You should read the following discussion of our financial condition and results of operations in conjunction with our consolidated financial statements and related notes set out in the Accountants' Report included in Appendix I to this **[REDACTED]**. *The Accountants' Report contains our audited consolidated financial statements as at and for the years ended 31 December 2016, 2017 and 2018. Our consolidated financial statements have been prepared in accordance with HKFRSs, which may differ in material respects from generally accepted accounting principles in other jurisdictions. This discussion contains forward-looking statements that involve risks and uncertainties. Our future results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set out in the section headed "Risk Factors" and elsewhere in this* **[REDACTED]**.

OVERVIEW

Our Group mainly provides materials for construction projects. Our Cable Business mainly provides bridge cables for long-span bridges and super-long-span bridges and our Prestressed Materials Business mainly provides prestressed materials for various infrastructure construction. We principally engage in the following two business segments:

Cable Business. We focus on the manufacture and supply of cables for construction of bridges. In addition, we also manufacture a relatively small number of cables for use in constructing various architectural structures such as stadiums and exhibition centres. Our main product lines include suspension cables and stay cables. We operate our Cable Business under the brand of "Pujiang Cable (浦江纜索)" and mainly carry out the production of bridge cables at our production facility situated in Xitang, Zhejiang Province in China.

Prestressed Materials Business. We mainly engage in the manufacture of prestressed materials for infrastructure construction. Our main lines of products include rare earth coated prestressed products, plain surface prestressed products and galvanised prestressed products. We operate our Prestressed Materials Business under the brand of "Ossen (奧盛)"and carry out our production of prestressed materials at our two production facilities situated in Maanshan, Anhui Province and Jiujiang, Jiangxi Province in China.

During the Track Record Period, we generated around 67% of our revenue from our Prestressed Materials Business. For the years ended 31 December 2016, 2017 and 2018, we generated revenue in the amounts of RMB1,081.9 million, RMB1,317.7 million and RMB1,383.3 million, respectively, and our profit for the year was RMB74.9 million, RMB88.7 million and RMB148.6 million, respectively.

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands on 26 April 2017. We underwent a reorganisation in anticipation of the **[REDACTED]**, pursuant to which our Company became the holding company of the companies now comprising our Group. As the companies now comprising our Group were under the common control of Dr. Tang before and after the Reorganisation, the Reorganisation has been accounted for on the basis of merger accounting as if the Reorganisation had been completed at the beginning of the Track Record Period. Accordingly, our consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the Track Record Period have included the results, changes in equity and cash flows of the companies now comprising our Group from the earliest date presented or since their respective dates of incorporation, whichever was shorter, as if the current group structure had been in existence throughout the Track Record Period. Our consolidated statements of financial position of the Group as at 31 December 2016, 2017 and 2018 have been prepared to present the assets and liabilities of the companies comprising the Group as if the current group structure had been in existence at those dates. No adjustments were made to reflect fair values or recognise any new assets or liabilities as a result of the Reorganisation.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Product mix

Our results of operations depend on the product mix we sell during the Track Record Period. During the Track Record Period, our revenue was derived from our Cable Business and Prestressed Materials Business. Revenue from Cable Business accounted for 28.0%, 32.3% and 37.5% of our total revenue in 2016, 2017 and 2018, respectively. Revenue from Prestressed Materials Business accounted for 72.0%, 67.7% and 62.5% of our total revenue in 2016, 2017 and 2018, respectively.

In 2016, 2017 and 2018, the gross profit margin of our Cable Business was 34.7%, 34.6% and 36.8%, respectively. The profit margins of our Cable Business vary based on each project that we bid and enter into contract with. Factors include the complexity and type of bridge or infrastructure project, the nature of and relationship with the customer, market demand, the quantity and type of cables purchased and the overall project value. During the Track Record Period, the gross profit margin for our stay cable projects ranged from 25.8% to 37.9%, while the gross profit margin for our suspension cable projects ranged from 32.1% to 36.1%.

In 2016, 2017 and 2018, the gross profit margin of our Prestressed Materials Business was 14.0%, 11.1% and 15.7%, respectively. The profit margins of our Prestressed Materials Business vary based on the type of products we sell, which in turn are based on market demand and the customer orders received. In particular, a significant proportion of our sales have been for our rare earth coated prestressed products, which constituted 86.6%, 85.3% and 79.3% of our total revenues from our Prestressed Materials Business in 2016, 2017 and 2018, respectively. During the Track Record Period, the gross profit margin for sales of our rare earth coated prestressed products ranged from 8.9% to 12.5%.

As different products generally have different demand, prices and margins, our results of operations will be affected by the product mix we sell in a particular period. Our profitability is also affected by our ability to accurately estimate our costs of production under our pricing structure. For the Prestressed Materials Business, we generally adopt a cost-plus pricing structure, while for the Cable Business, our selling prices are determined based on the nature of each individual project, with the cost of production being one of the key factors. Please refer to the section headed "Financial Information — Description of Selected Consolidated Statement of Profit or Loss Line Items — Revenue — Average selling price and sales volume". Changes to the average cost of raw materials may also affect our profitability to the extent we cannot or do not pass on the changes to our customers. Raw material costs accounted for approximately 95% to 96% of our total cost of sales during the Track Record Period. For reasons of historical changes in the gross profit margin of our Cable Business and Prestressed Materials Business, please refer to the section headed "Financial Information — Period to Period Comparison of Results of Operations".

Cost of major raw materials

The cost of raw materials represents a substantial part of our cost of sales. For the year ended 31 December 2016, 2017 and 2018, the cost of raw materials accounted for 95.0%, 95.8% and 95.6% of our total cost of sales, respectively. The major raw materials we use for our Prestressed Materials Business are high carbon steel wire rods which can be further manufactured into galvanised prestressed wires used in our Cable Business. High carbon steel wire rods and the galvanised prestressed wires in total represented over 90% of our cost of raw materials over the Track Record Period. For the years ended 31 December 2016, 2017 and 2018, the average cost of our high carbon steel wire rods per tonne was RMB2,330, RMB3,126 and RMB3,907, respectively. The average cost of our high carbon steel wire rods may significantly differ from the average annual market price as the inventories used for production and sale may have been purchased in a prior period. In addition, our purchases from suppliers reflect negotiated prices at the time of the order, which vary based on the quantity and amount purchased, our relationship with our suppliers, and other factors. We typically purchase our raw materials from multiple primary steel producers. The steel industry as a whole is cyclical and, at times, pricing and availability of steel can be volatile due to numerous factors beyond our control, including general domestic and international economic conditions, labour costs, sales levels, competition, consolidation of steel producers, raw material costs for steel producers, import duties and tariffs and currency exchange rates.

We make prepayments to our major suppliers to secure favourable treatment in terms of pricing and supply of raw materials. We take into account the cost of raw materials in setting our selling price in order to pass on changes in such costs to customers. However, any significant and sudden increase in raw materials costs could increase our cost of sales and have an adverse effect on our gross profit and gross profit margin. Please refer to the section headed "Risk Factors — Risks Relating to our Business and Industry — Any significant increase in the price of high carbon steel wire rods may materially increase our production costs and reduce our profitability".

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the cost of high carbon steel wire rods (assuming all other factors affecting the results of operations of the Group remain unchanged), on our profit before tax for each year over the Track Record Period.

	Percentage change in high carbon steel wire rods					
	–10%	**–5%**	**–1%**	**+1%**	**+5%**	**+10%**
	(RMB'000, except percentages)					
Year ended 31 December 2016						
Increase/(decrease) in high carbon steel wire rods	(63,101)	(31,550)	(6,310)	6,310	31,550	63,101
Increase/(decrease) in profit before tax for the year	63,101	31,550	6,310	(6,310)	(31,550)	(63,101)
Percentage change in profit before tax for the year	75.2%	37.6%	7.5%	–7.5%	–37.6%	–75.2%
Year ended 31 December 2017						
Increase/(decrease) in high carbon steel wire rods	(72,788)	(36,394)	(7,279)	7,279	36,394	72,788
Increase/(decrease) in profit before tax for the year	72,788	36,394	7,279	(7,279)	(36,394)	(72,788)
Percentage change in profit before tax for the year	83.9%	41.9%	8.4%	–8.4%	–41.9%	–83.9%
Year ended 31 December 2018						
Increase/(decrease) in high carbon steel wire rods	(67,511)	(33,756)	(6,751)	6,751	33,756	67,511
Increase/(decrease) in profit before tax for the year	67,511	33,756	6,751	(6,751)	(33,576)	(67,511)
Percentage change in profit before tax for the year	39.1%	19.6%	3.9%	-3.9%	-19.6%	-39.1%

Economic conditions in China

We operate our manufacturing facilities in China and derive the substantial majority of our revenues from sales to customers in China. As such, economic conditions in China affect virtually all aspects of our operations, including the demand for our products, the availability and prices of our raw materials and our other expenses. Although the economy in China has grown significantly in the past decades, growth has been uneven, both geographically and among various sectors of the economy, and the rate of growth has been slowing down in recent years. Any slow-down of economic growth in China could reduce expenditures for infrastructure, which in turn may adversely affect the demand for our products and our operating results and financial condition. In particular, China's economic growth may slow down due to weakened exports and global trade frictions. In April 2018, the United States imposed tariffs on steel and aluminium imports from China. In July 2018, the United States imposed 25% tariffs on US$34 billion worth of Chinese goods, and the PRC responded with similar size tariffs on products imported from the United States. In September 2018, the United States imposed further 10% tariffs on approximately US$200 billion worth of products from China, and in turn, the PRC responded with tariffs on approximately US$60 billion of goods from the United States. In addition, any financial turmoil affecting the financial markets and banking system may significantly restricts our ability to obtain financing in the capital markets or from financial institutions on commercially reasonable terms, or at all.

Level of income tax and preferential tax treatment

Our net income is affected by the income tax that we pay and any preferential tax treatment that we are able to receive. Our operating subsidiaries are subject to the PRC enterprise income tax, or EIT. Pursuant to the income tax rules and regulations of the PRC, the provision for PRC income tax of our PRC subsidiaries is calculated based on the statutory tax rate of 25%, but during the Track Record Period, preferential tax treatment was available to the following four of our PRC subsidiaries. Ossen Innovation Materials, Ossen (Jiujiang), Shanghai Pujiang and Zhejiang Pujiang are recognised as High and New-Technology Enterprises according to the PRC tax regulations and thus were entitled to a preferential tax rate of 15% for the Track Record Period, and their respective preferential tax rate will expire in July 2020, August 2021, November 2020 and November 2019, respectively. Our results of operations will be affected by our ability to continue to renew this qualification and the preferential tax rate in time or at all.

For more information on income tax and preferential tax treatment, please refer to the section headed "Financial Information — Description of Selected Consolidated Statement of Profit or Loss Line Items — Income tax expense".

Seasonality

Our revenue from the Prestressed Materials Business is subject to seasonality and is generally lower during the first quarter each year primarily due to the Chinese New Year holidays around February and the cold weather in the Northern region of China during winter season as construction work generally slows down during that period. Thus, any interim period financial and operational results may not be reflective of our results for the full year.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies and estimates significant to the preparation of our consolidated financial information in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants. The Accountants' Report in Appendix I to this **[REDACTED]** sets forth these significant accounting policies, judgments and estimates in Notes 4 and 5, which are important for an understanding of our financial condition and results of operations. In particular, Note 5 to the Accountants' Report provides a discussion of the critical accounting judgements and key sources of estimation uncertainty. Our estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results could differ from those estimates.

ADOPTION OF HKFRS 15 AND HKFRS 9

HKFRS 15 Revenue from Contracts with Customers replaces the previous revenue standards HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations. HKFRS 9 Financial Instruments replaces the provisions of HKAS 39 Financial Instruments: Recognition and Measurement. The standards are effective for annual periods beginning on or after 1 January 2018 and early adoption is permitted.

We have adopted HKFRS 15 and HKFRS 9 consistently during the Track Record Period. The adoption of HKFRS 15 and HKFRS 9 has had no material impact on the Group's financial position and financial performance during the Track Record Period.

The table below shows the effect of adoption of HKFRS 9 on line items on consolidated statement of financial position and consolidated statement of profit or loss and other comprehensive income:

	As at 1 January 2016		
	Amounts under HKAS 39	**Effects of the adoption of HKFRS 9**	**Amounts under HKFRS 9**
	RMB'000	*RMB'000*	*RMB'000*
Consolidated statement of financial position			
Trade and retention receivables, other receivables and deposits	530,206	(20,474)	509,732
Retained earnings (included in reserves)	488,513	(20,474)	468,039

	As at 31 December 2016		
	Amounts under HKAS 39	**Effects of the adoption of HKFRS 9**	**Amounts under HKFRS 9**
	RMB'000	*RMB'000*	*RMB'000*
Consolidated statement of financial position			
Trade and retention receivables, other receivables and deposits	547,877	(24,004)	523,873
Retained earnings (included in reserves)	544,990	(24,004)	520,986

	Year ended 31 December 2016		
	Amounts under HKAS 39	**Effects of the adoption of HKFRS 9**	**Amounts under HKFRS 9**
	RMB'000	*RMB'000*	*RMB'000*
Consolidated statement of profit or loss and other comprehensive income			
Impairment loss on trade and retention receivables	–	(19,378)	(19,378)

	As at 31 December 2017		
	Amounts under HKAS 39	Effects of the adoption of HKFRS 9	Amounts under HKFRS 9
	RMB'000	*RMB'000*	*RMB'000*
Consolidated statement of financial position			
Trade and retention receivables, other receivables and deposits	822,484	(25,561)	796,923
Retained earnings (included in reserves)	609,947	(25,561)	584,386

	Year ended 31 December 2017		
	Amounts under HKAS 39	Effects of the adoption of HKFRS 9	Amounts under HKFRS 9
	RMB'000	*RMB'000*	*RMB'000*
Consolidated statement of profit or loss and other comprehensive income			
Impairment (loss)/gain on trade and retention receivables, net	(19,378)	781	(18,597)

	As at 31 December 2018		
	Amounts under HKAS 39	Effects of the adoption of HKFRS 9	Amounts under HKFRS 9
	RMB'000	*RMB'000*	*RMB'000*
Consolidated statement of financial position			
Trade and retention receivables, other receivables and deposits	1,073,245	(28,582)	1,044,663
Retained earnings (included in reserves)	715,979	(28,582)	687,397

	Year ended 31 December 2018		
	Amounts under HKAS 39	Effects of the adoption of HKFRS 9	Amounts under HKFRS 9
	RMB'000	*RMB'000*	*RMB'000*
Consolidated statement of profit or loss and other comprehensive income			
Impairment (loss)/gain on trade and retention receivables, net	(18,597)	(3,915)	(22,512)

For further discussion on new/revised HKFRSs that have been issued but are not yet effective, including their potential impact on our financial statements, please refer to Note 3 to the Accountants' Report in Appendix I to this **[REDACTED]**.

RESULTS OF OPERATIONS

The following table summarises the consolidated profit or loss and other comprehensive income from the financial statements during the Track Record Period, details of which are set out in the Accountants' Report in Appendix I to this **[REDACTED]**:

	Year ended 31 December					
	2016		2017		2018	
	RMB'000	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000*	*% of total revenue*
Revenue	1,081,887	100.0	1,317,693	100.0	1,383,335	100.0
Cost of sales	(867,432)	(80.2)	(1,071,786)	(81.3)	(1,056,834)	(76.4)
Gross profit	214,455	19.8	245,907	18.7	326,501	23.6
Other revenue	8,430	0.8	11,406	0.9	11,508	0.8
Other gains and losses	(3,392)	(0.3)	(1,902)	(0.1)	(4,100)	(0.3)
Distribution and selling expenses	(16,153)	(1.5)	(21,316)	(1.6)	(19,754)	(1.4)
Administrative expenses	(28,948)	(2.7)	(38,533)	(2.9)	(33,321)	(2.4)
Research and development expenses	(49,128)	(4.5)	(60,244)	(4.6)	(53,725)	(3.9)
Finance costs	(40,430)	(3.7)	(34,469)	(2.6)	(54,658)	(4.0)
Profit before tax	84,834	7.8	100,849	7.7	172,451	12.5
Income tax expense	(9,956)	(0.9)	(12,177)	(0.9)	(23,853)	(1.7)
Profit for the year	74,878	6.9	88,672	6.7	148,598	10.7
Profit attributable to:						
Owners of the Company	58,403	5.4	71,514	5.4	115,851	8.4
Non-controlling interests	16,475	1.5	17,158	1.3	32,747	2.4
	74,878	6.9	88,672	6.7	148,598	10.7

DESCRIPTION OF SELECTED CONSOLIDATED STATEMENT OF PROFIT OR LOSS LINE ITEMS

Revenue

Revenue represents the net invoiced value of the goods sold or services rendered by us in connection with (i) design, engineering, manufacture and sale of customised prestressed steel materials; (ii) design, engineering, manufacture, installation and sale of cables and (iii) others, including sales of scrap materials.

We organise our operations into business units based on the products involved and our revenue is primarily attributable to two reportable operating segments: (i) Cable Business, which comprises suspension cables, stay cables, installation services and sales of scrap materials and (ii) Prestressed Materials Business, which comprises plain surface prestressed products, rare earth coated prestressed products, galvanised prestressed products and other steel materials. While we historically generated the majority of revenue from the Prestressed Materials Business, we expect our Cable Business to grow at a faster rate in the next few years. For the years ended 31 December 2016, 2017 and 2018, approximately 95.9%, 96.2% and 97.6% of our revenue were from sales in the PRC, whilst the remaining sales were to overseas customers, including customers in Korea, Indonesia and Vietnam.

The following table sets out the breakdown of revenue by operating segment and product type in terms of absolute amount and as a percentage of total revenue:

	Year ended 31 December					
	2016		2017		2018	
	RMB'000	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000*	*% of total revenue*
Revenue						
Cable Business:						
Suspension cable projects	125,988	11.6	313,798	23.8	221,554	16.0
Stay cable projects	167,957	15.5	92,387	7.0	284,965	20.6
Others – installation	9,162	0.8	8,371	0.6	11,578	0.8
Others – sale of scrap materials	168	0.1	11,247	0.9	700	0.1
	303,275	28.0	425,803	32.3	518,797	37.5
Prestressed Materials Business:						
Rare earth coated prestressed products	674,242	62.3	760,922	57.8	685,532	49.6
Plain surface prestressed products	45,461	4.2	46,171	3.5	31,917	2.3
Galvanised prestressed products	49,170	4.6	72,476	5.5	142,274	10.3
Other steel materials	9,739	0.9	12,321	0.9	4,815	0.3
	778,612	72.0	891,890	67.7	864,538	62.5
	1,081,887	100.0	1,317,693	100.0	1,383,335	100.0

Cable Business

For the years ended 31 December 2016, 2017 and 2018, revenue from our Cable Business amounted to RMB303.3 million, RMB425.8 million and RMB518.8 million, representing 28.0%, 32.3% and 37.5% of our total revenue, respectively. Revenue from our Cable Business is mainly determined based on the number of projects we work on and the value of such projects. The number of projects under our Cable Business for 2016, 2017 and 2018 was 99, 89 and 116, respectively. Customers of our Cable Business are usually project companies or contractors that build bridges or other large construction projects. Please also refer to the section headed "Business — Sales and Marketing".

Prestressed Materials Business

For the years ended 31 December 2016, 2017 and 2018, revenue from our Prestressed Materials Business amounted to RMB778.6 million, RMB891.9 million and RMB864.5 million, representing 72.0%, 67.7% and 62.5% of our total revenue, respectively. Changes to our revenue in our Prestressed Materials Business are primarily resulted from fluctuations in the sales volume and the average selling price of our products, which in turn reflect the demand from our customers, which are usually steel material trading companies and steel material manufacturers. Please also refer to the section headed "Business — Sales and Marketing".

Average selling price and sales volume

The following table sets out the average selling price and sales volume for our Cable Business and Prestressed Materials Business for the years indicated:

	Year ended 31 December					
	2016		2017		2018	
	Sales volume	**Average selling price**	**Sales volume**	**Average selling price**	**Sales volume**	**Average selling price**
	tonnes	*RMB per tonne*	*tonnes*	*RMB per tonne*	*tonnes*	*RMB per tonne*
Cable Business[(1)]:						
Suspension cable projects	14,133	8,914	27,610	11,365	19,719	11,236
Stay cables projects	13,194	12,730	11,832	7,808	22,873	12,459
Total	27,327	10,757	39,442	10,298	42,592	11,892
Prestressed Materials Business[(2)]:						
Rare earth coated prestressed products	257,048	2,623	215,261	3,535	149,280	4,592
Plain surface prestressed products	17,623	2,580	9,165	5,038	5,893	5,416
Galvanised prestressed products	9,608	5,118	13,255	5,468	19,489	7,300
Total	284,279	2,705	237,681	3,701	174,662	4,922

Notes:

(1) This excludes installation services and sale of scrap materials.

(2) This excludes sale of other steel materials.

Cable Business

In 2016, 2017 and 2018, the overall average selling price per tonne of our products under the Cable Business was RMB10,757, RMB10,298 and RMB11,892, respectively. We price our products based on the nature for each individual project, taking into account the quantity, type and technical specifications of the cables sold, the overall project value, the complexity and type of bridge or infrastructure project, the location of the project, sufficiency of resources, the nature of and relationship with the customer, and the cost of raw materials.

The overall average selling price per tonne decreased by 4.3% from RMB10,757 in 2016 to RMB10,298 in 2017 mainly due to a decrease in the average selling price of stay cable projects as we sold lower value cables for stay cable projects partly offset by increased sales of higher value cables with greater strength for our suspension cable projects. The overall average selling price per tonne increased by 15.5% from RMB10,298 in 2017 to RMB11,892 in 2018 mainly due to the increases in volume and average selling price of stay cable projects in 2018 due to the sale of higher value products as a result of the complexity of the projects.

Prestressed Materials Business

In 2016, 2017 and 2018, the overall average selling price per tonne of our products under the Prestressed Materials Business was RMB2,705, RMB3,701 and RMB4,922, respectively. We adopt a cost-plus basis approach when determining the selling price. Apart from costs, our price will also take into account factors such as relationship with the customers, sales volume, sufficiency of our resources and technical requirements for the products to be supplied. Changes in the average selling price under the Prestressed Materials Business during the Track Record Period were mainly driven by changes in the product mix and changes in the cost of raw materials.

The overall average selling price per tonne increased by 36.8% from RMB2,705 in 2016 to RMB3,701 in 2017 mainly driven by (i) an increase in average selling prices of our rare earth coated prestressed products, which reflects an increase in our average cost of raw materials; and (ii) increased sales of galvanised prestressed products, which had a higher average selling price. The overall average selling price per tonne increased by 33.0% from RMB3,701 in 2017 to RMB4,922 in 2018 primarily due to (i) increases in selling prices of our rare earth coated prestressed products and galvanised prestressed products, reflecting an increased demand for our products as the PRC government launched an initiative to shut down production facilities that did not meet national environmental standards; and (ii) the further increase in our average cost of raw materials.

For our rare earth coated prestressed products, the average selling price per tonne increased from RMB2,623 in 2016 to RMB3,535 in 2017 and further to RMB4,592 in 2018 primarily due to increases in cost of raw materials and overall market price trends. Sales volumes, however, decreased from 257,048 tonnes in 2016, to 215,261 tonnes in 2017 and further to 149,280 tonnes in 2018, reflecting decreased market demand for such products leading to our greater focus on the production and sales of galvanised prestressed products, which requires the use of greater resources in terms of raw materials and labour than rare earth coated prestressed products.

For our plain surface prestressed products, the average selling price per tonne increased from RMB2,580 in 2016 to RMB5,038 in 2017 and further to RMB5,416 in 2018 primarily due to increases in cost of raw materials. Sales volumes, however, decreased from 17,623 tonnes in 2016, to 9,165 tonnes in 2017 and further to 5,893 tonnes in 2018, reflecting (i) our greater focus on the production and sales of galvanised prestressed products as discussed above and (ii) a decrease in orders due to lower market demand and the competitive nature of the market for plain surface prestressed products.

For our galvanised prestressed products, the average selling price per tonne increased from RMB5,118 in 2016 to RMB5,468 in 2017 and further to RMB7,300 in 2018 primarily due to increases in cost of raw materials and increased demand for such products from construction companies as well as cable manufacturers. Sales volumes increased from 9,608 tonnes in 2016, to 13,255 tonnes in 2017 and further to 19,489 tonnes in 2018, reflecting our greater focus on the production and sales of galvanised prestressed products as well as the greater market demand for such products.

Cost of sales

Cost of sales represents costs and expenses directly attributable to the manufacture of our products and comprises mainly (i) raw materials, (ii) depreciation, (iii) production overhead, which include costs for utilities, consumables, staff welfare and social insurance and (iv) direct labour cost. The following table sets out the breakdown of cost of sales in terms of absolute amount and as a percentage of total cost of sales for the years indicated:

	Year ended 31 December					
	2016		2017		2018	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Raw materials	824,031	95.0	1,027,233	95.9	1,009,930	95.6
Depreciation	9,709	1.1	8,484	0.8	6,909	0.6
Production overhead	11,492	1.3	10,778	1.0	8,231	0.8
Business tax	5,979	0.7	6,800	0.6	7,605	0.7
Direct labour cost	8,726	1.0	10,799	1.0	14,076	1.3
Subcontracting fee	5,195	0.6	5,436	0.5	8,471	0.8
Others[(1)]	2,300	0.3	2,256	0.2	1,612	0.2
	867,432	100.0	1,071,786	100.0	1,056,834	100.0

Note:

(1) Others include indirect materials and repair and maintenance fee.

The following table provides the breakdown of cost of sales by business segment for the years indicated:

	Year ended 31 December					
	2016		2017		2018	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Cable Business	198,072	22.8	278,478	26.0	328,133	31.0
Prestressed Materials Business	669,360	77.2	793,308	74.0	728,701	69.0
	867,432	100.0	1,071,786	100.0	1,056,834	100.0

Please refer to the section headed "Financial Information — Period to Period Comparison of Results of Operations" for further analysis.

Gross profit and gross profit margin

For the years ended 31 December 2016, 2017 and 2018, our gross profit was RMB214.5 million, RMB245.9 million and RMB326.5 million, respectively, and our gross profit margin was 19.8%, 18.7% and 23.6% for the respective year. Changes to our gross profit margin during the Track Record Period primarily reflected changes in average selling prices, the cost of raw materials as well as the revenue contribution and product mix between our Cable Business and Prestressed Materials Business. Please refer to the section headed "Financial Information — Period to Period Comparison of Results of Operations" for further analysis.

The following table sets out the respective gross profit and gross profit margin by business segment for the years indicated:

	Year ended 31 December					
	2016		2017		2018	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Cable Business	105,203	34.7	147,325	34.6	190,664	36.8
Prestressed Materials Business	109,252	14.0	98,582	11.1	135,837	15.7
Total	214,455	19.8	245,907	18.7	326,501	23.6

Other revenue

Other revenue mainly includes (i) bank and other interest income, and (ii) government grants, which consist mainly of grants received from the PRC local government authority as subsidies to the Group for incentive of technology innovation projects. During the Track Record Period, the components of our other revenue are summarised below:

	Year ended 31 December					
	2016		2017		2018	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Bank and other interest income	2,977	35.3	6,004	52.6	4,968	43.2
Government grants	5,077	60.2	5,249	46.0	6,423	55.8
Sundry income	376	4.5	153	1.4	117	1.0
	8,430	100.0	11,406	100.0	11,508	100.0

Other gains and losses

Other gains and losses mainly consist of (i) exchange gains/(losses) arising from fluctuations in exchange rates between the invoice and settlement dates of our sales and from translation of our U.S. dollar-denominated trade receivables, (ii) impairment loss reversed/(recognised) on trade and retention receivables and (iii) impairment loss reversed/(recognised) on deposits and other receivables. During the Track Record Period, the components of our other gains and losses are summarised below:

	Year ended 31 December		
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Exchange gains/(loss), net	147	(344)	19
(Loss) on disposal of property, plant and equipment	(9)	–	(14)
Impairment loss reversed/(recognised) on trade and retention receivables	(4,506)	781	(3,915)
Impairment loss reversed/(recognised) on deposits and other receivables	976	(2,339)	(190)
	(3,392)	(1,902)	(4,100)

Distribution and selling expenses

Distribution and selling expenses mainly include (i) transportation costs for delivery of products, (ii) commission, (iii) salaries and benefits of our sales and marketing staff and (iv) travel expenses relating to our sales and marketing activities. For the years ended 31 December 2016, 2017 and 2018, our distribution and selling expenses amounted to RMB16.2 million, RMB21.3 million and RMB19.8 million, representing 1.5%, 1.6% and 1.4% of our revenue for the respective year. The following table sets out the breakdown of selling and distribution expenses for the years indicated:

	Year ended 31 December					
	2016		**2017**		**2018**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Transportation costs	9,869	61.1	14,444	67.8	12,756	64.6
Commission	2,195	13.6	952	4.5	908	4.5
Staff salaries and benefits	2,627	16.3	2,719	12.7	3,118	15.8
Travel expenses	611	3.8	787	3.7	1,057	5.4
Depreciation	39	0.2	41	0.2	55	0.3
Others(1)	812	5.0	2,373	11.1	1,860	9.4
	16,153	100.0	21,316	100.0	19,754	100.0

Note:

(1) Others mainly include administration expenses for tender bidding, entertainment expenses and advertising costs.

Administrative expenses

For the years ended 31 December 2016, 2017 and 2018, our administrative expenses amounted to RMB28.9 million, RMB38.5 million and RMB33.3 million, representing 2.7%, 2.9% and 2.4% of our revenue for the respective year. The following table sets out the breakdown of administrative expenses for the periods indicated:

	Year ended 31 December					
	2016		2017		2018	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Staff costs	9,792	33.8	11,071	28.7	11,830	35.5
Travelling and entertainment	2,291	7.9	3,548	9.2	3,614	10.8
Depreciation	1,241	4.3	1,246	3.2	1,177	3.5
Amortisation of prepaid land lease payment	763	2.6	762	2.0	763	2.3
Audit fee	1,464	5.1	1,643	4.2	1,079	3.2
Legal and professional fee	908	3.1	1,126	2.9	206	0.6
Listing expenses (A-share Listing)	250	0.9	–	–	–	–
[REDACTED] (Stock Exchange)	–	–	8,614	22.4	6,245	18.8
Other taxes	2,810	9.7	2,808	7.3	1,832	5.5
Bank charges	4,705	16.3	3,102	8.1	3,129	9.4
Others(1)	4,724	16.3	4,613	12.0	3,446	10.4
	28,948	100.0	38,533	100.0	33,321	100.0

Note:

(1) Others mainly include rental expenses, insurance, office utilities and other administrative expenses.

Research and development expenses

Research and development expenses mainly include (i) salaries and benefits of our research and development staff, (ii) depreciation of equipment for research and development, (iii) materials consumed for conducting research and development activities, and (iv) testing fee incurred in engaging external testing laboratories. For the years ended 31 December 2016, 2017 and 2018, our research and development expenses amounted to RMB49.1 million, RMB60.2 million and RMB53.7 million, representing 4.5%, 4.6% and 3.9% of our revenue for the respective year. The following table sets out the breakdown of our research and development expenses for the years indicated:

	Year ended 31 December					
	2016		**2017**		**2018**	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Staff costs	2,638	5.4	3,271	5.4	3,863	7.2
Depreciation	1,396	2.8	1,431	2.4	575	1.1
Materials	41,016	83.5	51,288	85.1	45,919	85.5
Testing	2,735	5.6	2,394	4.0	2,046	3.8
Others	1,343	2.7	1,860	3.1	1,322	2.4
	49,128	100.0	60,244	100.0	53,725	100.0

Finance costs

Finance costs mainly consist of interest on bank borrowings, interest expenses from our bond issued and handling charge for the bond issued. For the years ended 31 December 2016, 2017 and 2018, our finance costs amounted to RMB40.4 million, RMB34.5 million and RMB54.7 million, respectively.

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Interest expense on bank borrowings	31,413	34,469	54,658
Interest expense on bond	7,351	–	–
Handling charge for bonds	1,666	–	–
	40,430	34,469	54,658

Income tax expense

Income tax expense consists of current and deferred taxes payable in the PRC by our Company and our subsidiaries. For the years ended 31 December 2016, 2017 and 2018, our income tax expense amounted to RMB10.0 million, RMB12.2 million and RMB23.9 million, and our effective income tax rate was 11.7%, 12.1% and 13.8%, respectively. For each year during the Track Record Period, as confirmed by our PRC Legal Advisors, each of our PRC operating subsidiaries had duly made its relevant tax filings in accordance with the relevant laws and regulations in the PRC; and as confirmed by our Reporting Accountants, all income tax calculations and filings (including the tax deductions) had been conducted in accordance with relevant tax laws and regulations in the PRC.

Based on the above, the Directors view that our Group's basis for the tax calculation was sound and reasonable, therefore, the provision for income taxes was adequate for our Group during the Track Record Period. For further details, please refer to Note 14 to the Accountants' Report in Appendix I to this **[REDACTED]**.

Pursuant to the income tax rules and regulations of the PRC, the provision for PRC income tax of our subsidiaries is calculated based on the statutory tax rate of 25%, but during the Track Record Period, preferential tax treatment was available to the following four of our PRC subsidiaries.

Ossen Innovation Materials, Ossen (Jiujiang), Shanghai Pujiang and Zhejiang Pujiang are recognised as High and New-Technology Enterprises according to the PRC tax regulations and were entitled to a preferential tax rate of 15% during the Track Record Period. Their respective preferential tax rate will expire in July 2020, August 2021, November 2020 and November 2019, respectively. Assuming we had lost our preferential tax rate of 15% and our PRC subsidiaries had been subject to the statutory tax rate of 25% during the Track Record Period, our net profit would have been reduced by 11.2% in 2016, 12.3% in 2017 and 11.6% in 2018.

Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands, the Company, which is incorporated in the Cayman Islands and the Company's subsidiaries incorporated in British Virgin Islands are not subject to any income tax. We were not subject to any profits tax in Hong Kong as we did not generate any profit in Hong Kong.

During the Track Record Period and as of the Latest Practicable Date, we did not have any material tax dispute or unresolved issues with the relevant authorities.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year Ended 31 December 2018 Compared to Year Ended 31 December 2017

Revenue

Revenue increased by 5.0% from RMB1,317.7 million in 2017 to RMB1,383.3 million in 2018. This increase was mainly attributable to a 21.8% increase in our revenue from our Cable Business partially offset by a 3.1% decrease in our revenues from our Prestressed Materials Business.

Cable Business

Revenue from our Cable Business increased by 21.8% from RMB425.8 million in 2017 to RMB518.8 million in 2018. Average selling prices remained stable while the number of projects increased from 89 in 2017 to 116 in 2018.

Revenue generated from stay cable projects increased from RMB92.4 million in 2017 to RMB285.0 million in 2018, which was mainly due to an increase in the sales from several high contract value stay cable bridge projects including, Boyang Lake No. 2 Bridge (with a contract value of RMB52.0 million and term from September 2017 to May 2019), Taizhou Bay Bridge (with a contract value of RMB26.4 million and term from July 2017 to May 2018), Qatar Stadium (with a contract value of RMB18.0 million and term from April 2018 to August 2018), Qimen Port Bridge (with a contract of RMB15.3 million and term from November 2018 to January 2019) and Shenhai Fisheries anchoring cable (with a contract value of RMB16.3 million and term from December 2018 to January 2019).

Revenue from suspension cable projects decreased by 29.4% from RMB313.8 million in 2017 to RMB221.6 million in 2018 primarily due to the completion of the Humen No. 2 Bridge project which had a high contract value and contributed a significant portion of the revenue generated in 2017.

Prestressed Materials Business

Revenue from our Prestressed Materials Business decreased by 3.1% from RMB891.9 million to RMB864.5 million. This decrease was mainly attributable to a 9.9% decrease in sales of our rare earth coated prestressed products partially offset by a 96.3% increase in sales of our galvanised prestressed products. Our sales of rare earth coated prestressed products decreased mainly due to decreased market demand for such products leading to our greater focus on the production and sales of galvanised prestressed products, which requires us to use greater resources in terms of raw materials and labour than rare earth coated prestressed products. The increase in sales of galvanised prestressed products was primarily due to our greater focus on the production and sales of galvanised prestressed products as well as greater market demand for such products.

Cost of sales

Cost of sales decreased by 1.4% from RMB1,071.8 million in 2017 to RMB1,056.8 million in 2018, which was mainly attributable to the decrease in sales volume for our Prestressed Materials Business.

The cost of sales for our Cable Business increased by 17.8% from RMB278.5 million in 2017 to RMB328.1 million in 2018 mainly due to (i) increased sales in our Cable Business as the sales volume of cables increased from 39,442 tonnes in 2017 to 42,592 tonnes in 2018; and (ii) higher cost of raw materials from the production of higher value products.

Our cost of sales for Prestressed Materials Business decreased by 8.1% from RMB793.3 million in 2017 to RMB728.7 million in 2018 mainly due to the 26.5% decrease in sales volume in our Prestressed Materials Business reflecting (i) a decrease in sales volume of rare earth coated prestressed products due to decreased market demand as discussed above; and (ii) a decrease in orders for plain surface prestressed products due to lower market demand and the competitive nature of the market, and partly offset by an increase in sales volume of galvanised prestressed products due to our greater focus on the production and sales of such products as well as greater market demand for such products.

Gross profit and gross profit margin

As a result of the foregoing, gross profit increased by 32.8% from RMB245.9 million in 2017 to RMB326.5 million in 2018.

Overall gross profit margin increased from 18.7% in 2017 to 23.6% in 2018, which was primarily due to an increase in gross profit margin from the Prestressed Materials Business in 2018, coupled with a higher revenue contribution from the Cable Business, which had a higher gross profit margin of 36.8% in 2018, as compared to our sales from our Prestressed Materials Business, which had a gross profit margin of 15.7% in 2018.

The gross profit margin for our Cable Business increased from 34.6% in 2017 to 36.8% in 2018 primarily due to the changes in product mix as a result of an increase in sales of higher value products for our stay cable projects.

The gross profit margin for our Prestressed Materials Business increased from 11.1% in 2017 to 15.7% in 2018 mainly because of an increase in the average selling price of our prestressed materials products as discussed above.

Other revenue

Other revenue increased by 0.9% from RMB11.4 million in 2017 to RMB11.5 million in 2018. This increase was primarily attributable to an increase of RMB1.2 million in government grants which includes incentives for technology development, offset by a decrease in interest income from performance bond deposits for our Cable Business.

Other gains and losses

We recorded other loss of RMB4.1 million in 2018 as compared to other loss of RMB1.9 million in 2017. The loss was primarily attributable to the increase in the impairment loss recognised on trade and retention receivables reflecting an increase in the gross trade receivables balance in 2018.

Distribution and selling expenses

Distribution and selling expenses decreased by 7.3% from RMB21.3 million in 2017 to RMB19.8 million in 2018. This decrease was mainly attributable to the decrease of RMB1.7 million in transportation costs primarily due to shorter delivery distances for projects under our Cable Business and more of our smaller project customers taking on delivery costs themselves.

Administrative expenses

Administrative expenses decreased by 13.5% from RMB38.5 million in 2017 to RMB33.3 million in 2018. This decrease was mainly attributable to (i) a decrease of RMB2.4 million in **[REDACTED]** expenses incurred for the preparation of **[REDACTED]**; (ii) a decrease of RMB1.0 million in other taxes mainly due to a tax exemption on land use tax and property tax granted by the local tax authority in 2018; and (iii) a decrease of RMB1.5 million in audit and professional fee.

Research and development expenses

Research and development expenses decreased by 10.8% from RMB60.2 million in 2017 to RMB53.7 million in 2018. This decrease was mainly attributable to a decrease in the cost of materials for testing by RMB5.4 million due to a decrease in the number of research and development projects and a decrease in depreciation by RMB0.9 million as some of our testing machines have been fully depreciated in 2017.

Finance costs

Finance costs increased by 58.6% from RMB34.5 million in 2017 to RMB54.7 million in 2018. This increase was mainly attributable to an increase in bank borrowings. The average monthly balance for bank borrowings was RMB417.0 million in 2017 and RMB654.4 million in 2018. The weighted average interest rate was 5.89% in 2017 and 6.05% in 2018.

Income tax expense

Income tax expense increased by 95.9% from RMB12.2 million in 2017 to RMB23.9 million in 2018. This increase was primarily attributable to an increase in current tax charge primarily as a result of the increase in profit before tax. Our effective tax rate increased from 12.1% in 2017 to 13.8% in 2018 mainly due to difference in provision estimates for two of our PRC subsidiaries, Ossen Innovation Materials and Ossen (Jiujiang) and the actual amount of tax paid. The net difference resulted in additional income tax expense of RMB0.8 million in 2018 represented approximately 3.2% of our Group's income tax expense in 2018. The change was mainly due to adjustments to the deductibility of certain research and development expenses in our 2017 tax assessment by local tax authorities. Such adjustments were due to the different interpretation on the deductability of certain research and development expenses items by us and the tax authorities. Accordingly, such difference was settled during the year ended 31 December 2018.

As advised by our PRC Legal Advisors, pursuant to the "Enterprise Income Tax Law of the PRC", each of our PRC operating subsidiaries is required to prepay tax every month or quarter based on their calculation on their income tax payable for that corresponding period. For each financial year, pursuant to the "Measures for the Administration of Final Settlement and Payment of Enterprise Income Tax", we are required to provide tax filings to the tax authorities for annual tax assessment and claim or settle the difference between the annual tax payable and prepaid tax to/from the tax authorities based on the tax authorities' final tax assessment amount.

As advised by our PRC Legal Advisors, while the PRC tax authorities have the power to re-assess and object to the Group's research and development expenses deducted in previous years, the likelihood that the tax authorities would do so is remote due to the following:

(a) We had made the relevant 2015, 2016 and 2017 filings to the relevant tax authorities in accordance with the relevant laws and regulations of the PRC, the tax calculations for 2015, 2016 and 2017 had been reviewed by the tax authorities and any difference resulting from the final tax assessment has been settled. For the 2018 filings, we will submit the relevant annual tax filings to the tax authorities by the end of May 2019 in accordance with the relevant tax laws and regulations of the PRC;

(b) As confirmed by our Reporting Accountants, the tax calculations submitted had been prepared in accordance with the relevant tax laws of the PRC; and

(c) Each of our PRC operating subsidiaries had obtained a certificate of compliance issued by the relevant tax authorities in relation to the tax obligations for the financial year of 2015, 2016 and 2017, respectively. During the Track Record Period and up to the Latest Practicable Date, the Company and its subsidiaries had not been subject to any fines, penalties or other legal actions by government authorities in the PRC resulting from any non-compliance with any tax laws in the PRC.

Thus, based on the above, the risk that the tax authorities would re-assess and object to our research and development expenses deduction claimed in previous years is remote.

Profit for the period

As a result of the foregoing, profit for the period increased by 67.6% from RMB88.7 million in 2017 to RMB148.6 million in 2018. Net profit margin increased from 6.7% in 2017 to 10.7% in 2018, primarily due to an increase in gross profit margin.

Year Ended 31 December 2017 Compared to Year Ended 31 December 2016

Revenue

Revenue increased by 21.8% from RMB1,081.9 million in 2016 to RMB1,317.7 million in 2017. This increase was primarily attributable to a 40.4% increase in our revenue from our Cable Business and a 14.5% increase in our revenue from our Prestressed Materials Business.

Cable Business

Revenue from our Cable Business increased by 40.4% from RMB303.3 million in 2016 to RMB425.8 million in 2017. The average selling price under our Cable Business decreased slightly by 4.3% from RMB10,757 per tonne in 2016 to RMB10,298 per tonne in 2017, while the sales volume increased by 44.3% from 27,327 tonnes to 39,442 tonnes.

Revenue from suspension cable projects increased by 149.1% from RMB126.0 million in 2016 to RMB313.8 million in 2017 primarily due to an increase in sales volume from two super-long-span suspension bridges projects, namely Humen No. 2 Bridge (Nizhou section) and Humen No. 2 Bridge (Dasha section) in 2017 which had relatively higher contract value. The overall increase in revenue was partially offset by a decrease in sales from stay cable projects from RMB168.0 million in 2016 to RMB92.4 million in 2017 mainly due to a decrease in sales volume as the number of stay cable projects decreased from 60 to 41.

Prestressed Materials Business

Revenue from prestressed materials products increased by 14.5% from RMB778.6 million in 2016 to RMB891.9 million in 2017. This increase was mainly attributable to an increase in sales of rare earth coated prestressed products by 12.9% from RMB674.2 million in 2016 to RMB760.9 million in 2017 and the increase in sales of galvanised prestressed products by 47.4% from RMB49.2 million in 2016 to RMB72.5 million in 2017. The average selling price of our prestressed products increased by 36.8% from RMB2,705 per tonne in 2016 to RMB3,701 per tonne in 2017 mainly driven by (i) an increase in average selling price of our rare earth coated prestressed products reflecting an increase in our average cost of raw materials; and (ii) increased sales of galvanised prestressed products, which had an higher average selling price.

Cost of sales

Cost of sales increased by 23.6% from RMB867.4 million in 2016 to RMB1,071.8 million in 2017. This increase in cost of sales was primarily attributable to increased sales for both our Cable Business and Prestressed Materials Business.

Our cost of sales for the Cable Business increased by 40.6% from RMB198.1 million to RMB278.5 million, which was in line with our 40.4% increase in sales. Our cost of sales for the Prestressed Materials Business increased by 18.5% from RMB669.4 million in 2016 to RMB793.3 million in 2017 mainly due to an increase in our average cost of high carbon steel wire rods by 34.2% mainly due to general increase in steel prices, partially offset by a decrease of 16.4% in the total sales volume of prestressed materials.

Gross profit and gross profit margin

As a result of the foregoing, gross profit increased by 14.6% from RMB214.5 million in 2016 to RMB245.9 million in 2017.

Overall gross profit margin decreased from 19.8% in 2016 to 18.7% in 2017. This decrease was mainly attributed by the decrease in gross profit margin of our Prestressed Materials Business. The gross profit margin for our Prestressed Materials Business decreased from 14.0% for 2016 to 11.1% for 2017 mainly due to the increase in our average cost of high carbon steel wire rods.

The gross profit margin for our Cable Business remained stable, being 34.7% in 2016 and 34.6% in 2017.

Other revenue

Other revenue increased by 35.7% from RMB8.4 million in 2016 to RMB11.4 million in 2017. This increase was primarily attributable to an increase of RMB3.0 million in bank and other interest income primarily due to the additional interest collected from the return of performance bonds upon delivery of bridge cables to our customers.

Other gains and losses

We recorded other loss of RMB1.9 million in 2017 as compared to other loss of RMB3.4 million in 2016. This loss was primarily attributable to an increase in impairment loss recognised on deposits and other receivables primarily due to the significant increase in deposits from RMB54.7 million as at 31 December 2016 to RMB258.0 million as at 31 December 2017, partially offset by an impairment loss reversed on trade and retention receivables in 2017 primarily due to the recovery of certain bad debts written off in prior years.

Distribution and selling expenses

Distribution and selling expenses increased by 32.0% from RMB16.2 million in 2016 to RMB21.3 million in 2017. This increase was mainly attributable to an increase of RMB4.6 million in transportation costs primarily due to the delivery of a high volume of cables for projects in Humen, the PRC, partially offset by a decrease in overseas sales commission of RMB1.2 million as there was a decrease in overseas sales.

Administrative expenses

Administrative expenses increased by 33.2% from RMB28.9 million in 2016 to RMB38.5 million in 2017. This increase was mainly attributable to (i) an increase of RMB8.6 million in **[REDACTED]** expenses for our preparation of the **[REDACTED]**; and (ii) an increase in staff costs of RMB1.3 million due to an increase in the number of employees.

Research and development expenses

Research and development expenses increased by 22.6% from RMB49.1 million in 2016 to RMB60.2 million in 2017. This increase was mainly attributable to an increase in the cost of materials for testing by RMB10.3 million in order to improve our know-how and technical capabilities to support our Cable Business projects, as well as an increase in staff costs by RMB0.6 million due to an increase in number of research and development staff.

Finance costs

Finance costs decreased by 14.6% from RMB40.4 million in 2016 to RMB34.5 million in 2017. This decrease was primarily attributable to a decrease in outstanding interest expense on the bond as the bond matured and was repaid in September 2016.

Income tax expense

Income tax expense increased by 22.0% from RMB10.0 million in 2016 to RMB12.2 million in 2017. This increase was mainly attributable to an increase in current tax charge as we recorded a higher profit before tax in 2017. Our effective tax rate increased slightly from 11.7% in 2016 to 12.1% in 2017.

Profit for the year

As a result of the foregoing, profit for the year increased by 18.4% from RMB74.9 million in 2016 to RMB88.7 million in 2017. Net profit margin decreased from 6.9% in 2016 to 6.7% in 2017 mainly due to the decrease in gross profit margin in 2017.

LIQUIDITY AND CAPITAL RESOURCES

Our principal cash requirements are to pay for working capital needs. We have historically met these cash requirements by relying on a combination of banking credit facilities and net cash flows from operating activities as our principal sources of funding. Following the completion of the **[REDACTED]**, we intend to continue to fund our cash requirements through a combination of banking credit facilities, net cash flows from operating activities and **[REDACTED]** from the **[REDACTED]**.

Working capital

We had net current assets of RMB847.2 million, RMB986.2 million, RMB1,100.5 million and RMB1,046.6 million as at 31 December 2016, 2017 and 2018, and 31 March 2019, respectively. However, we recorded net cash flows used in operating activities of RMB171.1 million in 2017 and RMB137.3 million in 2018.

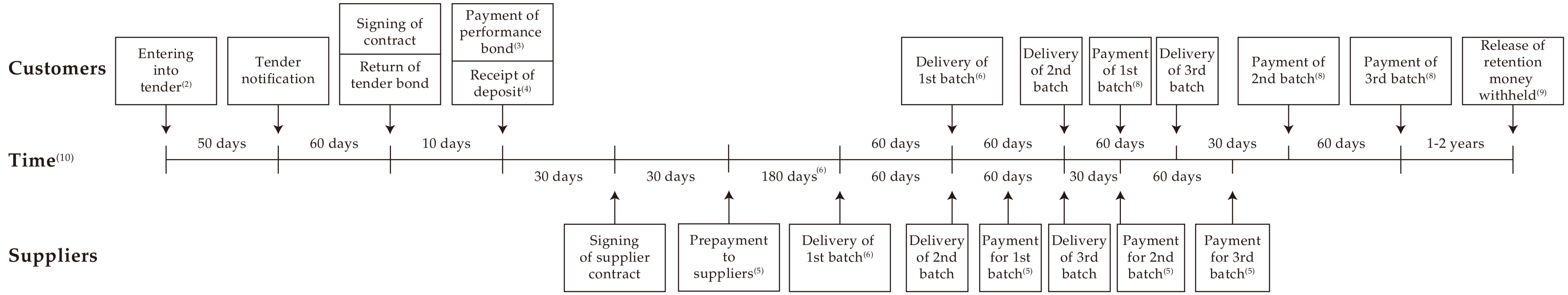
Our operations are working capital intensive due to the nature of our industry, which is inherent in our business model. We utilise a significant amount of working capital for upfront prepayment to our suppliers to procure raw materials for our products and to provide deposit guarantees (in terms of tender and performance bonds) for our Cable Business. We generally provide prepayments for our primary suppliers of up to 80% of our estimated 12 months procurement volume on a rolling basis (for our Prestressed Materials Business) or total contract value (for our Cable Business). Such high percentage of prepayments are common in the Cable Business industry we operate because suppliers tailor make our supplies in accordance with our specifications and are also common in the Prestressed Materials Business industry in order to secure favourable treatment in terms of pricing and supply, according to Frost & Sullivan. However, our Cable Business customers provide us with a deposit of up to 20% of the contract value for some of our projects, which we record as contract liabilities on our balance sheet. Please refer to the section headed "Risk Factors — Risks Relating to our Business and Industry — We recorded operating cash outflows for 2017 and 2018 because our operations are working capital intensive, any insufficient levels of liquidity may adversely affect our cash flow and working capital and results of operations".

We finance our working capital primarily through our banking credit facilities (including bank acceptance bills). As at 31 March 2019, we had total banking credit facilities (comprising bank borrowings, bank acceptance bills, guarantee letters and letter of credits) of RMB2,042.3 million, of which RMB846.5 million were available for drawdown. We have historically maintained good relations with our principal banks and had not experienced any difficulties in utilising our banking credit facilities. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any difficulties in renewing or rolling-over our bank loans. We have not experienced any significant difficulties in obtaining credit facilities, nor have we experienced a withdrawal of banking facilities, request for early repayment by banks, or default in breach of financial covenants during the Track Record Period and up to the Latest Practicable Date.

We also expect to receive **[REDACTED]** from the **[REDACTED]** of approximately HK$**[REDACTED]** million (or RMB**[REDACTED]** million), of which around **[REDACTED]** or HK$**[REDACTED]** million (or RMB**[REDACTED]** million) will be used for the repayment of bank borrowings; following our **[REDACTED]**, we expect our borrowing capacity to increase by at least the same amount. In addition, around **[REDACTED]** or HK$**[REDACTED]** million (or RMB**[REDACTED]** million) of the **[REDACTED]** from the **[REDACTED]** will be used for our working capital and general corporate purposes. Please refer to the section headed "Future Plans and **[REDACTED]**" for further details.

The below chart is an illustration for our payments and receipts timeframe of a typical project in each of our business segment:

Cable Business[1]



Notes:

(1) The following illustration is for a cable project that goes through a tendering process.

(2) When we submit our tender documents, we are required to provide a specified amount as tender bond, which will normally be returned to us 60 days after the publication of the results of the tender, whether or not we win the tender.

(3) Typically for an open tender contract, we are required to provide a performance bond of approximately 5% to 10% of the contract value. In some cases, the tender bond can be used for the payment for performance bond.

(4) For certain sales contracts, we require our customers to pay us an initial deposit of up to 20% of the contract value.

(5) We typically make prepayments of up to 80% of the total contract value and the remaining balance is payable upon receipt of delivery based on 90 days credit term.

(6) Suppliers normally deliver the raw materials in batches, and we normally commence our production of bridge cables in batches and deliver our finished goods to the customers in batches. As a result, the actual production time needed and the number of batches for each project delivery vary depending on the contract as well as specifications and complexity of the products required.

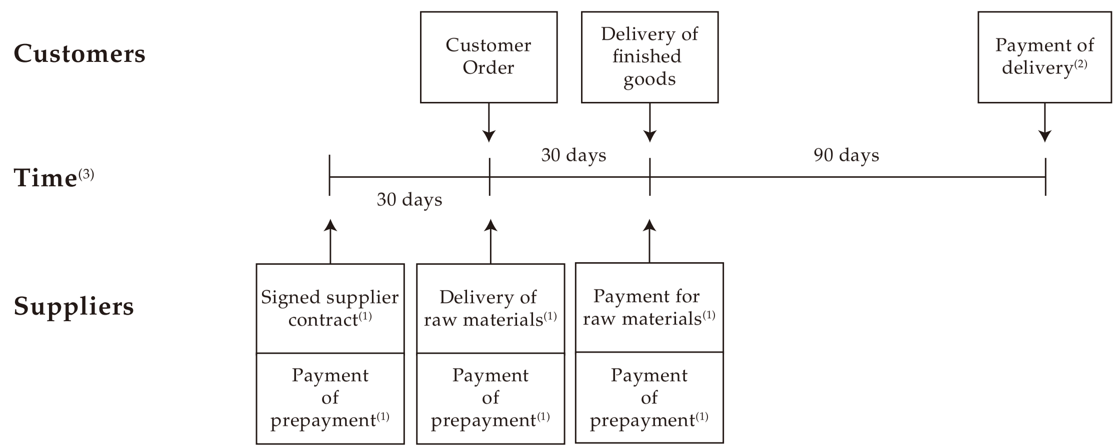
(7) This actual delivery date will depend on the notification from the customer, which will depend on the progress of the construction schedule of the bridge contract.

(8) Customer payments to us are in batches and are based on 90 days credit term.

(9) For the majority of our projects, our customers typically withhold 5% to 10% of the contract value as retention money, which will be withheld from their payment for each batch of delivery. Such retention money is released to us after deducting any warranty claims, upon expiration of the warranty period and obtaining the certificate of expiration of warranty period after the completion of the construction of the bridge, which is typically one to two years.

(10) The timeframe is for illustration purposes only, the actual timeframe for each stage may differ depending on factors, including but not limited to, the terms in the tender document for each specific project, the negotiation with the suppliers/customers, actual progress of the customers' delivery schedule and the complexity and specification of each project. As a result, the timeframe for each actual project may vary significantly.

Prestressed Materials Business



Notes:

(1) We have signed an annual framework agreement with the Shagang Group, our major supplier during the Track Record Period and we typically provide prepayments of up to 80% of our estimated 12-months procurement volume on a rolling-basis. At the end of each month, we replenish the prepayment level with the Shagang Group based on our annual forecasted procurement schedule and settle the outstanding balance of the delivered raw materials.

(2) Customer payments to us are based on 90 days credit term after the delivery and invoice of finished goods.

(3) The timeframe is for illustration purposes only, the actual timeframe for each of the stage may differ depending on factors, including but not limited to, the terms for each purchase or sales order, actual progress of the customers' delivery schedule and the complexity and specification of each order. As a result, the timeframe for each actual order, delivery and payment may vary significantly.

Liquidity Management Measures

Our finance team maintains liquidity and working capital management measures to manage our working capital position. Designated members prepare monthly cash flow forecasts, which are reviewed and approved by our senior management and/or Directors, to help ensure that we have sufficient cash to meet our working capital requirements for our business operations and to repay bank borrowings as they come due. Based on these cash flow forecasts, we have been able to reliably and successfully monitor our cash inflows and outflows.

For the Cable Business:

Prior to entering into a tender, our executive management, sales and marketing team and finance team would review and evaluate the likelihood of success of the tender based on our experience and project track record, taking into account the financial resources needed for the tender and for completing the project.

Upon winning the tender, the sales and marketing team and finance team would negotiate the commercial aspect of the contract with specific emphasis on terms of delivery and payment, amount of performance bond, amount of retention monies and initial deposits from customers, if any.

Upon signing the contract with the customer, we will engage and negotiate a supply contract with our raw materials supplier based on the indicative delivery schedule provided in the customer contract. Due to the customised nature of our supplies, our suppliers generally require us to provide prepayments of up to 80% of the total supplier contract value.

Based on the foregoing, we would be able to reasonably estimate the required cash inflows and outflows that would be incorporated into our overall cash flow forecast for the project. Our team will track the payment milestones to ensure timely payment and adjust our cash forecast accordingly should there be any changes.

For the Prestressed Materials Business:

We have an existing framework agreement with the Shagang Group in order to help secure favourable treatment in terms of pricing and supply of raw materials, and we typically provide prepayments of up to 80% of our estimated 12-months procurement volume on a rolling basis to the Shagang Group. We assess and communicate on a monthly basis the level of our inventories and projected sales volume as well as the level of prepayments we have with the Shagang Group. We will replenish our prepayment levels with the Shagang Group on an as-needed-basis.

Upon receiving requests for quotations from prospective customers, our sales and marketing and finance teams will assess the credit risk of such customers before submitting a price quote, and if agreed by the prospective customer, our team will negotiate the commercial aspects of the order with specific emphasis on the terms of delivery and payment.

Based on the foregoing, we would be able to reasonably estimate the required cash inflows and outflows that would be incorporated into our overall cash flow forecast, and our team will track the payment milestones to ensure timely payment and adjust our cash forecast accordingly should there be any changes.

For the Cable Business and Prestressed Materials Business:

During the Track Record Period, we have implemented liquidity management measures at both the project level and at the business unit level. At the project level, we have dedicated a project manager from our sales team for each specific project and our finance team will act as a supporting function to monitor the status of the trade receivables. After we have signed the contract with the customer, our finance team would establish an invoicing schedule setting out the approximate time for invoice issuance based on the delivery schedule as stipulated in the contract. Upon confirmation of receipt of delivery by the customer, our sales team would inform the finance team, which would normally issue the invoice to the customer at month end. Both the finance team and sales team would review and monitor the status of any outstanding invoices and the status of the settlement of such invoices. For overdue trade receivables, the sales team take more proactive steps to liaise with these customers, including making telephone phone calls, making sales visits and sending payment reminders.

At the business unit level, our senior management and executive Directors also regularly communicate with the sales and finance teams, monitoring the status of trade receivables and determining if any follow-up actions, including extending the credit period, would be needed to recover any overdue trade receivables. In addition, at the beginning of each month, our finance team would assess the amount of overall working capital that our Group requires for the month, which may include any prepayments, trade payables, tender bonds and other operating expenses for the month. Based on the cash balance we have on hand, the finance team would determine whether any drawdown from our unutilised banking facilities is needed. Moreover, our finance team also regularly monitors the ageing of our trade receivables and liaises with our sales team to track and monitor the status of our outstanding trade receivables, and to make appropriate provisions as necessary.

We have continued to monitor the cash flow movements for our customer orders and have adopted the following measures to improve our cash flow position:

- closely monitoring the invoicing schedule and payment recovery process by our project managers;

- proactively monitor the status of the outstanding invoices and take necessary follow-up actions by our sales team such as making telephone calls to customers to remind them on the invoice status, making sales visits and sending payment reminders;

- negotiate payment terms with our suppliers allowing our Group to have longer payment and settlement period by our procurement team; and

- ensure that our sales are made to customers with good credit histories and our sales team regularly performs credit evaluations on our customers by assessing their current financial position.

During the Track Record Period, we have not experienced any major difficulties with maintaining sufficient working capital notwithstanding the growth in our business. However, to the extent we expect to have working capital issues or in case of an economic downturn in China that may affect our business, we may reduce the number and/or value of projects we bid for under our Cable Business or take on fewer orders from our customers under our Prestressed Materials Business in order to ensure that we have sufficient amount of working capital for our business operations.

Liquidity Sufficiency

The following table sets out the details of our Group's financial liabilities and expected capital expenditures that are due within one year as at 31 December 2018, and our expected sources of funding for such liabilities:

	As at 31 December 2018 *RMB (million)*	**Sources of funding**
Within 1 year		
Trade payables	56.3	Mix of cashflow generated from operating activities and revolving banking facilities
Other payables and accruals	64.6	Mix of cashflow generated from operating activities and revolving banking facilities
Banking credit facilities (including bank borrowings, bank acceptance bills, guarantee letters and letter of credits)*(Note)*	957.9	Approximately RMB**[REDACTED]** million guaranteed by the Controlling Shareholder and its related parties will be repaid using **[REDACTED]** from the **[REDACTED]**, the remaining will be renewed/ repaid using revolving banking facilities
Amount due to a shareholder	18.7	Working capital from **[REDACTED]** **[REDACTED]**
Capital expenditures		
– purchase of property, plant and equipment	51.2	
– payment for prepaid land lease payment	10.0	
	1,158.7	

Note: The amount of repayment of banking credit facilities from 1 January 2019 to 31 December 2019 is less than the Group's current portion of banking credit facilities as at 31 December 2018 as certain bank borrowings of the Group were classified as current liabilities because these loan agreements contain a repayment on demand clause. However, such loans will not fall due within one year in accordance with their respective repayment schedule.

The Directors have taken into account working capital requirement in the next 12 months and considered the following financial resources available for our Group:

(a) **[REDACTED]**

It is expected that approximately HK$**[REDACTED]** million (RMB**[REDACTED]** million) from the **[REDACTED]** will be used for working capital and general corporate purposes. In addition, approximately HK$**[REDACTED]** million (RMB**[REDACTED]** million) from the **[REDACTED]** will be used to repay the bank borrowing guarantees provided by the Controlling Shareholder and his related parties; and all the capital expenditure expected for the coming 12 months, including (i) the construction of galvanised prestressed products production lines for our Prestressed Materials Business; (ii) the purchase of additional production equipment and environment protection facilities for our Prestressed Materials Business; and (iii) expansion of research and development centre for our Cable Business which will be funded by the **[REDACTED]**.

(b) Banking facilities and operating cashflow

As at 31 March 2019, the Group had banking credit facilities of around RMB2,042.3 million, of which RMB1,252 million were revolving bank facilities. In particular, we have obtained revolving credit facilities of RMB1,000 million from a Shanghai bank, which is included as part of total banking credit facilities mentioned above. It is expected that this will be sufficient to fund the general working capital of the Group and to repay bank borrowings.

The Group expects to receive payment from the delivery of goods to high contract value projects such as 1915 Canakkale Bridge, Tiger Leaping Gorge Jinsha River Bridge and Jinji Dadan Jinshajiang Bridge. It is expected that the operating cashflow together with our banking facilities will be sufficient to fund the general working capital including any prepayments to suppliers and performance bonds to customers of newly signed contracts for Cable Business.

Based on the above analysis, and a review of the financial resources available for the Group, our Directors believe, and the Sole Sponsor concurs that the Group will have sufficient working capital for its present requirements covering at least 12 months from the date of this **[REDACTED]**.

In addition, with the Group's **[REDACTED]** status, our Directors believe that:

- our Group's credit rating and credit worthiness will be enhanced, thereby facilitating our ability to borrow from banks as well as access to the capital market at more favourable interest rates; and

- our Group will have a stronger bargaining power to obtain better credit terms from our suppliers.

CASH FLOWS

The following table sets out our selected consolidated cash flow data for the years indicated:

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Operating profits before working capital changes	139,808	142,446	235,878
Net cash flows generated from/(used in) operating activities	56,613	(171,064)	(137,328)
Net cash flows generated from/(used in) investing activities	42,457	12,917	(19,183)
Net cash flows generated from/(used in) financing activities	(55,049)	66,851	204,352
Net increase/(decrease) in cash and cash equivalents	44,021	(91,296)	47,841
Cash and cash equivalents at the end of the year	104,881	13,571	61,401

Cash flows from operating activities

Net cash flows generated from or used in operating activities consist of profit before income tax adjusted for (i) certain non-cash or non-operating activities related items, including mainly depreciation, finance costs and bank interest income; (ii) the effect of changes in working capital; and (iii) income tax payment.

In 2018, our net cash flow used in operating activities was RMB137.3 million primarily due to the increase in the sales of our Cable Business as well as increased prepayments as a result of increased backlog of the Cable Business. In 2017, our net cash flow used in operating activities was RMB171.1 million mainly due to the business expansion in our Cable Business and an increase of prepayment to the Shagang Group.

Net cash flow used in operating activities in 2018 (excluding income taxes paid of RMB15.1 million) was RMB122.2 million, while profit before income tax was RMB172.5 million. After adjusting for non-cash items, our operating profits before working capital changes was RMB235.9 million in 2018, and accordingly, net working capital usage was RMB358.1 million for the year. Changes in working capital consisted mainly of (i) an increase of RMB262.1 million in trade, retention and bills receivables primarily because we recognised revenue from a significant number of bridge cable projects during the 4th quarter of 2018 including Egongyan Railway Bridge, Qatar Stadium, Qimen Port Bridge and Shenhai Fisheries anchoring cable, the receivables of which remained outstanding as at 31 December 2018, (ii) a RMB245.7 million increase in prepayments, deposits and other receivables mainly due to (a) an increase in prepayment for procuring raw materials for several upcoming bridge cable projects and (b) an increase in prepayments as we had to provide extra prepayment to procure our semi-finished galvanised products for further processing prior to the restoration in December 2018 of our galvanisation production line from the power interruption at our Jiujiang production facility as well as increased demand for galvanised prestressed products and (c) an increase in prepayments to our suppliers, and in particular, the Shagang Group in order to secure favourable treatment in terms of supply (55,431 tonnes as at 31 December 2018) of raw materials; and (iii) an increase in trade and bills payables of RMB166.4 million mainly as a result of (a) an increase in trade payables for purchases of raw materials and (b) an increase in bills payables as we increased our use of bills payables for working capital purposes in our Cable Business.

Net cash flow used in operating activities in 2017 (excluding income taxes paid of RMB11.7 million) was RMB159.3 million, while profit before income tax was RMB100.8 million. After adjusting for non-cash items, our operating profits before working capital changes was RMB142.4 million in 2017, and accordingly, net working capital usage was RMB301.7 million for the period. Changes in working capital consisted mainly of (i) an increase of RMB423.2 million in prepayments, deposits and other receivables mainly as a result of an increase in prepayment to our suppliers, and in particular, the Shagang Group to secure the supply (81,494 tonnes as at 31 December 2017) and price of raw materials and increase in tender deposits for projects under our Cable Business, (ii) a decrease in trade and bills payable of RMB50.3 million mainly attributable to decrease in use of bills payables for working capital, (iii) a decrease in inventories of RMB89.0 million as we drew down our raw materials inventories mainly because we made prepayments to suppliers to secure the supply and price of raw materials and (iv) a decrease in trade, retention and bills receivable of RMB34.1 million.

Net cash flow generated in operating activities in 2016 (excluding income taxes paid of RMB7.5 million) was RMB64.1 million, while profit before income tax was RMB84.8 million. After adjusting for non-cash items, our operating profits before working capital changes was RMB139.8 million in 2016, and accordingly, net working capital usage was RMB75.7 million for the period. Changes in working capital consisted mainly of (i) a decrease in trade and bills payables of RMB86.5 million primarily due to a decreased use of bills payable as we financed our working capital through bank borrowings, (ii) an increase in trade, retention and bills receivables of RMB58.8 million primarily because of increased sales of both our Prestressed Materials Business and Cable Business, and (iii) a decrease in prepayments, deposits and other receivables of RMB57.2 million reflecting deliveries of raw materials to us with respect to the Humen No. 2 Bridge project (Dasha Section) for our Cable Business.

Cash flows from investing activities

Net cash used in investing activities in 2018 was RMB19.2 million. This consisted mainly of a RMB20.9 million increase in restricted bank deposits mainly due to an increase in bank deposit requirements as a result of an increase in bills payables.

Net cash generated from investing activities for 2017 was RMB12.9 million. This consisted mainly of a RMB8.9 million decrease in restricted bank deposits and RMB6.0 million in interest received.

Net cash generated from investing activities in 2016 was RMB42.5 million. This consisted mainly of a decrease in restricted bank deposits of RMB40.8 million mainly due to a decrease in bank deposit requirements as a result of a decrease in bills payables.

Cash flows from financing activities

Net cash generated from financing activities in 2018 was RMB204.4 million. This consisted mainly of (i) net bank borrowings of RMB247.6 million mainly used for working capital purposes; and (ii) payment of interest in the amount of RMB49.9 million.

Net cash generated from financing activities in 2017 was RMB66.9 million. This consisted mainly of (i) net bank borrowings of RMB95.8 million mainly used for working capital purposes; and (ii) payment of interest in the amount of RMB34.4 million.

Net cash used in financing activities in 2016 was RMB55.0 million. This consisted mainly of (i) net bank borrowings of RMB92.1 million mainly used for the repayment of bonds of RMB100 million; and (ii) payment of interest in the amount of RMB46.7 million.

Net current assets

The following table sets out our current assets, current liabilities and net current assets as at the dates indicated:

	As at 31 December			As at 31 March
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Current Assets				
Inventories	226,390	137,417	176,693	251,144
Trade, retention and bills receivables	578,343	545,044	803,198	700,019
Prepayment, deposits and other receivables	491,699	952,682	1,203,214	1,299,416
Prepaid land lease payments-current portion	762	762	762	762
Restricted bank deposits	119,629	110,720	131,653	144,522
Cash and cash equivalents	104,881	13,571	61,401	98,510
	1,521,704	1,760,196	2,376,921	2,494,373
Current liabilities				
Trade and bills payables	284,191	233,899	400,249	550,181
Contract liabilities	18,470	40,556	46,298	69,283
Other payables and accruals	21,083	47,537	64,558	55,364
Bank borrowings	337,437	433,437	730,994	741,850
Amount due to a shareholder	6,986	12,029	18,730	22,667
Amounts due to related parties	27	–	–	–
Income tax payable	6,270	6,553	15,631	8,380
	674,464	774,011	1,276,460	1,447,725
Net current assets	847,240	986,185	1,100,461	1,046,648

Our net current assets decreased from RMB1,100.5 million as at 31 December 2018 to RMB1,046.6 million as at 31 March 2019 primarily due to (i) an increase in trade and bills payables of RMB149.9 million mainly due to an increase in bills payables for working capital purposes in our Cable Business, and (ii) a decrease of RMB103.2 million in trade, retention and bills receivables mainly attributable to a decrease in trade receivables in our Prestressed Materials Business, partially offset by (iii) an increase of RMB96.2 million in prepayment, deposits and other receivables mainly due to an increase in prepayment to our suppliers to help secure favourable treatment in terms of pricing and supply of raw materials, and (iv) an increase of RMB74.5 million in inventories mainly due to an increase in raw materials inventories mainly due to increase in sales orders.

Our net current assets increased from RMB986.2 million as at 31 December 2017 to RMB1,100.5 million as at 31 December 2018 primarily due to (i) an increase of RMB258.2 million in trade, retention and bills receivable mainly because we recognised revenue from a significant number of bridge cable projects during the 4th quarter of 2018 including Egongyan Railway Bridge, Qatar Stadium, Qimen Port Bridge and Shenhai Fisheries anchoring cable, the receivables of which remained outstanding as at 31 December 2018; (ii) an increase of RMB20.9 million in restricted bank deposits; (iii) an increase of RMB39.3 million in inventories primarily due to an increase in work-in-progress and finished goods inventories mainly due to increased in sales orders and an increase in finished goods that are yet to be delivered; and (iv) an increase of RMB250.5 million in prepayment, deposits and other receivables mainly due to an increase in prepayment to our suppliers to help secure favourable treatment in terms of pricing and supply of raw materials, partially offset by (v) an increase of RMB166.4 million in trade and bills payables mainly as a result of (a) an increase in trade payables for purchases of raw materials; and (b) an increase in bills payables for working capital purposes in our Cable Business; and (vi) an increase in bank borrowings of RMB297.6 million.

Our net current assets increased from RMB847.2 million as of 31 December 2016 to RMB986.2 million as at 31 December 2017 primarily due to (i) an increase of RMB461.0 million in prepayment, deposits and other receivables due to an increase in prepayment to our suppliers to help secure favourable treatment in terms of pricing and supply of raw materials and increase in tender deposits for projects under our Cable Business, partially offset by (ii) a decrease of RMB89.0 million in inventories mainly because we drew down our raw materials inventories as we made prepayments to suppliers to secure the supply and price of raw materials, (iii) an increase in bank borrowings of RMB96.0 million, and (iv) a decrease in cash and cash equivalents of RMB91.3 million.

INDEBTEDNESS

Interest-bearing bank borrowings

The following table sets out the components of our bank borrowings as at the dates indicated:

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Current				
Secured interest-bearing bank				
– short-term bank loans	337,437	433,437	730,994	741,850
Non-current				
Secured interest-bearing bank				
– long-term bank loans	50,000	50,000	–	–
Total borrowings	387,437	483,437	730,994	741,850

The following tables sets out the scheduled repayment date of our bank borrowings as of the dates indicated:

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Analysed into:				
– within one year	337,437	433,437	730,994	741,850
– More than one year, but not exceeding two years	–	–	–	–
– More than two years, but not exceeding five years	50,000	50,000	–	–
Total borrowings	387,437	483,437	730,994	741,850

Our borrowings bear interest at fixed and floating effective interest rates. The following tables sets out the range of effective interest rates for our bank borrowings as at the dates indicated:

	As at 31 December			As at 31 March
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Effective interest rates:				
Bank borrowings	0.01%-6.29%	0.05%-8.00%	0.04%-8.00%	1.16%-8.00%

We had interest-bearing bank borrowings in the amount of RMB387.4 million, RMB483.4 million, RMB731.0 million and RMB741.9 million as at 31 December 2016, 2017 and 2018, and 31 March 2019, respectively, all of which were denominated in Renminbi. Our bank borrowings increased significantly during the Track Record Period primarily due to increased working capital needs due to our growth, and in particular, prepayments to suppliers and tender and performance bonds for projects under our Cable Business. Our bank borrowings increased from RMB483.4 million as at 31 December 2017 to RMB731.0 million as at 31 December 2018 and further to RMB741.9 million as at 31 March 2019 mainly due to the increase in bank borrowings for working capital purposes. As at 31 March 2019, the amount of unutilised banking credit facilities of our Group was approximately RMB846.5 million.

Certain of our interest-bearing bank borrowings were secured as at 31 December 2016, 2017 and 2018 by (i) certain buildings, leasehold improvement and machineries included in property, plant and equipment in the amounts of RMB68.8 million, RMB65.1 million and RMB62.1 million, respectively; and (ii) prepaid land lease payments with an aggregate carrying amount of RMB21.8 million, RMB21.2 million and RMB20.7 million, respectively.

During the Track Record Period, Dr. Tang and his related parties have provided guarantees to facilitate us to obtain credit facilities from various financial institutions. Please refer to Note 28 of the Accountants' Report in Appendix I to this **[REDACTED]**. In addition, during the Track Record Period, the Group has given limited guarantees to various banks to secure banking facilities granted to certain related parties which have all been released as at 31 December 2018. Please refer to Note 39 of the Accountants' Report. As at 31 March 2019, the amount of utilised banking credit facilities (which comprised bank borrowings, bank acceptance bills, guarantee letters and letter of credits) of our Group was approximately RMB1,195.8 million, of which approximately RMB132.6 million was secured by guarantees provided by Dr. Tang and his related parties. Save for the amount of approximately RMB122.8 million to be repaid using our **[REDACTED]** from the **[REDACTED]** within six months after the **[REDACTED]**, the remaining credit facilities, if any, guaranteed by Dr. Tang and his related parties will be settled or released prior to or upon the **[REDACTED]**. For details of the settlement of the aforesaid credit facilities, please refer to the section headed "Future Plans and **[REDACTED]**" in this **[REDACTED]**. Our Board is of the view that our Group would be able to obtain its own financing to support its business operations without undue reliance on our Controlling Shareholders, their controlled entities or their respective associates at the time of and after **[REDACTED]**.

Our bank borrowings do not carry any material restrictive covenants. Typical covenants relating to our outstanding banking facilities are as follows:

- We are required to timely inform the bank of any material adverse change which may affect our repayment ability of the loan;
- We are required to immediately inform the bank of any factors which may inhibit, impair or delay performance of our obligations;
- We must ensure that the borrowings shall be applied for the purpose as stated in the relevant agreements; and
- We have agreed not to create any kind of encumbrance or security interest over our assets without the bank's written consent.

As at 31 March 2019, we had total banking credit facilities (which comprised bank borrowings, bank acceptance bills, guarantee letters and letter of credits) of RMB2,042.3 million, of which RMB846.5 million were available for drawdown. As at 31 March 2019, effective interest rates for borrowings under these credit facilities ranged from 1.16% to 8.00%. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any difficulties in renewing or rolling over our bank loans. We currently do not have any plans to raise material external debt financing such as bond issuance. We have not experienced any significant difficulties in obtaining credit facilities, nor have we experienced a withdrawal of banking facilities, request for early repayment by banks, or default in breach of financial covenants during the Track Record Period and up to the Latest Practicable Date.

Amounts due to shareholder

We had unsecured and interest free borrowings from a shareholder, Dr. Tang, in the amount of RMB7.0 million, RMB12.0 million, RMB18.7 million and RMB22.7 million as at 31 December 2016, 2017 and 2018, and 31 March 2019, respectively. All outstanding amounts will be settled upon **[REDACTED]** using part of the **[REDACTED]** reserved for working capital purposes.

Indebtedness as at 31 March 2019

As at 31 March 2019, being the latest practicable date for the purpose of our indebtedness statement, except as disclosed in this **[REDACTED]** or any intra-group liabilities, we did not have any outstanding or authorised but unissued debt securities, term loans, other borrowings or indebtedness in the nature of borrowing, acceptance credits, hire purchase commitments, mortgages and charges, contingent liabilities or guarantees outstanding.

Directors' confirmation

Our Directors have confirmed that we had no material defaults in payment of trade and non-trade payables and bank borrowings, nor any breaches of finance covenants during the Track Record Period.

Our Directors have confirmed that there is no material adverse change in our indebtedness position since 31 March 2019 and up to the date of this **[REDACTED]**.

DESCRIPTION OF SELECTED CONSOLIDATED STATEMENT OF FINANCIAL POSITION ITEMS

Inventories

Inventories comprise raw materials, work-in-progress and finished goods. Raw materials mainly consists of high carbon steel wire rods. The following table sets out the breakdown of our inventories as at the years indicated:

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	210,024	110,988	109,615
Work-in-progress	6,601	17,312	31,819
Finished goods	9,765	9,117	35,259
	226,390	137,417	176,693

Our inventories significantly decreased from RMB226.4 million as at 31 December 2016 to RMB137.4 million as at 31 December 2017 primarily due to a decrease in raw materials inventories of RMB99.0 million that we drew down our raw materials inventories because we made prepayments to suppliers to help secure the supply and price of raw materials. Inventories increased from RMB137.4 million as at 31 December 2017 to RMB176.7 million as at 31 December 2018 mainly due to increased work-in-progress and finished goods inventories driven by increased sales orders and an increase in finished goods that are yet to be delivered.

Average inventory turnover days provide a general indication of the average time required for us to sell the inventories. The following table sets out our average inventory turnover days for the years indicated.

	Year ended 31 December		
	2016	**2017**	**2018**
Average inventory turnover days[1]	95	62	54

Note:

(1) Average inventory turnover days for a certain year is derived by dividing the arithmetic mean of the opening and closing balances of inventories by cost of sales for the relevant year and then multiplied by the number of days in the relevant year.

The average inventory turnover days decreased from 95 days in 2016 to 62 days in 2017 as we drew down our raw materials inventories, and further decreased to 54 days in 2018 mainly because we increased our sales and delivery.

As at 31 March 2019, approximately RMB139.1 million or 78.4% of our inventories as at 31 December 2018 were subsequently utilised or sold.

To minimise the risk of building up aged inventories, we carry out an inventory review and an ageing analysis on a regular basis. We make provision for obsolete and slow-moving inventories of raw materials, work-in progress and finished goods that are no longer suitable for use in production or sale. A number of factors including historical and forecast consumption of our raw materials, as well as marketability of our products, are taken into account when we consider whether to make appropriate provision. As at 31 December 2016, 2017 and 2018, our provision for impairment on inventories was RMB0.8 million, RMB0.8 million and RMB0.8 million, respectively.

Trade, retention and bills receivables

Trade and bills receivables represent the amounts receivable from customers and under bank acceptance bills in connection with our sales to customers. Retention receivables represent retention monies receivable from customers after the warranty period has expired. We grant our customers credit terms of up to 90 days. We also allow certain customers to use bank acceptance bills with maturities of up to six months to settle their payments, and we also endorse our bills receivables to suppliers from time to time. The following table sets out our trade and bills receivables as at the years indicated:

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	418,389	483,364	757,035
Retention receivables	73,332	80,277	68,675
Less: allowance for doubtful debts	(19,378)	(18,597)	(22,512)
Trade and retention receivables, net	472,343	545,044	803,198
Bills receivables	106,000	–	–
	578,343	545,044	803,198

Our trade, retention, and bills receivables decreased slightly from RMB578.3 million as at 31 December 2016 to RMB545.0 million as at 31 December 2017, but increased to RMB803.2 million as at 31 December 2018 mainly because we recognised revenue from a significant number of bridge cable projects during the 4th quarter of 2018 including Egongyan Railway Bridge, Qatar Stadium, Qimen Port Bridge and Shenhai Fisheries anchoring cable, the receivables of which remained outstanding as at 31 December 2018.

We manage control over our outstanding receivables by regularly reviewing overdue balances and the credit worthiness of our customers. The following table sets out an ageing analysis of our net trade and retention receivables (net of impairment losses) based on the payment due date as at the dates indicated, and our average trade receivables turnover days for the years indicated:

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Neither past due nor impaired	170,976	186,698	209,844
Less than 3 months past due	162,304	67,816	254,894
3-6 months past due	19,864	184,381	163,362
7-12 months past due	37,046	38,736	88,778
More than 1 year past due but less than 2 years past due	32,247	46,860	48,103
More than 2 years past due but less than 3 years past due	25,606	9,763	31,161
More than 3 years past due but less than 4 years past due	18,035	6,972	2,443
More than 4 years past due but less than 5 years past due	6,265	3,818	4,613
	472,343	545,044	803,198

The following table sets out the subsequent settlement by aging group for trade and retention receivables before impairment losses:

	Balance as at 31 December 2018	Subsequent settlement up to 31 March 2019	Balance as at 31 March 2019
	RMB'000	*RMB'000*	*RMB'000*
Neither past due nor impaired	211,965	68,025	143,940
Less than 3 month past due	257,470	124,038	133,432
3 – 6 months past due	165,012	32,609	132,403
7 – 12 months past due	89,675	13,610	76,065
More than 1 year past due but less than 2 years past due	50,635	7,605	43,030
More than 2 years past due but less than 3 years past due	34,623	1,930	32,693
More than 3 years past due but less than 4 years past due	3,054	1,251	1,803
More than 4 years past due but less than 5 years past due	5,766	600	5,166
Over 5 years past due	7,510	246	7,264
Total	825,710	249,914	575,796

	For the year 31 December		
	2016	**2017**	**2018**
Average trade receivables turnover days[(1)]	135	120	158

Note:

(1) Average trade receivables turnover days for a certain year is derived by dividing the arithmetic mean of the opening and closing balances of trade receivables by revenue for the relevant year and then multiplied by the number of days in the relevant year.

As at 31 March 2019, approximately RMB250.0 million or 30.3% of our trade and retention receivables as at 31 December 2018 had been settled.

Average trade receivables turnover days provide a general indication of the time required for us to collect cash payments from sale.

Our average trade receivables turnover days in 2016, 2017 and 2018 were 135 days, 120 days and 158 days, respectively. Such turnover days were consistently higher than the credit term of 90 days we generally grant to our customers. Due to the nature of the industry we operate in, a substantial portion of our revenue are derived from sale to major construction companies, which are related to or are in contract with government entities that construct infrastructure projects. Government related entities may take a longer period to complete their internal procedures for processing payments to us. Please see "Risk Factors — Risks Relating to our Business and Industry — We may experience delays or defaults in payment of trade and retention receivables from our customers, and we have a significant mismatch between our trade receivables and trade payables turnover days, which may adversely affect our cash flow and working capital and results of operations" in this **[REDACTED]**.

Our trade receivables turnover days decreased from 135 days in 2016 to 120 days in 2017 mainly due to an improvement in our collection efforts, while the subsequent increase to 158 days in 2018 was primarily because we recognised revenue from a significant number of bridge cable projects during the 4th quarter of 2018 including Egongyan Railway Bridge, Qatar Stadium, Qimen Port Bridge and Shenhai Fisheries anchoring cable, the receivables of which remained outstanding as at 31 December 2018.

As at 31 December 2016, 2017 and 2018, we recorded an allowance for doubtful debts on our trade and retention receivables of RMB19.4 million, RMB18.6 million and RMB22.5 million, respectively. Trade and retention receivables that were past due but not impaired relate to customers that have a good track record and credit quality with us, and based on past experience, we are of the view that no provision for impairment is necessary in respect of these receivables. We have made full provision for all trade and retention receivables over five years, as based on our past experience, such receivables are generally not recoverable. For further details on trade, retention and bills receivables, including our credit exposure, please refer to Note 22 to the Accountants' Report in Appendix I to this **[REDACTED]**.

Prepayments, deposits and other receivables

Our prepayments represent prepayments for the purchase of raw materials and our deposits mainly represent tender bonds for tender bidding and performance bonds for our Cable Business. The following table sets out our prepayments, deposits and other receivables as at the dates indicated:

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Current			
Prepayments	440,169	700,803	961,749
Deposits	54,706	257,955	243,583
Other receivables	1,450	889	3,952
Provision	(4,626)	(6,965)	(6,070)
	491,699	952,682	1,203,214
Non-current			
Prepayments	–	–	–
Deposits	66,443	26,335	16,694
	558,142	979,017	1,219,908

Our prepayments, deposits and other receivables significantly increased from RMB558.1 million as at 31 December 2016 to RMB979.0 million as at 31 December 2017 mainly due to (i) an increase in prepayment to our suppliers to help (i) secure favourable treatment in terms of pricing and supply of raw materials and (ii) an increase in our deposits for projects under our Cable Business. As at 31 December 2018, our prepayments, deposits and other receivables further increased to RMB1,219.9 million mainly due to (a) an increase in prepayment for procuring raw materials for several upcoming bridge cable projects such as the 1915 Canakkale Bridge in Turkey and Jinji Danda Bridge in China and (b) a further increase in prepayment to procure our semi-finished galvanised products for further processing prior to the restoration in December 2018 of our galvanisation production line from the power interruption at our Jiujiang production facility as well as increased demand for galvanised prestressed products.

Trade and bills payables

Trade payables represent the amounts due to our suppliers from which we are granted credit terms generally ranging from 0 to 90 days. Bills payables represent the outstanding amounts of our payment obligations to financial institutions or under letters of credit issued by certain banks in the PRC in connection with our purchases from suppliers. The following table sets out our trade and bills payables as at the dates indicated:

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Trade payable	45,216	30,057	56,317
Bills payables	238,975	203,842	343,932
	284,191	233,899	400,249

As of 31 December 2016, 2017 and 2018, bills payable of RMB119.5 million, RMB153.4 million and RMB170.7 million, respectively were secured by our restricted bank deposits of RMB62.4 million, RMB72.9 million and RMB69.2 million, respectively.

During the Track Record Period, we used bills payables to finance our working capital primarily for our Cable Business. The majority of these bills payables comprised bills issued by Shanghai Pujiang to Zhejiang Pujiang for the purchases of bridge cables. Historically, our Cable Business used Shanghai Pujiang, as the contracting party to enter into sales contracts with our customers, while Zhejiang Pujiang manufactured the bridge cables as specified in the contract. Such intragroup transactions were usually settled using bills issued by Shanghai Pujiang to Zhejiang Pujiang or by cash. Upon receiving of these bills, as part of Zhejiang Pujiang's financing activities, Zhejiang Pujiang would discount these bills to financial institutions to finance its working capital or to endorse these bills to other suppliers. As advised by our PRC Legal Advisers, the issuance and management of these bills payable of the Group are in compliance with Negotiable Instruments Law of the PRC (中華人民共和國票據法).

Trade and bills payables decreased from RMB284.2 million as at 31 December 2016 to RMB233.9 million as at 31 December 2017 primarily due to a decrease in use of bills payables for working capital purposes. The RMB166.4 million increase in trade and bills payables between 31 December 2017 and 31 December 2018 was primarily due to the increase in trade payables to suppliers for raw materials and the increased use of bills payables to finance our working capital in our Cable Business.

The following table sets out an ageing analysis of our trade payables, based on the invoice date, as at the dates indicated and our average trade payables turnover days for the years indicated:

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	19,730	13,849	37,247
Within 4-6 months	4,098	5,376	4,054
Within 7-12 months	5,558	3,897	8,851
More than 1 year but less than 2 years	3,976	1,121	3,131
More than 2 years but less than 3 years	5,246	483	417
More than 3 years but less than 4 years	999	373	305
More than 4 years but less than 5 years	3,966	832	187
Over 5 years	1,643	4,126	2,125
	45,216	30,057	56,317

	For the year ended 31 December		
	2016	**2017**	**2018**
Average trade payables turnover days(1)	19	13	15

Note:

(1) Average trade payables turnover days for a certain year is derived by dividing the arithmetic mean of the opening and closing balances of trade payables by cost of sales for the relevant year and then multiplied by the number of days in the relevant year.

As of 31 March 2019, approximately RMB33.4 million or 59.2% of our trade payables as at 31 December 2018 had been settled.

Our average trade payables turnover days in 2016, 2017 and 2018 were 19 days, 13 days and 15 days, respectively. Such turnover days were much lower than the credit term of up to 90 days that we are generally granted by our suppliers mainly due to the significant amount of prepayments to suppliers for raw materials inventories.

Our trade payables turnover days decreased from 19 days in 2016 to 13 days in 2017 and increased to 15 days in 2018. Our trade payable turnover days were low mainly due to our increasing use of prepayments to suppliers.

Other payables and accruals

Other payables and accruals include payroll payable, value added tax payable, accrued operating expenses and others. Our other payables and accruals increased from RMB21.1 million as at 31 December 2016 to RMB47.5 million as at 31 December 2017 and further to RMB64.6 million as at 31 December 2018 primarily because of an increase in value added tax payable and accrued **[REDACTED]** expenses.

Contract liabilities

Contract liabilities represent deposits or advance payments from customers of our Cable Business. The following table sets out our contract liabilities as at the years indicated:

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Contract liabilities	18,470	40,556	46,298

Our contract liabilities increased from RMB18.5 million as at 31 December 2016 to RMB40.6 million as at 31 December 2017 and further to RMB46.3 million as at 31 December 2018 primarily due to an increasing number of projects under our Cable Business, including several projects with relatively large amounts of deposits.

CAPITAL EXPENDITURES

During the Track Record Period, we incurred capital expenditures mainly for the maintenance of our production facilities and equipment in China. For the years ended 31 December 2016, 2017 and 2018, the carrying amount of our property, plant and equipment was RMB108.1 million, RMB99.3 million and RMB93.6 million, respectively, which consisted mainly of buildings with net carrying amounts of RMB75.2 million, RMB71.0 million and RMB67.3 million, respectively. The following table sets out our capital expenditures for the years indicated:

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Additions of property, plant and equipment	1,296	1,996	3,259

During the Track Record Period, we did not have any commitments for capital expenditures. We currently expect our capital expenditures for the year ending 31 December 2019 to be approximately RMB50.0 million, which will be used mainly for (i) the construction of galvanised prestressed products production lines for our Prestressed Materials Business; (ii) the purchase of additional production equipment and environment protection facilities for our Prestressed Materials Business; and (iii) expansion of research and development centre for our Cable Business. Please refer to the section headed "Future Plans and **[REDACTED]**" for details of our plan.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Operating Lease Commitments

The following table sets out our total operating lease commitments as at the years indicated:

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	530	177	779
In the second to fifth year	177	–	1,769
Over five years	–	–	1,068
	707	177	3,616

As at 31 December 2018 and the Latest Practicable Date, we did not have any capital commitments for capital expenditures.

CONTINGENT LIABILITIES

Historically, we have given corporate guarantees to various banks to secure banking facilities granted to certain related parties and unrelated companies for the purposes of their general working capital purposes. Please refer to Notes 34 and 39 to the Accountants' Report in Appendix I to this **[REDACTED]** for further details. Such guarantees have been released by various banks as at 31 December 2018.

Save as disclosed in this section as at the Latest Practicable Date, we did not have any significant contingent liabilities or outstanding guarantees in respect of payment obligations of any third parties.

RELATED PARTY TRANSACTIONS

Except for the amount due to shareholder and the personal and corporate guarantees disclosed in the section headed "Financial Information — Indebtedness", there were no significant related party transactions during the Track Record Period. Our Directors have confirmed that these transactions were conducted in accordance with terms as agreed between us and the respective related parties, on normal commercial terms that are reasonable and in the interest of our Group as a whole. Our Directors have further confirmed that these related party transactions would not distort our results of operations for the Track Record Period or make our historical results not reflective of our future performance.

OFF BALANCE SHEET TRANSACTIONS

During the Track Record Period, we did not have any material off-balance sheet arrangements or any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support for us or engages in leasing, hedging or research and development services with us.

As at the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

FINANCIAL RATIOS

The following table sets out certain financial ratios relating to our Group as at or for the years indicated:

	As at/Year ended 31 December		
	2016	**2017**	**2018**
Current ratio(1)	2.26	2.27	1.86
Quick ratio(2)	1.92	2.10	1.72
Return on assets(3)	4.3%	4.6%	5.9%
Return on equity(4)	7.4%	8.1%	11.9%
Gearing ratio(5)	38.5%	44.1%	58.7%
Net debt to equity ratio(6)	28.0%	42.8%	53.8%
Net profit margin(7)	6.9%	6.7%	10.7%

Notes:

(1) Current ratio is calculated by dividing total current assets by total current liabilities as at the end of the year.

(2) Quick ratio is calculated by dividing total current assets less inventories by total current liabilities as at the end of the year.

(3) Return on assets is calculated by dividing profit for the year by total assets as at the end of the year.

(4) Return on equity is calculated by dividing profit for the year by total equity as at the end of the year.

(5) Gearing ratio is calculated by dividing total debt by total equity as at the end of the year. Total debt is calculated as bank borrowings and bond payables.

(6) Net debt to equity ratio is calculated by dividing net debt by total equity as at the end of the year. Net debt is calculated as total debt less cash and cash equivalents.

(7) Net profit margin is equal to our net profit divided by our total revenue for the year.

Current and quick ratios

Our current ratios as at 31 December 2016, 2017 and 2018 were 2.26, 2.27 and 1.86, respectively, and our quick ratio as at those dates were 1.92, 2.10 and 1.72, respectively. The increases in these ratios between 31 December 2016 and 2017 were generally due to an increase in current assets as a result of an increase in prepayments to suppliers and deposits to customers. The decreases in these ratios between 31 December 2017 and 31 December 2018 were generally due to the increase in current liabilities as a result of increased bank borrowings and an increase in trade and bills payables.

Return on assets

Our return on assets for the years ended 2016, 2017 and 2018 were 4.3%, 4.6% and 5.9%, respectively. Our return on assets increased slightly from 4.3% in 2016 to 4.6% in 2017 primarily due to increased profit after tax while our total assets increased at a slower rate. Our return on assets further increased to 5.9% in 2018 primarily due to increased profit after tax as a result of increased sales from our Cable Business.

Return on equity

Our return on equity for the years ended 31 December 2016, 2017 and 2018 were 7.4%, 8.1% and 11.9%, respectively. The general increase in return on equity from 2016 to 2018 was primarily due to a continued increase in profit after tax during those periods.

Gearing ratio

Our gearing ratio as at 31 December 2016, 2017 and 2018 were 38.5%, 44.1% and 58.7%, respectively. The increases in the gearing ratio between 31 December 2016 and 31 December 2018 were primarily due to an increase in bank borrowings to fund our working capital and growth.

Net debt to equity ratio

Our net debt to equity ratio as at 31 December 2016, 2017 and 2018 were 28.0%, 42.8% and 53.8%, respectively. Our net debt to equity ratio increased from 28.0% as at 31 December 2016 to 42.8% as at 31 December 2017 and further to 53.8% as at 31 December 2018 primarily due to increased bank borrowings and lower cash balances.

Net profit margin

Our net profit margin for the years ended 31 December 2016, 2017 and 2018 were 6.9%, 6.7% and 10.7%, respectively. Our net profit margin remained stable in 2016 and 2017 and increased from 6.7% in 2017 to 10.7% in 2018 primarily due to an increase in gross profit margin due to the increase in sales from our Cable Business, which had a relatively higher margin than our Prestressed Materials Business.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

In the normal course of business, we are exposed to various types of market risks, including credit risk, interest rate risk, liquidity risk and foreign currency exchange risk.

For more information, please refer to the section headed "Financial Information — Critical Accounting Policies and Estimates".

Credit risk

Our customers are mainly reputable corporations that we consider creditworthy. It is our policy that all customers who wish to trade on credit terms with us are subject to credit verification procedures. We believe our credit risk is low as we perform ongoing credit evaluation on the financial condition of our debtors and tightly monitor the ageing of our receivables. Our management reviews the recoverable amount of receivables individually and collectively at each reporting date to ensure adequate impairment losses are made for irrecoverable amounts. The receivables balance of our top five customers were RMB173.7 million, RMB245.5 million and RMB241.2 million as at 31 December 2016, 2017 and 2018, respectively, which represented 36.8%, 45.0% and 30.0% of our total trade, retention and bills receivables as at those dates.

Interest rate risk

Our interest rate risk arises mainly from our bank borrowings. Certain of our bank borrowings were issued at fixed rates which exposed us to fair value interest-rate risk. We had no cash flow interest-rate risk as none of our borrowings bear floating interest rates. We have not used any financial instruments to hedge our interest rate risks. Our management monitors our interest rate exposure and will consider hedging significant interest rate risks should the need arises. For more information about or bank borrowings and interest rates, please refer to the section headed "Financial Information — Indebtedness".

Liquidity risk

Our policy is to regularly monitor our liquidity requirements to comply with lending covenants in order to maintain sufficient reserves of cash and adequate committed lines of credit from major banks to meet our liquidity requirements. During the Track Record Period, we had not experienced any difficulties in renewing or roll-over our credit facilities. As at 31 December 2018, we had RMB1,218.4 million in financial liabilities due within one year or on demand. For more information on the maturity profile of our financial liabilities, please refer to Note 36 to our consolidated financial statements in the Accountants' Report set out in Appendix I to this **[REDACTED]**.

Foreign currency exchange risk

We mainly operate in the PRC and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the RMB and the USD and/or Euro. Foreign exchange risk arises from commercial transactions or recognised financial assets and liabilities that are denominated in a currency that is not in RMB, our Group's functional currency.

During the Track Record Period, we had limited overseas sales that were denominated in USD and/or Euro. Substantially all of our costs of production are denominated in RMB. Although we only sold a small portion of our products in USD and/or Euro, this may increase in the future should our overseas sales increase. Any significant increases in the RMB against the USD and/or Euro can adversely affect our profitability. We currently do not conduct any hedging activities with respect to our foreign currency exchange risks. Please refer to the section headed "Risk Factors — Risks Relating to our Business and Industry — Our results of operations may be adversely affected by foreign currency exchange rate fluctuations".

DIVIDEND

During the Track Record Period and up to the date of this document, no dividend has been declared or paid by our Company.

We have no plan to pay or declare any dividends prior to the **[REDACTED]**. As at the Latest Practicable Date, we also did not have any specific dividend policy nor pre-determined dividend payout ratios.

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

DISTRIBUTABLE RESERVES

As at 31 December 2018, our Company did not have any reserves available for distribution to our Shareholders.

[REDACTED] EXPENSES

The total estimated expenses in relation to the **[REDACTED]** are approximately RMB**[REDACTED]** million (based on the mid-point of the indicative **[REDACTED]** and assuming that the **[REDACTED]** is not exercised), of which approximately RMB**[REDACTED]** million is borne by our Group and approximately RMB**[REDACTED]** million is borne by the **[REDACTED]**. During the Track Record Period, we incurred **[REDACTED]** expenses of RMB**[REDACTED]** million, of which RMB**[REDACTED]** million was charged to our consolidated statement of profit or loss and other comprehensive income and the remaining amount of RMB**[REDACTED]** million was recorded as prepayment which is expected to be capitalised upon **[REDACTED]**. We expect to further incur **[REDACTED]** expenses (including **[REDACTED]**) of approximately RMB**[REDACTED]** million (based on mid-point of our indicative **[REDACTED]** for the **[REDACTED]** and assuming that the **[REDACTED]** is not exercised and without taking into account any discretionary **[REDACTED]**, if applicable) by the completion of the **[REDACTED]**, of which an estimated amount of approximately RMB**[REDACTED]** million will be charged to our consolidated statement of profit or loss and other comprehensive income in 2019, and an estimated amount of approximately RMB**[REDACTED]** million will be capitalised in 2019. We do not expect these **[REDACTED]** expenses to have a material impact on our business and results of operations for the year ending 31 December 2019.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma data relating to our consolidated net tangible assets attributable to owners of our Company prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only and is set forth below to illustrate the effect of the **[REDACTED]** on our consolidated net tangible assets attributable to owners of our Company as at 31 December 2018 as if the **[REDACTED]** had taken place on that date. Because of its hypothetical nature, the following unaudited pro forma data may not give a true picture of our consolidated net tangible assets attributable to owners of our Company as at 31 December 2018 or as at any future date.

	Consolidated net tangible assets attributable to owners of our Company as at 31 December 2018[1]	Estimated [REDACTED] from the [REDACTED][2]	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company	Unaudited pro forma adjusted net tangible assets per Share[3] [4] [5]	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
Based on an **[REDACTED]** of HK$**[REDACTED]** per **[REDACTED]**	1,216,038	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
Based on an **[REDACTED]** of HK$**[REDACTED]** per **[REDACTED]**	1,216,038	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**

Notes:

1. The consolidated net tangible assets attributable to owners of the Company as at 31 December 2018 are based on the consolidated net assets attributable to owners of the Group in the amount of RMB1,245.3 million, as extracted from the consolidated financial statements in the Accountants' Report included in Appendix I to this **[REDACTED]**, less prepaid land lease payments in the amount of RMB29.2 million.

2. The estimated **[REDACTED]** from the **[REDACTED]** are based on **[REDACTED]** to be issued and the indicative **[REDACTED]** of HK$**[REDACTED]** and HK$**[REDACTED]** per **[REDACTED]**, respectively, after deduction of **[REDACTED]** and fees and other related expenses payable by the Group and without taking into account any Shares which may be issued upon the exercise of the **[REDACTED]**.

3. No adjustment has been made to the consolidated net tangible assets attributable to owners of the Group as at 31 December 2018 to reflect any of the Group's trading results or other transactions entered into subsequent to 31 December 2018.

4. The pro forma adjusted net tangible assets per Share is arrived at after the adjustment referred to in note (2) above and on the basis that **[REDACTED]** Shares were in issue assuming that the **[REDACTED]** had been completed and the **[REDACTED]** was not exercised.

5. The pro forma adjusted consolidated net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of HK$0.887 to RMB1.0. No representation is made that the HK$ RMB amounts have been, could have been or may be converted to RMB and HK$ or vice versa, at that rate or at all.

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Since 1 January 2019 and up to the Latest Practicable Date, we have secured several significant bridge cable projects in China. We were awarded 14 new contracts with a tender success rate of 77.8% and the aggregate amount of our total newly signed contract value in 2019 was approximately RMB350.3 million. For the three months ended 31 March 2019 compared to the same period in 2018, we recorded improved financial performance mainly attributable to the increase in the number of bridge cable projects for our Cable Business.

Our Directors have confirmed that, since 31 December 2018 and up to the date of this **[REDACTED]**, there has been no material adverse change in our financial or trading position or prospects and no event has occurred that would materially and adversely affect the information shown in our consolidated financial statements set out in the Accountants' Report included in Appendix I to this **[REDACTED]**.

NO ADDITIONAL DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, there were no circumstances which would have given rise to any disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules had the Shares been **[REDACTED]** on the Hong Kong Stock Exchange on that date.