
FUTURE PLANS AND [REDACTED]

FUTURE PLANS

Please refer to the paragraphs headed “Business – Business Strategies” in this document for a detailed description of the Group’s business objectives and strategies.

REASONS FOR THE [REDACTED] AND THE [REDACTED]

According to the Ipsos Report, due to the rise and benefits of 5G networks which greatly enhances and facilitates the use of digital technologies as well as multiple PRC government policies such as the 13th and 14th Five Year Plan for National Informatisation* (“十三五”及“十四五”國家信息化規劃) it is expected that there will be a significant demand for Digitalisation Solution Services in the PRC. During the period from 2019 to 2023, the market value of Digitalisation Solution Services grew from approximately RMB2,351.9 billion to approximately RMB3,709.3 billion, representing a CAGR of approximately 12.1%. Further, it is expected that for the period from 2024 to 2028, the market value of Digitalisation Solution Services will continue to grow at a CAGR of approximately 9.0%, from approximately RMB4,063.0 billion to approximately RMB5,729.4 billion.

Given the vast market size and demand for Digitalisation Solution Services in the PRC, the Group had placed significant effort in developing this business segment and during the Track Record Period, the Group’s Digitalisation Solution Services was a key contributor to its overall profitability. The gross profit derived from the Group’s Digitalisation Solution Services business segment during the Track Record Period was approximately RMB44.9 million, RMB60.8 million and RMB75.2 million which accounted for approximately 49.2%, 58.8% and 50.3% respectively of the Group’s total gross profit. Further, its gross profit margin in respect of Digitalisation Solution Services during the Track Record Period, being approximately 41.1%, 86.1% and 69.6% respectively was significantly higher than the gross profit margin in respect of its Telecommunications Infrastructure Services, being approximately 12.5%, 12.5% and 14.8% respectively.

The Group’s competitiveness in respect of its Digitalisation Solution Services business segment is highly dependent upon its core software offerings which are an integral part of its solutions and due to the short cycle of these projects, it is difficult to develop new core software in a timely and cost effective manner after the project has commenced. During the Track Record Period, the Group had strived to expand its portfolio of intellectual property rights by developing new core software as well as other equipment and incurred research and development expenses of approximately RMB19.2 million, RMB17.7 million and RMB25.9 million respectively. Despite having devoted such extensive efforts during the Track Record Period, according to the Ipsos Report, many integrated service providers such as the Group which also engage in the provision of Digitalisation Solution Services also possess research and development departments and have an extensive portfolio of intellectual property rights. As such, the Group’s business strategies primarily involve further strengthening its capabilities in this business segment through the acquisition of companies specialising in the provision of Digitalisation Solution Services and the strengthening of its research and development capabilities which includes establishing a research and development centre. For details, please refer to the paragraphs headed “Business – Business strategies” in this document.

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While the Group has such plans in place, these business strategies involve significant capital expenditure which, if funded through the Group’s internal resources, may negatively impact upon the Group’s financial position and operations, especially given that the Group experienced net cash outflows from operating activities of approximately RMB12.2 million and RMB36.3 million during the years ended 31 December 2021 and 2022, respectively. Further, during the Track Record Period, the Group’s Infrastructure Construction Services projects would commonly require upfront costs, as pursuant to its work orders with its labour suppliers, the Group would generally provide its labour suppliers an advance payment of approximately 50% of the contract value as stipulated in the work order within 15 days after the commencement of works. Further, the certification and payment process of the Group’s works also often require a lengthy period.

The Directors have considered various means of financing including both debt and equity financing to raise the necessary funds to finance the Group’s business strategies and believe that equity financing through the [REDACTED] is the more preferable means, despite its relatively higher immediate cost, after taking into account the interest obligations, potential amount of funds that can be raised and collateral requirements associated with debt financing. The Directors also believe that equity financing can broaden the Group’s capital base and entails less risks on the part of the Group as Shareholders may look to the long-term benefits that can be provided by the Group instead of the periodic repayment of interest and debt that are associated with debt financing.

Without the [REDACTED], the Group remains a privately held company and there is no guarantee that banks or other financial institutions would lend to the Group for the purposes of implementing its business strategies at all or on favourable terms and without the imposition of stringent financing requirements. Especially given the Group’s gearing ratio as at 31 December 2021, 2022 and 2023 of approximately 2.5, 2.0 and 2.7 times and the Group’s debt to equity ratio of 2.2, 1.6 and 2.1 times, respectively. Debt financing generally entails interest obligations which are subject to rates that may fluctuate throughout the subsistence of the loan or facility. These rates themselves are significantly affected by macro and micro economic factors which are beyond the control of the Group, as such there is no guarantee that the rates would not increase to such an extent that it would affect the Group’s financial performance and its ability to fund its business strategies. Through the [REDACTED], the Group’s ability to access debt financing will be enhanced, as it will be able to access the debt capital markets and as a publicly listed company banks and other financial institutions are generally more willing to provide financing on more favourable terms.

Aside from the financing benefits arising from the [REDACTED], the Directors also believe that the [REDACTED] will serve to enhance the Group’s corporate profile, reputation and market presence. As such, it will serve to distinguish the Group from other market players and may provide reassurance and confidence to its customers and suppliers as to the sustainability and commitment of the Group towards its growth in the industry, which in turn may provide stronger bargaining power to the Group for future endeavours and negotiations.

For the reasons set out above, the Directors consider that the [REDACTED] and the [REDACTED] is in the long-term commercial interests of the Group as it will provide flexibility as to financing its operations and enhance its overall image which will enable the Group to distinguish itself from its competitors.

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[REDACTED]

It is estimated that the [REDACTED] from the [REDACTED] (after deducting [REDACTED] and estimated expenses payable by the Group in connection with the [REDACTED]), assuming the [REDACTED] is not exercised and an [REDACTED] of [REDACTED] per Share (being the mid-point of the indicative [REDACTED] range), will be approximately [REDACTED]. The Group currently intends to apply the [REDACTED] in the following manner:

- approximately [REDACTED] or [REDACTED] (equivalent to approximately [REDACTED]) will be used to selectively pursue strategic acquisitions and acquire full ownership in companies specialising in the provision of digitalisation solution services;
- approximately [REDACTED] or [REDACTED] (equivalent to approximately [REDACTED]), together with the Group’s internal resources and/or bank borrowings, will be used as payment of the upfront costs required in respect of prospective Integrated Solution Services projects for 2024;
- approximately [REDACTED] or [REDACTED] million (equivalent to approximately [REDACTED] million), together with the Group’s internal resources and/or bank borrowings, will be used to strengthen the Group’s research and development capabilities to enhance its provision of Digitalisation Solution Services, of which approximately [REDACTED] (equivalent to approximately [REDACTED]) will be used to purchase hardware equipment and ancillary software systems, and approximately [REDACTED] (equivalent to approximately [REDACTED]) will be used to hire additional research and development personnel; and
- approximately [REDACTED] or [REDACTED] (equivalent to approximately [REDACTED]) will be used as general working capital.

Set out below are details relating to the expected time-frame for utilisation of the [REDACTED] from the [REDACTED]:

<u>Implementation plans</u>	<u>Year ending 31 December 2024</u>	<u>Total</u>	<u>Percentage of total [REDACTED]</u>
	HK\$ million (approx.)	HK\$ million (approx.)	(approx.)
Selectively pursue strategic acquisitions	[REDACTED]	[REDACTED]	[REDACTED]
Payment of upfront costs in respect of prospective Integrated Solution Services projects	[REDACTED]	[REDACTED]	[REDACTED]
Strengthen research and development capabilities	[REDACTED]	[REDACTED]	[REDACTED]
General working capital	[REDACTED]	[REDACTED]	[REDACTED]
Total	[REDACTED]	[REDACTED]	[REDACTED]

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To the extent that the [REDACTED] from the [REDACTED] are insufficient to fund the Group’s business strategies, the Directors may delay the pace of the implementation of the Group’s business strategies until its internal resources are sufficient. The Directors may also consider other factors when determining the pace of implementation, such as the long term funding needs of the Group and the need to maintain a healthy level of working capital. Alternatively, the Directors may also consider bank financing or other debt or equity fund raising exercises, though this may affect the Group in such ways as disclosed in the paragraph headed “Reasons for the [REDACTED] and the [REDACTED]” in this section.

If the [REDACTED] is fixed at the high-end of the indicative range of the [REDACTED], being [REDACTED] per [REDACTED], the [REDACTED] to be received by the Group from the [REDACTED] will increase by approximately [REDACTED]. The Group intends to apply the additional [REDACTED] for the above purposes on a pro-rata basis. If the [REDACTED] is set at the low-end of the indicative range of the [REDACTED], being [REDACTED] per [REDACTED], the [REDACTED] to be received by the Group from the [REDACTED] will decrease by approximately [REDACTED]. The Group intends to reduce the [REDACTED] for the above purposes on a pro-rata basis.

If the [REDACTED] is exercised in full, it is estimated that the additional [REDACTED] from the [REDACTED] of these additional Shares to be received by the Group, after deducting the estimated [REDACTED], incentive fee and estimated expenses payable by it, will be approximately (i) [REDACTED], assuming the [REDACTED] is fixed at the high-end of the indicative range of the [REDACTED], being [REDACTED] per [REDACTED]; (ii) [REDACTED], assuming the [REDACTED] is fixed at the mid-point of the indicative range of the [REDACTED], being [REDACTED] per [REDACTED]; and (iii) HK\$[REDACTED], assuming the [REDACTED] is fixed at the low-end of the indicative range of the [REDACTED], being [REDACTED] per [REDACTED]. Any additional [REDACTED] received by the Group from the exercise of the [REDACTED] will also be allocated to the above purposes on a pro-rata basis.

To the extent that the [REDACTED] from the [REDACTED] are not immediately applied to the above purposes and to the extent permitted by applicable laws and regulations, the Group will only deposit the [REDACTED] into short-term interest-bearing accounts at licenced commercial banks and/or other authorised financial institutions (as defined under the SFO or applicable laws and regulations in other jurisdictions). The Group will make appropriate announcement if there is any material change to the above proposed [REDACTED].