% and 89.5% of its total cost of sales for the years ended 31 December 2021, 2022 and 2023, respectively.

Direct material costs primarily represented the hardware and software used in the Group’s Digitalisation Solution Services business segment. The direct material costs represented the second largest component of the Group’s cost of sales and accounted for approximately 14.6%, 2.6% and 6.3% of its cost of sales for the years ended 31 December 2021, 2022 and 2023, respectively. The significant decrease in the contribution from direct material costs to the total cost of sales in 2022 was mainly due to the Group’s prioritisation of Software Solution Services projects over Integrated Solution Services projects, considering the customers’ demand and the limited resources available during that period. Therefore, no significant costs for hardware were incurred for the projects.

Direct labour costs primarily represented the salaries, discretionary bonus, allowance and contributions to defined contribution plans paid to the members of the Group’s project management team who were involved in the Group’s Telecommunications Infrastructure Services projects. The direct labour costs represented the third largest component of the Group’s cost of sales and accounted for approximately 3.4%, 3.8% and 2.0% of its cost of sales for the years ended 31 December 2021, 2022 and 2023, respectively.

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The following table sets out a breakdown of the Group’s cost of sales during the Track Record Period by business segments:

	Year ended 31 December					
	2021		2022		2023	
	Cost of sales	% of total	Cost of sales	% of total	Cost of sales	% of total
	RMB'000		RMB'000		RMB'000	
<b>Telecommunications Infrastructure Services</b>						
<b>Infrastructure Construction Services</b>						
Labour procurement costs . . . . .	292,047	75.3%	264,549	85.4%	391,098	85.0%
Direct labour costs . . . . .	6,295	1.6%	5,392	1.7%	4,712	1.0%
Office expenses . . . . .	1,762	0.5%	1,187	0.4%	1,686	0.4%
Direct material costs . . . . .	1,076	0.3%	206	0.1%	–	–
Fuel expenses . . . . .	88	–	185	0.1%	39	–
Others . . . . .	1,476	0.4%	809	0.3%	814	0.2%
Sub-total . . . . .	<u>302,744</u>	<u>78.1%</u>	<u>272,328</u>	<u>88.0%</u>	<u>398,349</u>	<u>86.6%</u>
<b>Infrastructure Maintenance Services</b>						
Labour procurement costs . . . . .	11,980	3.1%	18,567	5.9%	20,670	4.5%
Direct labour costs . . . . .	6,702	1.7%	5,736	1.9%	4,683	1.0%
Fuel expenses . . . . .	1,670	0.4%	1,799	0.6%	3,101	0.7%
Office expenses . . . . .	162	–	470	0.2%	101	–
Direct material costs . . . . .	87	–	185	0.1%	288	0.1%
Others . . . . .	167	–	583	0.2%	–	–
Sub-total . . . . .	<u>20,768</u>	<u>5.2%</u>	<u>27,340</u>	<u>8.9%</u>	<u>28,843</u>	<u>6.3%</u>
<b>Digitalisation Solution Services</b>						
<b>Integrated Solution Services</b>						
Direct material costs (Hardware) . . . . .	49,117	12.7%	5,939	1.9%	23,641	5.1%
Direct material costs (Software) . . . . .	6,328	1.6%	1,622	0.5%	1,048	0.2%
Installation service fees . . . . .	4,110	1.1%	–	–	917	0.2%
Technical service fees . . . . .	2,566	0.7%	–	–	2,535	0.5%
Others . . . . .	640	0.2%	12	–	59	0.0%
Sub-total . . . . .	<u>62,761</u>	<u>16.3%</u>	<u>7,573</u>	<u>2.4%</u>	<u>28,200</u>	<u>6.0%</u>
<b>System Maintenance Services</b>						
Technical service fees . . . . .	1,651	0.4%	1,651	0.5%	291	0.1%
Others . . . . .	6	–	2	–	1	–
Sub-total . . . . .	<u>1,657</u>	<u>0.4%</u>	<u>1,653</u>	<u>0.5%</u>	<u>292</u>	<u>0.1%</u>
<b>Software Solution Services</b>						
Direct labour costs . . . . .	–	–	489	0.2%	–	–
Others . . . . .	–	–	70	–	92	–
Direct material costs (Software) . . . . .	–	–	–	–	4,207	1.0%
Sub-total . . . . .	<u>–</u>	<u>–</u>	<u>559</u>	<u>0.2%</u>	<u>4,299</u>	<u>1.0%</u>
<b>Total . . . . .</b>	<b><u>387,930</u></b>	<b><u>100.0%</u></b>	<b><u>309,453</u></b>	<b><u>100.0%</u></b>	<b><u>459,982</u></b>	<b><u>100.0%</u></b>

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## FINANCIAL INFORMATION

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The Group’s labour procurement costs was not only the largest component of its overall cost of sales but also was the largest component of its cost of sales for the sub-segments comprising its Telecommunications Infrastructure Services business segment during the Track Record Period. For the years ended 31 December 2021, 2022 and 2023, the labour procurement costs for the Group’s Infrastructure Construction Services and Infrastructure Maintenance Services business sub-segments, accounted for approximately 96.5%, 97.1% and 98.2%, and 57.7%, 67.9% and 71.7% of the cost of sales for each of the aforementioned business sub-segments respectively. In general, Telecommunications Infrastructure Services projects are labour intensive, particularly for Infrastructure Construction Services projects where the principal type of work involved is base station and auxiliary facilities engineering services or power grid connection services. In order to streamline its operations and focus on more complex work such as project management and quality control, the Group engaged labour suppliers to take up substantial labour intensive works during the Track Record Period. This strategic move allowed the Group to optimise its resources and concentrate on its core competencies. By delegating the labour intensive tasks to labour suppliers, the Group could enhance its efficiency and productivity, while ensuring that all works were completed to meet the customers’ standards. This approach enables the Group to better meet the needs of its customers and continue to thrive in a competing market.

While the Group’s direct material costs during the Track Record Period was substantially less than its labour procurement costs, it represented the largest component of the Group’s cost of sales for its Digitalisation Solution Services business segment. For the years ended 31 December 2021, 2022 and 2023, the Group’s direct material costs accounted for approximately 86.1%, 77.3% and 88.1% of the cost of sales for its Digitalisation Solution Services business segment, respectively. Hardware and software are integral to any digitalisation solution and hence accounted for a significant portion of the cost of sales. The direct material costs was not substantial in the Telecommunications Infrastructure Services business segment, since the substantial part of the direct material applied to its Telecommunications Infrastructure Services projects was supplied by its labour suppliers and the relevant material costs were included in the labour procurement costs.

## FINANCIAL INFORMATION

### Gross profit and gross profit margin

The following table sets out a breakdown of the Group’s gross profit and gross profit margin during the Track Record Period by business segments:

	Year ended 31 December					
	2021		2022		2023	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>	
<b>Telecommunications Infrastructure Services</b>						
– Infrastructure Construction Services . . . . .	41,887	12.2%	36,948	12.0%	65,018	14.0%
– Infrastructure Maintenance Services . . . . .	<u>4,392</u>	17.5%	<u>5,884</u>	17.7%	<u>9,147</u>	24.1%
Sub-total . . . . .	<u>46,279</u>	12.5%	<u>42,832</u>	12.5%	<u>74,165</u>	14.8%
<b>Digitalisation Solution Services</b>						
– Integrated Solution Services . . . . .	44,603	41.5%	2,575	25.4%	13,059	31.7%
– System Maintenance Services . . . . .	306	15.6%	391	19.1%	178	37.9%
– Software Solution Services . . . . .	<u>–</u>	–	<u>57,840</u>	99.0%	<u>61,917</u>	93.5%
Sub-total . . . . .	<u>44,909</u>	41.1%	<u>60,806</u>	86.1%	<u>75,154</u>	69.6%
<b>Total gross profit and overall gross profit margin . . . . .</b>	<b><u>91,188</u></b>	<b>19.0%</b>	<b><u>103,638</u></b>	<b>25.1%</b>	<b><u>149,319</u></b>	<b>24.5%</b>

The Group’s gross profit for the years ended 31 December 2021, 2022 and 2023 was approximately RMB91.2 million, RMB103.6 million and RMB149.3 million, respectively and its gross profit margin for the corresponding years was approximately 19.0%, 25.1% and 24.5%, respectively.

The Group’s gross profit was largely contributed by its Infrastructure Construction Services business sub-segment and Digitalisation Solution Services business segment, which in aggregate contributed more than 85% of the Group’s total gross profit during the Track Record Period. The gross profit margin of the Group’s Digitalisation Solution Services business segment was relatively higher than that of the Telecommunications Infrastructure Services business segment during the Track Record Period. The relatively higher gross profit margin of the Group’s Digitalisation Solution Services projects was mainly due to the fact that (i) the cost of sales was generally lower as a result of such projects being less labour intensive and having a relatively shorter project life cycle; and (ii) the projects were generally obtained via single-source procurement and/or by responding to invitation to quote and required a higher degree of customisation by the Group thus leaving more room for the Group to charge at a higher price.



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## FINANCIAL INFORMATION

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Conversely, the gross profit margin of the Group's Infrastructure Construction Services business sub-segment was generally the lowest during the Track Record Period as the projects were (i) labour intensive and (ii) mainly obtained by way of open tender which would restrict the Group's ability in setting a high tender price due to the competitive nature of open tenders as they would be made available to all of the Group's competitors. Notwithstanding the above, certain types of works of the Infrastructure Construction Services may carry relatively higher gross profit margins, though the difference will ultimately depend on a variety of factors including, the market conditions when the tender is made/awarded, location of the relevant project as well as complexity of works involved. For example, where the principal type of work required for a Infrastructure Construction Services project is wireless network equipment installation services, its gross profit margin would generally be higher than others as (i) this type of work is relatively less labour intensive, (ii) requires more skilled labour and (iii) the number of integrated service providers who possess the requisite licenses undertake projects of comparable size are comparatively less, thus the Group's competitiveness is comparatively greater. Where the principal type of work required for the project is base station and auxiliary facilities engineering services, its gross profit margins would be lower than others as (i) this type of work is highly labour intensive, (ii) only requires a limited number of skilled labour and (iii) the requisite licenses are commonly held by integrated service providers.

### *Telecommunications Infrastructure Services*

The gross profit margin of the Group's Telecommunications Infrastructure Services business segment remained relatively stable at approximately 12.5% and 12.5% for the year ended 31 December 2021 and 2022, respectively.

The gross profit margin of the Group's Telecommunications Infrastructure Services business segment experienced a slight increase from approximately 12.5% for the year ended 31 December 2022 to approximately 14.8% for the year ended 31 December 2023. This increase can be attributed to i) the commencement of a wireless network equipment installation project in Guangxi Zhuang Autonomous Region, which started generating revenue in the latter half of 2022; and ii) two broadband construction projects in Jiangxi Province, which started generating revenue in the early 2023, where these particular projects had a relatively higher gross profit margin primarily due to their complex nature and specialised skills required.

### *Digitalisation Solution Services*

The gross profit margin of the Group's Digitalisation Solution Services business segment increased from approximately 41.1% for the year ended 31 December 2021 to approximately 86.1% for the year ended 31 December 2022. Such increase was mainly attributable to the Group's prioritisation of Software Solution Services projects over Integrated Solution Services projects, leading to higher gross profit margins due to minimal project costs, as most of the software applied in Software Solution Services was developed by the Group. Additionally, the Group recognised and classified the research and development costs for the software as research and development expenses, further boosting the gross profit margin. The gross profit margin of the Group's Digitalisation Solution Services business segment decreased from approximately 86.1% for the year ended 31 December 2022 to approximately 69.6% for the year ended 31 December 2023. This decrease was mainly attributed to the increased contribution of the Integrated Solution Services business sub-segment, which is a sub-segment within the Digitalisation Solution Services business segment that has a relatively lower gross profit margin.

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## FINANCIAL INFORMATION

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The gross profit margin of the Group's Integrated Solution Services business sub-segment fluctuated during the Track Record Period. Specifically, it decreased from approximately 41.5% for the year ended 31 December 2021 to approximately 25.4% for the year ended 31 December 2022, but rebounded to approximately 31.7% for the year ended 31 December 2023. These fluctuations were attributable to the varying utilisation of the Group's self-developed software in the Integrated Solution Services projects during this period. In 2022, the Group had a limited number of Integrated Solution Services projects, including a relatively large digital healthcare project. However, this project contributed to a relatively low gross profit margin due to high costs associated with purchase of hardware and software from third-party suppliers. As a result, the higher cost of sales led to a decrease in the gross profit margin of the Integrated Solution Services business sub-segment compared to 2021. Nevertheless, there was an improvement in the gross profit margin of the Integrated Solution Services business sub-segment in 2023, reaching approximately 31.7%. This positive development was primarily driven by another sizable digital healthcare project. The utilisation of the Group's self-developed software in this project contributed to a higher gross profit margin. During the Track Record Period, the Group's generated limited gross profit from its System Maintenance Services business sub-segment due to its reliance on a small number of projects. Consequently, the fluctuation in the gross profit margin of this sub-segment was primarily influenced by a limited number of projects. The gross profit margin of the System Maintenance Services business sub-segment increased from approximately 15.6% for the year ended 31 December 2021 to approximately 19.1% for the year ended 31 December 2022. This increase was primarily driven by an increase in the revenue contribution of a digital healthcare project with a high gross profit margin. Further, the gross profit margin of the System Maintenance Services business sub-segment continued to improve, reaching approximately 37.9% for the year ended 31 December 2023. This increase in the gross profit margin was mainly attributed to the further increase in revenue contribution of the abovementioned digital healthcare project, coupled with the contribution from a relatively high gross profit margin reservoir project. The gross profit margin of the Group's Software Solution Services remained stable for the year ended 31 December 2022 and 2023.

Please refer to the paragraphs headed “Review of historical results of operations” in this section for analysis of the fluctuation of the Group's gross profit margin during the Track Record Period.

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### Other net income

The Group’s other net income primarily comprised government grants and interest income during the Track Record Period. The following table sets out a breakdown of the Group’s other net income during the Track Record Period:

	Year ended 31 December					
	2021		2022		2023	
	Amount	% of total	Amount	% of total	Amount	% of total
	<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>	
Government grants . . . . .	3,254	55.6%	869	18.3%	3,248	64.7%
Interest income from financing component . . . . .	2,043	34.9%	3,016	63.5%	1,354	27.0%
Rental income from investment property . . . . .	642	11.0%	642	13.5%	642	12.8%
Bank deposit interest income. . . . .	112	1.9%	119	2.5%	180	3.6%
(Loss)/gain on disposal of property, plant and equipment . . . . .	(25)	(0.4%)	(103)	(2.2%)	2	–
Net foreign exchange gain/(loss) . . . . .	–	–	344	7.2%	(732)	(14.6%)
Share of profits of associates . . . . .	–	–	–	–	74	1.5%
Others . . . . .	(176)	(3.0%)	(137)	(2.8%)	250	5.0%
<b>Total . . . . .</b>	<b>5,850</b>	<b>100.0%</b>	<b>4,750</b>	<b>100.0%</b>	<b>5,018</b>	<b>100.0%</b>

Government grants granted to the Group was a non-recurring income which was mainly (i) in recognition of the Group’s efforts in reducing corporate costs and optimising development environment, (ii) in support for Zhonggan Communication’s previous A-Share listing plan and equity financing activities, (iii) in recognition of the Group’s contribution to the development of high tech industries in Nanchang and (iv) as subsidies for the Group’s research and development activities, during the Track Record Period. The government grants were provided to the Group based on (i) the Group’s eligibility for the government grant through an internal verification process conducted by the government authorities, confirming that the Group met the criteria for receiving the government grant; and (ii) the government policies aimed at granting subsidies to companies in specific industries. Government grants accounted for approximately 55.6%, 18.3% and 64.7%, respectively, of the Group’s other net income for the years ended 31 December 2021, 2022 and 2023.

The Group’s interest income from financing component is an income arising from the agreement that provides a significant financing benefit to its customer for more than 12 months. It is recognised separately from the Group’s revenue using the effective interest method. During the Track Record Period, it generally fluctuated along with the amortised cost of the trade receivables of the Group’s five Integrated Solution Services projects, where there would be a period of more than one year would elapse between the satisfactory performance of the Group’s obligation and the settlement of payment for that performance obligation in accordance with the terms of the agreements. Interest income from financing component accounted for approximately 34.9%, 63.5% and 27.0%, respectively of the Group’s other net income for the years ended 31 December 2021, 2022 and 2023.

## FINANCIAL INFORMATION

### Selling expenses

The Group's selling expenses primarily comprised tender related fees, entertainment expenses and staff costs during the Track Record Period. The following table sets out a breakdown of the Group's selling expenses during the Track Record Period:

	Year ended 31 December					
	2021		2022		2023	
	Amount	% of total	Amount	% of total	Amount	% of total
	<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>	
Entertainment expenses . . . . .	1,822	35.8%	1,071	31.1%	1,009	30.6%
Tender related fees . . . . .	1,612	31.7%	1,448	42.1%	1,308	39.7%
Staff costs . . . . .	869	17.1%	501	14.6%	733	22.2%
Travel expenses . . . . .	370	7.3%	34	1.0%	59	1.8%
Depreciation . . . . .	248	4.9%	136	4.0%	30	0.9%
Office expenses . . . . .	105	2.1%	57	1.7%	29	0.9%
Others . . . . .	54	1.1%	189	5.5%	130	3.9%
<b>Total . . . . .</b>	<b>5,080</b>	<b>100.0%</b>	<b>3,436</b>	<b>100.0%</b>	<b>3,298</b>	<b>100.0%</b>

Entertainment expenses mainly represented expenses incurred for the cost of meals provided to the Group's customers. For the years ended 31 December 2021, 2022 and 2023, the Group incurred entertainment expenses of approximately RMB1.8 million, RMB1.1 million and RMB1.0 million, accounting for approximately 35.8%, 31.1% and 30.6%, respectively, of the Group's total selling expenses.

Tender related fees mainly represented service fees paid to third party agents engaged by the Group's customers when the Group won the tenders in the tendering process. For the years ended 31 December 2021, 2022 and 2023 the Group incurred tender related fees of approximately RMB1.6 million, RMB1.4 million and RMB1.3 million, accounting for approximately 31.7%, 42.1% and 39.7%, respectively, of the Group's total selling expenses.

Staff costs mainly comprised salaries, discretionary bonus, allowance and contributions to defined contribution retirement plan incurred for the Group's sales and marketing staff. For the years ended 31 December 2021, 2022 and 2023, the staff costs incurred by the Group was relatively stable and amounted to approximately RMB0.9 million, RMB0.5 million and RMB0.7 million, accounting for approximately 17.1%, 14.6% and 22.2%, respectively, of the Group's total selling expenses.

## FINANCIAL INFORMATION

### Administrative expenses

The Group’s administrative expenses primarily comprised staff costs, credit impairment losses, [REDACTED] and professional service and consulting fees during the Track Record Period. The following table sets out a breakdown of the Group’s administrative expenses during the Track Record Period:

	Year ended 31 December					
	2021		2022		2023	
	Amount	% of total	Amount	% of total	Amount	% of total
	<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>	
Staff costs . . . . .	6,548	32.2%	6,711	20.3%	7,324	19.0%
Credit impairment losses . . . . .	3,759	18.5%	10,843	32.8%	11,694	30.3%
Professional service and consulting fees . . . . .	2,091	10.3%	1,649	5.0%	924	2.4%
Entertainment expenses . . . . .	1,284	6.3%	2,101	6.4%	3,178	8.3%
Depreciation . . . . .	1,271	6.2%	1,313	4.0%	1,230	3.2%
Office expenses . . . . .	1,253	6.2%	987	3.0%	1,884	4.9%
Finance administrative expenses . . . . .	1,180	5.8%	683	2.1%	460	1.2%
Travel expenses . . . . .	1,028	5.1%	231	0.7%	395	1.0%
[REDACTED] . . . . .	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Motor vehicle expenses . . . . .	376	1.8%	187	0.6%	59	0.2%
Others . . . . .	1,004	4.9%	1,686	5.1%	2,760	7.2%
<b>Total . . . . .</b>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>

Staff costs mainly comprised salaries, discretionary bonus, allowance and contributions paid to defined contribution plans for the Group’s management, finance and administrative staff. For the years ended 31 December 2021, 2022 and 2023, the Group incurred staff costs of approximately RMB6.5 million, RMB6.7 million and RMB7.3 million, accounting for approximately 32.2%, 20.3% and 19.0%, respectively, of the Group’s total administrative expenses. The increase in staff costs was mainly due to the increase in number of management, finance and administrative employees. As at 31 December 2021, 2022 and 2023, the Group’s total number of management, finance and administrative employees was 49, 43 and 48, respectively.

Credit impairment losses represented the expected credit losses on trade and other receivables and contract assets for which the Group would conduct an impairment analysis at the end of each year during the Track Record Period using a provision matrix to measure their expected credit losses. For the years ended 31 December 2021, 2022 and 2023, the credit impairment losses of the Group amounted to approximately RMB3.8 million, RMB10.8 million and RMB11.7 million, accounting for approximately 18.5%, 32.8% and 30.3%, respectively, of the Group’s total administrative expenses. The following table sets out the details of impairment losses on trade and other receivables and contract assets during the Track Record Period:

Professional service and consulting fees mainly represented the professional fees incurred in respect of Zhonggan Communication’s previous A-share listing plan and the operation advisory fee. For the years ended 31 December 2021, 2022 and 2023, the professional service and consulting fees incurred by the Group amounted to approximately RMB2.1 million, RMB1.6 million and RMB0.9 million, accounting for approximately 10.3%, 5.0% and 2.4%, respectively, of the Group’s total administrative expenses.

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For the years ended 31 December 2021, 2022 and 2023, the [REDACTED] incurred by the Group amounted to approximately [REDACTED], [REDACTED] and [REDACTED], accounting for approximately [REDACTED], [REDACTED] and [REDACTED], respectively, of the Group's total administrative expenses.

	Year ended 31 December					
	2021		2022		2023	
	Amount	% of total	Amount	% of total	Amount	% of total
	<i>RMB'000</i>		<i>RMB'000</i>	<i>RMB'000</i>		
Impairment losses on						
– Trade receivables . . . . .	3,165	84.2%	8,373	77.2%	12,426	106.3%
– Other receivables . . . . .	496	13.2%	978	9.0%	426	3.6%
– Contract assets . . . . .	98	2.6%	1,491	13.8%	(1,158)	(9.9%)
<b>Total . . . . .</b>	<b>3,759</b>	<b>100.0%</b>	<b>10,842</b>	<b>100.0%</b>	<b>11,694</b>	<b>100.0%</b>

The increase in the Group's impairment losses during the Track Record Period was generally in line with the increase in the balance of trade and other receivables and contract assets. The Group experienced a significant increase in impairment losses on trade receivables for the year ended 31 December 2022 compared to the previous year. This was primarily due to substantial impairment losses incurred for trade receivables associated with five Integrated Solution Services projects, resulting from the extension of payment terms. The Group reported a reversal of impairment losses on contract assets for the year ended 31 December 2023 amounted to approximately RMB1.2 million. The reversal was primarily driven by a decrease in the balance of contract assets related to projects' retention money as at 31 December 2023, compared to the previous year.

### Research and development expenses

The Group's research and development expenses mainly comprised outsourcing fees and staff costs of the Group's research and development staff during the Track Record Period. The following table sets out a breakdown of the Group's research and development expenses during the Track Record Period:

	Year ended 31 December					
	2021		2022		2023	
	Amount	% of total	Amount	% of total	Amount	% of total
	<i>RMB'000</i>		<i>RMB'000</i>	<i>RMB'000</i>		
Outsourcing fees . . . . .	8,959	46.7%	5,484	31.0%	14,585	56.4%
Staff costs . . . . .	8,660	45.1%	10,400	58.8%	10,836	41.9%
Depreciation . . . . .	6	0.0%	–	–	–	–
Material and design costs . . . . .	–	–	–	–	19	0.1%
Others . . . . .	1,583	8.2%	1,796	10.2%	433	1.6%
<b>Total . . . . .</b>	<b>19,208</b>	<b>100.0%</b>	<b>17,680</b>	<b>100.0%</b>	<b>25,873</b>	<b>100.0%</b>

## FINANCIAL INFORMATION

The staff costs mainly represented salaries, discretionary bonus, allowance and contributions to defined contribution plans paid to the staff of the Group’s research and development team and outsourcing fees mainly represented the fees paid to third party programmers for software development services. For the years ended 31 December 2021, 2022 and 2023, the Group’s staff costs accounted for approximately 45.1%, 58.8% and 41.9% while the Group’s outsourcing fees accounted for approximately 46.7%, 31.0% and 56.4% of its research and development expenses, respectively. During the Track Record Period, the Group strived to expand its in-house research and development capabilities, in particular for the development of technologies to be applied for its Digitalisation Solution Services business segment.

### Finance costs

The Group’s finance costs mainly comprised interest on bank borrowings during the Track Record Period. The following table sets out a breakdown of the Group’s finance costs during the Track Record Period:

	Year ended 31 December					
	2021		2022		2023	
	Amount	% of total	Amount	% of total	Amount	% of total
	<i>RMB'000</i>		<i>RMB'000</i>	<i>RMB'000</i>		
Interest on bank borrowings . . . . .	10,920	95.1%	15,093	98.4%	16,660	99.9%
Interest on financing component. . . . .	552	4.8%	234	1.5%	7	–
Interest on lease liabilities . . . . .	8	0.1%	5	0.1%	15	0.1%
<b>Total . . . . .</b>	<b>11,480</b>	<b>100.0%</b>	<b>15,332</b>	<b>100.0%</b>	<b>16,682</b>	<b>100.0%</b>

The changes in the Group’s finance costs during the Track Record Period were primarily driven by fluctuations of the Group’s interest on bank borrowings, which were generally affected by the Group’s average balance of short-term borrowings and interest rates thereon during the years.

For details relating to the Group’s bank borrowings, please refer to the paragraph headed “Indebtedness” in this section.

### Income tax

The Group’s income tax comprised current tax and movements in deferred tax assets and liabilities. Current tax is an expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.



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## FINANCIAL INFORMATION

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Under the EIT Law, the Group’s PRC subsidiaries are subject to an income tax at the statutory rate of 25%. The PRC Enterprise Income Tax Law allows enterprises to apply for certificate of High and New Technology Enterprise\* (高新技術企業) which entitles the qualified companies to a preferential income tax rate of 15%, subject to fulfilment of the recognition criteria. Zhonggan Communication initially qualified as a High and New Technology Enterprise in 2015 and the qualification was subsequently renewed in 2018 and 2021 and the valid period was extended to 2024. GLP Technology qualified as a High and New Technology Enterprise in 2020 and the qualification was subsequently renewed in 2023 and the valid period was extended to 2026. For the years ended 31 December 2021, 2022 and 2023, the Group’s recorded income tax expenses of approximately RMB4.7 million, RMB4.0 million and RMB1.3 million and the effective tax rates were approximately 11.6%, 10.2% and 2.0%, respectively. The significant decrease in the effective tax rate for the year ended 31 December 2023, in comparison to previous years, can be primarily attributed to GLP Software’s qualification as a “Double-soft Enterprise” in 2023. This qualification granted GLP Software full exemption from corporate income tax, leading to a significantly lower tax burden for the Group. As a result, the Group benefited from a considerably reduced effective tax rate during the aforementioned period.

### REVIEW OF HISTORICAL RESULTS OF OPERATIONS

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

##### *Revenue*

The Group experienced a decrease in revenue of approximately RMB66.0 million or 13.8% from RMB479.1 million for the year ended 31 December 2021 to approximately RMB413.1 million for the year ended 31 December 2022. The decrease was primarily driven by the Digitalisation Solution Services business segment. For the year ended 31 December 2022, the Group prioritised Software Solution Services projects over Integrated Solution Services projects to align with customers’ demand and to alleviate the need for substantial capital requirements for the purchase of hardware and equipment applied in Integrated Solution Services projects, thereby enhancing the Group’s liquidity. As a result, the Group recorded a significant decrease in revenue from Integrated Solution Services, decreasing by approximately RMB97.3 million from approximately RMB107.4 million for the year ended 31 December 2021 to approximately RMB10.1 million for the year ended 31 December 2022. However, the decrease was partially offset by the increase in the number of Software Solution Services projects, resulting in a significant increase in revenue from nil for the year ended 31 December 2021 to approximately RMB58.4 million for the year ended 31 December 2022.

Also, the Group’s total revenue decreased to a certain extent due to the decrease in number of Infrastructure Construction Services projects. The decrease in revenue from the Infrastructure Construction Services business sub-segment was primarily caused by the completion of a substantial portion of the provincial transmission pipeline engineering construction project in Jiangxi Province in the previous year. As a result, the revenue generated from this project decreased significantly by RMB73.1 million for the year ended 31 December 2022. However, the decrease was partially offset by the aggregate revenue of approximately RMB65.0 million generated from a transmission and wireline enhancement project in Yunnan Province.

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### ***Cost of sales***

The Group's cost of sales decreased by approximately 20.2% from approximately RMB387.9 million for the year ended 31 December 2021 to approximately RMB309.5 million for the year ended 31 December 2022. The decrease was primarily due to a significant decrease in the Group's direct material costs in its Digitalisation Solution Services business segment and labour procurement costs in its Telecommunications Infrastructure Services business segment.

The Group experienced a significant decrease of approximately RMB48.7 million in direct material costs for the year ended 31 December 2022. The decrease was primarily due to the Group's prioritisation of Software Solution Services projects over Integrated Solution Services projects, taking into account the customers' demand and the limited resources available during that period. The interim measure enabled the Group to avoid occupying substantial capital requirements for the purchase of hardware for the projects. The Group's interim measure to reduce its involvement in the Integrated Solution Services projects was due to the fact that the purchase of hardware would have tied up a significant portion of its working capital, reducing its liquidity and potentially limiting its ability to carry out its new projects. As a result, the Directors considered that its prioritisation of Software Solutions Services projects would provide greater efficiencies.

Similarly, the decrease in the Group's labour procurement costs of approximately RMB20.9 million was mainly due to the completion of the significant part of the sizable provincial transmission pipeline engineering construction project in Jiangxi Province in the previous year. The decrease in demand for labour procurement resulted in a corresponding decrease in labour procurement costs in line with the revenue contributed by the Group's Infrastructure Construction Services projects.

### ***Gross profit and Gross profit margin***

The Group's total gross profit increased by approximately RMB12.5 million or 13.7% from approximately RMB91.2 million for the year ended 31 December 2021 to approximately RMB103.6 million for the year ended 31 December 2022, and the Group's overall gross profit margin increased from approximately 19.0% to approximately 25.1%.

The Group's overall gross profit margin increased primarily due to an increase in the gross profit margins of its Digitalisation Solution Services business segment. The increase reflected the Group's prioritisation of Software Solution Services projects over Integrated Solution Services projects, taking into account the customers' demand and the limited resources available during that period. This interim measure of the Group to focus on Software Solution Services projects has resulted in higher gross profit margin due to the minimal costs involved in the projects, as most of the software applied in Software Solution Services was developed by the Group. Furthermore, the Group recognised and classified the cost of research and development for the software as research and development expenses for the relevant years, which has helped to further enhance its gross profit margin.

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### ***Other net income***

The Group's other net income decreased by approximately RMB1.1 million or 18.8% from approximately RMB5.9 million for the year ended 31 December 2021 to approximately RMB4.8 million for the year ended 31 December 2022. The decrease was mainly contributed by a decrease in government grants by approximately RMB2.4 million, which was offset by an increase in interest income from financing component by approximately RMB1.0 million.

### ***Selling expenses***

The Group's selling expenses decreased by approximately RMB1.6 million or 32.4% from approximately RMB5.1 million for the year ended 31 December 2021 to approximately RMB3.4 million for the year ended 31 December 2022. The decrease was primarily due to a decrease in staff costs, entertainment expenses and tender related fees. Specifically, the decrease in staff costs of approximately RMB0.4 million was mainly due to the reallocation of certain marketing staffs to the project management team, resulting in the corresponding staff costs being treated as cost of sales in 2022. The decrease in entertainment expenses of approximately RMB0.8 million was mainly due to the implementation of enhanced cost control measures in 2022 as well as a decrease in marketing activities necessitated by the COVID-19 pandemic. Similarly, the decrease in tender related fees of approximately RMB0.2 million was mainly due to a decrease in the number of successful tenders resulting from the slowdown of tendering process by its clients resulting from the impact of the COVID-19 pandemic.

### ***Administrative expenses***

The Group's administrative expenses increased by approximately RMB12.6 million or 62.1% from approximately RMB20.4 million for the year ended 31 December 2021 to approximately RMB33.0 million for the year ended 31 December 2022. The increase was primarily due to an increase in credit impairment losses and [REDACTED]. Specifically, the increase in credit impairment losses of approximately RMB7.1 million was mainly due to the continuous increase in the balance of trade receivables and contract assets. Further, the increase in [REDACTED] of approximately RMB6.1 million was mainly due to incurrence of additional professional fees related to the [REDACTED].

### ***Research and development expenses***

The Group's research and development expenses decreased slightly by approximately RMB1.5 million or 8.0% from approximately RMB19.2 million for the year ended 31 December 2021 to approximately RMB17.7 million for the year ended 31 December 2022. The decrease was primarily due to a decrease in outsourcing fees for research and development of approximately RMB3.5 million, which was mainly due to a decrease in the scale of research and development projects outsourced compared to the previous year. However, the decrease was partially offset by an increase in the staff costs of the Group's research and development team of approximately 20.1%, which was mainly due to the Group's intention to enhance its self-development capability.

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### ***Finance costs***

The Group's finance costs increased by approximately RMB3.9 million or 33.6% from RMB11.5 million for the year ended 31 December 2021 to approximately RMB15.3 million for the year ended 31 December 2022. The increase was primarily due to an increase in interest on bank borrowings, resulting from an increase in the average bank borrowing balance in 2022.

### ***Income tax***

The Group's income tax decreased by approximately RMB0.8 million or 16.5% from approximately RMB4.7 million for the year ended 31 December 2021 to approximately RMB4.0 million for the year ended 31 December 2022. The decrease was primarily due to a decrease in profit before taxation by approximately 4.8% compared to the previous year.

### ***Profit for the year and net profit margin***

As a result of the foregoing, the Group's net profit decreased by approximately RMB1.2 million or 3.3% from approximately RMB36.2 million for the year ended 31 December 2021 to approximately RMB35.0 million for the year ended 31 December 2022. The Group's net profit margin increased from approximately 7.5% for the year ended 31 December 2021 to approximately 8.5% for the year ended 31 December 2022, mainly due to the increase in the Group's overall gross profit margin from approximately 19.0% to approximately 25.1%, and offset by the increase in administrative expenses of approximately RMB12.6 million.

## **Year ended 31 December 2023 compared to the year ended 31 December 2022**

### ***Revenue***

The Group experienced a significant increase in revenue of approximately RMB196.2 million or 47.5% from RMB413.1 million for the year ended 31 December 2022 to approximately RMB609.3 million for the year ended 31 December 2023. The growth can be attributed to both the Telecommunications Infrastructure Services business segment and the Digitalisation Services business segment. In 2023, there was an uptick in work orders placed by customers for the Infrastructure Construction Services projects, following the lifting of restrictions imposed by the COVID-19 pandemic. Moreover, the progress of the Infrastructure Construction Services projects accelerated, leading to increased revenue recognition for the Group in this business sub-segment. The combined effect of heightened work orders and improved project progress facilitated the revenue growth for the Group's Infrastructure Construction Services business sub-segment for the year ended 31 December 2023. The growth observed in the Digitalisation Solution Services business segment was primarily driven by an increase in the number of Integrated Solution Services projects and Software Solution Services projects. This expansion resulted in a significant increase in revenue from approximately RMB70.6 million for the year ended 31 December 2022 to approximately RMB107.9 million for the year ended 31 December 2023.

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### ***Cost of sales***

The Group's cost of sales increased significantly by approximately RMB150.5 million or 48.6% from approximately RMB309.5 million for the year ended 31 December 2022 to approximately RMB460.0 million for the year ended 31 December 2023. The increase was primarily due to a significant increase in the Group's labour procurement costs in its Telecommunications Infrastructure Services business segment and direct material costs in its Integrated Solution Services business sub-segment. The increase in the Group's labour procurement costs was generally in line with the increase in revenue contributed by the Group's Infrastructure Construction Services projects. The increase in direct material costs (hardware) of the Integrated Solution Services business sub-segment for the year ended 31 December 2023 was primarily due to the fact that more hardware was used for implementation of its Integrated Solution Services projects. The increase in demand for direct material costs (hardware) of the Integrated Solution Services business sub-segment was generally in line with the revenue growth of this business sub-segment.

### ***Gross profit and Gross profit margin***

The Group's total gross profit increased by approximately RMB45.7 million or 44.1% from approximately RMB103.6 million for the year ended 31 December 2022 to approximately RMB149.3 million for the year ended 31 December 2023, and the Group's overall gross profit margin decreased slightly from approximately 25.1% to approximately 24.5%. The Group's overall gross profit margin decreased primarily due to a decrease in the gross profit margins of its Digitalisation Solution Services business segment. This decrease was mainly attributed to the increased contribution of the Integrated Solution Services business sub-segment, which is a sub-segment within the Digitalisation Solution Services business segment that has a relatively lower gross profit margin.

### ***Other net income***

The Group's other net income slightly increased by approximately RMB0.2 million or 4.2% from approximately RMB4.8 million for the year ended 31 December 2022 to approximately RMB5.0 million for the year ended 31 December 2023. This increase can be primarily attributed to a combination of factors, including an increase in government grants of approximately RMB2.4 million and a decrease in interest income from financing components of approximately RMB1.7 million.

### ***Selling expenses***

The Group's selling expenses amounted to approximately RMB3.3 million for the year ended 31 December 2023, remaining stable compared to the amount for the year ended 31 December 2022.

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### ***Administrative expenses***

The Group’s administrative expenses increased by approximately RMB5.5 million or 16.6% from approximately RMB33.0 million for the year ended 31 December 2022 to approximately RMB38.5 million for the year ended 31 December 2023. The increase was primarily due to an increase in [REDACTED] and entertainment expenses. Specifically, the increase in [REDACTED] of approximately RMB2.0 million was mainly due to incurrence of additional professional fees related to the [REDACTED]. Further, the increase in entertainment expenses of approximately 1.1 million which is in line with the growth the Group’s businesses.

### ***Research and development expenses***

The Group’s research and development expenses increased significantly by approximately RMB8.2 million or 46.3% from approximately RMB17.7 million for the year ended 31 December 2022 to approximately RMB25.9 million for the year ended 31 December 2023. The increase was primarily due to an increase in outsourcing fees for research and development of approximately RMB9.1 million, which was partially offset by a decrease in other research and development expenses of approximately RMB1.4 million. The increase in outsourcing fee was mainly due to an increase in the scale of research and development projects outsourced compared to the previous year.

### ***Finance costs***

The Group’s finance costs increased by approximately RMB1.4 million or 9.2% from RMB15.3 million for the year ended 31 December 2022 to approximately RMB16.7 million for the year ended 31 December 2023. The increase was primarily due to an increase in interest on bank borrowings, resulting from an increase in the average bank borrowing balance in 2023.

### ***Income tax***

The Group’s income tax decreased by approximately RMB2.6 million or 65.6% from approximately RMB4.0 million for the year ended 31 December 2022 to approximately RMB1.3 million for the year ended 31 December 2023. The decrease was primarily due to the fact that GLP Software was qualified as “Double-soft Enterprise” in 2023 to enjoy full exemption from corporate income tax during the year.

### ***Profit for the year and net profit margin***

As a result of the foregoing, the Group’s net profit increased by approximately RMB33.6 million or 96.0% from approximately RMB35.0 million for the year ended 31 December 2022 to approximately RMB68.7 million for the year ended 31 December 2023. The Group’s net profit margin increased from approximately 8.5% for the year ended 31 December 2022 to approximately 11.3% for the year ended 31 December 2023. The increase in net profit margin can be primarily attributed to the decrease in the effective tax rate resulting from GLP Software’s qualification as a “Double-soft Enterprise” in 2023, leading to a full exemption from its corporate income tax. This favorable tax treatment positively impacted the Group’s net profit margin, allowing for a higher portion of revenue to contribute towards the Group’s net profit.



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### LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, the Group principally funded its working capital and other liquidity requirements through a combination of cash inflow from its operations and bank borrowings.

#### Cash flows

The following table sets out a summary of the Group’s consolidated statements of cash flows for the Track Record Period, extracted from the Accountants’ Report in Appendix I to this document.

	Year ended 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Operating cash flow before changes in working capital . . . . .	58,077	67,155	100,481
Changes in working capital . . . . .	(67,896)	(100,719)	(42,250)
Cash (used in)/generated from operations . . . . .	(9,819)	(33,564)	58,231
Income tax paid . . . . .	(2,427)	(3,123)	(9,793)
<b>Net cash (used in)/generated from operating activities . . . . .</b>	<b>(12,246)</b>	<b>(36,687)</b>	<b>48,438</b>
<b>Net cash used in investing activities . . . . .</b>	<b>(7,497)</b>	<b>(8,404)</b>	<b>(706)</b>
<b>Net cash generated from/(used in) financing activities . . . . .</b>	<b>50,604</b>	<b>73,887</b>	<b>(34,807)</b>
Net increase in cash and cash equivalents during the year . . . . .	30,861	28,796	12,925
Cash and cash equivalents at the beginning of the year . . . . .	8,989	39,850	68,646
Effect of foreign exchange . . . . .	–	–	(31)
<b>Cash and cash equivalents at the end of the year . . . . .</b>	<b>39,850</b>	<b>68,646</b>	<b>81,540</b>

#### Operating activities

The Group’s net cash used in operating activities for the year ended 31 December 2021 was approximately RMB12.2 million and was primarily attributable to its profit before tax of approximately RMB40.9 million as adjusted for non-cash and non-operating items of approximately RMB17.2 million, net cash outflows from changes in working capital of approximately RMB67.9 million and income tax paid of approximately RMB2.4 million. Adjustments for non-cash and non-operating items primarily included interest expenses of approximately RMB10.9 million, depreciation charges of approximately RMB2.6 million and impairment losses recognised of approximately RMB3.8 million. Net cash outflows from changes in working capital primarily resulted from increase in contract assets of approximately RMB73.8 million and increase in non-current trade and other receivables of approximately RMB21.6 million, as a result of the growth of the Group’s business, and was partially offset by the increase in trade and other payables of approximately RMB100.8 million, as a result of the growth of the Group’s business.



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The Group's net cash used in operating activities for the year ended 31 December 2022 was approximately RMB36.7 million and was primarily attributable to its profit before tax of approximately RMB38.9 million as adjusted for non-cash and non-operating items of approximately RMB28.2 million, net cash outflows from changes in working capital of approximately RMB100.7 million and income tax paid of approximately RMB3.1 million. Adjustments for non-cash and non-operating items primarily included interest expenses of approximately RMB15.1 million, depreciation charges of approximately RMB2.3 million and impairment losses recognised of approximately RMB10.8 million. Net cash outflows from changes in working capital primarily resulted from (i) increase in contract assets of approximately RMB27.7 million, as a result of the delay of final inspections conducted by the Group's customers, (ii) increase in trade and other receivables of approximately RMB17.2 million as a result of the delayed settlement of customers' account, and (iii) decrease in trade and other payables of approximately RMB6.0 million, which was in line with the decrease in the Group's revenue.

The Group's net cash generated in operating activities for the year ended 31 December 2023 was approximately RMB48.4 million and was primarily attributable to its profit before tax of approximately RMB70.0 million as adjusted for non-cash and non-operating items of approximately RMB30.5 million, net cash inflows from changes in working capital of approximately RMB42.3 million and income tax paid of approximately RMB9.8 million. Adjustments for non-cash and non-operating items primarily included depreciation charges of approximately RMB2.3 million and interest expenses of approximately RMB16.7 million. Net cash outflows from changes in working capital primarily resulted from increase in contract assets of approximately RMB186.0 million and the increase in non-current trade receivables of approximately RMB11.9 million, which was generally in line with growth of the Group's business, and was partially offset by decrease in trade and other payables of approximately RMB120.0 million, which was generally in line with the growth of the Group's businesses.

### Investing activities

The Group's net cash used in investing activities for the year ended 31 December 2021 was approximately RMB7.5 million and was primarily attributable to the combined effects of cash outflows of approximately RMB7.6 million resulting from payments for the purchase of property, plant and equipment which was offset by cash inflows of approximately RMB0.1 million from interest income received.

The Group's net cash used in investing activities for the year ended 31 December 2022 was approximately RMB8.4 million and was primarily attributable to the combined effects of cash outflows of approximately RMB8.5 million resulting from payments for the purchase of property, plant and equipment which was offset by cash inflows of approximately RMB0.1 million from interest income received.

The Group's net cash used in investing activities for the year ended 31 December 2023 was approximately RMB0.7 million and was primarily attributable to the combined effects of cash outflows of approximately RMB0.9 million resulting from payments for the purchase of property, plant and equipment which was offset by cash inflows of approximately RMB0.2 million from interest income received.

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### Financing activities

The Group’s net cash generated from financing activities for the year ended 31 December 2021 was approximately RMB50.6 million and was primarily attributable to the combined effects of cash inflows from bank borrowings of approximately RMB311.0 million, which was offset by cash outflows from (i) repayment of bank borrowings of approximately RMB205.0 million, (ii) share repurchases of approximately RMB41.6 million and (iii) interest payments of approximately RMB13.2 million.

The Group’s net cash generated from financing activities for the year ended 31 December 2022 was approximately RMB73.9 million and was primarily attributable to the combined effects of cash inflows from (i) bank borrowings of approximately RMB407.0 million and (ii) capital injections from shareholders of approximately RMB27.7 million, which was offset by cash outflows from (i) repayment of bank borrowings of approximately RMB343.0 million and (ii) interest payments of approximately RMB15.3 million.

The Group’s net cash used in financing activities for the year ended 31 December 2023 was approximately RMB34.8 million and was primarily attributable to the combined effects of cash outflows from (i) repayment of bank borrowings of approximately RMB425.0 million and (ii) interest payments of approximately RMB16.4 million, which was offset by cash inflows from bank borrowings of approximately RMB397.0 million.

### Net current assets

The following table sets out the Group’s current assets and current liabilities as at the dates indicated:

	<u>As at 31 December</u>			<u>As at 30 April</u>
	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i> <i>(unaudited)</i>
<b>Current assets</b>				
Inventories and other contract costs . . . . .	20,295	20,195	11,240	10,808
Contract assets . . . . .	513,462	539,645	726,829	701,769
Trade and other receivables . . . . .	219,753	304,969	244,601	239,052
Other financial assets . . . . .	6	9	34	34
Pledged bank deposits . . . . .	5,281	5,366	3,193	3,193
Cash and cash equivalents . . . . .	<u>39,850</u>	<u>68,646</u>	<u>81,540</u>	<u>16,592</u>
Total current assets . . . . .	<u>798,647</u>	<u>938,830</u>	<u>1,067,437</u>	<u>971,448</u>

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	As at 31 December			As at 30 April
	2021	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>
<b>Current liabilities</b>				
Trade and other payables . . . . .	443,540	437,551	677,514	478,633
Contract liabilities . . . . .	5,102	7,644	4,795	680
Lease liabilities . . . . .	111	45	145	142
Bank borrowings . . . . .	311,449	375,198	347,458	339,000
Current taxation . . . . .	<u>9,195</u>	<u>24,903</u>	<u>1,258</u>	<u>–</u>
Total current liabilities . . . . .	<u>769,397</u>	<u>845,341</u>	<u>1,031,170</u>	<u>818,455</u>
<b>Net current assets</b> . . . . .	<u><b>29,250</b></u>	<u><b>93,489</b></u>	<u><b>36,267</b></u>	<u><b>152,994</b></u>

During the Track Record Period, the Group’s current assets primarily comprised contract assets, trade and other receivables, and cash and cash equivalents, which collectively accounted for more than 90% of the Group’s current assets during the period. Meanwhile, its current liabilities primarily comprised trade and other payables and bank borrowings, which collectively accounted for more than 95% of the Group’s current liabilities during the period. The Group maintained a net current asset position throughout the Track Record Period.

The Group’s net current assets increased from approximately RMB29.3 million as at 31 December 2021 to approximately RMB93.5 million as at 31 December 2022. The increase was mainly due to the increase in current assets, which outweighed the increase in current liabilities during the period. The increase in current assets was primarily driven by an increase in contract assets, trade receivables and cash and cash equivalents. The increase in contract assets and trade receivables was attributed to the growth of the Group’s business and was also impacted by delayed settlement by its customers due to the prolonged inspection processes. The increase in cash and cash equivalents was mainly due to the fund raised through short-term bank borrowings. However, the increase in current liabilities was mainly due to an increase in short-term bank borrowings to enhance liquidity of the Group.

The Group’s net current assets decreased from approximately RMB93.5 million as at 31 December 2022 to approximately RMB36.3 million as at 31 December 2023. The decrease was mainly due to the increase in current liabilities, which outweighed the increase in current assets during the year. The increase in current liabilities was primarily driven by a significant increase of amounts due to shareholders as a result of the inclusion of the consideration payable by Jiangxi Zhongge for the acquisition of approximately 90.1% of Zhonggan Communication’s equity interest in aggregate from Mr. Liu, Ms. Tao Xiulan, Mr. Liu Dingyi, Mr. Liu Dingli and Ms. Yeung.

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The Group's net current assets increased from approximately RMB36.3 million as at 31 December 2023 to approximately RMB153.0 million as at 30 April 2024. The major reason was that in early 2024, the shareholders of Zhonggan Communication provided approximately RMB127.7 million as a gift in order to facilitate the transfer payment from Jiangxi Zhongge to the relevant shareholders as part of the Reorganisation. As at the 30 April 2024, approximately RMB127.7 million of the amounts due to shareholders as at 31 December 2023 has been settled upon completion of the transfer payment.

### WORKING CAPITAL

The Directors are of the opinion that, after due and careful enquiry by the Company and the Directors in relation to the financial resources available to the Group, particularly the funds generated internally from its operations, the availability of banking facilities and the estimated **[REDACTED]** from the **[REDACTED]**, the Group has sufficient working capital for its present requirements and for the next 12 months from the date of this document.

The Directors confirmed that there were breaches of covenants under loan agreements during the Track Record Period. As at 31 December 2021, 2022 and 2023, the agreements with respect to the Group's borrowings with Nanchang Xihu Branch of China Construction Bank Corporation which amounted to approximately RMB155.2 million, RMB155.1 million and RMB127.2 million, were subject to loan covenants relating to certain financial ratios based on the borrower's balance sheet that are commonly found in lending arrangements with financial institutions, one of which requires that the gearing ratio of the Group shall not be more than 65% for a period of three consecutive months or more. However, during the Track Record Period, the Group's gearing ratio fell short of such requirement of the loan covenant under the loan agreements. As advised by the PRC Legal Advisers, according to the terms of the loan agreements, if the Company were to breach such covenants, the relevant bank borrowings may become repayable on demand. However, according to the PRC Legal Advisers, the Company has obtained a waiver from the relevant principal bank in which the bank has confirmed that despite the breach of certain loan covenants, the Group's bank borrowings granted will remain valid for the remaining term of the bank borrowings, which are set to expire between the period from October 2024 to April 2025. Based on the above, the PRC Legal Advisers are of the view that the possibility for the relevant principal bank to demand immediate repayment of the bank borrowings by the Group is low.

Additionally, the Group is also subject to other restrictive financial loan covenants, which may be material to the Group, under its certain bank borrowings during the Track Record Period and up to 30 April 2024. These loan covenants included, among others, that (i) the current ratio of the Group shall not fall under 1.0 for a period of three consecutive months or more; (ii) the ratio of the Group's contingent liabilities relative to its net assets must not exceed 65% for a period of three consecutive months or more; and (iii) the Group must maintain profitability (i.e. net profit position) for the financial year. As at 31 December 2021, 2022 and 2023 and 30 April 2024, the Group's current ratios were approximately 1.0, 1.1, 1.0 and 1.2 times, respectively. The Group's net profit for the year/period also fulfilled the profitability requirements under the loan covenants during the Track Record Period and up to 30 April 2024. Furthermore, as confirmed by the Directors, the Group did not have any contingent liabilities during the Track Record Period and up to 30 April 2024.

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In view of the above breach, the Group has implemented enhanced internal control policies to prevent the recurrence of similar incidents and to observe its compliance with the relevant restrictive financial loan covenants on an on-going basis. Such internal control policies include: (i) whenever the Group intends to obtain new bank loans, the finance department is responsible for preparing and regularly updating the financial plan, which is subject to review and approval by the head of the finance department, the chief financial officer and the chairman of the Board; and (ii) the finance department carries out an on-going monitoring process to actively monitor the Group's compliance status with the bank loans, which apply both (a) when the Group intends to obtain new bank loans, and (b) on a monthly basis. The finance department will make calculations against the requirements under the financial covenants specified in the bank loan agreements. These calculations are then subject to further review and approval by the head of the finance department and the chief financial officer. Through this monitoring process, the Directors believe that the Group can ensure on-going compliance with the financial covenants outlined in the bank loan agreements.

For further details as to the breaches of covenants, please refer to paragraph headed “Risk Factors – Risks relating to the Group's business – The Group's high level of indebtedness may persist or increase in the future” in this document.

The Directors consider the Group has ability to obtain sufficient bank borrowings for its operations and no difficulties are foreseen to secure enough funds to meet its funding needs, mainly based on (i) the Group did not have any material defaults in payment of bank borrowings during Track Record Period; (ii) the Group has established robust relationships with reputable financial institutions over time; (iii) the Group has actively pursued diversification in its funding sources, reducing its reliance on a single lender; (iv) the enhanced credibility as a listed company, which leads to greater access to obtain bank borrowings; and (v) the Group had unutilised banking facilities of approximately RMB357.7 million out of total credit lines of RMB536.0 million as at 30 April 2024.

Although the Group's unutilised banking facilities which amounted to approximately RMB357.7 million as at 30 April 2024 maintained with the Nanchang Xihu Branch of China Construction Bank Corporation contained restrictive loan covenants relating to certain financial ratios including the maximum gearing ratio as abovementioned, as the Company has obtained a waiver from the relevant principal bank which confirmed the validity of the existing banking facilities, the Directors believe that it would not restrict the Group's ability to draw down the relevant unutilised banking facilities from such bank. Such bank borrowings were already accounted as current liabilities rather than non-current liabilities, therefore the breach of certain loan covenants would not result in any accounting implication to the Group.

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### Measures to manage the Group's liquidity and improve its working capital position

The Directors will continue to closely monitor the Group's capital and liquidity requirements and ensure the sufficiency of the Group's working capital to operate its business in a sustainable manner. In connection with the afore, the Group has adopted certain measures including the following:

- (i) the Group will prepare quarterly working capital forecasts in a timely manner that shall set out the expected cash inflows and outflows on a monthly basis which the Directors will review together with cash flow statements to enable the Group to better manage its financial resources in the near term;
- (ii) the Group will prepare monthly management accounts in a timely manner and the monthly management accounts will be reviewed by the Directors and the Group's senior management and be compared with the budgets. Any material variances will be explained and followed up immediately;
- (iii) the Group will continue to actively monitor the certification and payment status of its projects and customers, including conducting regular reviews of its accounts. The finance department will also prepare an aging analysis on a monthly basis for review by the Directors to ascertain if there are any long outstanding receivables and the Group will assign designated credit control officers who will regularly contact the debtors and to send payment reminders. Other follow-up actions include (a) active communications with the customers' responsible personnel for certifying completed works and processing payments; (b) cessation in processing any further orders from such customer until the overdue balance is recovered; and (c) reviewing the recoverable amount of each individual trade receivables balance at the end of each reporting period to ensure adequate impairment allowances are provided for irrecoverable amounts; and
- (iv) the Group will continue to closely monitor its cash and bank balance through constantly reviewing its internal records and bank account. When any potential shortfall in its cash position is identified, the Group will strive to negotiate for earlier settlement from its customers and/or request a longer credit period from its suppliers in order to mitigate the cash flow mismatch. Further, if required, the Group will also obtain short-term borrowings to fund its capital needs.

## FINANCIAL INFORMATION

### ANALYSIS OF MAJOR COMPONENTS OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

#### Inventories and other contract costs

The following table sets out the Group’s inventories and other contract costs as at the dates indicated:

	As at 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Inventories			
– Hardware . . . . .	5,078	3,729	520
– Software . . . . .	591	59	265
Other contract costs . . . . .	14,626	16,407	10,455
<b>Total . . . . .</b>	<b>20,295</b>	<b>20,195</b>	<b>11,240</b>

During the Track Record Period, the Group’s inventories mainly comprised hardware and software which were primarily allocated for use in its Digitalisation Solution Services projects. During the implementation of its projects, particularly the Telecommunications Infrastructure Services projects, the Group incurred various costs, including labour procurement costs and direct materials costs, where the costs were temporarily capitalised as a balance sheet item, specifically other contract costs. Contract costs are recognised as part of cost of sales in the statement of profit or loss and other comprehensive income in the period in which revenue is recognised.

The Group’s inventories and other contract costs remained stable at approximately RMB20.3 million and RMB20.2 million as at 31 December 2021 and 2022, respectively. The Group’s inventories and other contract costs decreased from approximately RMB20.2 million as at 31 December 2022 to approximately RMB11.2 million as at 31 December 2023. The decrease was mainly attributed by a decrease in inventories and other contract costs which was primarily due to the fact that the hardware purchased and other contract costs had been converted into cost of sales according to the progress of the relevant projects.

As at the Latest Practicable Date, approximately RMB10.7 million, representing approximately 95.4% of the Group’s inventories and other contract costs as at 31 December 2023 had been utilised.



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## FINANCIAL INFORMATION

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### *Stock turnover days*

The following table sets out the Group’s stock turnover days during the Track Record Period:

	Year ended 31 December		
	2021	2022	2023
Stock turnover days (days) . . . . .	27.0	23.9	12.5

*Note:* Average balance of inventories and other contract costs multiplied by number of days in that year divided by total cost of sales.

During the Track Record Period, the Group maintained a relatively low stock turnover days, primarily due to the fact that a large part of the material applied to its Telecommunications Infrastructure Services projects was supplied by its customers and labour suppliers. The Group’s stock turnover days slightly decreased from approximately 27.0 days for the year ended 31 December 2021 to approximately 23.9 days for the year ended 31 December 2022. This decrease was attributed mainly to the decrease in the average balance of inventories and other contract costs in 2022 as a result of the Group’s prioritisation of Software Solution Services projects over Integrated Solution Services projects. Therefore, no significant costs for hardware were incurred for the projects. The Group’s stock turnover days further decreased to approximately 12.5 days for the year ended 31 December 2023, the decrease was mainly due to the fact that the hardware purchased and other contract costs had been converted into cost of sales according to the progress of the relevant projects.

### **Contract assets**

The Group’s contract assets mainly represented a conditional right to receive payment from its customers for its Telecommunications Infrastructure Services projects. The contract assets arise when the Group makes efforts or input towards the satisfaction of performance obligation under its Telecommunications Infrastructure Service projects, however, the right to receive payment from its customers is subject to the Group satisfying certain pre-agreed conditions. Upon satisfying such conditions, the contract assets will then be transferred to trade receivables. Based on the contracts between the Group and the relevant customers, the Group must have completed the relevant works required and passed the inspection and acceptance for progress payment, settlement audit for final payment and expiry of defect liability period for retention money. Thus, the transfer of the Group’s contract assets to trade receivables will depend on the timing of completion of certain procedures by the customers (i.e. project inspection and acceptance and settlement audit), which may vary among different customers based on their own internal procedural requirements and other consideration. For details, please refer to paragraph headed “Business – Operation flow” in this document. The following table sets out the Group’s contract assets as at the dates indicated:

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	As at 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Telecommunications Infrastructure Services</b>			
Balance . . . . .	514,396	537,825	728,392
Less: loss allowance . . . . .	(1,503)	(2,202)	(1,957)
	512,893	535,623	726,435
<b>Digitalisation Solution Services</b>			
Balance . . . . .	728	4,972	431
Less: loss allowance . . . . .	(159)	(950)	(37)
	569	4,022	394
<b>Total . . . . .</b>	<b>513,462</b>	<b>539,645</b>	<b>726,829</b>

The Group’s contract assets were assessed for ECLs which was estimated using a provision matrix based on the Group’s historical credit loss experience, adjusted for factors that are specific to its debtors and an assessment of both the current and forecast general economic conditions at the end of each year of the Track Record Period. The ECLs recognised for contract assets were approximately RMB1.7 million, RMB3.2 million and RMB2.0 million for the year ended 31 December 2021, 2022 and 2023, respectively.

As at the Latest Practicable Date, approximately RMB381.3 million, RMB280.4 million and RMB128.8 million, representing approximately 74.0%, 51.6%, and 17.7% of the Group’s contract assets as at 31 December 2021, 2022 and 2023, respectively, had been subsequently transferred to trade receivables. The Directors are of the view that there is no significant concern regarding the recoverability of the Group’s contract assets despite the relatively low percentage of subsequent conversion of its contract assets as at 31 December 2023 into trade receivables. To the best knowledge and belief of the Directors, it can be attributed to the slowdown in business activities, including the completion of inspection and acceptance procedures and/or settlement audit procedures, during the traditional slack season in the PRC including the periods before and after the Chinese New Year. As a result, the conversion of contract assets to trade receivables would be slower in the first quarter of the year, leading to a lower percentage of subsequent conversion.

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The following table sets out the aging analysis of the Group's contract assets by (i) business segments and (ii) project and retention money, as at the dates indicated:

	As at 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Telecommunications Infrastructure Services:</b>			
<b>Project money</b>			
Within 6 months . . . . .	185,066	164,805	261,407
More than 6 months but within 12 months . . . . .	158,653	92,040	135,327
More than 12 months but within 18 months . . . . .	91,113	95,778	92,766
More than 18 months but within 24 months . . . . .	21,568	97,386	57,337
More than 24 months but within 36 months . . . . .	49,158	60,235	124,046
More than 36 months but within 48 months . . . . .	3,874	20,552	44,401
More than 48 months. . . . .	<u>138</u>	<u>714</u>	<u>9,768</u>
Balance . . . . .	509,571	531,510	725,052
Less: loss allowance . . . . .	<u>(444)</u>	<u>(996)</u>	<u>(1,292)</u>
Sub-total . . . . .	<u>509,127</u>	<u>530,514</u>	<u>723,760</u>
<b>Retention money for projects</b>			
Within 6 months . . . . .	2,109	3,931	1,880
More than 6 months but within 12 months . . . . .	2,480	1,692	1,114
More than 12 months but within 18 months . . . . .	198	518	197
More than 18 months but within 24 months . . . . .	17	174	150
More than 24 months but within 36 months . . . . .	13	–	–
More than 36 months but within 48 months . . . . .	7	–	–
More than 48 months. . . . .	<u>–</u>	<u>–</u>	<u>–</u>
Balance . . . . .	4,825	6,314	3,341
Less: loss allowance . . . . .	<u>(1,058)</u>	<u>(1,206)</u>	<u>(665)</u>
Sub-total . . . . .	<u>3,767</u>	<u>5,108</u>	<u>2,676</u>
<b>Total contract assets of Telecommunications Infrastructure Services (net of loss allowance). . . . .</b>	<b><u>512,893</u></b>	<b><u>535,623</u></b>	<b><u>726,435</u></b>

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	As at 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Digitalisation Solution Services</b>			
<b>Project money</b>			
Within 6 months . . . . .	-	-	-
More than 6 months but within 12 months . . . . .	-	-	245
More than 12 months but within 18 months . . . . .	-	-	-
More than 18 months but within 24 months . . . . .	-	-	-
More than 24 months but within 36 months . . . . .	-	-	-
More than 36 months but within 48 months . . . . .	-	-	-
More than 48 months. . . . .	-	-	-
	-	-	-
Balance . . . . .	-	-	245
Less: loss allowance . . . . .	-	-	-
	-	-	-
Sub-total . . . . .	-	-	245
<b>Retention money for projects</b>			
Within 6 months . . . . .	40	4,165	-
More than 6 months but within 12 months . . . . .	119	238	-
More than 12 months but within 18 months . . . . .	570	-	-
More than 18 months but within 24 months . . . . .	-	-	186
More than 24 months but within 36 months . . . . .	-	570	-
More than 36 months but within 48 months . . . . .	-	-	-
More than 48 months. . . . .	-	-	-
	-	-	-
Balance . . . . .	728	4,972	176
Less: loss allowance . . . . .	(159)	(950)	(37)
	569	4,022	149
Sub-total . . . . .	569	4,022	149
<b>Total contract assets of Digitalisation Solution Services</b>			
<b>(net of loss allowance) . . . . .</b>	<b>569</b>	<b>4,022</b>	<b>394</b>

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	As at 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Overall</b>			
Within 6 months . . . . .	187,215	172,901	263,287
More than 6 months but within 12 months . . . . .	161,251	93,969	136,687
More than 12 months but within 18 months . . . . .	91,881	96,296	92,963
More than 18 months but within 24 months . . . . .	21,585	97,561	57,672
More than 24 months but within 36 months . . . . .	49,171	60,805	124,045
More than 36 months but within 48 months . . . . .	3,882	20,552	44,401
More than 48 months . . . . .	138	714	9,768
Balance . . . . .	515,124	542,797	728,823
Less: loss allowance . . . . .	(1,662)	(3,152)	(1,994)
<b>Total</b> . . . . .	<b>513,462</b>	<b>539,645</b>	<b>726,829</b> <sup>(note)</sup>

*Note:* As at 31 December 2023, the Group's contract assets amounted to approximately RMB726.8 million, with approximately RMB724.4 million (equivalent to approximately 99.4%), were attributed to the Big Three and the world's largest telecommunication tower infrastructure service provider.

The Group held significant contract assets aged more than 12 months, primarily representing project money and retention money from Infrastructure Construction Services projects. The extended aging was a result of prolonged inspection, acceptance, and settlement audit processes by the customers. Revenue and corresponding contract assets are recognised based on work order progress, with a portion transferred to trade receivables as progress payments after customer or its agent's inspection and acceptance, typically occurring six to 12 months after initial recognition. The remaining portion, including final payments and retention money, is transferred to trade receivables after settlement audit for final payment and expiration of the defect liability period, generally occurring 17 to 36 months and 29 to 60 months after initial recognition of the contract assets, respectively.

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The following table sets out the Group’s contract assets attributable to the Telecommunications Infrastructure Services undertaken by the Group breakdown by (i) pending inspection and acceptance by the relevant customers and (ii) completion of inspection and acceptance but pending issuance of VAT invoices, as at the dates indicated:

	As at 31 December			As at the Latest Practicable Date
	2021	2022	2023	Date
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Pending inspection and acceptance				
– Project money . . . . .	219,170	216,645	351,585	348,694
– Retention money of projects . . . . .	4,761	4,385	21,422	1,927
Completion of inspection and acceptance but pending issuance of VAT invoices . . . . .	<u>290,465</u>	<u>316,795</u>	<u>374,387</u>	<u>390,673</u>
Balance . . . . .	514,396	537,825	728,393	741,294
Less: loss allowance. . . . .	<u>(1,503)</u>	<u>(2,202)</u>	<u>(1,957)</u>	<u>(1,701)</u>
<b>Total . . . . .</b>	<b><u>512,893</u></b>	<b><u>535,623</u></b>	<b><u>726,435</u></b>	<b><u>739,593</u></b>

As at the Latest Practicable Date, the Group’s contract assets attributable to the Infrastructure Construction Services undertaken by the Group but pending inspection and acceptance by the relevant customers remained unbilled and not being transferred to trade receivables was mainly due to the prolonged inspection, acceptance, and settlement audit processes by the customers before the Group becomes eligible to issue VAT invoices to customers.

For the years ended 31 December 2021, 2022 and 2023, the Group recognised revenue attributable to services undertaken by the Group but pending inspection and acceptance by the relevant customers of approximately RMB152.0 million, RMB120.4 million and RMB219.3 million, respectively.

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The following table sets out the movement of the Group’s contract assets during the Track Record Period:

	Year ended 31 December		
	2021	2022	2023
	RMB’000	RMB’000	RMB’000
<b>Project money</b>			
Balance as at 1 January . . . . .	434,673	509,571	531,510
Increase during the year . . . . .	402,164	378,144	536,359
Transfer to trade receivables . . . . .	<u>(327,266)</u>	<u>(356,205)</u>	<u>(342,572)</u>
Balance . . . . .	509,571	531,510	725,297
Less: loss allowance . . . . .	<u>(444)</u>	<u>(996)</u>	<u>(1,293)</u>
	<u>509,127</u>	<u>530,514</u>	<u>724,004</u>
<b>Retention money for projects</b>			
Balance as at 1 January . . . . .	6,663	5,552	11,287
Increase during the year . . . . .	4,760	10,025	2,994
Transfer to trade receivables . . . . .	<u>(5,870)</u>	<u>(4,291)</u>	<u>(10,754)</u>
Balance . . . . .	5,552	11,287	3,526
Less: loss allowance . . . . .	<u>(1,217)</u>	<u>(2,156)</u>	<u>(701)</u>
	<u>4,335</u>	<u>9,131</u>	<u>2,825</u>
<b>Total . . . . .</b>	<b><u>513,462</u></b>	<b><u>539,645</u></b>	<b><u>726,829</u></b>

### *Contract assets turnover days*

The following table sets out the Group’s contract assets turnover days during Track Record Period:

	Year ended 31 December		
	2021	2022	2023
Contract assets turnover days (days) . . . . .	<u>364.3</u>	<u>467.4</u>	<u>380.9</u>

*Note:* Average balance of contract assets multiplied by number of days in that year divided by total revenue.



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The Group’s contract assets turnover days decreased from approximately 460.4 days for the year ended 31 December 2020 to approximately 364.3 days for the year ended 31 December 2021. Such decrease was mainly due to a significant increase in the Group’s revenue, resulting from the recognition of a substantial amount of revenue in respect of a sizable provincial transmission pipeline engineering construction project in 2021. However, the Group’s contract assets turnover days increased from approximately 364.3 days for the year ended 31 December 2021 to approximately 467.4 days for the year ended 31 December 2022. Such increase was mainly due to (i) the decrease in revenue as a result of the prioritisation of Software Solution Services over Integrated Solution Services projects in 2022; and (ii) the decrease in revenue recognised from a sizable provincial transmission pipeline engineering construction project, as a result of a decrease in work orders placed by the respective customer in respect of that project. The Group’s contract assets turnover days decreased from approximately 467.4 days for the year ended 31 December 2022 to approximately 380.9 days for the year ended 31 December 2023, the decrease was mainly due to the significant increase in the Group’s revenue contributed by the growth of both Telecommunications Infrastructure Solution Services business segment and Digitalisation Solution Services business segment in 2023.

### Contract liabilities

The Group’s contract liabilities represented consideration received in advance from its customers for its Telecommunications Infrastructure Services projects and Digitalisation Solution Services projects, representing contract liabilities would be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. Upon achieving specified contractual milestones or fully satisfying certain performance obligation, the contract liabilities would be reclassified as revenue. The following table sets out the Group’s contract liabilities as at the dates indicated:

	As at 31 December		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Billings in advance . . . . .	5,102	7,644	4,795

The Group’s contract liabilities increased from approximately RMB5.1 million as 31 December 2021 to approximately RMB7.6 million as at 31 December 2022. The increase of the Group’s contract liabilities was mainly driven by the rapid growth of its Digitalisation Solution Services business segment, since the Group may require a prepayment from its customers before commencement of projects. As at 31 December 2023, the Group recorded a decrease in contract liabilities, amounting to approximately RMB4.8 million. This decrease can be primarily attributed to a reduction in the number of Integrated Solution Services projects and Software Solution Services projects on hand compared to the previous year.

As at the Latest Practicable Date, approximately RMB4.1 million, representing approximately 85.9% of the balance of contract liabilities as at 31 December 2023 had been subsequently recognised as the Group’s revenue.

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### Trade and other receivables

The following table sets out a summary of the Group’s trade and other receivables as at the dates indicated:

	As at 31 December		
	2021	2022	2023
	RMB’000	RMB’000	RMB’000
Trade receivables . . . . .	229,761	272,778	275,613
Bills receivable . . . . .	–	568	–
Trade and bills receivables . . . . .	229,761	273,346	275,613
Less: loss allowance . . . . .	(4,818)	(13,192)	(25,618)
Trade and bills receivables, net of loss allowance . . . . .	224,943	260,154	249,995
Other receivables, net of loss allowance . . . . .	23,440	12,410	7,226
Deferred VAT refund . . . . .	6,246	5,369	5,299
Prepayment for labour, equipment and services . . . . .	5,583	30,995	6,828
Amounts due from related parties . . . . .	166	12,574	109
Current tax prepayment . . . . .	–	–	2,280
<b>Total . . . . .</b>	<b>260,378</b>	<b>321,502</b>	<b>271,737</b>

### Trade and bills receivables

The Group’s trade and bills receivables mainly comprised receivables for the provision of Telecommunications Infrastructure Services and Digitalisation Solution Services by the Group. The Group’s trade and bills receivables (net of loss allowance) amounted to approximately RMB224.9 million, RMB260.2 million and RMB250.0 million as at 31 December 2021, 2022 and 2023, respectively.

The Group’s trade and bills receivables (net of loss allowance) increased by approximately 15.7% from approximately RMB224.9 million as at 31 December 2021 to approximately RMB260.2 million as at 31 December 2022, the increase was mainly contributed by the Telecommunications Infrastructure Services business segment, as a result of the delayed settlement of customers’ accounts. However, despite experiencing growth in gross profit of Digitalisation Solution Services business segment for the year ended 31 December 2022, the balance of trade receivables attributed to such business segment did not increase proportionally to its growth. This was mainly due to the Group’s prioritisation of Software Solution Services projects over Integrated Solution Services projects, taking into account the customers’ demand and the limited resources available during that period. By focusing on Software Solution Services, the Group was able to improve its liquidity by avoiding the need for substantial capital requirements for hardware purchases associated with Integrated Solution Services projects. The contract sum of these Software Solution Services projects was relatively lower as compared to the Integrated Solution Services projects, resulting in a lower balance of sales amount and corresponding balance of trade receivables. The Group’s trade and bills receivables (net of loss allowance) decreased by approximately 15.1% from approximately RMB260.2 million as at 31 December 2022 to approximately RMB250.0 million as at 31 December 2023, the decrease was

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mainly due to the increase in loss allowance of trade and bill receivables for Digitalisation Solution Services as a result of the extension of payment terms in relation to five Integrated Solution Services projects. These five Integrated Solution Services projects are assigned to Customer A and Customer B, with the end users comprising regulatory authorities and public institution. The payment schedule for these five projects is dependent on the timing of trade debts settlement by the end users to the Group’s customers.

Following the COVID-19 pandemic, these end users faced temporary liquidity constraints, which resulted in payment delays to both Customer A and Customer B. Recognising the financial challenges faced by the end users, Customer A and Customer B initiated negotiations with the Group to discuss the possibility of extending the payment terms for these projects. Considering the long-standing business relationship and the background of Customer A and Customer B, both of which are the Big Three telecommunications network operators in the PRC and state-owned enterprises, a mutual agreement was reached between the Group and Customer A or Customer B to extend the payment terms. This agreement serves as a proactive measure to provide relief to the local government concerned and helps to meet the challenges posed by the COVID-19 pandemic.

The following table sets out the details relating to the five Integrated Solution Services projects as mentioned above:

Contract name/ Principal nature	Customer/ End user	Contract value	Revenue contribution (Note)	Commencement date/ Completion date	Project stage	Payment terms before payment term extension	Payment terms after payment term extension	Trade receivables and loss allowance recognised as at the end of each year during the Track Record Period
2018 HD probe integration service agreement in Nanchang/ Digital surveillance	Customer A/ Regulatory authority	RMB65.5 million	RMB56.4 million	31 December 2018/ 20 February 2019	Post-completion stage	Making payment on a quarterly basis upon the inspection and acceptance of the completed work by the end user, and upon receiving the corresponding payment from the end user	Making payment of the remaining balance of approximately RMB10.8 million before 15 June 2024	Trade receivables as at 31 December 2021: approximately RMB21.0 million 31 December 2022: approximately RMB15.9 million 31 December 2023: approximately RMB10.5 million  Loss allowance as at 31 December 2021: approximately RMB34,000 31 December 2022: approximately RMB0.2 million 31 December 2023: approximately RMB0.6 million

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Contract name/ Principal nature	Customer/ End user	Contract value	Revenue contribution (Note)	Commencement date/ Completion date	Project stage	Payment terms before payment term extension	Payment terms after payment term extension	Trade receivables and loss allowance recognised as at the end of each year during the Track Record Period
Public security surveillance project in Honggutan New District/ Digital surveillance	Customer A/ Regulatory authority	RMB33.4 million	RMB29.3 million	19 March 2021/ 31 December 2021	Post-completion stage	Making payment based on the following payment terms: 1. If the customer receives payments from the end user in each period that are equal to or greater than the payable amount as stipulated in the contract entered into between the customer and the end user, the customer will make the first payment amounted to one-sixth of the total contract value after project inspection and acceptance, and upon the customer receiving one-sixth of the total contract value from the end user. Subsequently, payments will be made every six months, with each payment amounted to one-sixth of the total contract value. 2. If the customer receives payments from the end user in each period that are less than the payable amount as stipulated in the contract entered into between the customer and the end user, the customer will make payments based on the corresponding proportion of the amount received from the end user. Once the end user completes the payment of the remaining amount, the customer will make a corresponding payment to fulfill the remaining contract value.	Making payment of the remaining balance based on the following payment schedule: 1. Make payment of approximately RMB5.8 million in September 2023 2. Make payment of approximately RMB5.8 million in March 2024 3. Make payment of approximately RMB5.8 million in September 2024 4. Make payment of approximately RMB6.3 million in March 2025	Trade receivables as at 31 December 2021: approximately RMB31.2 million 31 December 2022: approximately RMB27.3 million 31 December 2023: approximately RMB18.6 million  Loss allowance as at 31 December 2021: approximately RMB27,000 31 December 2022: approximately RMB0.1 million 31 December 2023: approximately RMB0.4 million
Hospital intelligent informatisation engineering project in Linchuan District/ Digital healthcare	Customer B/ Public institution	RMB50.7 million	RMB45.0 million	1 December 2021/ 30 December 2021	Post-completion stage	Making payment upon receiving the corresponding payment from the end user according to the following payment schedule: 1. 50% of the total contract value within 10 working days after the project inspection and acceptance 2. 30% of the total contract value within 10 working days after 12 months of project inspection and acceptance 3. 10% of the total contract value within 10 working days after 24 months of project inspection and acceptance 4. 5% of the total contract value within 10 working days after 36 months of project inspection and acceptance 5. 5% of the total contract value within 10 working days after 60 months of project inspection and acceptance	Making payment of the remaining balance based on the following payment schedule: 1. Make payment of approximately RMB8.0 million in November 2023 2. Make payment of approximately RMB15.2 million in November 2024 3. Make payment of approximately RMB5.1 million in November 2025 4. Make payment of approximately RMB2.5 million in November 2026 5. Make payment of approximately RMB2.5 million in November 2027	Trade receivables as at 31 December 2021: approximately RMB49.1 million 31 December 2022: approximately RMB41.4 million 31 December 2023: approximately RMB24.9 million  Loss allowance as at 31 December 2021: approximately RMB43,000 31 December 2022: approximately RMB1.9 million 31 December 2023: approximately RMB5.2 million

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Contract name/ Principal nature	Customer/ End user	Contract value	Revenue contribution (Note)	Commencement date/ Completion date	Project stage	Payment terms before payment term extension	Payment terms after payment term extension	Trade receivables and loss allowance recognised as at the end of each year during the Track Record Period
Digital city management project (phase 1 – operation) agreement in Qingshan Lake District/ Digital surveillance	Customer B/ Regulatory authority	RMB47.1 million	RMB42.9 million	1 December 2019/ 10 December 2020	Post-completion stage	Making payment based on the following payment schedule: 1. 30% of the total contract value shall be paid within 7 working days after the initial equipment installation on the project site 2. 30% of the total contract value shall be paid within 7 working days from the date of project inspection and acceptance 3. 20% of the total contract value shall be paid after one year of the second payment 4. 10% of the total contract value shall be paid after two years of the second payment 5. 10% of the total contract value shall be paid after three years of the second payment	Making payment of the remaining balance based on the following payment schedule: 1. Make payment of approximately RMB14.1 million before May 2024 2. Make payment of approximately RMB9.4 million before December 2024 3. Make payment of approximately RMB4.7 million before December 2025 4. Make payment of approximately RMB4.7 million before December 2026	Trade receivables as at 31 December 2021: approximately RMB32.4 million 31 December 2022: approximately RMB32.7 million 31 December 2023: approximately RMB32.9 million  Loss allowance as at 31 December 2021: approximately RMB28,000 31 December 2022: approximately RMB3.3 million 31 December 2023: approximately RMB2.6 million
Digital city management project (phase 1 – surveillance system integration service) agreement/ Digital surveillance	Customer B/ Regulatory authority	RMB9.8 million	RMB8.5 million	1 November 2020/ 31 January 2021	Post-completion stage	Making payment based on the following payment schedule: 1. 30% of the total contract value shall be paid within 7 working days after the initial equipment installation on the project site 2. 30% of the total contract value shall be paid within 7 working days from the date of project inspection and acceptance 3. 20% of the total contract value shall be paid after one year of the second payment 4. 10% of the total contract value shall be paid after two years of the second payment 5. 10% of the total contract value shall be paid after three years of the second payment	Making payment of the remaining balance based on the following payment schedule: 1. Make payment of approximately RMB2.9 million before May 2024 2. Make payment of approximately RMB2.0 million before December 2024 3. Make payment of approximately RMB1.0 million before December 2025 4. Make payment of approximately RMB1.0 million before December 2026	Trade receivables as at 31 December 2021: approximately RMB6.7 million 31 December 2022: approximately RMB6.8 million 31 December 2023: approximately RMB6.8 million  Loss allowance as at 31 December 2021: approximately RMB0.2 million 31 December 2022: approximately RMB1.6 million 31 December 2023: approximately RMB3.4 million

*Note:* The differences between the contract value and the revenue contribution were mainly attributable to (i) the contract value is inclusive of taxes, while the revenue contribution is exclusive of taxes; and (ii) these five Integrated Solution Services projects underwent significant financing component adjustments, with a portion of the amount being recorded as interest income.

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According to the Ipsos Report, some local governments in the PRC faced temporary liquidity constraints under the impact of the COVID-19 pandemic due to most of their resources being used for implementation of anti-epidemic measures. The end users of the five Integrated Solution Services projects abovementioned have faced temporary liquidity constraints due to the responsible allocation of local government funds towards essential precautionary measures necessitated by the COVID-19 pandemic during the relevant years. If the end users fail to make the corresponding payment to the Group’s customers on time, it would indirectly impact on the Group’s liquidity. However, it is crucial to emphasise that such liquidity constraints are of a temporary nature with a view to combating the COVID-19 pandemic. As such, these temporary liquidity constraints do not pose a significant threat to the long-term creditworthiness and financial stability of the end users. Save for the five Integrated Solution Services projects, the balance of long-outstanding trade receivables (overdue more than one year) (net of loss allowance) as a result of late payment also involves one public institution and two state-owned enterprises as end users. The balance of these long-outstanding trade receivables (net of loss allowance) was nil, approximately RMB2.3 million and RMB5.8 million as at 31 December 2021, 2022 and 2023, respectively, and has been fully settled as at the Latest Practicable Date.

As advised by the PRC Legal Advisers, according to the general rule of privity of contract codified in the Civil Code of the People’s Republic of China (《中華人民共和國民法典》), it is explicitly stipulated that the rights and obligations arising from a contract are strictly limited to the parties directly involved in that contract. Therefore, only the contracting parties possess the authority to enforce the terms of the contract and enjoy and be bound by the related benefits and obligations. In the specific context of the Group’s operations, it is evident that the Group and its customers are the sole contracting parties to their respective agreements, whereas the end users involved in these arrangements are considered third parties. In projects where long-outstanding trade receivables exist, it is important to acknowledge that the ultimate responsibility for payment rests upon the customers. Although for some of the Group’s Integrated Solution Services projects, the Group may only receive payment after the end users have made the corresponding payment to the Group’s customers, it should only affect the timing of payment receipts. Therefore, when assessing the possibility of recovering long-aged trade receivables, a significant factor to consider is the credibility and financial capability of the Group’s customers. However, when determining the timing of recoverability for outstanding amounts of long-aged trade receivables, the credibility and financial capability of the end users in each underlying project play a major role. Considering the abovementioned reasons and that most of the customers of projects with long-outstanding trade receivables are state-owned enterprises with strong financial strength and high credibility, the Directors consider the trade receivables in respect of these projects to be recoverable.

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The following table sets out the aging analysis of the Group's trade and bills receivables by (i) business segments, and (ii) progress payment, final payment and retention money, as at the dates indicated:

	As at 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Telecommunications Infrastructure Services</b>			
<b>Progress payment</b>			
Within 6 months . . . . .	27,515	31,133	21,848
More than 6 months but within 12 months . . . . .	9,766	5,441	2,697
More than 12 months but within 18 months . . . . .	4,103	1,823	1,791
More than 18 months but within 24 months . . . . .	340	2,917	2,281
More than 24 months but within 36 months . . . . .	17	606	1,803
More than 36 months but within 48 months . . . . .	23	17	221
More than 48 months. . . . .	484	506	523
Balance . . . . .	42,247	42,442	31,164
Less: loss allowance . . . . .	(1,647)	(2,759)	(3,689)
Sub-total . . . . .	40,600	39,683	27,475
<b>Final payment</b>			
Within 6 months . . . . .	29,751	25,868	30,318
More than 6 months but within 12 months . . . . .	1,989	6,690	11,711
More than 12 months but within 18 months . . . . .	727	368	1,219
More than 18 months but within 24 months . . . . .	311	505	178
More than 24 months but within 36 months . . . . .	390	522	138
More than 36 months but within 48 months . . . . .	–	390	428
More than 48 months. . . . .	2	2	392
Balance . . . . .	33,170	34,345	44,384
Less: loss allowance . . . . .	(721)	(1,405)	(2,148)
Sub-total . . . . .	32,449	32,940	42,236
<b>Retention money for projects</b>			
Within 6 months . . . . .	–	–	–
More than 6 months but within 12 months . . . . .	–	27	234
More than 12 months but within 18 months . . . . .	1,764	801	978
More than 18 months but within 24 months . . . . .	1,721	1,056	490
More than 24 months but within 36 months . . . . .	969	1,741	1,343
More than 36 months but within 48 months . . . . .	10	525	1,456
More than 48 months. . . . .	–	10	525
Balance . . . . .	4,464	4,159	5,026
Less: loss allowance . . . . .	(1,786)	(1,664)	(2,011)
Sub-total . . . . .	2,678	2,496	3,015
<b>Total trade and bills receivables of Telecommunications Infrastructure Services (net of loss allowance) . . . . .</b>	<b>75,727</b>	<b>75,119</b>	<b>72,726</b>

Note: The amount is less than RMB500.



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	As at 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Digitalisation Solution Services</b>			
<b>Progress payment</b>			
Within 6 months . . . . .	-	-	-
More than 6 months but within 12 months . . . . .	-	-	-
More than 12 months but within 18 months . . . . .	-	-	-
More than 18 months but within 24 months . . . . .	-	-	-
More than 24 months but within 36 months . . . . .	-	-	-
More than 36 months but within 48 months . . . . .	-	-	-
More than 48 months. . . . .	-	-	-
Balance . . . . .	-	-	-
Less: loss allowance . . . . .	-	-	-
Sub-total . . . . .	-	-	-
<b>Final payment</b>			
Within 6 months . . . . .	131,456	142,203	68,503
More than 6 months but within 12 months . . . . .	10,258	25,059	73,492
More than 12 months but within 18 months . . . . .	4,509	16,137	33,295
More than 18 months but within 24 months . . . . .	-	8,820	10,599
More than 24 months but within 36 months . . . . .	3,554	-	5,745
More than 36 months but within 48 months . . . . .	-	-	-
More than 48 months. . . . .	-	-	-
Balance . . . . .	149,776	192,219	191,634
Less: loss allowance . . . . .	(623)	(7,292)	(16,409)
Sub-total . . . . .	149,153	184,927	175,225
<b>Retention money for projects</b>			
Within 6 months . . . . .	-	-	1,823
More than 6 months but within 12 months . . . . .	104	22	-
More than 12 months but within 18 months . . . . .	-	40	872
More than 18 months but within 24 months . . . . .	-	119	22
More than 24 months but within 36 months . . . . .	-	-	119
More than 36 months but within 48 months . . . . .	-	-	570
More than 48 months. . . . .	-	-	-
Balance . . . . .	104	180	3,404
Less: loss allowance . . . . .	(41)	(72)	(1,362)
Sub-total . . . . .	62	108	2,042
<b>Total trade and bills receivables of Digitalisation Solution Services (net of loss allowance).</b> . . . . .	<b>149,216</b>	<b>185,035</b>	<b>177,267</b>

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	As at 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Overall</b>			
Within 6 months . . . . .	188,722	199,205	120,668
More than 6 months but within 12 months . . . . .	22,117	37,239	88,135
More than 12 months but within 18 months . . . . .	11,103	19,168	39,978
More than 18 months but within 24 months . . . . .	2,371	13,415	13,570
More than 24 months . . . . .	5,448	4,319	13,262
	229,761	273,346	275,613
Less: loss allowance . . . . .	(4,818)	(13,192)	(25,618)
<b>Total . . . . .</b>	<b>224,943</b>	<b>260,154</b>	<b>249,995</b>

The Group's trade and bills receivables were assessed for ECLs which was estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to its debtors and an assessment of both the current and forecast general economic conditions at the end of each of the Track Record Period. The loss allowance for trade and bills receivables were approximately RMB4.8 million and RMB13.2 million as at 31 December 2021 and 2022, respectively. The increase in the loss allowance as at 31 December 2021 and 2022 was generally in line with the increase in the balance of the Group's trade and bills receivables. The Group's loss allowance for trade and bills receivables increased from approximately RMB13.2 million as at 31 December 2022 to approximately RMB25.6 million as at 31 December 2023, which was mainly attributed to the increase in loss allowance of five Integrated Solution Services projects.

The outstanding trade receivables that are aged more than 12 months was mainly attributed to five Integrated Solution Services projects involving Customer A and Customer B, both of which experienced payment delays by the end users (including regulatory authorities and public institution) who faced temporary liquidity constraints due to the impact of the COVID-19 pandemic. In response, the Group and the respective customers collaboratively negotiated extended payment terms that accounts for the prevailing circumstances, and consequently, payment term extensions have arisen in relation to these five projects.

As at the Latest Practicable Date, approximately RMB158.4 million, RMB174.7 million and RMB76.6 million, representing approximately 68.9%, 64.0%, and 27.8% of the balance of trade and bill receivables as at 31 December 2021, 2022 and 2023, respectively, had been subsequently settled. The Directors are of the view that there is no significant concern regarding the recoverability of the Group's trade and bill receivables despite the relatively low percentage of subsequent settlement for its trade and bill receivables as at 31 December 2023. To the best knowledge and belief of the Directors, it is mainly due to the settlement practices of the customers, who tend to settle a significant portion of their trade debts during the period falling one to two months before the Chinese New Year, which coincides with the year-end of the Group. As a result, the proportion of trade and bill receivables that are settled during the period subsequent to the Group's year-end is relatively low.

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### *Trade receivables turnover days*

The following table sets out the Group’s trade receivables turnover days during Track Record Period:

	Year ended 31 December		
	2021	2022	2023
Trade receivables turnover days (days) . . . . .	139.3	222.3	164.4

*Note:* Average balance of trade receivables multiplied by number of days in that year divided by total revenue.

The Group’s trade receivables turnover days increased from approximately 139.3 days for the year ended 31 December 2021 to approximately 222.3 days for the year ended 31 December 2022. Such increase was mainly due to the decrease in revenue as a result of (i) the prioritisation of Software Solution Services over Integrated Solution Services projects in 2022; and (ii) the decrease in work orders placed by the customer for a sizable provincial transmission pipeline engineering construction project. The Group’s trade receivables turnover days slightly decreased from approximately 222.3 days for the year ended 31 December 2022 to approximately 164.4 days for the year ended 31 December 2023. Such decrease was mainly attributed to the positive effect arising from the implementation of internal control to improve the Group’s cash inflow from operating activities and trade receivable turnover days.

### *Turnover days for trade and bills receivables and contract assets*

The following table sets out the Group’s turnover days for trade and bills receivables and contract assets during the Track Record Period:

	Year ended 31 December		
	2021	2022	2023
Turnover days for trade and bills receivables and contract assets (days) . . . . .	503.6	689.6	545.3

*Note:* Average balance of trade receivables, bills receivables and contract assets multiplied by number of days in that year divided by total revenue.

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During the Track Record Period, the Group experienced a prolonged turnover days for trade and bills receivables and contract assets primarily due to (i) the lengthy inspection and acceptance and settlement audit processes of its customers for Infrastructure Construction Services business sub-segment; and (ii) extension of payment terms in relation to five Integrated Solution Services projects. The Group recognised revenue and corresponding contract assets for Infrastructure Construction Services projects based on the work progress. However, the Group was entitled to (i) receive progress payment and issue interim VAT invoice only after the completion of inspection and acceptance procedures carried out by its customers and/or their agents and (ii) receive final payment (less retention money (if any)) and issue final VAT invoice only after completion of settlement audit procedures, which were typically arranged by its customers in stages. Such processes generally also take a considerable amount of time after the recognition of revenue and relevant contract assets. Consequently, the Group maintained a substantial balance of contract assets, which would be transferred to trade receivables only after the completion of the inspection and acceptance and/or settlement audit procedures. For details relating to the operation flow in respect of the Group's Infrastructure Construction Services projects, please refer to the paragraph headed "Business – Operation flow" in this document.

Following the completion of inspection and acceptance and settlement audit procedures, the Group would be entitled to receive progress payment and final payment, respectively, from customers with a credit period of up to 90 days. This resulted in a significant balance of trade receivables and contract assets on the Group's balance sheet, contributing to the extended turnover period for trade and bills receivables and contract assets. According to the Ipsos Report, it is an industry norm that customers for the Infrastructure Construction Services tend to settle payments after a relatively substantial period of time subsequent to inspection and acceptance and settlement audit processes, and issuance of VAT invoices, mainly due to (i) customers place a strong emphasis on ensuring quality of construction deliverables. As a result, the inspection period tends to be relatively lengthy before the acceptance procedure; (ii) in cases where multiple construction companies are involved in the same project, customers often choose to wait until all aspects of the work are completed before initiating the inspection, acceptance, settlement audit processes, and issuing VAT invoices simultaneously; (iii) customers who are state-owned enterprises typically undergo extensive internal approval processes. Such processes must be completed before they can proceed with settlement audits or approve the final accounts; and (iv) customer would typically retain a portion of the project payment as retention money to ensure the availability of warranty services provided by telecommunications infrastructure services providers.

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Further, according to the Ipsos Report, it is an industry norm that customers in digitalisation solution services tend to settle payments in stages after a relatively substantial period of time subsequent to delivery and acceptance of work. In the context of a typical digital surveillance project, customers adhere to a specific staggered payment schedule. Customers generally make progress payments during the implementation stage and upon the inspection and acceptance of works. Final payment and retention money will then be paid over a period of approximately four years following inspection and acceptance. This payment schedule serves to ensure solution provider offers thorough and effective follow-up services during the after-sales period within the post-completion stage of the project. On the other hand, for some of the Group's large-scale Digitalisation Solution Services projects, the Group may only receive payment after the end users have made the corresponding payment to the Group's customers, and the Group had extended the payment terms in relation to the five Integrated Solution Services projects in view of the temporary liquidity constraints faced by the end users, which include regulatory authorities and public institution, due to the adverse effects of the COVID-19 pandemic. As a proactive measure, the Group and the respective customers collaboratively negotiated extended payment terms that takes into consideration the prevailing circumstances.

The Group's turnover days for trade and bills receivables and contract assets increased significantly from approximately 503.6 days for the year ended 31 December 2021 to approximately 689.6 days for the year ended 31 December 2022. This increase was primarily attributed to two factors. Firstly, the Group's revenue decreased due to its prioritisation of Software Solution Services projects over Integrated Solution Services projects in 2022. Secondly, the balance of trade receivables and contract assets increased mainly due to the delayed settlement of trade receivables by the Group's customers as a result of COVID-19 pandemic during the year. The Group's turnover days for trade and bills receivables and contract assets decreased from approximately 689.6 days for the year ended 31 December 2022 to approximately 545.4 days for the year ended 31 December 2023. This decrease was mainly due to (i) the collection of trade debts in relation to Digitalisation Solution Services projects amounted to RMB63.4 million, resulting in a decrease in trade receivables; and (ii) the growth of the Group's business, leading to relatively higher revenue for the year ended 31 December 2023.

The Group's turnover days for trade and bills receivables and contract assets are relatively higher compared to its industry peers, the majority of whom are listed on the Shenzhen Stock Exchange or the Shanghai Stock Exchange. This can be attributed to the Group's higher level of contract assets, which arises from the disparity in revenue recognition timing for Infrastructure Construction Services between the Group and its industry peers. While the Group recognises revenue and corresponding contract assets for Infrastructure Construction Services based on the proportion of actual costs incurred relative to the estimated total cost, industry peers typically rely on the customers' inspection reports or settlement audit reports to measure progress. However, it is the industry practice to take a lengthy process to obtain from the customers and as a result these reports normally do not accurately reflect the actual performance progress of the construction projects for the respective financial periods. The Group's revenue recognition is not dependent on when these reports are received from its customers, and therefore any potential delay in obtaining the inspection reports or settlement audit reports from customers would not affect the accuracy in measuring the Group's performance progress. Due to the lengthy inspection process, the conversion of contract assets into trade receivables takes place over a longer timeframe for the Group.

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The Directors have determined that recognising revenue for its Infrastructure Construction Services based on the proportion of actual costs incurred relative to the estimated total cost is a more practical method for the Group in preparing its financial information. The reasons are set out as follows:

- (a) as stated in HKFRS 15.B17, in cases where the outputs used to measure progress may not be directly observable and the information required to apply them may not be available to an entity without undue cost, an input method may be necessary;
- (b) the costs incurred directly contributes to the Group's progress towards satisfying the performance obligation (i.e. labour procurement costs incurred directly leads to progress towards completion of the construction);
- (c) the cost incurred is proportional to the entity's progress towards satisfying the performance obligation (i.e. labour procurement costs incurred is proportional to the progress towards completion of the construction); and
- (d) independent third-party labour suppliers regularly provide their report confirming the amount of labour services provided (being the most significant cost procured).

In view of the above factors, and with reference to the relevant discussions in HKFRS 15, the Directors consider that the revenue recognition method it adopted is a reasonable proxy for measuring progress, which provides a faithful depiction of the transfer of goods or services in satisfying its performance obligation.

The Group has assessed the recoverability of the relevant outstanding contract assets and trade receivables, and has maintained frequent communications with relevant customers to ensure effective credit control. The Directors believe that the risk of not being able to recover the relevant contract assets and trade receivables is relatively low primarily due to (i) the Group's major customers for both Telecommunications Infrastructure Services and Digitalisation Solution Services business segments consist of the Big Three and the world's largest telecommunications tower infrastructure service provider, all of which are state-owned enterprises; (ii) there has been no occurrence of bad debt associated with major customers, including the Big Three and the world's largest telecommunications tower infrastructure service provider, historically throughout the Track Record Period; (iii) the Group has evaluated the creditworthiness of the customers, including (a) conducting customers' background information review to gain insights into their business operations, history, and reputation, (b) examining the annual reports of customers that are listed company to assess their financial strength, including factors such as profitability, liquidity, and overall financial performance, and (c) reviewing credit ratings of the customers' bond, if applicable, to gauge their creditworthiness as determined by reputable credit rating agencies. No material collection issues that could potentially impact the collection of trade debt by the Group were identified with these customers; (iv) the Group has taken follow-up actions as appropriate, including making phone calls, visiting customers' work sites and initiating legal proceedings or actions where necessary; (v) the Group has implemented a rewards and penalties management system for trade debt collection in order to motivate and incentivise responsible business operations personnel to effectively recover outstanding trade debts within set timelines; and (vi) the Group has enhanced risk control measures to identify fraudulent behaviors among customers, including (a) forecasting customers' business performance and estimates relevant payment collection based on the



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Group's past experience, and (b) monitoring of customers' business stability, business change, credit rating, working capital sufficiency and willingness to repay, to adopt different risk control measures. In view of the above, the Directors believe there is no recoverability issue for the Group's trade receivables and contract assets.

The Group recognises loss allowances for trade receivables and contract assets based on an estimate of lifetime ECLs. These ECLs are determined using a provision matrix that incorporates the Group's historical credit loss experience, including historical settlement patterns, past due status and analysis of the historical migration rate. The historical average migration rate reflects the historical pattern of changes in the credit quality of the Group's trade receivables and contract assets over time and provides an indication of the likelihood of transitions between credit quality categories. The historical average migration rate of trade receivables and contract assets is an indicator of the risk associated with collection cycles and overdue periods. Indeed, the Group experienced a relatively extended aging of trade receivables and contract assets. However, the Group's major customers for both Telecommunications Infrastructure Services and Digitalisation Solution Services business segments consist of the Big Three telecommunications network operators in the PRC and the world's largest telecommunications tower infrastructure service provider, all of which are state-owned enterprises with strong financial strength and high creditability. This significant factor, along with their industry prominence and market position of the Group, has indeed played a crucial role in ensuring a satisfactory settlement record of the Group's trade debts with these major customers throughout the Track Record Period. Moreover, during the Track Record Period, trade receivables are generally settled within two years of being overdue, unless an extension agreement was established with customers. The Group prudently maintained a 100% loss allowance for trade receivables that remained overdue for more than two years, unless an extension agreement was in effect. In light of these meticulous considerations, the Directors are of the view that the loss allowance for ECLs on trade receivables and contract assets is sufficient as at the respective period ends of the Track Record Period.

With respect to the high level of turnover days for trade and bills receivables and contract assets, the Group has the following measures in place for the purposes of reducing their potential adverse impact and enhancing the effectiveness of its credit policy, in order to improve its cash inflow from operating activities and turnover days for trade and bills receivables and contract assets:

- (i) engage in negotiation with labour suppliers and hardware and software suppliers to secure more favourable payment terms, including (a) explore the possibility of reducing the percentage of advanced payment required; and (b) extend the credit period to a longer credit term;
- (ii) periodic review of collection status of trade receivables, including (a) the Group's finance personnel sends the monthly statement with account balances to customers and the responsible business operations personnel or project manager for their attention to follow up with customers, and (b) the Directors review the trade receivables ageing report highlighting the outstanding receivables monthly;



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- (iii) once the trade receivables become overdue, the responsible business operations personnel or project manager would contact the relevant customers by phone calls or issue demand letters to follow up on the repayment status and report to the Directors on the recoverability of the trade receivables after such follow up;
- (iv) the Directors conduct monthly analysis of the overdue trade receivables balances and determine whether a loss allowance for ECLs on trade receivables is required, taking into consideration (a) the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors (including aging, internal credit ratings of debtors, repayment history and/or past due status), and (b) an assessment of both the current and forecast general economic conditions;
- (v) in the event where the trade receivables overdue balances remain unsettled, initiating legal proceedings or actions where necessary; and
- (vi) the Directors periodically review the Group’s credit policy taking into account the collection status of trade receivables.

On top of the above measures in place, to further strengthen its ability in collecting trade debts, the Group has implemented a rewards management system in relation to trade debt collection among its employees in July 2023 in order to motivate and incentivise the responsible business operations personnel or project managers, to proactively recover outstanding trade debts with the relevant customers within set timelines.

### **Other receivables, deferred VAT refund and prepayment**

The Group’s other receivables, deferred VAT refund and prepayment comprised (i) other receivables, (ii) deferred VAT refund, and (iii) prepayment for labour, equipment and services. The following table sets out a summary of the Group’s other deposits, prepayments and receivables as at the dates indicated:

	As at 31 December		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Other receivables, net of loss allowance . . . . .	23,440	12,410	7,227
Deferred VAT refund . . . . .	6,246	5,369	5,299
Prepayment for labour, equipment and services. . . . .	5,583	30,995	6,828
<b>Total . . . . .</b>	<b>35,269</b>	<b>48,774</b>	<b>19,354</b>

The Group’s other receivables mainly represented tender bonds and performance bonds which will be released to the Group upon the award and the completion of the relevant projects, as the case may be. As at the Latest Practicable Date, approximately RMB1.0 million, representing approximately 14.0% of the Group’s other receivables (net of loss allowance) as at 31 December 2023 had been subsequently settled.

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The Group’s deferred VAT refund arises when the input VAT exceeds the output VAT. The deferred VAT refund can be used to offset future VAT output tax liabilities, subject to compliance with relevant PRC tax laws and regulations. The Group’s deferred VAT refund decreased from approximately RMB6.2 million as at 31 December 2021 to approximately RMB5.4 million as at 31 December 2022, the decrease was mainly due to the fact that part of the deferred VAT refund was used to offset VAT output tax liabilities in accordance with relevant PRC tax laws and regulations. The Group’s deferred VAT refund remained stable at approximately RMB5.3 million as at 31 December 2023. As at the Latest Practicable Date, the Group’s deferred VAT refund was approximately RMB4.4 million.

During the Track Record Period, the Group’s prepayment for labour, equipment and services primarily consists of advanced payments made to labour suppliers for its services related to its Telecommunication Construction Services projects and project funds for research and development projects. Typically, the Group is obligated to provide an advanced payment of approximately 50% of the contract value to its labour suppliers within 15 days of work commencement, as per the terms of the work order. In practice, the Group settles this amount after receiving payments from its customers. The Group’s prepayment for labour, equipment and services further increased by approximately 455.2% to approximately RMB31.0 million as at 31 December 2022, the increase was mainly contributed by a prepayment of project funds made by the Group to its research and development partner for “Photonic Fusion Technology and Photonics Chips Research for 5G/6G Communication Perception” project amounted to approximately RMB25.1 million. The project funds would be used for procurement, customisation and commissioning of equipment, purchase of raw material, establishment of research and development team and establishment of application scenario with the research and development partner. Following a change in the project plan initiated by the Nanchang Science and Technology Bureau, the Group received the return of the project fund by the end of 2023. As a result, there was a significant decrease in the balance of prepayment for labor, equipment and services, reducing it to approximately RMB6.8 million as at 31 December 2023.

As at the Latest Practicable Date, approximately RMB0.3 million, representing approximately 4.6% of the Group’s prepayment for labour, equipment and services as at 31 December 2023 had been subsequently utilised.

### ***Investments in associates***

The Group recognised investments in associates under equity method of approximately RMB7.4 million as at 31 December 2023, included (i) an investment in QYP Info Tech amounted to approximately RMB2.5 million, of which the Group held equity interest of 49% and 51% of equity interest was indirectly held by a government institution as at the Latest Practicable Date; and (ii) an investment in WPX Info Tech amounted to approximately RMB4.9 million, of which the Group held equity interest of 49% and 51% of equity interest was also indirectly held by a government institution as at the Latest Practicable Date.

As at the Latest Practicable Date, WPX Info Tech has started business but QYP Info Tech was yet to commence business activities.

## FINANCIAL INFORMATION

### *Amounts due from related parties*

The following table sets out the Group’s amounts due from related parties as at the dates indicated:

	As at 31 December		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Ms. Tao Hailan . . . . .	72	28	28
Mr. Xiao Wei . . . . .	46	–	–
Mr. Zhang Jimao . . . . .	45	–	–
Ms. Chai Wenxin . . . . .	3	–	–
You Po BVI . . . . .	–	6,067	–
Ying Hua BVI . . . . .	–	3,691	–
Shu Zhi Cayman . . . . .	–	1,895	–
Rui Da BVI . . . . .	–	812	–
GT & Yangtze . . . . .	–	68	68
Octuple Hills . . . . .	–	6	7
Huat Huat . . . . .	–	6	6
Ms. Yeung . . . . .	–	1	–
<b>Total . . . . .</b>	<b><u>166</u></b>	<b><u>12,574</u></b>	<b><u>109</u></b>

The amount due from the Shareholders as at 31 December 2023 represents the paid-in capital to be received from them for the Shares issued as part of the Reorganisation. The amounts due from Ms. Xiao Haiyan, Mr. Xiao Wei, Ms. Tao Hailan, Mr. Zhang Jimao and Ms. Chai Wenxin represent mainly the advance payment of expenses including entertainment expenses, travel expenses and motor vehicle expenses. The decrease in the balance in 2023 was mainly due to settlement of the paid-in capital by You Po BVI, Ying Hua BVI, Shu Zhi Cayman and Rui Da BVI.

The amount due from related parties is non-trade in nature, unsecured, interest-free and have no fixed repayment terms. The balance will be fully settled before [REDACTED]. For further details, please refer to note 29(d) of the Accountants’ Report in Appendix I to this document.

## FINANCIAL INFORMATION

### Trade and other payables

The following table sets out the Group’s trade and other payables as at the dates indicated:

	As at 31 December		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Trade payables – third parties . . . . .	385,996	362,836	438,053
Other tax payables . . . . .	48,187	54,128	76,186
Accrued payroll . . . . .	4,865	3,497	4,049
Other payables and accruals . . . . .	3,316	4,947	7,014
Amounts due to shareholders . . . . .	1,176	12,143	144,861
Amounts due to associates . . . . .	–	–	7,350
<b>Total . . . . .</b>	<b><u>443,540</u></b>	<b><u>437,551</u></b>	<b><u>677,514</u></b>

### *Trade payables*

The Group’s trade payables comprised mainly the payables to the Group’s labour suppliers for their provision of labour. Pursuant to the relevant contracts, the Group typically provides its labour suppliers with an advance payment of approximately 50% of the contract value as stipulated in the work order within 15 days after the commencement of works. Upon completion and acceptance of the works by the Group’s customers at settlement audit, the Group’s customers make final payment to the Group accordingly, and the Group then settles the trade debts with the labour suppliers. Upon expiry of defect liability period, the Group’s customers releases the retention money to the Group, and the Group then pays the labour suppliers. The labour suppliers typically grant the Group a credit period ranging from 30 to 45 days after the receipt of payment by the Group from its customers. The Group’s trade payable are generally affected by, including but not limited to, the amounts of works performed by its labour suppliers, timing of payment for the invoices received from its suppliers, timing of settlement made by its customers and credit periods granted by them.

The Group’s trade payables decreased from approximately RMB386.0 million as at 31 December 2021 to approximately RMB362.8 million as at 31 December 2022. The decrease in the Group’s trade payables as at 31 December 2022 was primarily attributable to the Group’s prioritisation of Software Solution Services projects over Integrated Solution Services projects in 2022, taking into account the customers’ demand and the limited resources available during that period. This interim measure allowed the Group to avoid substantial capital requirements for the purchases of hardware associated with Integrated Solution Services projects, resulting in a decrease in the balance of trade payables. The Group’s trade payables slightly increased from RMB362.8 million as at 31 December 2022 to approximately RMB438.1 million as at 31 December 2023. The increase was generally in line with the growth of the Group’s business.

## FINANCIAL INFORMATION

The following table sets out the ageing analysis of the Group's trade payables as at the dates indicated:

	As at 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year . . . . .	349,056	265,277	327,691
More than 1 year but within 2 years . . . . .	28,228	75,219	68,215
More than 2 years but within 3 years . . . . .	1,905	13,642	20,938
More than 3 years . . . . .	6,807	8,698	21,209
<b>Total . . . . .</b>	<b><u>385,996</u></b>	<b><u>362,836</u></b>	<b><u>438,053</u></b>

The outstanding trade payables that are aged more than 12 months were mainly due to the delayed settlement of customers' accounts, which in turn delayed the Group's settlement of trade debts with the labour suppliers.

As at the Latest Practicable Date, approximately RMB194.6 million, representing approximately 44.5% of the Group's trade payables as at 31 December 2023 had been subsequently settled.

### *Creditors' turnover days*

The following table sets out the Group's creditors' turnover days during the Track Record Period:

	As at 31 December		
	2021	2022	2023
Creditors' turnover days (days) . . . . .	<u>321.7</u>	<u>441.6</u>	<u>317.8</u>

*Note:* Average balance of trade payables multiplied by number of days in that year and divided by total cost of sales.

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## FINANCIAL INFORMATION

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During the Track Record Period, the Group experienced a prolonged creditors’ turnover days. This was mainly due to the credit terms extended by suppliers, which allowed for a payment window of 30 to 45 days from the date of the Group’s receipt of payment from its customers. In addition, the Group’s customers had a prolonged inspection and acceptance and settlement audit process and they will settle the Group’s trade debt in stages after completion of inspection and acceptance and settlement audit processes, which resulted in delayed settlement of the Group’s trade debts. The prolonged turnover of trade payables was therefore a direct result of the Group’s extended trade receivable turnover days. The turnover days increased significantly from approximately 321.7 days for the year ended 31 December 2021 to approximately 441.6 days for the year ended 31 December 2022. This increase was primarily due to prolonged settlement of trade debts by the Group’s customers, which in turn delayed the settlement of its trade payables. The Group’s turnover days for trade payables decreased from approximately 441.6 days for the year ended 31 December 2022 to approximately 317.8 days for the year ended 31 December 2023. This decrease was mainly due to (i) the significant effort by the Group to collect trade debts, which in turn accelerated the settlement of its trade payable; and (ii) the growth of the Group’s business, leading to relatively higher cost of sales for the year ended 31 December 2023. Please refer to the paragraph headed “Trade and other payables” in this section for details.

The Group consistently recorded longer turnover days for trade and bills receivables and contract assets compared to creditors’ turnover days throughout the Track Record Period. This is mainly due to the fact that (i) the Group experienced an extended ageing of trade receivables in the Digitalisation Solution Services business segment. This was mainly due to (a) Digitalisation Solution Services projects generally involve a payment schedule with a lengthy duration, and (b) the Group’s decision to extend payment terms to its customers in relation to the five Integrated solution services projects, considering the temporary liquidity constraints faced by end users, including regulatory authorities and public institution, as a result of the impact of COVID-19; (ii) the Group’s prioritisation of Software Solution Services projects over Integrated Solution Services projects. The costs associated with these projects consisted mainly of research and development costs for self-developed software used in the projects. As a result, the corresponding payables associated with in-house research and development team and third-party programmers assisting in the research and development process were settled previously, in the relevant years, resulting in a lower balance of trade payables; and (iii) the Group typically had to prepay upfront costs to suppliers for its projects, which were not classified as trade payables.

### ***Other tax payables***

The Group’s other tax payables primarily comprised VAT payables. As at 31 December 2021, the balance of other tax payables was approximately RMB48.2 million, which increased to approximately RMB54.1 million as at 31 December 2022, and further increased to approximately RMB76.2 million as at 31 December 2023. The increase in other tax payables was mainly driven by the increase in revenue from which the relevant VAT tax liability arises after it is recognised in the accounting records, in accordance with PRC accounting standards and tax regulations. This increase was generally in line with the increase in the Group’s contract assets.

## FINANCIAL INFORMATION

### *Other payables and accruals*

The Group’s other payables and accruals mainly represented (i) retention money and performance bonds which will be released to the Group’s labour suppliers upon completion of the relevant projects; and (ii) work safety fees received by the Group which will be refunded to its customers upon completion of the relevant projects.

### *Accrued payroll*

The Group’s accrued payroll mainly comprised the salaries to be paid to its staffs.

### *Amount due to shareholders*

For details, please refer to “Indebtedness” of this section.

### *Amount due to associates*

For details, please refer to “Indebtedness” of this section.

## INDEBTEDNESS

The following table sets out a summary of the Group’s indebtedness as at the dates indicated:

	As at 31 December			As at 30 April
	2021	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>
<b>Current</b>				
Bank borrowings				
–secured . . . . .	311,449	325,172	297,384	289,000
–unsecured . . . . .	–	50,026	50,074	50,000
Lease liabilities . . . . .	111	45	145	142
Amounts due to shareholders . . . . .	1,176	12,143	144,861	8,024
Amounts due to associates . . . . .	–	–	7,350	7,350
	<u>312,736</u>	<u>387,386</u>	<u>499,814</u>	<u>354,516</u>
<b>Non-current</b>				
Lease liabilities . . . . .	–	13	129	68
<b>Total . . . . .</b>	<b><u>312,736</u></b>	<b><u>387,399</u></b>	<b><u>499,943</u></b>	<b><u>354,584</u></b>



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## FINANCIAL INFORMATION

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### Bank borrowings

The Group’s bank borrowings were primarily used to finance its working capital requirements during the Track Record Period, the bank borrowings increased in line with the growth of the Group’s businesses during the Track Record Period and up to 30 April 2024. The bank borrowings were secured by the Group’s (i) trade receivables and contract assets, (ii) pledge bank deposits, (iii) property, plant and equipment and (iv) investment property. Additionally, Mr. Liu Haoqiong and Ms. Tao Xiulan, each a Controlling Shareholder, had provided personal guarantees and had pledged their personal property as security for the Group’s bank borrowings, all of which have been released. Further, the Group’s bank borrowings during the Track Record Period were also secured by (i) personal guarantees of Mr. Zhou Zhiqiang, one of the Group’s executive Directors and his spouse, which has been released; (ii) personal guarantees of Mr. Xiao Wei, an employee of the Group and a former shareholder and his spouse, which will be released prior to the [REDACTED]; and (iii) personal guarantee of Ms. Tao Hailan, sister of Ms. Tao Xiulan which will be released prior to the [REDACTED]. The effective interest rates on the Group’s bank borrowings as at 31 December 2021, 2022 and 2023 ranged from 4.00% to 5.22% per annum, 4.20% to 5.24% per annum and 3.95% to 5.24% per annum, respectively. As at 30 April 2024, the Group had unutilised banking facilities of approximately RMB357.7 million.

As confirmed by the Directors, the Group’s bank borrowings were entered into on normal commercial terms and do not contain any restrictive covenants that are not commonly found in banking facilities of such kind. The Directors further confirm that the Group settled all its debt obligations in a timely manner, had not experienced any difficulties in obtaining loans or refinancing its debts.

In addition, the Directors confirmed that there were breaches of covenants during the Track Record Period. As at 31 December 2021, 2022 and 2023, the agreements with respect to the Group’s borrowings with one of its principal banks which amounted to approximately RMB155.2 million, RMB155.1 million and RMB127.2 million were subject to loan covenants relating to certain financial ratios based on the borrower’s balance sheet that are commonly found in lending arrangements with financial institutions. For details, please refer to the paragraph headed “Working Capital” in this section.

### Lease liabilities

The Group’s lease liabilities primarily represented the liabilities arising from the Group’s leased properties. The effective interest rates on the Group’s lease liabilities as at 31 December 2021, 2022 and 2023 was 4.75% per annum, 4.75% per annum and 4.75% per annum respectively. For further details, please refer to notes 21 and 27(c) of the Accountants’ Report in Appendix I to this document.

## FINANCIAL INFORMATION

### Amounts due to shareholders

The following table sets out the Group’s amounts due to shareholders as at the dates indicated:

	As at 31 December		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Mr. Liu . . . . .	1,152	–	71,542
Mr. Liu Dingli . . . . .	24	24	9,813
Ms. Tao Xiulan . . . . .	–	–	36,645
Mr. Liu Dingyi . . . . .	–	–	13,365
You Po Commence <sup>(Note)</sup> . . . . .	–	5,899	5,899
Ying Hua Investment <sup>(Note)</sup> . . . . .	–	3,589	3,589
Shu Zhi Shen Kong <sup>(Note)</sup> . . . . .	–	1,842	1,842
Rui Da Xin Tao <sup>(Note)</sup> . . . . .	–	789	789
Ms. Yeung . . . . .	–	–	1,377
<b>Total</b> . . . . .	<b><u>1,176</u></b>	<b><u>12,143</u></b>	<b><u>144,861</u></b>

*Note:* Mr. Liu and Ms. Tao Xiulan, Mr. Liu Dingyi, Mr. Liu Dingli, You Po Commence, Ying Hua Investment, Shu Zhi Shen Kong, and Rui Da Xin Tao are the respective shareholders of GT & Yangtze, Octuple Hills, Huat Huat, You Po BVI, Ying Hua BVI, Shu Zhi Cayman, and Rui Da BVI. Prior to the Reorganisation, they directly held the equity interest in Zhonggan Communication.

The amount due to Mr. Liu, Ms. Tao Xiulan, Mr. Liu Dingyi, Mr. Liu Dingli and the shareholders of You Po Commence, Ying Hua Investment, Shu Zhi Shen Kong and Rui Da Xin Tao as at 31 December 2023 represents the consideration to be paid by Jiangxi Zhongge for the acquisition of equity interest in Zhonggan Communication held by each shareholder, as part of the Reorganisation. The significant increase in the balance in 2023 was mainly due to the inclusion of the consideration payable by Jiangxi Zhongge for the acquisition of approximately 90.1% of Zhonggan Communication’s equity interest in aggregate from Mr. Liu, Ms. Tao Xiulan, Mr. Liu Dingyi, Mr. Liu Dingli and Ms. Yeung.

The amount due to shareholders is non-trade in nature, unsecured, interest-free and repayable on demand. In early 2024, the shareholders of Zhonggan Communication provided approximately RMB127.7 million as a gift in order to facilitate the transfer payment from Jiangxi Zhongge to the relevant shareholders as part of the Reorganisation. As at the Latest Practicable Date, approximately RMB127.7 million of the amounts due to shareholders as at 31 December 2023 has been settled upon completion of the transfer payment. The remaining balance will be fully settled before the [REDACTED].

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## FINANCIAL INFORMATION

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### Amount due to associates

The amount due to associates represents the paid-in capital owed by GLP Technology to QYP Info Tech amounted to approximately RMB2.5 million and to WPX Info Tech amounted to RMB4.9 million. GLP Technology has an obligation to settle the capital money with QYP Info Tech no later than 4 December 2052 and with WPX Info Tech no later than 14 February 2053. The amount is non-trade in nature, unsecured, and does not bear any interest.

### Contingent liabilities

The Group did not have contingent liabilities that would have a material adverse effect on its financial position, liquidity or result of operation, save as disclosed in the paragraph headed “Indebtedness” in this section and apart from intragroup liabilities and normal trade bills, the Directors confirm that the Group did not have any outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness issued and outstanding or agreed to be issued, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding as at 30 April 2024, being the Latest Practicable Date for the purpose of the statement of indebtedness.

### STATEMENT OF INDEBTEDNESS

Save as disclosed above, as at 30 April 2024, being the Latest Practicable Date for the purpose of the indebtedness statement, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees, material covenants, or other material contingent liabilities. The Directors confirmed that there has been no material change in the Group’s indebtedness since the Latest Practicable Date up to the date of this document.

### OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, the Group did not have any material off-balance sheet commitments and arrangements.

### NET ASSETS

The Group’s net assets experienced an increase from approximately RMB124.5 million as at 31 December 2021 to approximately RMB187.2 million as at 31 December 2022. This growth was attributed primarily to the combined effect of the Group’s profit accumulation and the share repurchase and capital injection conducted by Zhonggan Communication during the period. However, there was a significant decrease in the Group’s net assets of approximately RMB59.0 million, resulting in a total of approximately RMB128.2 million as at 31 December 2023. The decrease was primarily caused by the modifications made to the Reorganisation plan which outweighed the profit accumulation during the year.

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According to the original Reorganisation plan, specific arrangements were made to facilitate the transfer of the entire equity interest in Zhonggan Communication from certain of its shareholders to Jiangxi Zhongge, taking into account that Jiangxi Zhongge is a newly established entity with pending paid-up registered capital. On 22 August 2022, waiver agreements were executed between Mr. Liu, Ms. Tao Xiulan, Mr. Liu Dingli, Mr. Liu Dingyi, and Jiangxi Zhongge, as well as between Ms. Yeung and Jiangxi Zhongge. These agreements effectively waived Jiangxi Zhongge’s obligation to make the respective considerations for the transfer. However, modifications to the Reorganisation required the execution of the December 2023 Agreement between Jiangxi Zhongge and the relevant shareholders, which reinstated Jiangxi Zhongge’s responsibility to fulfill the payment obligations to relevant shareholders. To ensure a smooth settlement of the transfer, Ms. Tao Xiulan, Mr. Liu Dingli, Mr. Liu Dingyi, and Ms. Yeung collectively provided funds amounting to approximately RMB61.2 million to Mr. Liu. The purpose of these funds was to facilitate the provision of approximately RMB127.7 million (referred to as the “**Funds**”) from Mr. Liu to Jiangxi Zhongge as a gift, exclusively intended for the payment of the transfer considerations to the shareholders. Subsequently, Jiangxi Zhongge proceeded to make the transfer payments to the shareholders, amounting to the same total of approximately RMB127.7 million. Details of the Reorganisation, please refer to the section headed “History and Reorganisation” of this document.

As a result of the phased execution of the revival of payment obligations and the provision of Funds by Zhonggan Communication’s shareholders in different financial years, the Group experienced a temporary reduction of approximately RMB127.7 million in its equity as at 31 December 2023. However, with the subsequent provision of the Funds totaling approximately RMB127.7 million to Jiangxi Zhongge as a gift in 2024, it is anticipated that the Group’s equity will fully recover by the same amount. This increase in equity will be duly reflected in the Group’s financial statements upon the receipt of capital contributions from the shareholders of Zhonggan Communication in 2024.

### CAPITAL MANAGEMENT

The Group’s primary objectives when managing capital are to safeguard the Group’s ability to continue as a going concern, so that it can continue to provide returns for Shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure with reference to its debt position. The Group’s strategy was to maintain the equity and debt in a balanced position and ensure there are adequate working capital to serve its debt obligations. In order to maintain or adjust the ratio, the Company may adjust the amount of dividends paid to Shareholders, issue new Shares, return capital to Shareholders, raise new debt financing or sell assets to reduce debt.

## FINANCIAL INFORMATION

### CAPITAL EXPENDITURES AND COMMITMENTS

#### Capital expenditures

During the Track Record Period, the Group incurred capital expenditures of approximately RMB0.7 million, RMB2.1 million and RMB14.0 million, respectively, which primarily related to the purchase of property, plant and equipment.

The Group plans to incur additional capital expenditures of approximately RMB19.4 million in 2024 for purchasing hardware equipment and ancillary software systems. For details as to additional capital expenditures to be incurred by the Group, please refer to the section headed “Future Plans and [REDACTED]” in this document.

#### Capital commitments

The following table sets out a summary of the Group’s capital commitments as at the dates indicated:

	As at 31 December		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Contracted for property, plant and equipment . . . . .	6,969	453	–

As at 31 December 2021, the Group’s capital commitments primarily consisted of the final installment to be paid for the purchase of certain office units in Nanchang City, which are intended for GLP Technology’s office use.

### PROPERTY INTERESTS AND VALUATION

The following table sets out the reconciliation between the net book value of the property interest of the Group’s investment property as at 31 December 2023 as stated in “Appendix I – Accountants’ Report” to this document and the market value as at 31 May 2024 as stated in “Appendix III – Property Valuation Report” to this document:

	<i>RMB’000</i>
Net book value of the property interest of the Group’s investment property as at 31 December 2023 set out in Appendix I to this document . . . . .	18,841
Less: Depreciation on the investment property for the five months ended 31 May 2024 (unaudited) . . . . .	(220)
Add: Valuation surplus (unaudited) . . . . .	8,259
Market value of the subject property interest as at 31 May 2024 set out in Appendix III to this document (unaudited) . . . . .	26,880

## FINANCIAL INFORMATION

### TRANSACTIONS WITH RELATED PARTIES

During the Track Record Period, the Group had entered into certain related party transactions, details of which are set out in note 29 of the Accountants’ Report in Appendix I to this document. The Directors are of the view that the related party transactions were conducted at arm’s length and on normal commercial terms and therefore the results of the Group’s operations during the Track Record Period would not be distorted by those transactions.

### DISCLOSURE REQUIRED UNDER THE LISTING RULES

As at the Latest Practicable Date, the Directors confirmed that there were no circumstances that would give rise to a disclosure requirement under Rule 13.12 to Rule 13.19 of the Listing Rules.

### KEY FINANCIAL RATIOS

The following table sets out a summary of the Group’s key financial ratios during the Track Record Period:

Key financial ratios	Formulae	Year ended 31 December		
		2021	2022	2023
Current ratio (times) . . . . .	Current assets/Current liabilities	1.0	1.1	1.0
Quick ratio (times) . . . . .	(Current assets – Inventories)/Current liabilities	1.0	1.1	1.0
Gearing ratio (times) . . . . .	Total debt <sup>(1)</sup> /Total equity	2.5	2.0	2.7
Debt to equity ratio (times) . .	(Total debt <sup>(1)</sup> – Bank balances and cash)/Total equity	2.2	1.6	2.1
Interest coverage (times) . . .	Profit before tax and finance costs/Finance costs	4.6	3.5	5.2
Return on equity (%) . . . . .	Profit for the year/Total equity as at the respective year-end date x 100%	29.0	18.7	53.6
Return on assets (%) . . . . .	Profit for the year/Total assets as at the respective year-end date x 100%	4.0	3.4	5.9

Note:

(1) Debts are defined to include payables (i) incurred not in the ordinary course of business; and (ii) are interest-bearing. The Group’s total debts include interest-bearing bank borrowings and lease liabilities.

### Current ratio and quick ratio

The Group’s current ratios were approximately 1.0, 1.1 and 1.0 times as at 31 December 2021, 2022 and 2023 while the quick ratios as at the same period end were approximately 1.0, 1.1 and 1.0 times, respectively. The Group’s current ratio and quick ratio remained stable during the Track Record Period.

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## FINANCIAL INFORMATION

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### Gearing ratio

The Group's gearing ratio decreased from approximately 2.5 times as at 31 December 2021 to approximately 2.0 times as at 31 December 2022. The decrease was primarily due to an increase in the Group's equity as a result of accumulation of profit and an injection of capital. The Group's gearing ratio experienced an increase from approximately 2.0 times as at 31 December 2022 to approximately 2.7 times as at 31 December 2023. The increase was primarily driven by a temporary decline in the Group's equity resulting from the revival of the obligation for Jiangxi Zhongge to pay the consideration for acquiring the equity interests of Zhonggan Communication under the Reorganisation. It is important to highlight that the temporary decline in equity is expected to be reversed following the transfer and waiver of loans by Zhonggan Communication's shareholders to Jiangxi Zhongge. The arrangement will help restore the Group's equity position by increase of approximately RMB127.7 million, resulting in a decrease in gearing ratio. For details of the Reorganisation, please refer to the section headed “History and Reorganisation” in this document. However, it is worth noting that the impact of the temporary decline in equity was partially mitigated by the accumulation of profit during the year.

### Debt to equity ratio

The Group's debt to equity ratio decreased from approximately 2.2 times as at 31 December 2021 to approximately 1.6 times as at 31 December 2022. The decrease was primarily due to an increase in the Group's equity resulting from accumulation of profit and an injection of capital. The Group's debt to equity ratio increased from approximately 1.6 times as at 31 December 2022 to approximately 2.1 times as at 31 December 2023. The increase was primarily driven by a temporary decline in the Group's equity resulting from the revival of the obligation for Jiangxi Zhongge to pay the consideration for acquiring the equity interests of Zhonggan Communication under the Reorganisation. It is important to highlight that the temporary decline in equity is expected to be reversed following the transfer and waiver of loans by Zhonggan Communication's shareholders to Jiangxi Zhongge. The arrangement will help restore the Group's equity position by increase of approximately RMB127.7 million, resulting in a decrease in debt to equity ratio. For details of the Reorganisation, please refer to the section headed “History and Reorganisation” in this document.

### Interest coverage

The Group's interest coverage ratio decreased from approximately 4.6 times for the year ended 31 December 2021 to approximately 3.5 times for the year ended 31 December 2022. The decrease was primarily due to an increase in the Group's finance costs, resulting from a rise in the average balance of the Group's bank borrowings in 2022. The Group's interest coverage increased from approximately 3.5 times for the year ended 31 December 2022 to approximately 5.2 times for the year ended 31 December 2023. The increase can be primarily attributed to the enhanced profitability of the Group's business in 2023, combined with stable finance costs incurred during the year. The improved profitability allowed the Group to generate higher earnings, enabling them to cover its finance costs more comfortably.



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### Return on equity

The Group's return on equity decreased from approximately 29.0% for the year ended 31 December 2021 to approximately 18.7% for the year ended 31 December 2022. The decrease was primarily contributed by the combined effects of a decrease in the Group's net profit in 2022 mainly due to increase in credit impairment losses and [REDACTED] and an increase in the Group's equity as a result of accumulation of profit and an injection of capital. The Group's return on equity increased from approximately 18.7% for the year ended 31 December 2022 to approximately 53.5% for the year ended 31 December 2023. The increase was primarily driven by combined effect of (i) the enhanced profitability of the Group's business in 2023; and (ii) a temporary decline in the Group's equity resulting from the revival of the obligation for Jiangxi Zhongge to pay the consideration for acquiring the equity interests of Zhonggan Communication under the Reorganisation. As at the Latest Practicable Date, the equity was fully recovered by approximately RMB127.7 million following the provision of funds as a gift by Zhonggan Communication's Shareholders to Zhongge, resulting in decrease in the Group's return on equity. For details of the Reorganisation, please refer to the section headed “History and Reorganisation” in this document.

### Return on assets

The Group's return on assets decreased from approximately 4.0% for the year ended 31 December 2021 to approximately 3.4% for the year ended 31 December 2022. The decrease was mainly due to a combined effects of (i) a decrease in the Group's net profit caused by an increase in credit impairment loss and [REDACTED], and (ii) an increase in trade receivables resulting from delayed settlement by its customers as a result of COVID-19 pandemic. The Group's return on assets increased from approximately 3.4% for the year ended 31 December 2022 to approximately 5.9% for the year ended 31 December 2023. The increase was primarily due to the enhanced profitability of the Group's business in 2023.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

The Group is exposed to (i) credit risks; (ii) liquidity risks; and (iii) interest rate risks. Details of the risks which the Group is exposed to are set out in note 26 of the Accountants' Report in Appendix I to this document.

## FINANCIAL INSTRUMENTS

During the Track Record Period and up to Latest Practicable Date, the Group did not enter into any financial instruments for hedging purposes.

## DISTRIBUTABLE RESERVES

The Company was incorporated on 20 April 2022 as an investment holding company and as at the Latest Practicable Date, the Company did not have reserve available for distribution to the Shareholders.

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## FINANCIAL INFORMATION

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### DIVIDENDS

The Company is a company incorporated in Cayman Islands, any declaration and payment of dividends by it, as well as the amount of dividends, will be subject to the Articles of Association and the Cayman Islands Companies Act. No dividend however, shall be declared in excess of the amount recommended by the Board. The declaration, payment and amount of dividends will depend on the Group's financial condition, earnings, capital requirements and surplus, contractual and legal restrictions, its ability to receive dividend payments from its subsidiaries, and other factors that the Directors deem relevant. As at the Latest Practicable Date, the Group did not have any specific dividend policy nor any pre-determined dividend payout ratio.

Chinese laws require that dividends be paid only out of net profit calculated according to PRC accounting principles, which may differ from generally accepted accounting principles in other jurisdictions, including HKFRSs. The Company's subsidiaries in the PRC that are required to set aside part of their net profit as statutory reserves in accordance with the requirements of relevant Chinese laws and the provisions of their respective articles of association. The portions of these subsidiaries' net profits are not available for distribution as cash dividends. Distributions from the Company's PRC subsidiaries may also be restricted if they incur debt or losses, or in accordance with any restrictive covenants in bank credit facilities or other agreements that the Group may enter into in the future. Since the Company is an investment holding company and relies on its subsidiaries' dividends as the source of funds to pay dividends, these restrictions may limit or completely prevent it from paying dividends.

The companies comprising the Group did not declare or pay any dividend or distribution during the Track Record Period.

**[REDACTED]**

**[REDACTED]**

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## FINANCIAL INFORMATION

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### [REDACTED]

For the Group’s [REDACTED], please refer to the section headed “[REDACTED]” in this document.

### RECENT DEVELOPMENT

For details, please refer to the section headed “Summary – Recent developments and no material adverse change” in this document.

### NO MATERIAL ADVERSE CHANGE

The Directors have confirmed that, up to the date of this document, there has been no material adverse change in the financial or trading positions or prospects of the Group since 31 December 2023 (being the date of which the Group’s latest consolidated financial statements were made up as set out in the Accountants’ Report included as Appendix I to this document) and there has been no event since 31 December 2023 which would materially affect the information shown in the Accountants’ Report included as Appendix I to this document.