# Zhixin Group Holding Limited
# 智欣集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock code: 2187

# SHARE OFFER


Sole Sponsor

SUNWAH KINGSWAY
新華滙富

Kingsway Capital Limited

*If you are in any doubt about any of the contents of this prospectus, you should seek independent professional advice.*

# Zhixin Group Holding Limited
# 智欣集團控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

## LISTING ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF SHARE OFFER

| | | |
|---|---|---|
| **Number of Offer Shares under the Share Offer** | : | **187,000,000 Shares** |
| **Number of Public Offer Shares** | : | **18,704,000 Shares (subject to reallocation)** |
| **Number of Placing Shares** | : | **168,296,000 Shares (subject to reallocation)** |
| **Offer Price** | : | **HK$1.50 per Offer Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)** |
| **Nominal value** | : | **HK$0.01 per Share** |
| **Stock code** | : | **2187** |

**Sole Sponsor**

SUNWAH KINGSWAY
新華滙富

**Kingsway Capital Limited**

**Joint Bookrunners and Joint Lead Managers**

SUNWAH KINGSWAY
新華滙富

新城晉峰
SEAZEN RESOURCES

中泰國際
ZHONGTAI INTERNATIONAL

海通國際
HAITONG

浦銀國際
SPDB INTERNATIONAL

**Joint Lead Manager**

中募金融

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies in Hong Kong" in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (WUMP) Ordinance. The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other documents referred to above.

Investors applying for the Public Offer Shares must pay, on application, the Offer Price of HK$1.50 for each Public Offer Share together with brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%. The Joint Bookrunners (for themselves and on behalf of the Underwriters) may, with the consent of our Company, reduce the number of Offer Shares being offered under the Share Offer and/or the Offer Price below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. In such a case, notices of such reduction will be published on the websites of the Stock Exchange at **www.hkexnews.hk** and the Company at **www.xiamenzhixin.com** as soon as practicable but in any event not later than the morning of the last day for lodging applications under the Public Offer. See "Structure of the Share Offer" and "How to apply for the Public Offer Shares" in this prospectus.

Prior to making an investment decision, prospective investors should carefully consider all of the information set out in this prospectus, in particular, the risk factors set out in the section headed "Risk factors" in this prospectus.

Pursuant to the termination provisions contained in the Public Offer Underwriting Agreement, the Joint Bookrunners (for themselves and on behalf of the Underwriters) have the right in certain circumstances, in their absolute discretion, to terminate the obligations of the Public Offer Underwriters pursuant to the Public Offer Underwriting Agreement at any time prior to 8:00 a.m. on the Listing Date. Further details of the terms of the termination provisions are set out in the section headed "Underwriting — Underwriting arrangements and expenses — Public Offer — Grounds for termination" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares may be offered, sold or delivered outside the United States in offshore transactions in accordance with Regulation S.

16 March 2021

*Our Company will publish an announcement on our website at **www.xiamenzhixin.com** and the website of the Stock Exchange at **www.hkexnews.hk** if there is any change in the following expected timetable of the Public Offer.*

| | |
|---|---|
| | **2021**[(1)] |
| Public Offer commences and **WHITE** and **YELLOW** Application Forms available from | 9:00 a.m. on Tuesday, 16 March |
| Latest time to complete electronic applications under **HK eIPO White Form** service through one of the below ways: (1) the designated website **www.hkeipo.hk** (2) the **IPO App**, which can be downloaded by searching "**IPO App**" in App Store or Google Play or downloaded at **www.hkeipo.hk/IPOApp** or **www.tricorglobal.com/IPOApp**[(2)] | 11:30 a.m. on Friday, 19 March |
| Application lists for the Public Offer open[(3)] | 11:45 a.m. on Friday, 19 March |
| Latest time to lodge **WHITE** and **YELLOW** Application Forms | 12:00 noon on Friday, 19 March |
| Latest time to give **electronic application instructions** to HKSCC[(4)] | 12:00 noon on Friday, 19 March |
| Latest time to complete payment of **HK eIPO White Form** applications by effecting internet banking transfer(s) or PPS payment transfer(s) | 12:00 noon on Friday, 19 March |
| Application lists for the Public Offer close[(3)] | 12:00 noon on Friday, 19 March |

Announcement of:

(a) the level of indication of interest in the Placing;

(b) the level of applications in the Public Offer; and

**2021**[(1)]

(c) the basis of allotment under the Public Offer (with successful applicants' identification document numbers, where applicable) to be published on the website of the Stock Exchange at **www.hkexnews.hk** and our website at **www.xiamenzhixin.com** on or before . . . . . . . . . . . . . . . Thursday, 25 March

Results of allocations in the Public Offer (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels as described in the section headed "How to apply for the Public Offer Shares — 11. Publication of results" in this prospectus from . . . . . . . . . . Thursday, 25 March

Results of allocations in the Public Offer will be available at **www.tricor.com.hk/ipo/result** (Alternatively: **www.hkeipo.hk/IPOResult**) or at "Allotment Result" in the **IPO App** with a "search by ID/business registration number" function from . . . . . . . . . Thursday, 25 March

Despatch/Collection of share certificates in respect of wholly or partially successful applications pursuant to the Public Offer on or before[(5)] . . . . . . . . . . Thursday, 25 March

Share certificates in respect of wholly or partially successful applications to be despatched or deposited into CCASS on or before[(5)] . . . . . . . . . . Thursday, 25 March

Despatch/Collection of **HK eIPO White Form** e-Auto Refund payment instructions/refund cheques in respect of wholly or partially unsuccessful applications pursuant to the Public Offer on or before[(6 & 7)] . . . . . . . . . . Thursday, 25 March

Dealings in the Shares on the Stock Exchange expected to commence at 9:00 a.m. on . . . . . . . . . . Friday, 26 March

*Notes:*

1. All times and dates refer to Hong Kong local time, except as otherwise stated. Details of the structure of the Share Offer, including its conditions, are set out in the section headed "Structure of the Share Offer" in this prospectus.

2. You will not be permitted to submit your application through the **HK eIPO White Form** service through the designated website at **www.hkeipo.hk** or the **IPO App** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

3. If there is a tropical cyclone warning signal number 8 or above, or a "black" rainstorm warning and/or Extreme Conditions in force, in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 19 March 2021, the application lists will not open and close on that day. Further information is set out in the section headed "How to apply for the Public Offer Shares — 10. Effect of bad weather and/or Extreme Conditions on the opening of the application lists" in this prospectus.

4. Applicants who apply for the Public Offer Shares by giving **electronic application instructions** to HKSCC should see the section headed "How to apply for the Public Offer Shares — 6. Applying by giving **electronic application instructions** to HKSCC via CCASS" in this prospectus.

5. Share certificates for the Public Offer Shares are expected to be issued on Thursday, 25 March 2021 but will only become valid certificates of title provided that (i) the Share Offer has become unconditional in all respects, and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms. If the Share Offer does not become unconditional or the Underwriting Agreements are terminated in accordance with their terms, we will make an announcement as soon as possible. Investors who trade the Public Offer Shares on the basis of publicly available allocation details before the receipt of their share certificates or before the share certificates become valid certificates of title do so entirely at their own risk.

6. Applicants who have applied on **WHITE** Application Forms or through the **HK eIPO White Form** for 1,000,000 or more Public Offer Shares and have provided all required information may collect refund cheques (if applicable) and share certificates (if applicable) in person from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 25 March 2021. Identification and (where applicable) authorisation documents acceptable to the Hong Kong Branch Share Registrar must be produced at the time of collection.

   Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Public Offer Shares may collect their refund cheques (if applicable) in person but may not collect in person their share certificates, which will be deposited into CCASS for the credit of their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

   Applicants who have applied for the Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed "How to apply for the Public Offer Shares — 14. Despatch/Collection of share certificates and refund monies — Personal collection — (d) If you apply via **electronic application instructions** to HKSCC" in this prospectus.

   If an applicant has applied for less than 1,000,000 Public Offer Shares, the share certificate (if applicable) and/or refund cheque will be despatched by ordinary post (at the applicant's own risk) to the address specified on the Application Forms.

   Uncollected share certificates (if applicable) and refund cheques (if applicable) will be despatched by ordinary post (at the applicants' own risk) to the addresses specified in the relevant Application Forms. Further information is set out in the section headed "How to apply for the Public Offer Shares — 14. Despatch/Collection of share certificates and refund monies" in this prospectus.

7. e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications payable on application. Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party to facilitate your refund. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of your refund cheque or may invalidate your refund cheque. Further information is set out in the section headed "How to apply for the Public Offer Shares" in this prospectus.

   Applicants who apply through the **HK eIPO White Form** service and paid their application monies through single bank account may have refund monies (if any) despatched to their application payment bank account, in the form of e-Auto Refund payment instructions.

   Applicants who apply through the **HK eIPO White Form** service and paid their application monies through multiple bank accounts may have refund monies (if any) despatched to the address as specified in their application instructions in the form of refund cheques by ordinary post (at the applicants' own risk).

8. None of our website nor any of the information contained thereon forms part of this prospectus.

For further details in relation to the Public Offer, please refer to the sections headed "How to apply for the Public Offer Shares" and "Structure of the Share Offer" in this prospectus.

## IMPORTANT NOTICE TO INVESTORS

*This prospectus is issued by Zhixin Group Holding Limited solely in connection with the Public Offer and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Public Offer Shares offered by this prospectus pursuant to the Public Offer. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.*

*You should rely on the information contained in this prospectus and the Application Forms to make your investment decision. Our Company has not authorised anyone to provide you with information that is different from what is contained in the prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective affiliates or any of our or their respective directors, officers, employees, representatives, agents or advisers or any other person or party involved in the Share Offer.*

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*This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.*

## OVERVIEW

Established in April 2007, we are a manufacturer and supplier of concrete-based building materials in Xiamen, Fujian Province of the PRC. Our principal products can be broadly categorised as (i) ready-mixed concrete; and (ii) precast concrete components ("**PC components**"). During the Track Record Period and up to the Latest Practicable Date, all of our products were sold in the PRC with primary focus in Fujian Province. According to the Frost & Sullivan Report, our production volume for ready-mixed concrete accounted for approximately 7.2% of market share in Xiamen in 2019. Our Group accounted for approximately 0.04% of market share in terms of approximately 1,034,000 $m^3$ production volume in the commercial ready-mixed concrete market in the PRC for the same year. According to the Frost & Sullivan Report, the size of the PC component market in Fujian Province and Xiamen to the overall PRC market in 2019 is 3.0% and 0.5% in terms of total production volume and 3.6% and 0.5% in terms of sales value, respectively.

As a midstream ready-mixed concrete and PC components manufacturer in the industry value chain, our Group principally supplies our products to construction companies for use in building and construction projects. With over 13 years of experience working with construction companies for various types of building and construction projects including (i) infrastructure, (ii) residential, (iii) commercial and industrial and (iv) municipal, we have established sound reputation in the construction industry in Fujian Province.

For a decade, we were predominately a manufacturer of commercial concrete products. Embarking on the rapid development and urbanisation of Xiamen and leveraging on our experienced management team, we grew successfully from a humble batching plant to a major ready-mixed concrete supplier in Xiamen under the leadership and visionary of Mr. Ye, our founder, chairman of our Board and executive Director. In September 2014, in the wake of advancement and maturity of prefabricated construction techniques in western countries and its penetration rate in northern China, we seized the opportunity and began our capital investments into the production of PC components for prefabricated constructions by acquiring the land use right of a parcel of land that was later used for the construction of our PC Plant and became amongst the first enterprises in Xiamen to expand into the PC component manufacturing industry. Our PC Plant was put into commercial operation gradually in the second half of 2017.

Our Group currently owns and operates two production plants, namely the RMC Plant and PC Plant and leases one production workshop, namely the Jimei Workshop, in Xiamen, with a current aggregate annual production capacity of approximately 1,439,000 $m^3$ of ready-mixed concrete and approximately 119,800 $m^3$ of PC components. During the Track Record Period, the utilisation rate of our RMC Plant was approximately 76.0%, 75.8%, 71.9% and 78.5%, respectively, while the utilisation rate of our PC Plant was approximately 12.6%, 42.9%, 70.1% and 84.7%, respectively. As our PC Plant was put into commercial operation gradually since the second half of 2017, the production scale was comparatively lower than the estimated production capacity and resulted in low utilisation rate. During the Track Record Period, the utilisation rate of the Jimei Workshop, which commenced production in October 2019, was nil, nil, approximately 28.6% and 61.2%, respectively. For details, please refer to the section headed "Business — Production facilities, capacity and utilisation" in this prospectus.

Set out below is an analysis of our revenue contribution and gross profit margin by product categories during the Track Record Period:

| | Year ended 31 December | | | | | | | | | Ten months ended 31 October | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | | 2018 | | | 2019 | | | 2019 | | | 2020 | | |
| | Revenue | | Gross profit margin | Revenue | | Gross profit margin | Revenue | | Gross profit margin | Revenue | | Gross profit margin | Revenue | | Gross profit margin |
| | RMB'000 | % | % | RMB'000 | % | % | RMB'000 | % | % | RMB'000 (Unaudited) | % | % | RMB'000 | % | % |
| **Ready-mixed concrete**[1] | | | | | | | | | | | | | | | |
| — Low grade | 190,711 | 47.7 | 6.0 | 164,441 | 32.2 | 9.4 | 237,845 | 40.2 | 13.4 | 160,215 | 36.6 | 13.4 | 190,885 | 31.6 | 11.3 |
| — Standard grade | 151,939 | 38.0 | 14.5 | 179,079 | 35.0 | 15.9 | 133,205 | 22.5 | 17.5 | 97,414 | 22.3 | 18.6 | 141,991 | 23.6 | 18.9 |
| — High grade | 43,779 | 11.0 | 26.1 | 97,868 | 19.1 | 26.7 | 52,414 | 8.9 | 28.0 | 45,722 | 10.5 | 27.2 | 37,903 | 6.3 | 27.1 |
| — CTB | 7,453 | 1.9 | 5.9 | 11,684 | 2.3 | 10.7 | 23,368 | 4.0 | 12.7 | 16,855 | 3.9 | 11.7 | 37,109 | 6.2 | 11.7 |
| Subtotal | 393,882 | 98.6 | 11.5 | 453,072 | 88.6 | 15.7 | 446,832 | 75.6 | 16.3 | 320,206 | 73.3 | 16.9 | 407,888 | 67.7 | 15.5 |
| **PC components** | | | | | | | | | | | | | | | |
| — Tunnel segments | — | — | — | 31,303 | 6.1 | 34.7 | 43,583 | 7.4 | 31.8 | 35,789 | 8.2 | 34.0 | 1,230 | 0.2 | 34.6 |
| — Other construction components[2] | 5,637 | 1.4 | (102.0) | 26,892 | 5.3 | (21.2) | 100,382 | 17.0 | 27.6 | 81,110 | 18.5 | 24.3 | 193,037 | 32.1 | 28.7 |
| Subtotal | 5,637 | 1.4 | (102.0) | 58,195 | 11.4 | 8.9 | 143,965 | 24.4 | 28.8 | 116,899 | 26.7 | 27.3 | 194,267 | 32.3 | 28.7 |
| **Total** | 399,519 | 100.0 | 9.9 | 511,267 | 100.0 | 15.0 | 590,797 | 100.0 | 19.4 | 437,105 | 100.0 | 19.6 | 602,155 | 100.0 | 19.8 |

*Notes:*

1. Actual compressive strength of ready-mixed concrete is determined by test of compressive strength on test cubes made after curing for 28 days.

2. Other construction components primarily include floor slabs, square piles, beams and utility tunnel segments.

During the Track Record Period, our total revenue amounted to approximately RMB399.5 million, RMB511.3 million, RMB590.8 million and RMB602.2 million, respectively, while our sales volume amounted to approximately 1,086,382 $m^3$, 1,129,299 $m^3$, 1,104,321 $m^3$ and 1,002,218 $m^3$, respectively.

For the three years ended 31 December 2019, our overall gross profit increased from approximately RMB39.7 million for the year ended 31 December 2017 to approximately RMB76.5 million for the year ended 31 December 2018 and further to approximately RMB114.4 million for the year ended 31 December 2019. Such increase was mainly attributable to the overall revenue growth and overall increase in gross profit margin. The increase in gross profit margin of our ready-mixed concrete was primarily due to (i) our ability to transfer fluctuation of cost of production to our customers; (ii) our ability to negotiate better pricing terms for our ready-mixed concrete projects; and (iii) change in product grade mix (i.e. higher the grade strength generally yields higher gross profit margin). The increase in gross profit margin of our PC components was largely driven by the increase in gross profit margin of our other construction components. We recorded negative gross profit margin for other construction components for the years ended 31 December 2017 and 2018 as our PC component operation was still in its early ramp-up period and our PC component production scale had not yet reached the level for profitability. For the year ended 31 December 2019, the gross profit margin of our other construction components improved significantly to approximately 27.6%, which was mainly attributable to the increased production scale of our other construction components production lines. Please refer to the section headed "Risk factors — Our historical results, including segment results of our PC component business operation, may not be indicative of our future revenue and profit margin" in this prospectus for the risks associated with our negative gross profit margin of other construction components during the Track Record Period.

For the ten months ended 31 October 2020, our overall gross profit increased to approximately RMB119.0 million from approximately RMB85.9 million for the ten months ended 31 October 2019 mainly due to the increase in gross profit of PC components and overall revenue growth. Our Group's overall gross profit margin remained stable at approximately 19.6% and 19.8% for the ten months ended 31 October 2019 and 2020, respectively, which was attributable to the combined effects of (i) increased gross profit margin of our other construction components products as our production efficiency improved from the growth of our production scale of other construction components products; and (ii) decreased gross profit margin of our ready-mixed concrete products mainly due to the change in product grade mix.

During the Track Record Period, major components in our cost structure consisted of cost of raw materials, direct labour cost and outsourcing cost. During the Track Record Period, our cost of raw materials amounted to approximately RMB295.3 million, RMB351.0 million, RMB386.6 million and RMB374.8 million, respectively, which accounted for approximately 80.9%, 80.7%, 79.3% and 74.8% of our total cost of production, respectively. During the Track Record Period, our direct labour cost amounted to approximately RMB31.0 million, RMB38.0 million, RMB39.0 million and RMB38.4 million respectively, which accounted for approximately 8.5%, 8.7%, 8.0% and 7.7% of our total cost of production, respectively. During the Track Record Period, our outsourcing cost amounted to approximately RMB1.5 million, RMB6.0 million, RMB14.5 million and RMB40.2 million, respectively, which accounted for approximately 0.4%, 1.4%, 3.0% and 8.0% of our total cost of production, respectively.

The following table sets forth the breakdown of sales volume and average selling price of our Group's products by product categories during the Track Record Period:

| | Year ended 31 December | | | | | | Ten months ended 31 October | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2018 | | 2019 | | 2019 | | 2020 | |
| | Total sales volume | Average selling price (*Note*) | Total sales volume | Average selling price (*Note*) | Total sales volume | Average selling price (*Note*) | Total sales volume | Average selling price (*Note*) | Total sales volume | Average selling price (*Note*) |
| | ($m^3$) | RMB/$m^3$ | ($m^3$) | RMB/$m^3$ | ($m^3$) | RMB/$m^3$ | ($m^3$) | RMB/$m^3$ (Unaudited) | ($m^3$) | RMB/$m^3$ |
| **Ready-mixed concrete** | | | | | | | | | | |
| — Low grade | 562,894 | 338.8 | 431,324 | 381.2 | 552,818 | 430.2 | 386,086 | 415.0 | 423,891 | 450.3 |
| — Standard grade | 393,856 | 385.8 | 416,841 | 429.6 | 281,393 | 473.4 | 210,998 | 461.7 | 283,165 | 501.4 |
| — High grade | 93,430 | 468.6 | 187,888 | 520.9 | 94,274 | 556.0 | 83,236 | 549.3 | 64,475 | 587.9 |
| — CTB | 33,769 | 220.7 | 50,256 | 232.5 | 97,249 | 240.3 | 70,424 | 239.3 | 156,089 | 237.7 |
| Subtotal | 1,083,949 | 363.4 | 1,086,309 | 417.1 | 1,025,734 | 435.6 | 750,744 | 426.5 | 927,620 | 439.7 |
| **PC components** | | | | | | | | | | |
| — Tunnel segments | — | — | 25,918 | 1,207.7 | 36,106 | 1,207.1 | 29,650 | 1,207.1 | 1,028 | 1,196.8 |
| — Other construction components | 2,433 | 2,317.5 | 17,072 | 1,575.2 | 42,481 | 2,363.0 | 33,937 | 2,390.0 | 73,570 | 2,623.9 |
| Subtotal | 2,433 | 2,317.5 | 42,990 | 1,353.7 | 78,587 | 1,831.9 | 63,587 | 1,838.4 | 74,598 | 2,604.2 |
| **Total** | 1,086,382 | 367.8 | 1,129,299 | 452.7 | 1,104,321 | 535.0 | 814,331 | 536.8 | 1,002,218 | 600.8 |

*Note:* Average selling prices represent the revenue for the year/period divided by the total sales volume for the year/period.

The average selling price of other construction components decreased from approximately RMB2,317.5 per $m^3$ for the year ended 31 December 2017 to approximately RMB1,575.2 per $m^3$ for the year ended 31 December 2018. The decrease in average selling price of other construction components was mainly due to the change in our product mix by selling approximately 89 $m^3$ and 12,455 $m^3$ of square piles, representing approximately 3.7% and 73.0% of other construction components in terms of sales volume, for the two years ended 31 December 2018, respectively. Our square piles were on average priced relatively lower per $m^3$ as its production process is less complex. For further details on the price range of other construction components, please refer to the section headed "Business — Our products — (ii) PC components — Other construction components" in this prospectus.

During the Track Record Period, our ready-mixed concrete and PC components were primarily sold on project basis. For the Track Record Period, approximately 99.9%, 98.2%, 88.9% and 77.4% of our revenue were derived from Xiamen, respectively.

The following table sets forth the breakdown of our revenue generated by product and by project nature[(1)] during Track Record Period:

| | Year ended 31 December | | | | | | Ten months ended 31 October | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2018 | | 2019 | | 2019 | | 2020 | |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 (Unaudited) | % | RMB'000 | % |
| **Ready-mixed concrete** | | | | | | | | | | |
| — Infrastructure | 165,537 | 41.4 | 200,041 | 39.1 | 143,074 | 24.2 | 116,734 | 26.7 | 123,334 | 20.5 |
| — Residential | 125,683 | 31.5 | 108,346 | 21.2 | 86,176 | 14.6 | 57,806 | 13.2 | 65,670 | 10.9 |
| — Commercial and industrial | 34,461 | 8.6 | 15,935 | 3.1 | 103,228 | 17.5 | 51,777 | 11.8 | 177,749 | 29.5 |
| — Municipal | 49,551 | 12.4 | 118,797 | 23.2 | 108,586 | 18.4 | 90,982 | 20.8 | 37,166 | 6.2 |
| — Others[(2)] | 18,650 | 4.7 | 9,953 | 2.0 | 5,768 | 0.9 | 2,907 | 0.8 | 3,969 | 0.6 |
| Subtotal | 393,882 | 98.6 | 453,072 | 88.6 | 446,832 | 75.6 | 320,206 | 73.3 | 407,888 | 67.7 |
| **PC components** | | | | | | | | | | |
| — Infrastructure | 1,479 | 0.4 | 40,794 | 8.0 | 53,937 | 9.1 | 45,292 | 10.4 | 47,824 | 7.9 |
| — Residential | 4,158 | 1.0 | 12,501 | 2.4 | 59,576 | 10.1 | 46,729 | 10.7 | 146,389 | 24.3 |
| — Commercial and industrial | — | — | 53 | 0.1 | 24,613 | 4.2 | 23,367 | 5.3 | 34 | 0.1 |
| — Municipal | — | — | 4,842 | 0.9 | 5,839 | 1.0 | 1,511 | 0.3 | — | — |
| — Others[(2)] | — | — | 5 | — | — | — | — | — | 20 | — |
| Subtotal | 5,637 | 1.4 | 58,195 | 11.4 | 143,965 | 24.4 | 116,899 | 26.7 | 194,267 | 32.3 |
| **Total** | 399,519 | 100.0 | 511,267 | 100.0 | 590,797 | 100.0 | 437,105 | 100.0 | 602,155 | 100.0 |

*Notes:*

1. Project nature is categorised based on the project description as stipulated in their respective master contracts and the principal utilisation of our products.

2. Others refer to sales with no master contracts for project nature categorisation.

The following table sets forth our backlog movement in terms of contract value by product categories for the periods indicated:

| | Year ended 31 December | | | Ten months ended 31 October | From 1 November 2020 up to 31 January |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) |
| **Ready-mixed concrete:** | | | | | |
| Opening value of backlog projects | 121,814 | 173,045 | 205,993 | 367,854 | 414,552 |
| New contract value | 162,062 | 266,037 | 511,885 | 438,578 | 86,039 |
| Revenue recognised[(1)] | (141,429) | (249,560) | (358,250) | (372,093) | (178,384) |
| Value of subsequent rectifications, modifications or adjustments[(2)] | 30,598 | 16,471 | 8,226 | (19,787) | (19,002) |
| Ending value of backlog projects[(3)] | 173,045 | 205,993 | 367,854 | 414,552 | 303,205 |
| **PC components:** | | | | | |
| Opening value of backlog projects | — | 6,486 | 115,401 | 185,202 | 401,562 |
| New contract value | 14,687 | 161,564 | 196,312 | 413,109 | 93,880 |
| Revenue recognised[(1)] | (5,637) | (49,827) | (122,669) | (192,213) | (66,546) |
| Value of subsequent rectifications, modifications or adjustments[(2)] | (2,564) | (2,822) | (3,842) | (4,536) | (6,275) |
| Ending value of backlog projects[(3)] | 6,486 | 115,401 | 185,202 | 401,562 | 422,621 |
| **Total** | 179,531 | 321,394 | 553,056 | 816,114 | 725,826 |

*Notes:*

1. Not all of our revenue is recorded in our backlog for a number of reasons, including (i) some contracts entered into between our Group and the customers do not have a specified contract value; and (ii) small-scale ad hoc orders with no master contracts.

2. The actual revenue of certain contracts may differ from its original contract value because the revenue that we recognise is subject to the actual volume of products ordered by our customers and price adjustment based on prevailing market unit price for each of our products specified in the contracts. This may result in addition or deduction of the original contract value of our projects during the Track Record Period, which was represented as the value of subsequent rectifications, modifications or adjustments.

3. During the Track Record Period and for the three months ended 31 January 2021, we had 62, 51, 30, 23 and 12 on-going contracts for ready-mixed concrete with unspecified contract values and nil, three, one, nil and nil on-going contracts for PC components with unspecified contract values, respectively, and thus they were not accounted for in our backlog calculation.

4. Our backlog may not be indicative of our future operating results. Please refer to the section headed "Risk factors — Our backlog and new contract value may not be indicative of our future results of operation" of this prospectus for details.

## COMPETITIVE STRENGTHS

We believe we have stayed ahead of our competitors by having the following competitive strengths: (i) we are a leading manufacturer in Xiamen offering high quality ready-mixed concrete with solid track record; (ii) we, as a pioneer in the PC component industry in Xiamen, are well prepared and positioned to capture new opportunities in the fast-growing prefabricated construction industry; (iii) we adopt a comprehensive and stringent quality control system; and (iv) we have an experienced management team with in-depth industry knowledge and skilled employees. For details, please refer to the section headed "Business — Our competitive strengths" in this prospectus.

## BUSINESS STRATEGIES

We have formulated the following business strategies to strengthen our leading market position in Fujian Province and continue to expand our scale of operations to achieve long-term sustainable business growth and increase our market share in the fast-growing PC component industry:

- Expansion of production capacity of PC components with greater production automation to achieve better production efficiency
- Enhancing our information technology system
- Further improve our environmental protection system
- Truck fleet expansion and replacement strategy

For details, please refer to the section headed "Business — Business strategies" in this prospectus.

## OUR CUSTOMERS

Our customers are generally construction companies. During the Track Record Period, SOE customers were our principal source of revenue, representing approximately 59.8%, 69.9%, 67.2% and 54.9% of our total revenue, respectively.

Given Fujian Province is our Group's primary market, our production plants are strategically situated in close proximity to our major customers, which are connected to an extensive network of highways, allowing our Group to provide cost-effective and timely delivery to our customers.

During the Track Record Period, the total revenue attributable to the five largest customers of our Group amounted to approximately RMB169.7 million, RMB253.1 million, RMB242.3 million and RMB238.0 million, representing approximately 42.5%, 49.5%, 41.0% and 39.5% of our total revenue respectively. The total revenue attributable to the largest customer for the same period amounted to approximately RMB39.3 million, RMB69.5 million, RMB61.3 million and RMB93.1 million, representing approximately 9.8%, 13.6%, 10.4% and 15.5% of our Group's total revenue, respectively.

## OUR SUPPLIERS

Our suppliers primarily supply the following materials to us: (i) cement; (ii) aggregates; (iii) admixtures; (iv) PFA; (v) mineral powder; and (vi) rebars. As at 31 December 2017, 31 December 2018, 31 December 2019 and 31 October 2020, we had a total of 297, 362, 284 and 188 raw material suppliers, respectively, out of whom 63, 99, 114 and 115 were recurring suppliers, representing approximately 21.2%, 27.3%, 40.1% and 61.2% of our total suppliers for these respective periods.

During the Track Record Period, the total purchase from our Group's five largest suppliers amounted to approximately RMB89.2 million, RMB152.5 million, RMB187.5 million and RMB216.7 million, representing approximately 30.3%, 41.9%, 48.0% and 55.9% of our Group's total purchase, respectively. The total purchase from our Group's largest supplier for the same period amounted to approximately RMB32.6 million, RMB91.3 million, RMB71.2 million and RMB71.6 million, representing approximately 11.1%, 25.1%, 18.2% and 18.5% of our Group's total purchase, respectively.

## RISK FACTORS

We believe that there are certain risks and uncertainties involved in our operations, some of which are beyond our control. We believe the more significant risks relating to our business are as follows:

- Our business depends on the level of activity and growth in the construction industry in Fujian Province and Xiamen.
- Fluctuation in the prices of our major raw materials may have adverse impact on our financial results.
- Any failure to acquire raw materials or to fill our customers' orders in a timely and cost-effective manner could materially and adversely affect our business operations.
- The demand for our concrete products is bounded by seasonality, in particular, climatic seasonality, hence the weather conditions may impinge on the process of construction activities.
- We may not be able to renew our lease in respect of our leased production facility.
- Our revenue is mainly derived from manufacturing and sale of ready-mixed concrete and PC components to our customers for infrastructure construction projects and upgrades, which is non-recurring in nature and there is no guarantee that we will be able to secure new projects with existing or new customers in the future.

A detailed discussion of the risk factors is set forth in the section headed "Risk factors" in this prospectus, and investors should read the entire section before deciding to invest in the Offer Shares.

## PRICING POLICY

We adopt a cost-plus pricing model in preparing our bid or quotation prices. For our ready-mixed concrete, the price will be determined primarily expressed as a certain percentage (typically within 13%) below the Guidance Price as set out in the Xiamen Construction Engineering Information in effect from time to time. The level of spread from the Guidance Price above is generally determined with reference to various factors such as (i) prevailing market price; (ii) specification and volume of products required; (iii) customer relationship; (iv) complexity of the project; and (v) our Group's production capacity and resources at a relevant time. The unit price of our PC components is determined based on an estimated cost of (i) raw materials; (ii) labour; (iii) production; and (iv) transportation floating by a reasonable margin.

## COMPETITIVE LANDSCAPE

According to the Frost & Sullivan Report, we are the largest ready-mixed concrete manufacturer and supplier in Xiamen in terms of production volume in 2019, with market share of approximately 7.2%. Our Group also ranked first in terms of production volume of PC components in both Fujian Province and Xiamen in 2019, with market share of approximately 15.4% and 88.8% respectively. According to the Frost & Sullivan Report, the size of the PC component market in Fujian Province and Xiamen to the overall PRC market in 2019 is 3.0% and 0.5% in terms of total production volume and 3.6% and 0.5% in terms of sales value, respectively.

It is expected that the ready-mixed concrete production volume will continue to grow in Fujian Province and Xiamen, reaching approximately 105,600,000 $m^3$ and 20,000,000 $m^3$ respectively by 2024. Under the various supportive government policies issued by the central, provincial and municipal government of the PRC, the PC component industry in Fujian Province and Xiamen will experience further growth with total production volume reaching approximately 4,166,200 $m^3$ and 530,000 $m^3$ respectively by 2024, according to the Frost & Sullivan Report.

## KEY OPERATIONAL AND FINANCIAL DATA

The following is a summary of our operational and financial information for the Track Record Period and should be read in conjunction with our financial information in the Accountant's Report set out in Appendix I to this prospectus.

### Highlights of our consolidated statements of comprehensive income

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Revenue | 399,519 | 511,267 | 590,797 | 437,105 | 602,155 |
| Gross profit | 39,666 | 76,492 | 114,377 | 85,860 | 118,988 |
| Profit before income tax | 15,617 | 37,384 | 57,937 | 43,323 | 59,375 |
| Profit and total comprehensive income for the year/period | 12,239 | 27,369 | 41,822 | 30,457 | 42,973 |
| **Profit attributable to:** | | | | | |
| Owners of our Company | 16,087 | 27,369 | 41,822 | 30,457 | 42,973 |
| Non-controlling interests | (3,848) | — | — | — | — |

## NON-HKFRS FINANCIAL MEASURES[1]

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Profit for the year/period | 12,239 | 27,369 | 41,822 | 30,457 | 42,973 |
| Add: Listing expenses | — | — | 6,512 | 5,220 | 5,662 |
| Adjusted profit for the year/period *(unaudited)*[2] | 12,239 | 27,369 | 48,334 | 35,677 | 48,635 |
| Adjusted net profit margin *(unaudited)*[3] | 3.1% | 5.4% | 8.2% | 8.2% | 8.1% |

*Notes:*

1. To supplement our consolidated financial statements which are presented in accordance with HKFRS, we also presented adjusted profit and adjusted net profit margin as non-HKFRS financial measures which are not required by, or presented in accordance with, HKFRS. We believe that the presentation of non-HKFRS financial measures when shown in conjunction with the corresponding HKFRS financial measures provides useful information to potential investors and management in understanding and evaluating our operating performance from period to period by eliminating potential impact of non-recurring item that does not affect our ongoing operating performance. For further details, please refer to the section headed "Financial information — Non-HKFRS financial measures" in this prospectus.
2. We calculated the adjusted profit for the year/period by adding back the Listing expenses to the profit for the year/period as presented in accordance with HKFRS.
3. We calculated the adjusted net profit margin by dividing adjusted net profit for the year/period by revenue as at the relevant year/period end and multiplied by 100%.

For the three years ended 31 December 2019, our revenue increased by approximately RMB111.7 million or approximately 28.0% for the year ended 31 December 2018 and further increased by approximately RMB79.5 million or approximately 15.6% for the year ended 31 December 2019. For the ten months ended 31 October 2020, our revenue amounted to approximately RMB602.2 million, representing an increase of approximately RMB165.1 million or 37.8% from approximately RMB437.1 million for the ten months ended 31 October 2019.

The increase in revenue for the year ended 31 December 2018 was mainly attributable to the increase in (i) sales volume of standard and high grade ready-mixed concrete mainly due to the increased demand from certain rail transit projects requiring ready-mixed concrete of high compressive strength; and (ii) sales volume of PC components due to our Group's success in winning new PC component projects, in particular rail transit projects to provide tunnel segments, floor slabs and square piles. The increase in revenue for the year ended 31 December 2019 was mainly attributable to the increase in sales volume of PC components as we had secured 28 new PC component projects during the year ended 31 December 2019. The increase in revenue for the ten months ended 31 October 2020 was primarily attributable to the increase in revenue from the sale of ready-mixed concrete and PC components by approximately RMB87.7 million and RMB77.4 million, respectively. For further details of our sales performance, please refer to the section headed "Financial information — Discussion on major items of the consolidated statements of comprehensive income — Revenue" in this prospectus.

**Highlights of our consolidated statements of cash flows**

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Net cash generated from operating activities before working capital changes | 32,188 | 62,213 | 88,882 | 67,219 | 90,751 |
| Changes in working capital | (62,037) | (38,363) | (73,663) | (117,230) | (106,777) |
| Income tax paid | (3,702) | (4,430) | (18,220) | (18,220) | (10,681) |
| Net cash (used in)/generated from operating activities | (33,551) | 19,420 | (3,001) | (68,231) | (26,707) |
| Net cash used in investing activities | (19,228) | (1,576) | (4,313) | (2,331) | (14,113) |
| Net cash generated from/(used in) financing activities | 83,759 | (60,327) | 19,651 | 70,566 | 27,143 |
| Net increase/(decrease) in cash and cash equivalents | 30,980 | (42,483) | 12,337 | 4 | (13,677) |
| Cash and cash equivalents at beginning of the year/period | 15,310 | 46,290 | 3,807 | 3,807 | 16,144 |
| Cash and cash equivalents at end of the year/period | 46,290 | 3,807 | 16,144 | 3,811 | 2,467 |

We recorded net cash used in operating activities of approximately RMB33.6 million for the year ended 31 December 2017 primarily due to our Group's PC component operation was running at a negative gross profit of approximately RMB5.8 million as our PC component operation commenced its commercial production in the second half of 2017 and was still in its early ramp-up period, our PC component production scale had not yet reached the level to cover the respective fixed and overhead costs of operation.

We also recorded net cash used in operating activities of approximately RMB3.0 million for the year ended 31 December 2019 which was primarily attributable to the increase in our trade receivables of approximately RMB112.7 million due to the increase in sales of our PC components; and (ii) income tax paid of approximately RMB18.2 million; and partially offset by (i) the operating profit before working capital changes of approximately RMB88.9 million; and (ii) increase in trade and bills payables of approximately RMB37.9 million due to the increase in purchases of raw materials as a result of the increase in production volume of PC components.

For the ten months ended 31 October 2019, we recorded net cash used in operating activities of approximately RMB68.2 million, which was primarily attributable to (i) increase in trade receivables of approximately RMB57.1 million mainly due to increase in sales of our PC components; (ii) decrease in amounts due to related parties of approximately RMB48.1 million due to settlement of dividend payable to Mr. Ye and Mr. Huang; and (iii) income tax paid of approximately RMB18.2 million; which were partially offset by the operating profit before working capital changes of approximately RMB67.2 million.

For the ten months ended 31 October 2020, we recorded net cash used in operating activities of approximately RMB26.7 million, which was primarily attributable to (i) increase in trade receivables of approximately RMB122.5 million mainly due to increase in sales of our products and our slower collection of trade receivables from February to May 2020 as a result of the COVID-19 outbreak; (ii) increase in inventories of approximately RMB23.8 million as a higher inventory level of finished goods was maintained for our PC component projects; and (iii) decrease in contract liabilities of approximately RMB10.8 million, which were partially offset by (i) the operating profit before working capital changes of approximately RMB90.8 million; and (ii) increase in trade and bills payable, of approximately RMB41.3 million as we adjusted our payment schedules to suppliers depending on the status of settlement of our trade receivables and our liquidity position.

The net cash used in operating activities was partly due to the amount and timing of receipts from our customers as well as the amount and timing of payments to our suppliers, and along with the significant growth in our sales and business operation. For the year ended 31 December 2019 and the ten months ended 31 October 2020, the number of our average trade receivables turnover days was approximately 223.3 days and 242.6 days, while the number of our average trade payables turnover days was approximately 205.0 days and 193.9 days, respectively.

**Highlights of our consolidated statements of financial position**

| | As at 31 December | | | As at |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 31 October 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Non-current assets** | 198,256 | 207,036 | 211,133 | 211,184 |
| Property, plant and equipment | 116,630 | 139,763 | 140,431 | 140,913 |
| Trade receivables | 18,660 | 22,266 | 17,343 | 17,136 |
| **Current assets** | 365,986 | 344,165 | 464,507 | 598,320 |
| Inventories | 17,818 | 20,531 | 27,825 | 51,593 |
| Trade receivables | 227,778 | 282,796 | 400,446 | 523,178 |
| Cash and cash equivalents | 46,290 | 3,807 | 16,144 | 2,467 |
| **Current liabilities** | 445,471 | 486,027 | 462,133 | 605,190 |
| Trade and bills payables | 259,610 | 248,562 | 286,494 | 327,832 |
| Other payables and accruals | 24,446 | 34,209 | 31,435 | 35,896 |
| Borrowings | 98,500 | 101,000 | 122,000 | 217,872 |
| **Net current (liabilities)/assets** | (79,485) | (141,862) | 2,374 | (6,870) |
| **Non-current liabilities** | 825 | 2,659 | 109,161 | 56,995 |
| **Total asset less current liabilities** | 118,771 | 65,174 | 213,507 | 204,314 |
| **Total equity/net assets** | 117,946 | 62,515 | 104,346 | 147,319 |

Our current assets primarily consist of trade receivables, inventories and prepayments, deposits and other receivables. Our current liabilities primarily consist of trade and bills payables, borrowings and other payables and accruals.

We recorded net current liabilities as at 31 December 2017 and 2018. Our net current liabilities position was primarily a result of our Group's strategic decision to expand our business into the PC component manufacturing industry in 2014. In order for our Group to capture the anticipated long-term opportunities in the PC component market our Group utilised substantial amount of cash resources we had for capital investments into the land, property, plant and equipment for production of PC components, which were then classified as non-current assets. Our Group recorded an improvement in our liquidity position with net current assets as at 31 December 2019. As at 31 October 2020, our Group recorded net current liabilities of approximately RMB6.9 million. Our net current liabilities position was primarily attributable to (i) increase in current borrowings of approximately RMB95.9 million mainly due to reclassification of entrusted loans of approximately RMB52.2 million from non-current borrowings since they are repayable in October 2021; and (ii) increase in trade and bills payables of approximately RMB41.3 million, which was partially offset by (i) increase in trade receivables of approximately RMB122.7 million; and (ii) increase in inventories of approximately RMB23.8 million. For further details of our financial positions, please refer to the section headed "Financial information — Discussion on major items of the consolidated statements of financial position — Net current (liabilities)/assets" in this prospectus.

As at 31 December 2017, 31 December 2018, 31 December 2019 and 31 October 2020, we recorded net assets of approximately RMB117.9 million, RMB62.5 million, RMB104.3 million and RMB147.3 million, respectively. The decrease in our net assets as at 31 December 2018 was mainly resulted from the accumulated losses of approximately RMB40.5 million as at 31 December 2018 primarily due to (i) dividends declared by Zhixin Construction Material to its then shareholders of RMB82.8 million; and (ii) loss accumulated from the early stage of our PC component business operation through Zhixin Construction Technology as our PC component business operation only commenced commercial production in the second half of 2017. As such, we recorded segment losses of approximately RMB12.1 million and RMB5.7 million for each of the two years ended 31 December 2018, respectively. The increase in our net assets as at 31 December 2019 was mainly attributable to the decrease in the balance of accumulated loss to approximately RMB1.3 million as at 31 December 2019 primarily due to the improvement in our PC component segment result, which we recorded a segment profit of approximately RMB24.5 million for the year ended 31 December 2019 as our PC component business performance picked up during the year ended 31 December 2019. The increase in our net assets as at 31 October 2020 was mainly attributable to the net profit during the period of approximately RMB43.0 million and thus we recorded retained earnings of approximately RMB41.7 million as at 31 October 2020. Please refer to the section headed "Risk factors — Our historical results, including segment results of our PC component business operation, may not be indicative of our future revenue and profit margin" in this prospectus for the risks associated with our accumulated losses during the Track Record Period.

**Highlights of indebtedness**

As at 31 January 2021, the latest practicable date for the purpose of the indebtedness of our Group, our Group had outstanding indebtedness of RMB295.8 million which comprised borrowings, lease liabilities and amounts due to related parties. The following table sets forth our indebtedness as at the dates indicated:

| | As at 31 December | | | As at 31 October | As at 31 January |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) |
| **Current liabilities** | | | | | |
| Borrowings | 98,500 | 101,000 | 122,000 | 217,872 | 149,080 |
| Lease liabilities | 497 | 1,009 | 5,695 | 6,707 | 6,430 |
| Amounts due to related parties excluding dividends payables | 54,178 | 95 | — | 4,920 | 4,789 |
| Subtotal | 153,175 | 102,104 | 127,695 | 229,499 | 160,299 |
| **Non-current liabilities** | | | | | |
| Borrowings | — | — | 68,790 | 16,590 | 98,190 |
| Lease liabilities | — | 1,241 | 12,406 | 11,333 | 10,401 |
| Amounts due to related parties | — | — | 26,283 | 26,963 | 26,876 |
| Subtotal | — | 1,241 | 107,479 | 54,886 | 135,467 |
| **Total** | 153,175 | 103,345 | 235,174 | 284,385 | 295,766 |

As at 31 January 2021, our Group had RMB310.0 million available banking facilities, of which RMB129.5 million were unutilised and unrestricted. The banking facilities and certain outstanding borrowings of RMB169.5 million were secured by (i) certain land, property, plant and equipment of our Group; (ii) our investment properties; (iii) limited personal guarantees provided by Mr. Ye, Mr. Huang and his spouse, Ms. Lin Lingling; (iv) limited corporate guarantee provided by Zhixin Construction Material; and/or (v) limited corporate guarantee provided by a credit guarantee corporation, which is an Independent Third Party. In respect of the corporate guarantee provided by the Independent Third Party credit guarantee corporation, (i) certain property, plant and equipment of our Group; (ii) Mr. Ye and his spouse, Ms. Hong Wei; (iii) Mr. Huang; (iv) Zhixin Construction Material; (v) Zhixin Logistics and/or (vi) Zhixin Construction Technology have provided counter-indemnities to the guarantor. As at the Latest Practicable Date, the respective banks and Independent Third Party credit guarantee corporation have all given their consents that the aforesaid personal guarantees and counter-indemnities to the guarantors by Mr. Ye, Ms. Hong Wei, Mr. Huang and Ms. Lin Lingling will all be released and replaced by corporate guarantees provided by our Group upon Listing. For details, please refer to the section headed "Financial information — Indebtedness" in this prospectus.

**Measures to improve our net current liabilities and negative operating cashflow position and to ensure the working capital sufficiency of our Group**

In view of our net current liabilities as at 31 December 2017, 31 December 2018 and 31 October 2020, cash outflow from operating activities for the years ended 31 December 2017 and 2019 and ten months ended 31 October 2020, cash and bank balances of RMB2.5 million as at 31 October 2020 and indebtedness position as at 31 January 2021, we have taken and will continue to take the following measures to improve our liquidity:

**(i)** ***maintain stable relationships with our principal banks***

we will continue to maintain relationship with our principal banks so as to timely obtain/renew bank borrowings if so required and on terms acceptable to our Group. Subsequent to the Track Record Period and up to the Latest Practicable Date, our Group was able to obtain a new banking facility of RMB100.0 million with a long-term repayment period of three years, of which approximately RMB40.0 million had been utilised as at the Latest Practicable Date.

**(ii)** ***resort to short-term bridging loans while pending for refinancing arrangement***

we intend to use our unutilised banking facilities to refinance our outstanding indebtedness, if our Group does not possess sufficient unutilised banking facilities or working capital to repay our outstanding indebtedness, we will resort to short-term bridging loans provided by licensed financial institutions, typically taken out for a period of approximately 15 business days to pay off matured bank loans, while pending for refinancing arrangement. Subsequent to the Track Record Period and up to the Latest Practicable Date, our Group was able to obtain bridging loans of RMB120.5 million and refinance bank borrowings of the same amount.

**(iii)** ***seek other long-term debt financing***

we will continue to obtain other forms of long-term debt financing at terms acceptable to our Group so as to ease up our short-term liquidity pressure. Subsequent to the Track Record Period and up to the Latest Practicable Date, our Group was able to extend our three entrusted loans of approximately RMB25.9 million, RMB26.4 million and RMB16.6 million for repayment on 22 October 2022, 28 October 2022 and 27 December 2022, respectively.

**(iv)** ***reduce our overall liabilities through equity financing***

we will carefully assess our Group's future business expansion and long-term development needs and goals to decide on whether to raise capital from the capital market subsequent to the Listing so as to reduce our Group's reliance on debt financing and the associated financial risks. Equity financing will allow our Group to source liquidity to better align with our long-term development goals as it will not divert capital from our business for paying down the debt to the lenders regularly regardless of our business performance, meaning we shall have sufficient time to grow our business operations.

**(v)** ***maintain stable and long-term relationships with our major suppliers***

we will continue to maintain relationship with our major suppliers of raw materials, labour and logistics services so as to obtain more favourable payment terms to further bridge the mismatch between the time of receipt of payments from our customers and payments to our suppliers. Our Group will also assess the status of settlement of our trade receivables and our liquidity position and adjust our payment schedules to suppliers accordingly. Subsequent to the Track Record Period and up to the Latest Practicable Date, our Group was able to negotiate with our ten largest non-SOE suppliers as at 31 October 2020, to extend the credit terms in their respective 2021 master contracts by approximately 25 days on average as compared to 2020.

**(vi)** ***customer, trade receivables and cashflow management***

in view of our relatively long trade receivables turnover days and negative cashflow from operation during the Track Record Period, our Group have adopted a number of measures as follows:

(a) our sales teams will negotiate the commercial aspect of the contract with specific emphasis on payment terms, amount of retention monies to be withheld by customers and amount of advance payments from customers;

(b) our finance department will prepare an analysis of the forecast amount and timing of cash inflows and outflows in relation to our overall business operations so as to ensure the sufficiency of our financial resources;

(c) for trade receivables past due, material overdue payments are monitored continuously and evaluated on a case-by-case basis based upon the customer's normal payment processing procedures, our relationship with the customer, its history of making payments, its financial position as well as the general economic environment, with appropriate follow-up actions including (i) active communications with the customers' appropriate personnel; (ii) cessation of processing any further purchase orders from such customer until settlement of the overdue balance; (iii) conducting review on the recoverable amount of each individual trade receivable balance at the end of each reporting period to ensure adequate provision of impairment losses for irrecoverable amounts; and (iv) seeking legal advices when necessary; and

(d) if, based on our regular monitoring by our finance department, there is any expected shortage of internal financial resources, we may (i) refrain from undertaking new projects; (ii) hasten the collection of our trade receivables; (iii) delay our non-urgent payments; and/or (iv) consider different financing alternatives, including but not limited to drawing on unutilised banking facilities and/or obtaining adequate banking facilities from banks and other financial institutions.

For other details of our liquidity management, please refer to the section headed "Financial information — Liquidity and capital resources — Liquidity management" in this prospectus. For further details of the risks associated with our cash flow position, please refer to the section headed "Risk factors — Our cash flow position may deteriorate owing to a mismatch between the time in receipt of payments from our customers and payments to our suppliers if we are unable to manage our cash flow mismatch properly".

## KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios during the Track Record Period:

| | As at 31 December | | | As at |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 31 October 2020 |
| Current ratio | 0.8 times | 0.7 times | 1.0 times | 1.0 times |
| Quick ratio | 0.8 times | 0.7 times | 0.9 times | 0.9 times |
| Gearing ratio | 83.5% | 161.6% | 208.0% | 177.5% |
| Debt to equity ratio | 44.3% | 155.5% | 192.6% | 175.8% |

| | Year ended 31 December | | | Ten months ended |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **31 October 2020** |
| Return on equity | 10.4% | 43.8% | 40.1% | 35.0% |
| Return on assets | 2.2% | 5.0% | 6.2% | 6.4% |
| Net profit margin | 3.1% | 5.4% | 7.1% | 7.1% |
| Interest coverage ratio | 9.7 times | 6.4 times | 7.6 times | 6.3 times |

Gearing ratio is calculated based on total debt (being (i) total borrowings and (ii) interest-bearing loans from Mr. Ye and Mr. Huang) divided by total equity as at the relevant year/period end and multiplied by 100%. During the Track Record Period, we relied significantly on borrowings to finance our business operations. Our gearing ratio increased from approximately 83.5% as at 31 December 2017 to approximately 161.6% as at 31 December 2018, and further increased to approximately 208.0% as at 31 December 2019, which is primarily attributable to (i) increase in total borrowings and (ii) interest-bearing loans from Mr. Ye and Mr. Huang, amounted to approximately RMB98.5 million, RMB101.0 million, RMB217.1 million and RMB261.4 million as at 31 December 2017, 31 December 2018, 31 December 2019 and 31 October 2020, respectively. Our gearing ratio decreased to approximately 177.5% as at 31 October 2020 mainly due to the increase of our total equity of approximately RMB43.0 million as a result of accumulation of our profit for the ten months ended 31 October 2020.

Our debt to equity ratio increased from approximately 44.3% as at 31 December 2017 to approximately 155.5% as at 31 December 2018, and further increased to approximately 192.6% as at 31 December 2019 and decreased to approximately 175.8% as at 31 October 2020, which is primarily attributable to (i) the increase of our net debt primarily due to the decrease in our cash and cash equivalents; and (ii) the same reasons for the fluctuation in gearing ratio mentioned above.

Our return on equity decreased from approximately 43.8% for the year ended 31 December 2018 to approximately 40.1% for the year ended 31 December 2019 due to our strengthened equity base as a result of accumulation of our net profit, and further decreased to approximately 35.0% for the ten months ended 31 October 2020, which is primarily attributable to our strengthened equity base as a result of accumulation of our net profit.

For further details of our financial positions, please refer to the section headed "Financial information — Key financial ratios" in this prospectus.

## NON-COMPLIANCE

During the Track Record Period, we did not make contribution in full in respect of social insurance and housing provident fund for some of our employees. For details, please refer to the section headed "Business — Non-compliance" in this prospectus. We had not been involved in any non-compliance matters which, in the opinion of our Directors, resulted or may result in a material impact on our business operation and financial condition during the Track Record Period and up to the Latest Practicable Date.

## CONTROLLING SHAREHOLDERS

Immediately following completion of the Share Offer and Capitalisation Issue, Zhixin Investment BVI will hold approximately 48.7575% of the issued share capital of our Company, where Zhixin Investment BVI is wholly owned by Mr. Ye. As Zhixin Investment BVI and Mr. Ye are directly or indirectly entitled to exercise or control the exercise of 30% or more of the voting power at our Company's general meeting, each of Zhixin Investment BVI and Mr. Ye is regarded as our Controlling Shareholder under the Listing Rules. For details, please refer to the section headed "Relationship with Controlling Shareholders" in this prospectus.

## FUTURE PLANS AND USE OF PROCEEDS

Our Directors intend to apply the net proceeds of approximately HK$241.4 million (equivalent to RMB219.4 million) from the Share Offer for the following purposes:

- approximately HK$199.6 million (equivalent to RMB181.5 million), representing approximately 82.7% of the net proceeds of the Share Offer, will be used to expand our PC component production capacity at our PC Plant, of which (i) approximately HK$115.7 million (equivalent to RMB105.2 million), representing approximately 47.9% of the net proceeds of the Share Offer will be used to set up the PC component facility including a factory building, ancillary facilities and production lines; (ii) approximately HK$4.7 million (equivalent to RMB4.3 million), representing approximately 2.0% of the net proceeds of the Share Offer will be used to lease storage site(s) to support our enlarged production capacity; (iii) approximately HK$45.4 million (equivalent to RMB41.3 million), representing approximately 18.8% of the net proceeds of the Share Offer will be used to purchase raw materials for the production of PC components at our new production lines; (iv) approximately HK$19.8 million (equivalent to RMB18.0 million), representing approximately 8.2% of the net proceeds of the Share Offer will be used to acquire flatbed trucks; and (v) approximately HK$14.0 million (equivalent to RMB12.7 million), representing approximately 5.8% of the net proceeds of the Share Offer will be used to enhance and expand our workforce to support our business expansion;

- approximately HK$8.8 million (equivalent to RMB8.0 million), representing approximately 3.6% of the net proceeds of the Share Offer, will be used to enhance our information technology system by introducing an ERP system so that our business operations can be better maintained and monitored;

- approximately HK$7.7 million (equivalent to RMB7.0 million), representing approximately 3.2% of the net proceeds of the Share Offer, will be used to further improve our environmental protection system in response to the expected increase in waste discharge and pollutants emission arising from our expansion plans;

- approximately HK$8.5 million (equivalent to RMB7.7 million) will be used to acquire five mixer and two concrete pump trucks, of which approximately HK$1.1 million (equivalent to RMB1.0 million) will be funded by the net proceeds of the Share Offer (representing approximately 0.5% of the net proceed of the Share Offer) and the balance of approximately HK$7.4 million (equivalent to RMB6.7 million) will be funded by internal resources; and

- approximately HK$24.2 million (equivalent to RMB21.9 million), representing approximately 10.0% of the net proceeds of the Share Offer, will be used as our general working capital.

For details, please refer to the section headed "Future plans and use of proceeds" in this prospectus.

## RECENT DEVELOPMENT

Our business model and cost structure remained largely unchanged after the Track Record Period, and we will continue to actively secure new projects in Fujian Province. Subsequent to the Track Record Period and up to the Latest Practicable Date, we secured 23 and 9 new projects for our ready-mixed concrete and PC components with new contract value of approximately RMB142.6 million and RMB98.5 million, respectively. As at the Latest Practicable Date, we had 92 and 33 on-going projects (either in progress or yet to commence) for our ready-mixed concrete and PC components, respectively.

For the year ended 31 December 2020, based on our Group's unaudited management accounts, which is prepared in compliance with the content requirements as for preliminary results announcements under Rule 13.49 of the Listing Rules and has been agreed with the Reporting Accountant following their review under Practice Note 730 "Guidance for Auditors Regarding Preliminary Announcements of Annual Results" issued by the Hong Kong Institute of Certified Public Accountants, our Group recorded (i) revenue of approximately RMB537.4 million and RMB247.5 million; and (ii) gross profit of approximately RMB84.2 million and RMB68.3 million, for our ready-mixed concrete and PC component operations, respectively. Please refer to Appendix III to this prospectus for our unaudited preliminary financial information for the year ended 31 December 2020.

For the year ended 31 December 2020, the utilisation rate of our RMC Plant, PC Plant and Jimei Workshop was approximately 85.6%, 93.4% and 60.5% respectively. The increase in utilisation rate as compared to the year ended 31 December 2019 was primarily attributable to the increase in production volume of our ready-mixed concrete and PC components.

Our Directors confirm that, save for the estimated non-recurring Listing expenses, there has been no material adverse change in the financial or trading position or prospects of our Group since 31 October 2020 (being the date to which the latest consolidated financial statements of our Group were made up) and up to the date of this prospectus, and there is no event since 31 October 2020 and up to the date of this prospectus which would materially affect the information shown in the Accountant's Report set out in Appendix I to this prospectus.

**COVID-19 outbreak**

Since early 2020, the PRC and certain countries around the world encountered an outbreak of COVID-19, a highly contagious disease. In order to reduce the risk of widespread of COVID-19, the government of the PRC announced to extend the Chinese New Year holiday and delayed the resumption of work in the PRC. Different local governments of the PRC have imposed temporary restrictions or bans on passenger traffic to control the spread of COVID-19.

***Operation impact***

- *Production:* In response to the PRC government announcement to extend the Chinese New Year holiday in early 2020, our production was temporarily suspended from late January 2020 to mid February 2020, which was gradually resumed since mid February 2020 and fully resumed in mid March 2020. As a result, we recorded lower production volume of both ready-mixed concrete and PC components of approximately 159,067 $m^3$ during the first quarter of 2020 as compared to the first quarter of 2019 of approximately 168,329 $m^3$, despite having a higher backlog as at 31 December 2019 as compared to the backlog as at 31 December 2018.

- *Product demand:* To the best knowledge of our Directors after making reasonable enquiries, 102 and 21 on-going projects as at 31 December 2019 with initial contract sum of approximately RMB879.5 million and RMB290.1 million for our ready-mixed concrete and PC components respectively had been temporarily suspended in late January 2020 due to the outbreak of COVID-19, and all on-going projects as at the Latest Practicable Date had resumed their construction works by the end of May 2020. Despite the aforesaid negative impact, for the six months ended 30 June 2020, the sales volume of ready-mixed concrete increased by approximately 117,095 $m^3$ or 32.3% as compared to the six months ended 30 June 2019 mainly due to the increase in demand from projects performing foundation and road works; while the sales volume of PC components decreased by approximately 10,841 $m^3$ or 29.1% as compared to the six months ended 30 June 2019 mainly due to our tunnel segment projects on hand were close to their completion.

***Financial impact***

- *Sales:* Despite the temporarily suspension of our production and customers' on-going construction projects from late January 2020 to mid February 2020 and late January 2020 to May 2020 respectively, our Group recorded an increase in revenue for the six months ended 30 June 2020. Such increase was mainly driven by the increase in revenue from the sale of ready-mixed concrete by approximately RMB59.7 million or 38.6% for the six months ended 30 June 2020 as compared to the six months ended 30 June 2019 primarily due to (i) the increase in sales volume of ready-mixed concrete; and (ii) the increase in average selling price of ready-mixed concrete mainly attributable to our ability to negotiate favorable pricing terms with our customers. Our revenue derived from sale of PC components remained stable at approximately RMB64.5 million and RMB68.8 million for the six months ended 30 June 2019 and 2020 respectively.

- *Collection of trade receivables:* Due to temporarily suspension of our customers' operations, we experienced a slower collection of trade receivables throughout the year of 2020, in particular during the first half of 2020, as our trade receivable turnover days spiked from approximately 223.3 days as at 31 December 2019 to approximately 273.5 days as at 30 June 2020. The collection rate of trade receivables has then improved as the impact of the COVID-19 outbreak gradually eased in the PRC. As at 31 October 2020, our trade receivables turnover days has reduced to approximately 242.6 days and our Directors expect such collection rate to further improve towards the end of 2020.

Construction activities are normally less active during the period from January to March due to Chinese New Year and we have maintained stable working relationship with our major suppliers and customers. Based on our historical experience, our customers will generally speed up their construction activities to catch up on delayed construction progress caused by unanticipated interruptions such as the impact from the COVID-19 outbreak. As such, we recorded an increase in (i) production volume of approximately 86,184 $m^3$; (ii) sales volume of approximately 81,631 $m^3$; and (iii) total revenue of approximately RMB101.1 million for the four months ended 31 October 2020 as compared to the four months ended 31 October 2019.

***Financial viability***

We have performed a hypothetically worst case scenario assuming (i) our business operations to be fully suspended and thus no revenue would be generated since January 2021; (ii) settlement of trade receivables based on historical settlement pattern; (iii) settlement of trade payables when due; (iv) 10% of the estimated net proceeds to be received by us from the Share Offer for general working capital; (v) settlement of bank borrowings upon maturity; and (vi) assuming all other variables remain constant, our Directors are of the view that our working capital as at the Latest Practicable Date is sufficient to maintain our Group's financial viability for approximately 17 months from the date of this prospectus.

Our Directors have carried out a holistic review of the impact of COVID-19 on our operations, and confirmed that, based on the measures imposed by the central and local governments of the PRC as at the Latest Practicable Date, COVID-19 is not expected to bring any permanent or material impact to our business operation and financial performance. Our Group has also implemented contingency plans to reduce the impact of COVID-19 outbreak on our business. Please see the section headed "Business — Outbreak of COVID-19" for further details.

## DIVIDEND

There were no dividends paid or payable by our Company in respect of the Track Record Period. The dividends declared by Zhixin Construction Material to its then shareholders was nil, RMB82.8 million, nil and nil for the three years ended 31 December 2019 and the ten months ended 31 October 2020, respectively. According to the PRC Company Law, provided that 10% of the annual post-tax profits after covering any outstanding accumulated losses brought forward from previous years has been contributed into its statutory surplus reserve, a company could distribute its retained earnings as dividend. The company may elect not to contribute to the statutory surplus reserve if it reached 50% of the company's registered capital. Our Directors confirm that Zhixin Construction Material had no accumulated losses brought forward and had legally contributed 10% of its annual post-tax profits into its statutory surplus reserve upon the distribution of dividend at company level in 2018. Our Group's accumulated losses of approximately RMB40.5 million as at 31 December 2018 primarily represented accumulated losses of our primary subsidiary, namely Zhixin Construction Technology due to the losses accumulated from the early stage of our Group's PC component operation. Based on the above, despite of the accumulated losses at the group level, our PRC Legal Advisers are of the view that the distribution of dividend of Zhixin Construction Material in 2018 was in compliance with the applicable laws and regulations in the PRC.

For the aforesaid dividend declared during the year ended 31 December 2018, approximately RMB62.9 million had been settled as at 31 December 2019 by our internal resources and the balance of approximately RMB19.9 million had been changed into three years interest-bearing loans due to Mr. Ye and Mr. Huang, the Shareholders of our Group by 31 December 2022. All outstanding balance of amounts due to Mr. Ye and Mr. Huang will be capitalised to other reserves upon Listing.

Our Company does not have a dividend policy or any pre-determined dividend distribution ratio. The declaration of future dividends will be subject to the recommendation by the Board at its discretion in accordance with our Articles of Association and will depend on a number of factors, including market conditions, our strategic plans and prospects, business opportunities, financial condition and operating results, working capital requirements and anticipated cash needs, statutory and contractual restrictions on the payment of dividends by us and other factors that our Board considers relevant. In addition, the Controlling Shareholders will be able to influence our dividend policy. Cash dividends on Shares, if any, will be paid in Hong Kong dollars.

## LISTING EXPENSES

The total amount of Listing expenses, commissions together with SFC transaction levy and Stock Exchange trading fee in connection with the Share Offer is estimated to be approximately RMB35.6 million (which amounts to approximately 14.0% of the gross proceeds of approximately HK$280.5 million (equivalent to RMB255.0 million) from the Share Offer), of which approximately RMB15.4 million is expected to be capitalised upon the Listing. The remaining estimated Listing expenses amount to approximately RMB20.2 million, including (i) approximately RMB6.5 million and RMB5.7 million was recognised for the year ended 31 December 2019 and the ten months ended 31 October 2020 respectively; and (ii) approximately RMB8.0 million is expected to be recognised as expenses for the fourteen months ending 31 December 2021. The Listing expenses above are the current estimate for reference only and the final amount to be recognised to our consolidated statements of comprehensive income is subject to audit and the then changes in variables and assumptions.

## OFFER STATISTICS

| | **Based on the Offer Price of HK$1.50 per Offer Share** |
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| Market capitalisation of our Shares | HK$1.122 billion |
| Unaudited pro forma adjusted consolidated net tangible assets per Share as at 31 October 2020 *(Note)* | HK$0.56 |

*Note:* Please refer to the section headed "Unaudited pro forma financial information" in Appendix II to this prospectus for further details.

*In this prospectus, unless the context otherwise requires, the following expressions have the following meanings.*

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| "Accountant's Report" | the report of our reporting accountant as set out in Appendix I to this prospectus |
| "affiliate(s)" | with respect to any specific person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person |
| "Application Form(s)" | **WHITE** application form(s), **YELLOW** application form(s) and **GREEN** application form(s), or where the context so requires, any one of them, to the Public Offer |
| "AQSIQ" | the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局), which has been integrated to form the SAMR since 18 March 2018 |
| "Articles of Association" or "Articles" | the articles of association of our Company conditionally adopted on 4 March 2021 and effective from the Listing Date, as amended from time to time, a summary of which is set out in Appendix V to this prospectus |
| "associate(s)" | has the meaning ascribed to it under the Listing Rules |
| "Board" or "Board of Directors" | the board of Directors |
| "Business Day" or "business day" | a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong |
| "BVI" | the British Virgin Islands |
| "CAGR" | compound annual growth rate |
| "Capitalisation Issue" | the issue of Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company referred to in the paragraph headed "Further information about our Group — 3. Resolutions of our Shareholders" in Appendix VI to this prospectus |
| "CCASS" | the Central Clearing and Settlement System established and operated by HKSCC |

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| "CCASS Clearing Participant" | a person admitted to participate in CCASS as a direct clearing participant or general clearing participant |
| "CCASS Custodian Participant" | a person admitted to participate in CCASS as a custodian participant |
| "CCASS Investor Participant" | a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation |
| "CCASS Operational Procedures" | the operational procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to the operation and functions of CCASS as from time to time in force |
| "CCASS Participant" | a CCASS Clearing Participant, or a CCASS Custodian Participant or a CCASS Investor Participant |
| "CCCC" | China Communications Construction Company Limited (中國交通建設股份有限公司), a joint stock limited liability company established in the PRC on 8 October 2006 and the A shares of which are listed on the Shanghai Stock Exchange (stock code: 601800) and the H shares of which are listed on the Stock Exchange (stock code: 1800), an Independent Third Party |
| "China" or "PRC" | the People's Republic of China excluding, for the purpose of this prospectus, Hong Kong, Macau and Taiwan |
| "China Railway" | China Railway Group Limited (中國中鐵股份有限公司), a joint stock limited liability company established in the PRC on 12 September 2007 and the A shares of which are listed on the Shanghai Stock Exchange (stock code: 601390) and the H shares of which are listed on the Stock Exchange (stock code: 390), an Independent Third Party |
| "Circular 37" | Circular on the Foreign Exchange Management of Offshore Investment and Financing and Round Trip Investment By Domestic Residents through Special Purpose Vehicles* (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知), which was promulgated by the SAFE and became effective on 4 July 2014 |
| "close associate(s)" | has the meaning ascribed to it under the Listing Rules |

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| "Companies Act" or "Cayman Companies Act" | the Companies Act of the Cayman Islands |
| "Companies Ordinance" | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as the same may be amended, supplemented or otherwise modified from time to time |
| "Companies (WUMP) Ordinance" | the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as the same may be amended, supplemented or otherwise modified from time to time |
| "Company" or "our Company" | Zhixin Group Holding Limited (智欣集團控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 14 November 2018 |
| "connected person(s)" | has the meaning ascribed to it under the Listing Rules |
| "Controlling Shareholder(s)" | has the meaning ascribed to it in the Listing Rules and unless the context requires otherwise, refers to the controlling shareholders of our Company, namely Mr. Ye and Zhixin Investment BVI |
| "COVID-19" | Coronavirus pandemic, an ongoing global pandemic of coronavirus disease 2019 (COVID-19), caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) |
| "CRCC" | China Railway Construction Corporation Limited (中國鐵建股份有限公司), a joint stock limited liability company established in the PRC on 5 November 2007 and the A shares of which are listed on the Shanghai Stock Exchange (stock code: 601186) and the H shares of which are listed on the Stock Exchange (stock code: 1186), an Independent Third Party |
| "CSCEC" | China State Construction Engineering Corporation Limited (中國建築股份有限公司), a joint stock limited liability company established in the PRC on 10 December 2007 and the shares of which are listed on the Shanghai Stock Exchange (stock code: 601668), an Independent Third Party |
| "CSRC" | China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the PRC national securities markets |

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| "CTC" | China Building Material Test & Certification Group Co., Ltd. (中國建材檢驗認證集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603060), which is an Independent Third Party providing inspection and certification services |
| "Deed of Indemnity" | the deed of indemnity dated 4 March 2021 entered into by our Controlling Shareholders with and in favour of our Company (for our Company and as trustee for each of our subsidiaries) in respect of, among other things, certain indemnities, further information of which is set out in the paragraph headed "Other information — 13. Estate duty, tax and other indemnities" in Appendix VI to this prospectus |
| "Director(s)" | the director(s) of our Company |
| "EIT" | the enterprise income tax of the PRC |
| "EIT Law" | the PRC Enterprise Income Tax Law* (中華人民共和國企業所得稅法) adopted by the National People's Congress of the PRC on 16 March 2007 and last amended on 29 December 2018 with effect from the same day |
| "Extreme Conditions" | any extreme conditions or events, the occurrence of which will cause interruption to the ordinary course of business operations in Hong Kong and/or that may affect the Listing Date |
| "Frost & Sullivan" | Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., a global market research and consulting company, which is an Independent Third Party |
| "Frost & Sullivan Report" | the report we commissioned Frost & Sullivan to prepare on the current status and forecasts of industries in which our Group operates |
| "GDP" | gross domestic product |
| "Group", "our Group", "we" or "us" | our Company and our subsidiaries, at the relevant time, or where the context so requires in respect of the period before our Company became the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time |

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| "Guidance Price" | guidance price(s) of different grades of ready-mixed concrete set out in the Xiamen Construction Engineering Information (廈門建設工程信息), issued by the Xiamen Construction Engineering Cost Management Station (廈門市建設工程造價管理站) usually on a weekly basis |
| "Guishun Logistics" | Xiamen Guishun Logistics Limited* (廈門市桂順運輸有限公司), a company established in the PRC with limited liability on 6 June 2007, which (i) was owned as to 80% and 20% by Mr. Huang and his son, Mr. Huang Kaining (黃楷寧), respectively from 3 March 2016 to 18 June 2018; (ii) was owned as to 80% and 20% by Mr. Huang and his spouse, Ms. Lin Lingling (林玲玲), respectively, from 19 June 2018 to 24 October 2019 and (iii) has been owned as to 30% and 70% by Mr. Huang and Ms. Lin Lingling, respectively, since 25 October 2019 |
| "Haicang Workshop" | our former leased precast concrete components production facilities located in Haicang District of Xiamen |
| "HK$", "Hong Kong dollar(s)", "HKD" or "cents" | Hong Kong dollars and cents respectively, the lawful currency for the time being of Hong Kong |
| "**HK eIPO White Form**" | the application for Public Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website of **HK eIPO White Form** at **www.hkeipo.hk** or the **IPO App** |
| "**HK eIPO White Form** Service Provider" | the **HK eIPO White Form** service provider as designated by our Company, as specified on the designated website at **www.hkeipo.hk** or the **IPO App** |
| "HKFRSs" | Hong Kong Financial Reporting Standards (including Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by Hong Kong Institute of Certified Public Accountants |
| "HKSCC" | Hong Kong Securities Clearing Company Limited |
| "HKSCC Nominees" | HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC |
| "Hong Kong" or "HK" | the Hong Kong Special Administrative Region of the PRC |
| "Hong Kong Branch Share Registrar" | Tricor Investor Services Limited, the branch share registrar and transfer office of our Company in Hong Kong |

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| "**IPO App**" | the mobile application for **HK eIPO White Form** service which can be downloaded by searching "**IPO App**" in App Store or Google Play or downloaded at **www.hkeipo.hk/IPOApp** or **www.tricorglobal.com/IPOApp** |
| "Independent Third Party(ies)" | an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Listing Rules) any Director, chief executive or substantial shareholder (within the meaning of the Listing Rules) of our Company, its subsidiaries or any of their respective associates |
| "Jimei Workshop" | our leased precast concrete components production facilities located in Jimei District of Xiamen |
| "Joint Bookrunners" | Kingsway Financial Services Group Limited, Seazen Resources Securities Limited, Zhongtai International Securities Limited, Haitong International Securities Company Limited and SPDB International Capital Limited |
| "Joint Lead Managers" | Kingsway Financial Services Group Limited, Seazen Resources Securities Limited, Zhongtai International Securities Limited, Haitong International Securities Company Limited, SPDB International Capital Limited and ZMF Asset Management Limited |
| "Latest Practicable Date" | 6 March 2021, being the latest practicable date for the purpose of ascertaining certain information in this prospectus prior to its publication |
| "Lianhui Construction Material" | Xiamen Lianhui Construction Material Limited* (廈門聯惠建材有限公司), a company established in the PRC with limited liability on 20 August 2013, which (i) was owned as to 70% and 30% by Mr. Huang and his son, namely Mr. Huang Kaining (黃楷寧), respectively, from incorporation to 31 May 2018; (ii) was owned as to 70% and 30% by Mr. Huang and, his spouse, Ms. Lin Lingling (林玲玲), respectively, from 1 June 2018 to 4 September 2018; and (iii) has been owned by various Independent Third Parties since 5 September 2018 |
| "Listing" | the listing of our Shares on the Main Board of the Stock Exchange |
| "Listing Committee" | the Listing Committee of the Stock Exchange |

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| "Listing Date" | the date, expected to be on or about Friday, 26 March 2021, on which our Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or modified from time to time |
| "M&A Rules" | Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors* (《關於外國投資者併購境內企業的規定》), which was jointly issued by six PRC regulatory agencies, including the MOFCOM, the State-owned Assets Supervision and Administration Commission, SAT, SAMR, CSRC and SAFE on 8 August 2006 and became effective on the same day and was amended by the MOFCOM on 22 June 2009 |
| "Macau" | the Macau Special Administrative Region of the PRC |
| "Main Board" | the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with GEM of the Stock Exchange |
| "MEE" | the Ministry of Ecology and Environment of the PRC (中華人民共和國生態環境部) (formerly known as the Ministry of Environmental Protection of the PRC (中華人民共和國環境保護部)) |
| "Memorandum of Association" or "Memorandum" | the memorandum of association of our Company conditionally adopted on 4 March 2021 with effect from the Listing Date, and as amended from time to time |
| "MOFCOM" | the Ministry of Commerce of the PRC (中華人民共和國商務部) |
| "MOF" | the Ministry of Finance of the PRC（中華人民共和國財政部） |
| "MOHURD" | the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部) |
| "Mr. Huang" | Mr. Huang Wengui (黄文桂), our chief executive officer, an executive Director and a substantial Shareholder |

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| "Mr. Ye" | Mr. Ye Zhijie (葉志杰), the founder of our Group, an executive Director, the chairman of the Board and one of our Controlling Shareholders |
| "Ms. Chen" | Ms. Chen Manhong (陳曼紅), the sole shareholder of Pakhim Chen BVI and an indirect Shareholder |
| "Ms. Du" | Ms. Du Lifang (杜莉芳), the niece of Mr. Ye, an executive Director, and the cousin of Mr. Ye Dan, an executive Director, therefore a connected person of our Company |
| "National People's Congress" or "NPC" | the National People's Congress of the PRC (中華人民共和國全國人民代表大會) |
| "NDRC" | The National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) |
| "Offer Price" | HK$1.50 per Offer Share (exclusive of brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%), at which the Offer Shares are to be subscribed for |
| "Offer Share(s)" | the Public Offer Share(s) and the Placing Share(s) |
| "Pakhim Chen BVI" | Pakhim Chen Capital Limited (柏謙陳資本有限公司), a company incorporated in the BVI with limited liability on 13 September 2018, which is solely owned by Ms. Chen, and a Shareholder |
| "Pakhim Chen HK" | Pakhim Chen (Hong Kong) Limited (柏謙陳(香港)有限公司), a company incorporated in Hong Kong with limited liability on 3 October 2018, an indirect wholly-owned subsidiary of our Company |
| "PC Plant" | our Group's precast concrete components production facilities located in the Jimei District of Xiamen |
| "Placing" | the conditional placing of the Placing Shares by the Placing Underwriters for and on behalf of our Company with selected professionals, institutional and/or private investors, details of which are described in the section headed "Structure of the Share Offer" in this prospectus |

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| "Placing Shares" | the 168,296,000 Shares initially offered pursuant to the Placing, subject to reallocation as described in the section headed "Structure of the Share Offer" in this prospectus |
| "Placing Underwriters" | the underwriters who are expected to enter into the Placing Underwriting Agreement, being the underwriters of the Placing |
| "Placing Underwriting Agreement" | the placing underwriting agreement expected to be entered into on or about 19 March 2021 among our Company, our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Placing Underwriters in respect of the Placing, as further described in the section headed "Underwriting" in this prospectus |
| "PRC Company Law" | the Company Law of the PRC* (中華人民共和國公司法), as enacted by the Standing Committee of the Eighth National People's Congress on 29 December 1993 and effective on 1 July 1994, and subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013 and 26 October 2018, as amended, supplemented or otherwise modified from time to time |
| "PRC Government" or "State" | the central government of the PRC, including all governmental sub-divisions (such as provincial, municipal and other regional or local government entities) |
| "PRC Legal Advisers" | Jingtian & Gongcheng, our legal advisers as to the PRC laws |
| "Public Offer" | the offer for subscription of the Public Offer Shares in Hong Kong at the Offer Price and on, and subject to, the terms and conditions of this prospectus and the Application Forms, as further described in the section headed "Structure of the Share Offer" in this prospectus |
| "Public Offer Share(s)" | the 18,704,000 new Shares being made available by our Company for subscription pursuant to the Public Offer, subject to reallocation as described in the section headed "Structure of the Share Offer" in this prospectus |
| "Public Offer Underwriters" | the underwriters listed in the section headed "Underwriting — Public Offer Underwriters", being the underwriters of the Public Offer |

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| "Public Offer Underwriting Agreement" | the public offer underwriting agreement dated 15 March 2021 entered into among our Company, our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters in respect of the Public Offer, as further described in the section headed "Underwriting" in this prospectus |
| "Regulation S" | Regulation S under the U.S. Securities Act |
| "Reorganisation" | the corporate reorganisation of our Group conducted in preparation for the Listing, details of which are set out in the section headed "History, Reorganisation and corporate structure" in this prospectus |
| "RMB" or "Renminbi" | Renminbi, the lawful currency for the time being of the PRC |
| "RMC Plant" | our Group's ready-mixed concrete production facilities located in the Jimei District of Xiamen |
| "SAC" | Standardization Administration of the PRC (國家標準化管理委員會) |
| "SAFE" | the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), the PRC governmental agency responsible for matters relating to foreign exchange administration, including local branches, when applicable |
| "SAMR" | the State Administration for Market Regulation (國家市場監督管理總局) (formerly known as the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)) |
| "SAT" | the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局) |
| "SFC" or "Securities and Futures Commission" | the Securities and Futures Commission of Hong Kong |
| "SFO" or "Securities and Futures Ordinance" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or modified from time to time |
| "Share(s)" | ordinary share(s) of HK$0.01 each in the share capital of our Company |

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| "Share Offer" | the Public Offer and the Placing |
| "Shareholder(s)" | holder(s) of the Share(s) |
| "SOE(s)" | State-owned enterprise(s) which is/are wholly or partially owned by the PRC Government |
| "Sole Sponsor" | Kingsway Capital Limited, a licensed corporation permitted to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the sole sponsor to our Company in respect of the Share Offer |
| "State Council" | the State Council of the PRC (中華人民共和國國務院) |
| "Stock Exchange" or "Hong Kong Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "subsidiary(ies)" | has the meaning ascribed to it in section 15 of the Companies Ordinance |
| "substantial shareholder(s)" | has the meaning ascribed to it under the Listing Rules |
| "Takeovers Code" | the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time |
| "Track Record Period" | the three years ended 31 December 2019 and the ten months ended 31 October 2020 |
| "U.S." or "United States" | the United States of America, its territories, its possessions and all areas subject to its jurisdiction |
| "U.S. Securities Act" | the U.S. Securities Act of 1933, as amended |
| "Underwriters" | the Public Offer Underwriters and the Placing Underwriters |
| "Underwriting Agreements" | the Public Offer Underwriting Agreement and the Placing Underwriting Agreement |
| "VAT" | value-added tax |
| "Xiamen" | Xiamen City, Fujian Province of the PRC |

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| "Xiamen Construction Engineering Information" | Xiamen Construction Engineering Information (廈門建設工程信息), which is a platform maintained by the Xiamen Construction Engineering Cost Management Station (廈門市建設工程造價管理站), to set out the guidance prices of construction materials |
| "Xiamen Jichang" | Xiamen Jichang Construction Engineering Co., Ltd.* (廈門吉昌建築工程有限公司), a company established in the PRC with limited liability on 30 November 1999, which has been owned as to 80% and 20% by Mr. Ye Zhixiong and his son, Mr. Ye Xiaojian (葉小劍), respectively, since 8 September 2016. Mr. Ye Zhixiong is the elder brother of Mr. Ye and the uncle of Mr. Ye Dan, an executive Director. Mr. Ye Xiaojian is the nephew of Mr. Ye and the cousin of Mr. Ye Dan, an executive Director, therefore a connected person of our Company |
| "Yaohe BVI" | Yaohe Holding Limited (耀和控股有限公司), a company incorporated in the BVI with limited liability on 24 October 2018, which is solely owned by Mr. Huang, a substantial Shareholder |
| "Yaohe Trading" | Xiamen Yaohe Trading Company Limited* (廈門耀和貿易有限公司), a company established in the PRC with limited liability on 6 June 2008, which is owned as to 70% and 30% by Mr. Huang and his spouse, Ms. Lin Lingling (林玲玲), respectively |
| "Zhixin Construction Material" | Xiamen Zhixin Construction Material Group Limited* (廈門智欣建材集團有限公司) (formerly known as Xiamen Jichangxin Ready-mixed Concrete Company Limited* (廈門吉昌鑫預拌混凝土有限公司) and Xiamen Zhixin Construction Material Company Limited* (廈門智欣建材有限公司)), a company established in the PRC with limited liability on 19 April 2007, which subsequently became a wholly foreign owned enterprise with limited liability on 25 January 2019, and an indirect wholly-owned subsidiary of our Company |

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| "Zhixin Construction Technology" | Xiamen Zhixin Construction Technology Limited* (廈門智欣建工科技有限公司) (formerly known as Xiamen Tangsong Mechanic Technology Company Limited* (廈門唐松機器人科技有限公司) and Xiamen Zhongjian Zhixin Construction Technology Limited* (廈門中建智欣建工科技有限公司)), a company established in the PRC with limited liability on 2 November 2010, and an indirect wholly-owned subsidiary of our Company |
| "Zhixin Enterprises BVI" | Zhixin Enterprises Limited (智欣實業有限公司), a company incorporated in BVI with limited liability on 20 November 2018, and a direct wholly-owned subsidiary of our Company |
| "Zhixin HK" | Zhixin Group (HK) Limited (智欣集團(香港)有限公司), a company incorporated in Hong Kong with limited liability on 13 December 2018, an indirect wholly-owned subsidiary of our Company |
| "Zhixin Investment BVI" | Zhixin Investment Holding Limited (智欣投資控股有限公司), a company incorporated in BVI with limited liability on 31 October 2018, which is solely owned by Mr. Ye, one of our Controlling Shareholders |
| "Zhixin Logistics" | Xiamen Zhixin Logistics Limited* (廈門智欣物流有限公司), a company established in the PRC with limited liability on 27 December 2012, an indirect wholly owned subsidiary of our Company |
| "%" | per cent |

* *For identification purposes only*

*Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*

*In this prospectus, unless otherwise stated, certain amounts denominated in Renminbi have been translated into Hong Kong dollars at an exchange rate of RMB1.0 = HK$1.1 for illustration purpose only. Such conversions shall not be construed as representations that amounts in Renminbi were or could have been or could be converted into Hong Kong dollars at such rates or any other exchange rates on such date or any other date.*

*English translations of the PRC entities, enterprises, nationals, facilities or regulations in Chinese or another language are for identification purpose only. If there is any inconsistency between the Chinese names of PRC entities, enterprises, nationals, facilities or regulations and their English translations, the Chinese names shall prevail.*

*All dates and times in this prospectus refer to Hong Kong time unless otherwise stated.*

*This glossary of technical terms contains terms used in this prospectus in connection with us and our business. The terms and their meanings may not correspond to the standard industry meanings, calculations or usage of those terms.*

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| "admixtures" | an ingredient of concrete, to perform a variety of functions such as reducing water content, retarding or accelerating the setting rate or modifying the properties of concrete |
| "aggregates" | one of the filler materials in concrete, which could be classified into coarse aggregates and fine aggregates. Coarse aggregates mainly refer to gravel and crushed stones; fine aggregates mainly refer to natural sand and artificial sand |
| "AMTR" or "Amoy Transit Rail" | Xiamen Metro, the rapid transit system serving Xiamen |
| "batching" | the process of measuring and mixing the ingredients of concrete |
| "cement" | calcium alumina silicate with hydraulic properties that enable it to act as a binder, a key ingredient in concrete |
| "concrete" | a mixture of cement, water and aggregates, which hardens and gains strength to form a material with high compressive strength through hydration |
| "CTB" or "cement-treated base" | a mixture of cement, water and coarse aggregates that hardens after compaction and curing to form a strong, durable, frost resistant paving material |
| "curing" | a process that involves maintenance of desired moisture and temperature conditions for extended periods of time, to achieve desirable strength and durability of concrete |
| "GB/T12573-2008" | national standard for sampling method for cement jointly issued by AQSIQ and SAC |
| "GB/T14902-2012" | national standard for ready-mixed concrete jointly issued by AQSIQ and SAC |
| "GB/T1596-2017" | national standard for fly ash used for cement and concrete jointly issued by AQSIQ and SAC |

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| "GB/T18046-2017" | national standard for ground granulated blast furnace slag used for cement, mortar and concrete jointly issued by AQSIQ and SAC |
| "GB/T 19001-2016" | national standard for quality management systems requirements issued by SAC |
| "GB/T22082-2017" | national standard for reinforced concrete segments jointly issued by AQSIQ and SAC |
| "GB/T 23001-2017" | national standard for integration of informatisation and industrialisation management systems requirements issued by SAC |
| "GB/T23439-2017" | national standard for expansive agents for concrete jointly issued by AQSIQ and SAC |
| "GB/T 24001-2016" | national standard for environmental management systems requirements issued by SAC |
| "GB/T25181-2010" | national standard for ready-mixed mortar jointly issued by AQSIQ and SAC |
| "GB/T 28001-2011" | national standard for occupational health and safety management systems requirements issued by SAC |
| "GB/T50081-2019" | national standard for test methods of concrete physical and mechanical properties jointly issued by MOHURD and SAMR |
| "GB/T50107-2010" | national standard for evaluation of concrete compressive strength jointly issued by AQSIQ and MOHURD |
| "GB175-2007" | national standard for common portland cement jointly issued by AQSIQ and SAC |
| "GB50010-2010" | code for design of concrete structures jointly issued by AQSIQ and MOHURD |
| "GB50164-2011" | national standard for quality control of concrete jointly issued by AQSIQ and MOHURD |
| "GB50204-2015" | code for acceptance of constructional quality of concrete structures jointly issued by AQSIQ and MOHURD |
| "GB8076-2008" | national standard for concrete admixture jointly issued by AQSIQ and SAC |

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| "ISO" | International Organisation for Standardisation, a non-governmental international standard-setting organisation |
| "ISO14001:2015" | requirements set by ISO for environmental management system, certifying that the organisation is able to efficiently control and manage the environmental impacts caused by its activities |
| "ISO9001:2015" | requirements set by ISO for quality management system within an organisation, certifying that the organisation is able to demonstrate its ability to consistently provide products and services that meet its requisite standards |
| "JGJ52-2006" | industrial standard for technical requirements and test method of sand and crushed stones (or gravel) for ordinary concrete issued by Ministry of Construction of the PRC (currently known as MOHURD) |
| "JGJ55-2011" | industrial standard for specification for mix proportion design of ordinary concrete issued by MOHURD |
| "kg" | kilogramme(s) |
| "kWh" | kilowatt hour |
| "m" | metre(s) |
| "$m^2$" or "sq.m." | square metre(s) |
| "$m^3$" | cubic metre(s) |
| "MPa" | Megapascal, a unit of pressure which equals to 1,000,000 pascals |
| "OHSAS 18001:2007" | Occupational Health and Safety Assessment Series, an international assessment specification for occupational health and safety management system, which provides a framework for organisation to manage occupational health and safety risks associated with a business |
| "PC component(s)" or "precast concrete component(s)" | a construction product used in prefabricated method construction |

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| "PFA" | pulverised fuel ash, is the ash resulting from the burning of pulverised coal in coal-fired electricity power stations |
| "PM" | particulate matter |
| "prefabricated building" | a type of building that consists of several factory-built components or units that are assembled on-site to complete the unit |
| "RMC" or "ready-mixed concrete" or "commercial concrete" | concrete that is mixed for delivery from a batching plant instead of being mixed on the construction site, and is delivered to the site in a plastic condition using transport equipment |
| "slump" | the measure of concrete consistency and fluidity, which shows the flow and overall workability of freshly mixed concrete |
| "supplementary cementitious materials" | includes PFA, slag cement or silica fume, which is added to concrete to influence the properties of concrete |
| "test cube(s)" | cube(s) made from fresh concrete for testing grade strength |
| "tonne(s)" | metric ton, equivalent to 1,000 kg |
| "tunnel segment(s)" | is used to form segmental ring, which is a load-bearing ring used to support the structure of tunnel |
| "μg" | microgramme |

This prospectus contains certain forward-looking statements and information relating to us and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this prospectus, the words "aim", "anticipate", "believe", "could", "estimate", "expect", "going forward", "intend", "may", "might", "ought to", "plan", "potential", "predict", "project", "seek", "shall", "should", "will", "would" and similar expressions, as they relate to our Company or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialise or may change. These statements are subject to certain risks, uncertainties and assumptions, including but not limited to the risk factors as described in this prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing our Company which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our business prospects;
- future developments, trends and conditions in the industry and markets in which we operate;
- our business strategies, plans, objectives and goals;
- general economic trends and conditions;
- changes to regulatory and operating conditions in the industry and markets in which we operate;
- our ability to control costs;
- our dividend policy;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the actions and developments of our competitors; and
- certain statements in the section headed "Financial information" in this prospectus with respect to trend in prices, volumes, operations, margins, overall market trends, risk management and exchange rates.

Subject to the requirements of applicable laws, rules and regulations and the Listing Rules, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking statements and information.

In this prospectus, statements of or references to the intentions of our Group or any of our Directors are made as at the date of this prospectus. Any such intentions may potentially change in light of future developments. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

*Potential investors should carefully consider all of the information set out in this prospectus and, in particular, should consider the following risks and uncertainties described below before making any investment decision in relation to the Share Offer. Any of the risks and uncertainties described below could have a material adverse effect on our business, results of operation, financial conditions or the trading price of our Shares, and could cause you to lose all or part of the value of your investment in the Offer Shares.*

## RISKS RELATING TO OUR BUSINESS AND INDUSTRY

### Our business depends on the level of activity and growth in the construction industry in Fujian Province and Xiamen

Our customers are generally construction companies in Fujian Province. For the Track Record Period, approximately 99.9%, 98.2%, 88.9% and 77.4% of our revenue were derived from Xiamen, respectively. As our ready-mixed concrete and PC components are principally sold in Fujian Province, the demand for our products is predominantly dependent on the level of activity and growth in the construction industry in Fujian Province, which in turn depends on factors such as general economic conditions, government policy, GDP growth, fixed asset investment, consumer confidence, inflation and demographic trends in Fujian Province. Our lack of geographical diversity exposes us to risks associated with fluctuations in the political and economic conditions of Fujian Province.

We have historically benefited from the growth in the economy of Fujian Province. We cannot assure you that the GDP, fixed asset investment or the demand for ready-mixed concrete and PC components in Fujian Province will continue to grow at historical rates, or at all. Any slowdown in the growth of Fujian Province's economy or a downturn in the construction industry in Fujian Province could affect the demand for our products, which in turn could have a material and adverse effect on our business, financial condition and results of operations.

### Fluctuation in the prices of our major raw materials may have adverse impact on our financial results

Certain raw materials used in our production, such as cement and aggregates, are subject to price volatility caused by external conditions, including commodity price fluctuations and changes in governmental policies. For the three years ended 31 December 2019 and the ten months ended 31 October 2020, our cost of raw materials amounted to approximately RMB295.3 million, RMB351.0 million, RMB386.6 million and RMB374.8 million respectively, which accounted for approximately 80.9%, 80.7%, 79.3% and 74.8% of our total cost of production, respectively.

According to the Frost & Sullivan Report, over the period from 2015 to 2019, the average price of cement in Fujian Province has demonstrated an overall uptrend from approximately RMB393.7 per tonne in 2015 to RMB545.8 per tonne in 2019. For the average price of aggregates, it remained relatively stable from 2015 to 2016, then began an increasing trend from 2017.

For our ready-mixed concrete, our price will be determined primarily as a certain percentage (typically within 13%) below the Guidance Price as set out in the Xiamen Construction Engineering Information in effect from time to time. For our PC components, our unit price will be determined based on an estimated cost of (i) raw materials; (ii) labour; (iii) production; and (iv) transportation floating by a reasonable margin.

We cannot guarantee that our key suppliers will continue to provide us with raw materials at acceptable prices, or that our raw material prices will remain stable in the future. In addition, we may not be able to timely transfer all or part of the increase in costs of our raw materials to our customers. Some of our contracts contain a price adjustment clause that will trigger price adjustment review after a certain date or in case the market price of raw materials or guidance price of raw materials issued by the local government has experienced a significant fluctuation. However, we have to reach a mutual agreement between us and our customers before the price adjustment will become effective. We cannot assure you that we are able to successfully negotiate the price adjustment with our customers to fully cover the additional cost we incur as a result of the increase of the raw material prices at all times. As a result, any increase or material fluctuation in the prices of our raw materials could have a material adverse effect on the profitability of our business as we may have to bear the additional cost.

**Any failure to acquire raw materials or to fill our customers' orders in a timely and cost-effective manner could materially and adversely affect our business operations**

We rely on third party suppliers to meet our raw material requirements. The principal types of raw materials in the manufacturing of our products consist of cement, aggregates, PFA, mineral powder and admixtures.

For the three years ended 31 December 2019 and the ten months ended 31 October 2020, the total purchases from our Group's five largest suppliers amounted to approximately RMB89.2 million, RMB152.5 million, RMB187.5 million and RMB216.7 million, representing approximately 30.3%, 41.9%, 48.0% and 55.9% of our total cost of purchases for the corresponding periods.

If any of our major suppliers is unable to deliver raw materials according to such schedule or in such volume as is required for our production, and we fail to purchase from other suppliers in a timely and cost-effective manner, our production schedule and delivery of the products required by our customers could be delayed and our workers have to work overtime for the delayed production schedule. There is no guarantee that the quality of the raw materials supplied to our Group by our major suppliers will always meet our required standards, and we may be forced to replace these raw materials with alternative suppliers at extra costs. Our relationships with our customers could be adversely affected as a result of any of such delays or increases to our selling price due to an increase in purchase prices of raw materials, which may materially and adversely affect our business, financial condition and results of operation.

**The demand for our concrete products is bounded by seasonality, in particular, climatic seasonality, hence the weather conditions may impinge on the process of construction activities**

The demand for our concrete products is bounded by climatic seasonality, hence the weather conditions (such as drought, heavy or sustained rainfall) may impinge on the process of construction activities. Adverse weather conditions can affect the level of construction activities and lead to a decline in demand for our products. For example, our revenue derived from sales of ready-mixed concrete decreased from approximately RMB453.1 million for the year ended 31 December 2018 to approximately RMB446.8 million for the year ended 31 December 2019, which was mainly due to the overall decrease in sales volume of ready-mixed concrete primarily attributable to, among others, the significant increase in average monthly rainfall in Xiamen from approximately 49.3 millimetres for the year ended 31 December 2018 to approximately 147.7 millimetres for the year ended 31 December 2019, which reduced the level of construction activities due to prolonged adverse weather condition. Climatic conditions that are unusually severe or intense, or those which occur at abnormal or last longer than usual could have an adverse impact on our business, financial condition or operating results.

Furthermore, construction activities are generally at a lower level during January to March due to the Chinese New Year. As a result of the seasonal fluctuations, our quarterly results may not be indicative of our business and financial performance for the year as a whole.

**We may not be able to renew our lease in respect of our leased production facility**

As at the Latest Practicable Date, we leased a production facility for our Jimei Workshop, to keep up with the increasing production demand of our PC component projects, details of which are disclosed in the section headed "Business — Properties" of this prospectus. The term of the lease was five years up to 31 May 2024.

If we cannot renew the lease in respect of the leased production facility, we will have to search for other production facilities available for leasing which may differ from the current facility in certain aspects such as location and production capacity. There is no assurance that we will successfully renew the lease in respect of the leased production facility on commercially acceptable terms, or at all. Furthermore, there is also no assurance that the lease will not be terminated by the leasor before its expiration. Termination of our lease may occur beyond our control, such as breaches of agreement by the lessor or invalidation of the lease due to defects in title or licencing. If it happens, we will need to search for other production facilities available and incur additional costs due to relocation.

**Our revenue is mainly derived from manufacturing and sale of ready-mixed concrete and PC components to our customers for infrastructure construction projects and upgrades, which is non-recurring in nature and there is no guarantee that we will be able to secure new projects with existing or new customers in the future**

Our products can be applied in construction projects of different nature, which can be broadly categorised into (i) infrastructure; (ii) residential; (iii) commercial and industrial; and (iv) municipal.

We generally supply our ready-mixed concrete and PC components to construction companies for the use in building and construction projects. Our products are supplied to these contractors on a non-recurring basis, and we do not have any long-term commitment nor have we entered into any long-term agreement with them. If our Group is unable to secure new projects with existing or new customers, our revenue and financial performance may be adversely affected. We cannot assure you that our customers will continue to conduct business with us at the same level or at all.

Hence, our future growth and expansion depends on our ability to secure new projects from our existing and potential customers. We cannot guarantee that our existing customers will continue to purchase from us. If any of our major customers substantially reduces the volume of its orders or ceases to conduct business with us, our business operation and financial performance would be materially and adversely affected. There is no assurance that (i) our Group will be able to secure new projects to make up for such loss of sales; or (ii) even if we are able to secure other projects, that they would be on commercially comparable terms.

**We recorded net current liabilities as at 31 December 2017, 31 December 2018 and 31 October 2020**

We recorded net current liabilities of approximately RMB79.5 million, RMB141.9 million and RMB6.9 million, as at 31 December 2017, 31 December 2018 and 31 October 2020, respectively. Our net current liabilities position was primarily attributable to our Group's strategic decision to expand our business into the PC component manufacturing industry in 2014, which required heavy capital investment. For further analysis of our Group's net current liabilities/assets position, please refer to the section headed "Financial information — Net current (liabilities)/assets" of this prospectus.

Our future liquidity, the payment of trade and other payables and the repayment of our outstanding debts when they become due will primarily depend on future operating and financial performance, including our ability to maintain adequate cash inflows from operating activities and our ability to obtain adequate financing. Our future performance will be impacted by prevailing economic conditions and a range of other business and competitive factors which are beyond our control. Therefore, there is no assurance that we will not experience net current liabilities in the future. There is also no assurance that we will always have sufficient funds to meet our repayment obligations, or that our historical net current liabilities will not impair our ability to obtain new borrowings to finance our operation or capital commitments. In such circumstances, our liquidity, business operation, financial condition and prospects may be materially and adversely affected.

**We are exposed to the credit risk of and may experience increasing balance of trade receivables from customers and longer trade receivables turnover days in the future**

We are subject to the credit risks of our customers and our liquidity is dependent on the prompt payment of our customers. Our Group's trade receivables mainly refer to outstanding amounts due from our customers for the sales of our ready-mixed concrete and PC components. The current portion primarily represents receivables from our customers which are expected to be collected in one year or less from each reporting period, which amounted to approximately RMB227.8 million, RMB282.8 million, RMB400.4 million and RMB523.2 million as at 31 December 2017, 31 December 2018, 31 December 2019 and 31 October 2020, respectively. We generally require our customers to settle payment within 40 days from the date of issue of the payment certificate by the customers or the invoice date (as the case may be). The non-current portion of our trade receivables primarily represents retention receivables from our customers, which are retention money withheld by our customers to secure our due performance during the defect liability period. Our customers may retain 5%–20% of the total progress payment amount as retention money. Generally, the retention money will be released within six months upon expiration of the defect liability period, normally ranging from 3 months to 24 months from the date of the practicable completion of the construction project.

As at 31 December 2017, 2018 and 2019 and 31 October 2020, the trade receivables from our customers less provision for impairment amounted to approximately RMB246.4 million, RMB305.1 million, RMB417.8 million and RMB540.3 million, respectively, whereas the respective amounts of trade receivables from customers accounted for approximately 43.7%, 55.3%, 61.8% and 66.7% of our total assets, respectively. The trade receivables turnover days were approximately 220.6 days, 196.9 days, 223.3 days and 242.6 days for each of the three years ended 31 December 2019 and the ten months ended 31 October 2020 respectively. High turnover days may indicate that the customers tend to delay their payment. If our customers fail to settle their bills on time or at all for whatever reason, we may have cash flow mismatch which in turn may have an adverse impact on our liquidity position.

**Our high gearing ratio may expose us to liquidity risk**

During the Track Record Period, we relied significantly on borrowings to finance our business operations. As at 31 December 2017, 31 December 2018, 31 December 2019 and 31 October 2020, our total debt, being (i) total borrowings; and (ii) interest-bearing loans from Mr. Ye and Mr. Huang, amounted to approximately RMB98.5 million, RMB101.0 million, RMB217.1 million and RMB261.4 million, respectively, and our gearing ratio was approximately 83.5%, 161.6%, 208.0% and 177.5%, respectively. Our high gearing ratio may require us to allocate a larger portion of our cash inflow to repay our bank borrowings than to fund our business operation, and limit our flexibility in adjusting our capital structure hence our adaptability to any changes in economic and industry development. We may also incur additional costs in obtaining further bank borrowings or may not be able to obtain further bank borrowings at all due to our high gearing ratio. We expect our gearing ratio upon Listing will be no more than 80.0%. We cannot assure you that we will not have a high gearing ratio in the future, which may materially and adversely affect our financial condition, results of operation and prospects.

**We recorded net operating cash outflow for the year ended 31 December 2017 and 31 December 2019 and for the ten months ended 31 October 2020**

We recorded net cash used in operating activities of approximately RMB33.6 million for the year ended 31 December 2017 primarily due to our Group's PC component operation was running at a negative gross profit of approximately RMB5.8 million as our PC component operation commenced its commercial production in the second half of 2017 and was still in its early ramp-up period, our PC component production scale had not yet reached the level to cover the respective fixed and overhead costs of operation. We also recorded net cash used in operating activities of approximately RMB68.2 million for the ten months ended 31 October 2019 which was primarily attributable to (i) increase in trade receivables of approximately RMB57.1 million mainly due to increase in sales of our PC components; (ii) decrease in amounts due to related parties of approximately RMB48.1 million due to settlement of dividend payable to Mr. Ye and Mr. Huang; and (iii) income tax paid of approximately RMB18.2 million; which were partially offset by the operating profit before working capital changes of approximately RMB67.2 million. We also recorded net cash used in operating activities of approximately RMB3.0 million for the year ended 31 December 2019 which was primarily attributable to (i) the increase in our trade receivables of approximately RMB112.7 million due to the increase in sales of our PC components; and (ii) income tax paid of approximately RMB18.2 million; and partially offset by (i) the operating profit before working capital changes of approximately RMB88.9 million; and (ii) increase in trade and bills payables of approximately RMB37.9 million due to the increase in purchases of raw materials as a result of the increase in production volume of PC components. We also recorded net cash used in operating activities of approximately RMB26.7 million for the ten months ended 31 October 2020 which was primarily attributable to (i) increase in trade receivables of approximately RMB122.5 million mainly due to increase in sale of our products and our slower collection of trade receivables from February to May 2020 as a result of the COVID-19 outbreak; (ii) increase in inventories of approximately RMB23.8 million as a higher inventory level of finished goods was maintained for our PC components projects; and (iii) decrease in contract liabilities of approximately RMB10.8 million, which were partially offset by (i) the operating profit before working capital changes of approximately RMB90.8 million; and (ii) increase in trade and bills payable of approximately RMB41.3 million as we adjusted our payment schedules to suppliers depending on the status of settlement of our trade receivables and our liquidity position. We may experience periods of net cash outflow from operating activities in the future. There is no assurance that we will be able to generate sufficient cash inflow from other sources to fund our operation. Additional financing costs may be incurred if we resort to financing activities to generate additional cash. If we are unable to maintain a sufficient level of cash to finance our operation, our liquidity and financial condition may be materially and adversely affected.

**Our cash flow position may deteriorate owing to a mismatch between the time in receipt of payments from our customers and payments to our suppliers if we are unable to manage our cash flow mismatch properly**

We have to purchase raw materials from our suppliers from time to time based on our procurement and we rely on cash inflow from our customers to meet our payment obligations to our suppliers. Our cash inflow is dependent on the prompt settlement of payments from our customers. As at 31 December 2017, 31 December 2018, 31 December 2019 and 31 October 2020, we recorded trade receivables amounting to approximately RMB246.4 million, RMB305.1 million, RMB417.8 million and RMB540.3 million, respectively; and the number of our average trade receivables turnover days for the three years ended 31 December 2019 and the ten months ended 31 October 2020 was approximately 220.6 days, 196.9 days, 223.3 days and 242.6 days, respectively. The number of average trade and bills payables turnover days for the three years ended 31 December 2019 and the ten months ended 31 October 2020 was approximately 296.1 days, 213.3 days, 205.0 days and 193.9 days, respectively. As at the Latest Practicable Date, approximately 70.5% of the trade receivables as at 31 October 2020 had subsequently been settled. We generally granted our customers credit terms within 40 days from the date of issue of the payment certificate by the customer or the invoice date (as the case may be), while the credit period granted by our suppliers generally ranges within 25 to 90 days from the first day of the succeeding month of the invoice date.

As at 31 December 2017, 31 December 2018, 31 December 2019 and 31 October 2020, our trade and bills payables amounted to approximately RMB259.6 million, RMB248.6 million, RMB286.5 million and RMB327.8 million, respectively, accounting for approximately 58.3%, 51.1%, 62.0% and 54.2% of our total current liabilities, respectively. For the three years ended 31 December 2019 and the ten months ended 31 October 2020, our Group had operating cash inflow before movements in working capital of approximately RMB32.2 million, RMB62.2 million, RMB88.9 million and RMB90.8 million, respectively.

It is possible that we may experience a cash flow deficit if the settlement schedule of our customers falls far behind from our payment schedule to our suppliers. We cannot guarantee that our customers will pay us on time and that they will be able to fulfill their payment obligations. Should we experience any unexpected delay or difficulty in collecting trade receivables from our customers, our operating results and financial condition may be adversely affected. If we fail to manage the aforesaid cash flow mismatches, or if the cash flow mismatch is further aggravated, we may have to resort to reserve further funds from our internal resources and/or obtain banking facilities to meet our payment obligations, and our financial condition may be materially and adversely affected as a result.

**If we fail to effectively manage our inventories or estimate accurately the demand for our products, we may face a risk of inventory obsolescence which may materially and adversely affect our business, financial condition and results of operation**

Our Group's inventories consist of raw materials, work-in-progress and finished goods. Our raw materials mainly include cement, aggregates, admixtures, PFA, mineral powder and rebars. Work-in-progress refers to PC components which are under production process. Finished goods represent our PC components which are ready to be sold. As at 31 December 2017, 31 December 2018, 31 December 2019 and 31 October 2020, our inventories amounted to approximately RMB17.8 million, RMB20.5 million, RMB27.8 million and RMB51.6 million respectively. For the Track Record Period, our Group's average inventory turnover rate was approximately 20.8 days, 16.1 days, 18.5 days and 25.1 days, respectively.

We cannot assure you that we will not experience any slow movement of inventories, which may result from our reduced revenue due to increase in adverse weather conditions throughout the year, decrease in the level of construction activities, economic downturn, or incorrect estimation of the market demand for our products. As such, if we fail to manage our inventories effectively or are unable to dispose of excess inventories, we may face a risk of inventory obsolescence and/or significant inventory write-downs, which may impose pressure on our operating cash flow, and materially and adversely affect our business, financial condition and results of operation. Please refer to the section headed "Financial information — Discussion on major items of the consolidated statements of financial position — Inventories" of this prospectus for detailed analysis of our inventory levels.

**Any unanticipated or prolonged interruption of our production facilities would materially and adversely affect our business and results of operation**

The manufacturing of ready-mixed concrete and PC components requires the use of machineries and equipment such as conveyors and weighers, mixers, reinforcement cages, pipes, moulds and vibration equipments. Accordingly, our production capacity is limited by the availability of our machineries and equipment to carry out the production process. If there are any unexpected breakdowns of our machineries and equipment during the production process, or any failures or breakdowns of our machineries and equipment due to any inferior or insufficient repair and maintenance works, we may face difficulties in sourcing replacements or repairing the machineries and equipment in time. Our work progress may have to be delayed, whereby we may have to compensate our customers according to the terms of the contract between our customers and us. As a result, our relationships with our customers could be adversely affected due to our failure and we may be subject to contractual claims for compensation from our customers, all of which may materially and adversely affect our business, financial condition and results of operation.

**We are exposed to disruption to the delivery of our products, which could lead to delayed, damaged or lost deliveries and affect our reputation**

We deliver our products to our customers through road transport. There is no guarantee that our products will be delivered smoothly without any obstacles or delay. Delivery disruptions of our products may occur for various reasons beyond our control, including but not limited to transportation bottlenecks, poor road conditions, vehicle failure, traffic accidents and natural disasters. Such risks could lead to delayed, damaged or lost deliveries. If our products are not delivered to our customers on time, or are damaged in the course of delivery, our reputation could be adversely affected. We may also need to make compensation payments to our customers, which in certain circumstances could be of a substantial amount.

**We may face difficulties in employing production workers**

As at the Latest Practicable Date, we had 628 full time employees who were directly employed by our Group. There is no assurance that we will not experience any shortage in production workers for our production or that the costs of employing workers in PRC will not materially increase in the future. If the cost of employing workers materially increase in PRC, our production costs may eventually increase and we may not be able to shift these extra costs to our customers due to competitive pricing pressures from our competitors. If we fail to retain our existing workers and/or recruit sufficient workers in a timely manner, we may not be able to accommodate any increase in demand for our products or smoothly implement our expansion plans. Hence, our business operations and financial condition would be materially and adversely affected.

Besides, during the Track Record Period, our Group outsourced some factory workers for our PC component production lines from seven employment agents, which are Independent Third Parties, to enhance our workforce flexibility, manageability and cost-efficiency during the early development phase of our PC component operation. There is no assurance that we will be able to continue to outsource third party factory workers for our production, and there is no assurance that the outsourced factory workers and service providers will always be able to meet our requirements including quality assurance. In such circumstances, our business, results of operation and reputation may be adversely affected as we may incur additional cost to employ third party service providers and workers, and to ensure such requirements on the outsourced workers and service provider are met.

**We may not be able to implement our quality control systems effectively, which would result in our failure to conform with the requisite standards in relation to our ready-mixed concrete and PC components**

The quality of our ready-mixed concrete and PC components depends on the effectiveness of our quality control measures throughout our production cycle, including product design, raw material examination, production process and product delivery. The effectiveness of such quality control measures depends on multiple factors, including the design of our quality control system, quality control training program and our capability of ensuring that our employees are in compliance with quality control policy and guidelines. Therefore, we cannot guarantee that our quality control policy can be implemented effectively. If defects occur, we may not be able to correct the defects at a reasonable cost and in a timely manner, or at all. Any failure of our Group's quality control measures could result in delay in delivery or replacement of our ready-mixed concrete and PC components.

If defective products or improper installation of our products cause personal injuries, property losses or other losses to the customers, we may be held liable for product liability claims under the PRC laws. In certain jurisdictions, such as the PRC, where strict liability is imposed on product defects, we may incur liability for accidents or incidents involving our products for reasons that we are not responsible or for any claims arising from improper product installation for reasons which we cannot prove irrelevant to us. In addition, we generally do not carry product liability insurance for our products nor third-party liability insurance for personal injuries. Any such claims may result in costly litigations and may adversely affect our results of operations, financial condition and profitability.

**The recent outbreak of the contagious COVID-19 in the PRC and worldwide may have a material adverse effect on our business, results of operation, financial condition and prospects**

Beginning in 2020, the PRC and certain countries around the world encountered an outbreak of COVID-19, a highly contagious disease. Since then, measures including travel restrictions had been imposed in major cities in the PRC in an effort to contain the outbreak of COVID-19. On 30 January 2020, the World Health Organization declared the outbreak of COVID-19 a Public Health Emergency of International Concern (PHEIC). As at the Latest Practicable Date, the virus had spread globally and death toll and number of infected cases continued to rise. The outbreak, which may result in a high number of fatalities, is likely to have an adverse impact on the livelihood of the people in and the economy of the PRC.

Our production was temporarily suspended from late January 2020 to mid February 2020 in accordance with the extension of Chinese New Year holiday and delay in resumption of work announced by the government of the PRC. In mid March 2020, our Group has fully resumed our production. If any of our Group's employees is suspected to have infected with COVID-19, our Group may, under certain circumstances, be required to quarantine such employee and the affected areas within our Group's premises. As a result, our Group may have to temporarily suspend part or all of our operations. For further details of the impact of the outbreak of COVID-19 on our Group, please refer to the section headed "Summary — Recent development" in this prospectus.

If the outbreak of COVID-19 is not contained in the near future, the PRC government may continue to impose restrictions on movements and activities which may result in the temporary suspension of our production and sales in the PRC and/or delay in the delivery of raw materials from our suppliers and our products to our customers in the PRC. There may also be decrease in demand of our products if the construction activities are suspended due to government's restrictions on movement and activities. In addition, if our employees are infected with COVID-19, quarantines or temporary closures of our production plants would be required. In such event(s), there is no assurance that our products would be delivered to our customers in a timely manner. Any delay in delivery of our products would constitute as a breach of the purchase orders or sales contracts (where applicable) which may render us liable for damages. Such delay may also reduce customer's loyalty and confidence. On the other hand, our trade receivables turnover days may increase if there is delay in delivery of our products or if our customers experience cash flow difficulties due to COVID-19 outbreak. Furthermore, in the event of a prolonged outbreak, our expansion plan may be affected by the outbreak of COVID-19. Thus, we may lose our market share, and our business, results of operation, financial condition and prospects could be materially and adversely affected.

**We are subject to environmental protection laws and regulations and may be exposed to potential costs for environmental compliance. Our failure to comply with environment regulations may subject us to penalties**

Our operations are subject to environmental protection laws and regulations relating to, among others, waste water discharge, noise and air pollutants emission, and solid waste disposal. We must obtain approvals, clearances and authorisations from governmental authorities for the treatment and disposal of any discharge. The operation of our production facilities and equipment may also have an impact on the environment. We cannot assure you that our facilities and equipment could continuously satisfy the requirements under applicable environmental protection laws and regulations from time to time. Any violation of these laws and regulations may result in substantial fines, revocations of operating permits, shutdown of our facilities and obligations to take corrective measures.

Moreover, the PRC government may take steps towards the adoption of more stringent environmental protection regulations. Due to the possibility of unanticipated regulatory or other developments, the amount of environment expenditures and time may vary substantially from those originally anticipated. If there is any change in the environmental protection laws and regulations, we may need to incur substantial capital expenditures to comply with environmental protection laws and regulations, including the costs of installing, replacing or upgrading our equipment related to pollution control and noise reduction and the costs of operational changes to limit any adverse impact of our operations on the environment. Any limitations or costs incurred as a result of our non-compliance with environmental protection laws and regulations may have an adverse effect on our business, financial condition and results of operations.

**Our operations require certain permits, licenses, approvals and certificates, and we are subject to periodic inspections, examinations, inquiries, and audits by regulatory authorities. Any revocation, cancelation or non-renewal of which could significantly hinder our business and operations**

We are required to obtain and maintain valid permits, licenses, certificates and approvals from various governmental authorities or institutions under relevant laws and regulations for some of our business. We must comply with the restrictions and conditions imposed by various levels of governmental agencies to maintain our permits, licenses, approvals and certificates. For details, please refer to the section headed "Business — Licenses and permits" in this prospectus. If we fail to comply with any of the regulations or satisfy any of the conditions required for the maintenance of our permits, licenses, approvals and certificates, our permits, licenses, approvals and certificates could be temporarily suspended or even revoked, or the renewal thereof, upon expiry of their original terms, may be delayed or rejected, which could materially and adversely affect our business, financial condition and results of operations.

In order to ensure our compliance with the restrictions and conditions required for maintaining our permits, licenses, approvals and certificates, the PRC governmental authorities at various levels conduct routine or special inspections, examinations, inquiries and audits on us. We may be subject to suspension or revocation of the relevant permits, licenses, approvals or certificates, or fines or other penalties due to any non-compliance identified as a result of such inspections, examinations, inquiries and audits. During the Track Record Period and up to the Latest Practicable Date, we did not experience any revocation or cancelation of our permits, licenses, approvals or certificates. We cannot assure you that we will be able to maintain or renew our existing permits, licenses, approvals and certificates or obtain future permits, licenses, approvals and certificates required for our continued operation on a timely basis or at all. If we fail to comply with applicable laws and regulations or fail to maintain, renew or obtain the necessary permits, licenses, approvals or certificates, our qualification to conduct our various businesses may be adversely affected. As a result, our operation may be disrupted and our business, financial condition and operation results may be materially and adversely affected.

**Our profit margin could be adversely affected if there is any change in the structure of revenue contribution from our product mix**

Our results of operations are affected by our product mix. During the Track Record Period, we supplied two principal product categories, namely ready-mixed concrete and PC components, which were of different gross profit margins. We cannot guarantee that our customer demand and preferences will not fluctuate from time to time. Any change in the structure of revenue contribution from our product mix may adversely impact on our overall gross profit margin.

**We may not be able to obtain adequate financing for the development of our business in the future**

We require working capital for daily operation and capital investment to purchase machineries and equipment for our business growth. During the Track Record Period, we relied on our registered capital and bank borrowings to maintain our cash flow and satisfy the needs of our daily productions.

We cannot guarantee that we will be able to obtain bank loans and/or other equity or debt financing on commercially reasonable terms and/or on a timely basis following Listing. If we are unable to obtain necessary financing or obtain such financing on favourable terms due to various factors beyond our control, we may not have sufficient funds to develop our business and the future prospect and growth potentials of our Group may be adversely affected.

**If government subsidies that we are currently entitled to in relation to our production activities are not available or substantially reduced, our financial condition could be adversely affected**

During the Track Record Period, we recorded government grants of approximately RMB895,000, RMB2,380,000, RMB1,270,000 and RMB2,162,000, respectively, which were recognised as other income and represented approximately 0.2%, 0.5%, 0.2% and 0.4% of our revenue in the respective period. The government subsidies include (i) subsidies received from various local government authorities in Fujian Province in connection with their support to eligible enterprises; (ii) grants received from various local governments including a subsidy for green construction enterprises; (iii) award to enterprise with increased production and efficiency; and (iv) award to enterprises with integrated information technology and industrialisation. Such government grants are mainly non-recurring in nature, discretionary and are subject to certain selection criteria and procedures stipulated by the local governments, which we may not be qualified for in the future.

We cannot assure you that we will be able to receive any such government grants in the future, or at all. If we do not receive government grants in subsequent periods after the Track Record Period, our financial condition for such periods may be adversely affected.

**Our historical results, including segment results of our PC component business operation, may not be indicative of our future revenue and profit margin**

During the Track Record Period, our revenue amounted to approximately RMB399.5 million, RMB511.3 million, RMB590.8 million and RMB602.2 million respectively, and our net profit amounted to approximately RMB12.2 million, RMB27.4 million, RMB41.8 million and RMB43.0 million, respectively. During the Track Record Period, our gross profit amounted to approximately RMB39.7 million, RMB76.5 million, RMB114.4 million and RMB119.0 million, respectively, and our gross profit margin amounted to approximately 9.9%, 15.0%, 19.4% and 19.8%, respectively. We may not be able to sustain our historical gross profit and gross profit margin for various reasons, including but not limited to, our Group's ability to cope with the changing demand and requirements from customers and the cost of raw materials and trading products for production. For detailed analysis of our Group's gross profit and gross profit margin, please refer to the section headed "Financial information — Discussion on major items of the consolidated statements of comprehensive income" of this prospectus.

In particular, our PC component business operation only commenced commercial production in the second half of 2017. We recorded segment loss of approximately RMB12.1 million and RMB5.7 million for each of the two years ended 31 December 2018, respectively, and segment profit of approximately RMB24.5 million for the year ended 31 December 2019 and RMB33.6 million for the ten months ended 31 October 2020, for the PC component business operation. We also recorded negative gross profit margin for our other construction components for the year ended 31 December 2017 and 2018. As at 31 December 2018 and 2019, our accumulated losses were approximately RMB40.5 million and RMB1.3 million, respectively. Such trend of the historical financial information of our Group is only an analysis of our past performance. It does not have any positive implication, nor would it necessarily reflect our financial performance in the future, which will largely depend on our capability to secure new purchase orders, control our costs and expenditures and project implementation. The profit margins and income of our Group's projects may fluctuate from project to project, and the historical revenue from our provision of products to the projects in the past may not be indicative of our future revenue or profitability. Prospective investors should be aware of the risk of our Group's failure to secure future purchase orders when considering our Group's financial results.

**Our backlog and new contract value may not be indicative of our future results of operation**

As at 31 December 2017, 31 December 2018 and 31 December 2019 and 31 October 2020, we had (i) approximately RMB179.5 million, RMB321.4 million, RMB553.1 million and RMB816.1 million in terms of contract value in our backlog, respectively; and (ii) new contract value of approximately RMB176.8 million, RMB427.6 million, RMB708.2 million and RMB851.7 million, respectively.

Backlog is the estimate of the remaining contract value of our products yet to be completed as of a certain date. The contract value represents the amount that we expect to receive based on the estimated demand of products as mutually agreed by us and our customers at the time of entering into the contract, subject to the actual volume of products ordered by our customers and price adjustment based on prevailing market unit price for each of our products specified in the contracts. Backlog is not a measurement defined by generally accepted accounting principles. New contract value represents the aggregate estimated value of contracts that we entered into during a specified period. For further details in relation to our backlog and new contract value, please refer to the sections headed "Business — Backlog" and "Business — New contract value" of this prospectus.

Any modification, termination or suspension of contracts, price adjustment based on the prevailing market price, or change in level of anticipated demand of products by our customers may have a substantial effect on the estimated contract values. Projects may also remain in our backlog for an extended period of time longer than we initially anticipated. We cannot guarantee that the estimated amount in our backlog will be realised in full and in a timely manner, or at all, or that, even if it can be realised, such backlog will turn into profits as expected. As such, our backlog and new contract value as set out in this prospectus only reflects the general volume of our future projects and may not be indicative of our future operating results.

**We may not be able to adequately protect our intellectual property rights, which could reduce our competitiveness**

We rely on a combination of patents, trademark and domain name registrations to establish and protect our intellectual property rights. As at the Latest Practicable Date, (i) we have been granted 62 patents by the National Intellectual Property Administration of the PRC; (ii) we registered five trademarks under the PRC trademark law and one trademark in Hong Kong; and (iii) we have one patent under application for registration. Further, we own other intellectual properties such as non-registered trade secrets, and proprietary technologies, procedures and processes. For details, please refer to the section headed "Business — Intellectual property" and the paragraph headed "Further information about the business of our Company — 8. Intellectual property rights of our Group" in Appendix VI to this prospectus. We cannot guarantee that the measures that we have taken will be sufficient to prevent any misappropriation of our intellectual property rights or that our competitors will not independently develop, or obtain through licensing, alternative technologies that are substantially equivalent or superior to ours. Furthermore, we cannot ensure that all of our registration applications will be successful, or our registered intellectual property rights will not be subject to any objection. In the event that the steps we have taken and the protection afforded by law do not adequately safeguard our intellectual property rights, or we are not able to register or defend our intellectual property rights, or our competitors exploit our intellectual property rights in the manufacturing and sale of competing products in the markets we operate, our business could be materially and adversely affected.

Intellectual property laws in the PRC are still evolving and the level of protection and means of enforcement of intellectual property rights in the PRC differ from those in other jurisdictions. Enforcement of our intellectual property rights could be costly, and we may not be able to immediately detect unauthorised use of our intellectual properties and take the necessary steps to enforce our rights over such properties. In the event that the measures taken by us or the protection afforded by laws do not adequately safeguard our intellectual property rights, we could suffer losses in revenue and profits due to competing sales of products and services that exploit our intellectual property rights.

**Our insurance policies may not be sufficient to cover damage or liabilities from claims and litigation and our insurance premium may increase from time to time**

During the Track Record Period, we maintain insurance to cover damage of our vehicles. We also purchase pension insurance, medical insurance, employment insurance, work injury insurance, maternity insurance and personal injury insurance for our employees. However, we cannot guarantee our insurance policies may be sufficient to cover all potential damage or liabilities from claims and litigation. If we suffer any losses, damages or liabilities in the course of our business operations arising from events for which we do not have any or adequate insurance covers, we may have to bear such losses, damages or liabilities by ourselves. In such case, our business operations and financial results may be adversely affected.

We also cannot guarantee that the insurance premiums payable by us will not increase. During the Track Record Period, our total insurance premiums amounted to approximately RMB2.0 million, RMB2.0 million, RMB1.8 million and RMB1.3 million, respectively. Any further increases in insurance costs (such as an increase in insurance premiums) or reductions in insurance coverage may materially and adversely affect our business operations and financial results.

**Our future plans are subject to uncertainties and risks**

Our growth depends on the implementation of our future plans with respect to our business. We intend to apply the net proceeds from the Share Offer to finance our future plans. Please refer to the sections headed "Business — Business strategies" and "Future plans and use of proceeds" of this prospectus for further information on our future plans. During the Track Record Period, the utilisation rate of our PC Plant was approximately 12.6%, 42.9%, 70.1% and 84.7%, respectively. It is our strategic plan to expand our PC Plant with fully automatic production lines, leasing storage sites for PC components, acquire flatbed trucks and enhance and expand our workforce in order to meet the increasing demand for PC components and increase our market share in the PC component industry. The success of our expansion plan hinges on our ability to capture additional customer demands. However, there is no assurance that we will be able to maintain or establish relationships with our existing or prospective customers or secure new purchase orders to utilise our increased production capacity. There are also other uncertainties and risks, such as delays, cost overrun, shortage of labour and shortage of key materials, which are beyond our control and would increase the costs of implementing our expansion plan. We may even have problems of under-utilisation if demand for our products does not increase at the same rate. In the event that the above-mentioned uncertainties and risks happen or we are unable to achieve a high utilisation of our production capacity as planned, there could be a material adverse effect on our performance and results of operation.

On the other hand, the future capital expenditure of our Group for the purchase of machineries and equipment may result in an increase in our annual depreciation expenses of approximately RMB13.5 million. Our Group currently plans to use approximately by RMB105.2 million of the net proceeds from the Share Offer to establish the new PC component production lines in order to expand our production capacity. For more details, please see the paragraph headed "Business — Business strategies — expansion of production capacity of PC components with greater production automation to achieve better production efficiency" of this prospectus.

Such additional machineries or equipment may increase our depreciation expenses, and may therefore adversely affect our Group's future results of operation and financial performance. Any unexpected requirement for the acquisition of additional machineries or equipment would have a negative impact on the cash level of our Group and the additional depreciation expenses may adversely affect our Group's financial performance in the future. Furthermore, the expansion of production line may also increase our operation costs, including direct labour costs and raw material costs. If our future plans prove to be unsuccessful, our business, results of operation and prospects may be materially and adversely affected.

**We rely on key management personnel**

Our success and growth are attributable to the continued commitment of our senior management team led by our executive Directors, in particular Mr. Ye, our founder, chairman of our Board and executive Director, who has over 13 years of experience in ready-mixed concrete industry, and Mr. Huang, our chief executive officer and executive Director, who has over 15 years of management experience in the construction and construction material industry. For the biographical details of our executive Directors and senior management, please refer to the section headed "Directors and senior management" to this prospectus. We also pride ourselves for our capability to identify, hire and retain suitable and qualified employees, including management personnel with the necessary industry expertise. Notwithstanding our efforts to reward them for their service and contribution to our Group, there is no assurance that our compensation packages and incentive schemes will successfully attract and retain key personnel. Any unanticipated departure of our executive Directors and/or senior management team may have an adverse impact on our business operations and profitability.

**Personal injuries, property damages or fatal accidents may occur at work sites**

We cannot guarantee that our employees will follow our safety measures and/or will not breach any applicable rules, laws or regulations. Any personal injuries and/or fatal accidents to the employees of our Group may lead to claims or other legal proceedings against our Group. As at the Latest Practicable Date, our Group was not subject to any material claims from employees.

**We rely on the development of the construction industry in the PRC**

Our ready-mixed concrete and PC components are mainly used for onward installation at construction sites. According to the Frost & Sullivan Report, the commercial ready-mixed concrete industry is driven by the development of the construction industry. As our customers are mainly main-contractors and sub-contractors of construction projects in both the public and private sectors, which may include construction projects such as residential buildings, educational institutions, industrial parks, rail transit, underground utility tunnels and roads and bridges. If our customers experience underperformance in the PRC construction industry, they could reduce their purchases from our Group, which could have a material and adverse impact on our business, results of operation, financial conditions and prospects.

## RISKS RELATING TO CONDUCTING OUR OPERATIONS IN THE PRC

**Any changes in the political, social and economic conditions in the PRC may adversely affect our business**

Our financial condition and prospects are to a significant degree subject to the political, social and economic conditions of the PRC, as our assets are located in the PRC and all of our revenue is derived from operations that take place in the PRC. Any changes in the political, social and economic conditions of the PRC may adversely affect our business viability. The PRC government has undergone various reforms of its economic systems which have resulted in economic growth for the PRC over the past few decades. However, many of the reforms are unprecedented or experimental, and are expected to be refined and modified from time to time. In addition, the scope, application and interpretation of laws relating to such reform may be uncertain. Political, economic and social factors may lead to further refinement or adjustment of the reform measures. Therefore, we cannot predict whether changes in the economic, political and social conditions in the PRC will lead to continued growth or whether any such growth will be in a geographic region or economic sector beneficial to us. Moreover, even if new policies may benefit our industry in the long term, we cannot assure you that we will be able to successfully adjust to such policies. As our operations and assets are located in the PRC, we depend heavily on general economic conditions in the PRC for our continued growth. Therefore, if the PRC's economic growth slows down or if the PRC economy experiences a recession as a result of any changes in the PRC's political, economic and social conditions, the growth in demand for our products may be reduced or become minimal, and thus may have a material and adverse effect on our future growth and results of operation.

**Acts of God, acts of war, epidemics and other disasters could affect our business**

Our business is subject to the general and social conditions in the PRC. Acts of God such as natural disasters, epidemics, and other disasters which may materially and adversely affect the economy, infrastructure and livelihood of the people of the PRC are beyond our control. Our business, results of operation and financial condition may be materially and adversely affected if these natural disasters occur.

Apart from natural disasters, epidemics may materially and adversely affect people's livelihood and even threaten people's lives. Any outbreak of an epidemic is beyond our control and there is no assurance that epidemics like severe acute respiratory syndrome, avian flu, the human swine flu or the recent COVID-19 will not happen again. In the event of an occurrence of epidemic in the PRC, our business, results of operation and financial condition may be materially and adversely affected.

Acts of war and terrorist attacks may cause damage or disruption to us, our employees, facilities, markets, suppliers and customers, any of which may materially and adversely affect our revenue, cost of sales, results of operations, financial condition or Share price. Potential war or terrorist attacks may also cause uncertainty and cause our business to suffer in ways that we cannot currently predict.

**There are uncertainties associated with the implementation, interpretation and enforcement of the PRC legal system**

Our business and operations in the PRC are governed by PRC law. The PRC is a civil law jurisdiction based on written codes and statutes. Unlike common law jurisdictions, in the PRC, prior court decisions may be cited as persuasive authority but do not have binding legal force. Since 1979, the PRC government has promulgated laws and regulations in relation to economic matters in general such as foreign investment, corporate organisation and governance, commerce, taxation and trade in order to establish a comprehensive legal system conducive to investment. However, the implementation, interpretation and enforcement of these statutes may involve greater uncertainty compared to those in the common law jurisdictions due to a relatively short legislative history and the limited number and non-binding nature of court cases. Depending on the government agency and court or how an application or a case is presented to such agency or court, we may be subject to less favourable interpretations of the law than those imposed on our competitors. In addition, litigation in the PRC may be protracted and result in substantial legal costs and the diversion of our resources and the attention of our management. Similarly, legal uncertainty in the PRC may limit the legal protections available to potential investors. We cannot predict the effects of future legal developments in the PRC, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national law. As a result, there is substantial uncertainty as to the legal protection available to potential investors.

**Our revenue is denominated in Renminbi, which is not freely convertible for capital account transactions and may be subject to exchange rate volatility**

We require access to foreign currency to pay dividends to our Shareholders. However, most of our revenue is denominated in Renminbi, which currently is not a freely convertible currency. Under the PRC foreign exchange rules and regulations, payments of current account items, including profit distributions, interest payments and expenditures related to business operations, are permitted to be made in foreign currencies without prior government approval but are subject to certain procedural requirements. Strict foreign exchange controls continue to apply to capital account transactions. Capital account transactions must be approved by or registered with SAFE or banks. Repayments of loan principal, direct capital investment and investments in negotiable instruments are also subject to restrictions. As a result of these controls, we cannot assure you that we will be able to meet all of our foreign currency obligations or to remit profits to our Shareholders in the form of dividends.

The value of Renminbi depends to a large extent on the PRC's domestic and international economic, financial and political conditions and government policies, as well as the local and international currency markets. In light of the flood of capital outflows of China in 2016 due to the weakening of RMB, the PRC government has imposed more restrictive foreign exchange policies and stepped up scrutiny of major outbound capital movement. More restrictions and substantial vetting process are put in place by SAFE to regulate cross-border transactions falling under the capital account. The PRC government may at its discretion further restrict access to foreign currencies in the future for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders.

Any change in PRC foreign exchange policies may give rise to uncertainties in our financial condition and results of operation. We currently do not, nor do we intend to, hedge our exposure to the US dollar or other currencies. Since most of our income and profits are denominated in Renminbi, any appreciation in Renminbi may subject us to increased competition from imports while a devaluation of Renminbi may adversely affect the value of our net assets, earnings and declared dividend in foreign currency terms, as well as our ability to meet our foreign currency obligations.

**There may be difficulties in effecting service of process upon us and in seeking recognition and enforcement of foreign judgments or arbitral awards in the PRC**

Our operations and assets are primarily located in the PRC. On 14 July 2006, Hong Kong and the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned

(關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排) (the "**Arrangement**"), pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil commercial case according to a written choice of court agreement may apply for the recognition and enforcement of such judgment in the PRC. Similarly, a party with a final judgment rendered by a PRC court requiring the payment of money in a civil commercial case pursuant to a written choice of court agreement may apply for the recognition and enforcement of such judgment in Hong Kong. A written choice of court agreement is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong or PRC court is expressly designated as the court having sole jurisdiction for the dispute. It may be difficult or impossible for investors to effect service of process against us or our assets in the PRC in order to seek the recognition and enforcement of foreign judgments in the PRC, if the parties in dispute do not agree to such a choice of court agreement in accordance with the requirements set forth in the Arrangement.

On 18 January 2019, the Supreme People's Court of the PRC and Department of Justice of Hong Kong signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region (《關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排》) (the "**2019 Arrangement**"). The 2019 Arrangement sets out the scope, applicable rulings, procedures and manners to apply for recognition and enforcement examination on jurisdiction of the original court, conditions to refuse to recognise and enforce, and remedies of reciprocal recognition and enforcement of judgments in civil and commercial matters. Following the promulgation of a judicial interpretation of the Supreme People's Court and completion of the relevant procedures in Hong Kong, both sides shall announce a date on which the 2019 Arrangement shall become effective. The 2019 Arrangement shall apply to judgments made by a PRC or Hong Kong court on or after the effective date. When the 2019 Arrangement becomes effective, the Arrangement shall be terminated. However, the Arrangement remains applicable to a choice of court agreement in writing within the meaning of the Arrangement and signed before the effective date of the 2019 Arrangement. Even though the 2019 Arrangement has been signed, it remains unclear when such agreement will come into effect and effectiveness and outcome of any action brought under the 2019 Arrangement may still be uncertain.

The PRC has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of the United States, the United Kingdom, or most other western countries, or Japan. Therefore, it may not be possible for investors to effect service of process on us in the PRC or to enforce any judgment awarded by non-PRC courts in the PRC.

The PRC is one of the signatories to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**"), which allows for the enforcement of arbitral awards given by the arbitration bodies of other New York Convention signatories. Following the resumption of sovereignty over Hong Kong by the PRC on 1 July 1997, the New York Convention is no longer applicable for the enforcement of arbitral awards of Hong Kong in other parts of the PRC. As a result, a memorandum of understanding was signed on 21 June 1999 to permit the reciprocal enforcement of arbitral awards between Hong Kong and the PRC (the

"**Memorandum of Understanding**"). This Memorandum of Understanding was approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council and became effective on 1 February 2000. It may be difficult to seek recognition and enforcement of arbitral awards in the PRC if the arbitral awards were given by arbitration bodies that are not signatories to the New York Convention or do not have similar arrangements to the Memorandum of Understanding between Hong Kong and the PRC.

**Dividends from our PRC subsidiaries paid to Zhixin HK and Pakhim Chen HK, being our Hong Kong subsidiaries, might not qualify for the reduced PRC withholding tax rate under the special arrangement between Hong Kong and the PRC**

Under the EIT Law, if the foreign shareholder is not deemed a PRC tax resident enterprise under the EIT Law, dividend payments from PRC subsidiary to their foreign shareholders are subject to a withholding tax at the rate of 10%, unless the jurisdiction of such foreign shareholders has a tax treaty or similar arrangement with the PRC and the foreign shareholder obtains approval from competent local tax authorities for application of such tax treaty or similar arrangement. Pursuant to a special arrangement between Hong Kong and the PRC, the withholding tax rate is lowered to 5% if a Hong Kong resident enterprise is the beneficial owner of more than 25% of a PRC company distributing the dividends at all times within the 12-month period immediately prior to distribution of the dividends. According to the Announcement on the Administrative Measures for Nonresident Taxpayers to Enjoy the Treatment Under Tax Treaties (關於發布《非居民納稅人享受協定待遇管理辦法》的公告) ("**2020 Administration Measures**"), which was promulgated by the State Administration of Taxation on 14 October 2019 and became effective on 1 January 2020, prior approval from or filings with the State Administration of Taxation is no longer required before a non-resident taxpayer can enjoy the tax preferential treatment under the relevant treaties. A non-resident taxpayer may enjoy the tax preferential treatment at the time of return filings or withholding and declaration through a withholding agent if it is eligible for the tax preferential treatment under the relevant provisions of a tax treaty, simultaneously compiles and retains the relevant materials pursuant to the provisions of the 2020 Administration Measures for future inspection, subject to the follow-up administration by the relevant tax authority. In order to enjoy the tax preferential treatment, the non-tax resident shall file documents with tax authority when filing tax returns or withholding and declaration through a withholding agent, compiles and retains the relevant materials for future inspection pursuant to the 2020 Administration Measures among which is the tax resident identity issued by the tax authority of the counter party to the treaty. During the follow-up administration, the PRC tax authorities shall verify if the nonresident taxpayer is eligible for the tax preferential treatment, ask for supplemental documents from the non-tax resident or, if the non-resident taxpayer is deemed not eligible for the tax preferential treatment, the competent tax authorities shall recover the tax pursuant to the law and pursue the non-resident taxpayer's liability for deferred tax payment. Moreover, according to the Notice of the State Administration of Taxation on the Issues Concerning the Application of the Dividend Clauses of Tax Agreements (國家稅務總局關於執行稅收協定股息條款有關問題的通知) issued by the State Administration of Taxation on 20 February 2009, if the main purpose of an offshore arrangement is to obtain preferential tax treatment, the PRC tax authorities have the discretion to adjust the preferential tax rate for which an offshore entity would otherwise be eligible. There is no assurance that the PRC tax authorities will recognise and accept the 5% withholding tax rate on dividends paid by our PRC subsidiaries and received by Zhixin HK and Pakhim Chen HK.

**We may be deemed a PRC resident enterprise under the EIT Law and be subject to PRC taxation on our global income. The PRC resident enterprise classification could also result in unfavourable tax consequences to our non-PRC resident enterprise shareholders**

Under the EIT Law and its implementing rules, both of which became effective from 1 January 2008, an enterprise established outside of the PRC with "de facto management bodies" situated within the PRC could be considered a PRC resident enterprise and will be subject to the enterprise income tax at the rate of 25% on its global income with any relevant foreign tax paid available to be claimed as a foreign tax credit. The implementing rules of the EIT Law define the term "de facto management bodies" as "establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise". The State Administration of Taxation issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies ("**Guo Shui Fa [2009] No. 82**", or "**Circular 82**") (關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知，國稅發[2009]82號), on 22 April 2009, which was newly amended on 29 December 2017. Circular 82 provides certain specific criteria for determining whether the "de facto management body" of a Chinese-controlled offshore-incorporated enterprise is located in China. Although Circular 82 only applies to offshore enterprises controlled by PRC enterprises, not those controlled by PRC individuals or foreigners, like our Company, the determining criteria set forth in Circular 82 may reflect the State Administration of Taxation's general position on how the "de facto management body" test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises or individuals. If the PRC authorities were to subsequently determine that we should be so treated and if we derive any global income in future, a 25% enterprise income tax on our global income could significantly increase our tax burden and materially and adversely affect our cash flow and profitability. Further, if we are regarded as a PRC resident enterprise, dividends that we receive from the subsidiary which are considered as PRC resident enterprises would be exempt from EIT and no withholding tax would be applied either. However, as there is still uncertainty as to how the EIT Law and its implementation rules will be interpreted and implemented, we cannot assure you that our income may not be subject to the EIT Law and that we are eligible for such PRC enterprise income tax exemptions or reductions.

In addition, because there remains uncertainty regarding the interpretation and implementation of the EIT Law and its implementing rules, it is uncertain whether, if we are regarded as a PRC resident enterprise, dividends we pay with respect to our Shares, or the gain you may realise from the transfer of our Shares, would be treated as income derived from sources within the PRC and be subject to a 10% withholding income tax, unless any such foreign corporate shareholder is qualified for a preferential withholding rate under a tax treaty. For further details, please refer to the sub-paragraph headed "Enterprise income tax" under the paragraph headed "Taxation" under the section headed "Regulatory overview" in this prospectus. If we are required under the EIT Law to withhold PRC income tax on our dividends payable to our non-PRC corporate shareholders, or if you are required to pay PRC income tax on the transfer of our Shares, your investment in our Shares may be materially and adversely affected.

**PRC regulations on loans to and direct investment by offshore holding companies in PRC entities may delay or prevent us from using the proceeds of this offering to make loans or additional capital contributions to our PRC subsidiaries**

As an offshore holding company of our PRC subsidiaries, we may make loans to our PRC subsidiaries, or we may make additional capital contributions to our PRC subsidiaries. Any loans to our PRC subsidiaries are subject to PRC regulations and foreign exchange loan registrations. For example, loans by us to our PRC subsidiaries to finance their activities cannot exceed statutory limits and must be registered with the SAFE or their respective local counterpart. We may also determine to finance our PRC subsidiaries by means of capital contributions. We cannot assure you that we can obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to finance our PRC subsidiaries. If we fail to receive relevant registrations or approvals, our ability to use the proceeds of this offering and to capitalise our PRC operations would be negatively affected which would adversely and materially affect our liquidity and our ability to expand our business.

**We face uncertainty with respect to PRC tax obligations in connection with indirect transfer of equity interests in our PRC resident enterprises through their non-PRC holding companies**

On 3 February 2015, the SAT issued a new circular on the PRC enterprise income tax treatment of an indirect transfer of assets by a non-resident enterprise (國家稅務總局關於非居民企業間接轉讓財產企業所得稅若干問題的公告) (the "**Circular No. 7**"), which was newly amended on 29 December 2017. Circular No. 7 stipulates that if a non-resident enterprise indirectly transfers its equity interest in the PRC resident enterprises and other properties by implementing arrangements such as transfer of shares in an overseas enterprise, without reasonable commercial purposes but to evade the enterprise income tax, the nature of this indirect transfer shall be re-defined and recognised as a direct transfer of equity interest in a PRC resident enterprise and other properties.

Theoretically, the relevant provisions in Circular No. 7 are not applicable to transfers of our Shares by Shareholders who are individuals or PRC resident enterprises, and these Shareholders, as transferors of our Shares, will in no circumstances be subject to PRC tax reporting obligations or tax liabilities as provided under Circular No. 7. However, it is not clear how the PRC tax authorities will interpret the Circular No. 7 in the case that individuals or PRC resident enterprises transfer our Shares. Transferring shareholders may become subject to PRC tax reporting obligations or tax liabilities under Circular No. 7 if (i) the transferring shareholders are non-resident enterprises; and (ii) the transfer of our Shares by such Shareholders is determined as not having any reasonable commercial purpose by competent tax authorities.

Circular No. 7 specifies a number of factors and conditions that shall be considered in determining whether an indirect transfer of the (i) properties of an establishment or place in the PRC, (ii) real estate in the PRC or (iii) equity investment in a PRC resident enterprise and other properties directly held by such non-resident enterprise and for which the proceeds from the transfer of such properties shall be subject to EIT as specified by the PRC tax laws (collectively the "**PRC Taxable Properties**") has a reasonable commercial purpose. It also specifies circumstances under which an indirect transfer shall be directly deemed as having no reasonable commercial purpose. The determination shall be made on a case-by-case basis based on specific circumstances.

Provisions of Circular No. 7 imposing PRC tax liabilities and reporting obligations do not apply to "non-resident enterprise acquiring and disposing of the equity interests of the same offshore listed company in a public market".

Since Circular No. 7 has only become effective since 3 February 2015 and no implementing rules have been released yet, it is not clear that how the relevant taxation authorities would interpret and define each factor and then determine whether the transfer of our Shares by Shareholders may have a reasonable commercial purpose or not. In addition, Circular No. 7 does not address detailed follow-up procedures if the indirect transfer of the PRC Taxable Properties is determined as not having any reasonable commercial purpose. As stated in the section headed "Information about this prospectus and the Share Offer" of this prospectus, potential investors are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding and dealing in the Offer Shares.

If any future transfer of our Shares constitutes an indirect transfer of the PRC Taxable Properties and is subject to the EIT obligation under Circular No. 7, the amount of the EIT shall be calculated based on the "income from the transfer" and applicable tax rate. In respect of tax rate, a withholding tax rate of 10% shall be applicable, unless otherwise provided in the relevant tax treaty.

**PRC laws and regulations establish more complex procedures for some acquisitions of PRC companies by foreign investors, which could make it difficult for us to pursue growth through acquisitions in China**

A number of PRC laws and regulations, including the Rules on the Acquisition of Domestic Enterprises by Foreign Investors (2006 Revision) (關於外國投資者併購境內企業的規定), the Anti-Monopoly Law (反壟斷法), and the Rules of Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (商務部實施外國投資者併購境內企業安全審查制度的規定) promulgated by MOFCOM on 25 August 2011 and effective from 1 September 2011 (the "**Security Review Rules**"), have established procedures and requirements that are expected to make the review of certain merger and acquisition activities by foreign investors in China more time consuming and complex. These include requirements in some instances to notify MOFCOM in advance of any transaction in which foreign investors take control of a PRC domestic enterprise, or to obtain approval from MOFCOM before overseas companies established or controlled by PRC enterprises or residents acquire affiliated domestic companies. PRC laws and regulations also require certain merger and acquisition transactions to be subject to merger control or security review.

The Security Review Rules were formulated to implement the Notice of the General Office of the State Council on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (國務院辦公廳關於建立外國投資者併購境內企業安全審查制度的通知), which was promulgated in 2011. Under these rules, a security review is required for mergers and acquisitions of domestic enterprises by foreign investors involved in the military industry, enterprises located near key and sensitive military facilities and other units related to national defence and security or by which foreign investors may acquire "de facto control" of domestic enterprises that implicate "national defence and security" or "national security" concerns. For example, these may be enterprises involved in key agricultural products, key energy and resources, vital infrastructure, important transportation services, core technologies and significant equipment manufacturing. In addition, when deciding whether a specific merger or acquisition is subject to the security review, MOFCOM will look into the substance and actual impact of the transaction.

The Security Review Rules further prohibit foreign investors from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions. It is unclear whether our business would be deemed to be in an industry that raises "national defence and security" or "national security" concerns. As there is a lack of clear statutory interpretation on the implementation of the Security Review Rules, if the business of any target company we plan to acquire falls into the ambit of security review, we may not be able to successfully acquire such company either by equity or asset acquisition, capital contribution or any contractual arrangement. We may grow our business in part by acquiring other companies operating in our industry. Complying with the requirements of the relevant regulations to complete such transactions could be time consuming, and any required approval processes, including approval from MOFCOM, may delay or inhibit our ability to complete such transactions, thus affecting our ability to expand our business or maintain our market share.

**Fluctuations in the exchange rate of Renminbi against other currencies could have a material and adverse effect on our financial conditions and results of operation**

Most transactions of our Group were settled in RMB, except for certain transactions which are settled in foreign currencies. Fluctuation in exchange rates may affect the level of our profitability or result in foreign exchange losses on our foreign currency-denominated assets and liabilities.

## RISKS RELATING TO THE SHARE OFFER

**There has been no prior public market for our Shares, their market price may be volatile and an active trading market in our Shares may not develop**

Prior to Listing, there is no public market for our Shares. The listing of, and the permission to deal with, our Shares on the Stock Exchange do not guarantee the development of an active public market or the sustainability thereof following completion of the Share Offer. Factors such as variations in our Group's revenue, earnings and cash flows, strategic acquisitions made by our Group or its competitors, loss of key personnel, litigation, fluctuations in the market prices for our products in the PRC, the liquidity of the market for our Shares, the general market sentiment regarding the concrete-based building material industries could cause the market price and trading volume of our Shares to change substantially. In addition, both the market price and liquidity of our Shares could be adversely affected by factors beyond our Group's control and unrelated to the performance of our Group's business, especially if the financial market in Hong Kong experiences a significant price and volume fluctuation. In such cases, investors may not be able to sell their Shares at or above the Offer Price.

**Future sales, or market perception of sales, of substantial amounts of our Shares in the public market, including any future offerings, could have a material adverse effect on the market price of our Shares and make it difficult for you to recover the full value of your investment**

The market price of our Shares could decline as a result of future sales of substantial amount of our Shares or other securities relating to our Shares in the public market, or the issuance of new Shares or other securities relating to our Shares, or the perception that such sales or issuance may occur. Future sales, or perceived sales, of substantial amount of our Shares could materially and adversely affect the market prices of our Shares and may also materially and adversely affect our ability to raise capital in the future. In addition, our Shareholders would experience dilution in their holdings upon our issuance or sale of additional securities in future offerings.

**Investors for our Shares may experience dilution if we issue additional Shares in the future**

If we issue additional Shares in the future, investors of our Shares in the Share Offer may experience further dilution in their ownership percentage. We may need to raise additional funds in the future to finance expansion of or new developments relating to our existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro-rata basis to the existing Shareholders, the percentage ownership of such Shareholders in our Company may be reduced or such new securities may confer rights and privileges that take priority over those conferred by our Offer Shares.

**You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles or disseminated through other media relating to us and/or the Share Offer, certain of which may not be consistent with the information contained in this prospectus**

Prior to the publication of this prospectus, there may be press and media coverage regarding us and/or the Share Offer including certain financial information, financial projections and other information about us that do not appear in this prospectus, the disclosure of which was not authorised by us (the "**Unauthorised Information**"). We wish to emphasise to potential investors that we do not accept any responsibility for any such Unauthorised Information. The Unauthorised Information was not sourced from or approved by us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the Unauthorised Information. To the extent that any of the Unauthorised Information is inconsistent with, or is in conflict with, the information contained in this prospectus, we disclaim it. Accordingly, prospective investors are cautioned to make their investment decisions based solely on the information contained in this prospectus and should not rely on any of the Unauthorised Information.

## RISKS RELATING TO STATEMENTS IN THIS PROSPECTUS

**We cannot guarantee the accuracy of facts and other statistics with respect to certain information obtained from research reports and supplied by other parties contained in this prospectus**

Certain facts and statistics cited in this prospectus are based on various official government and non-official publications, including the industry report. We cannot guarantee the quality or reliability of such facts and statistics. Such information has not been independently verified by us and may be inconsistent, inaccurate, incomplete or out-of-date. None of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective affiliates or any of our or their respective directors, officers, employees, representatives, agents or advisers or any other person or party involved in the Share Offer makes any representation as to the accuracy or completeness of such facts and statistics. Such facts and statistics may not be consistent with other information compiled within or outside the PRC. Furthermore, the facts and statistics may be incomparable to statistics on the economies of other nations and there can be no assurance that the statistics are stated or compiled on the same basis or with the same degree of accuracy as compared to those stated or compiled by other nations. Accordingly, such facts and statistics should not be unduly relied upon.

In preparation for the Listing, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

## MANAGEMENT PRESENCE

An application has been submitted to the Stock Exchange for a waiver from strict compliance with Rule 8.12 of the Listing Rules which requires a new applicant applying for primary listing on the Main Board to have sufficient management presence in Hong Kong. This normally means that at least two of the issuer's executive directors must be ordinarily resident in Hong Kong. Since the principal business operation of our Group is located in the PRC, our executive Directors and senior management team are and will continue to be based in the PRC. At present, all of the executive Directors are not ordinarily resident in Hong Kong. Our Directors consider that it would be practically difficult and not commercially feasible for our Company to appoint one or more Hong Kong resident as executive Director or to relocate any of the existing executive Directors to Hong Kong merely for the purpose of complying with Rule 8.12 of the Listing Rules. Accordingly, we do not and, in the foreseeable future, will not have a sufficient management presence in Hong Kong for the purposes of satisfying the requirement under Rule 8.12 of the Listing Rules.

In this regard, the Stock Exchange has granted a waiver to our Company from strict compliance with the requirement under Rule 8.12 of the Listing Rules on the basis that our Company will have proper arrangements in place to maintain regular communication with the Stock Exchange, which are in line with the conditions set out in the Guidance Letter HKEx-GL9-09 issued by the Stock Exchange in October 2009 and updated in July 2010 and June 2016. In this respect, our Company has appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules, namely, Mr. Ye Zhijie, an executive Director, and Mr. Yuen Chi Wai, one of our joint company secretaries, who will act as our principal channel of communication with the Stock Exchange. Each of the authorised representatives of our Company has confirmed that each of them will be available to meet with the Stock Exchange in Hong Kong within a reasonable period of time upon request of the Stock Exchange and will be readily contactable by telephone, facsimile and e-mail and that each of them has the means to contact all Directors promptly at all times as and when the Stock Exchange wishes to contact our Directors on any matters. Each of them is authorised to communicate on behalf of our Company with the Stock Exchange.

Each Director who is not ordinarily resident in Hong Kong has confirmed that he possesses valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange in Hong Kong within a reasonable period of time when required. Each Director has provided his/her mobile phone number, office phone number, email address and fax number to the authorised representatives and the Stock Exchange.

In addition, our Company has appointed Kingsway Capital Limited as compliance adviser pursuant to Rule 3A.19 of the Listing Rules for the period commencing on the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of our Company's financial results for the first full financial year after the Listing Date. The compliance adviser will act as an additional channel of communication with the Stock Exchange.

Furthermore, our Company will also appoint other professional advisers (including legal advisers and accountants) after Listing to assist our Company in dealing with any questions which may be raised by the Stock Exchange and to ensure that there will be efficient communication with the Stock Exchange.

## JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, we must appoint as our company secretary an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary. The Stock Exchange considers (i) a member of The Hong Kong Institute of Chartered Secretaries; (ii) a solicitor or barrister (as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong)); and (iii) a certified public accountant (as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong)) to be acceptable academic or professional qualifications. In assessing "relevant experience", the Stock Exchange will consider the individual's (i) length of employment with the issuer and other issuers and the roles he played; (ii) familiarity with the Listing Rules and other relevant law and regulations including the SFO, the Companies Ordinance, the Companies (WUMP) Ordinance and the Takeovers Code; (iii) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and (iv) professional qualifications in other jurisdictions.

We have appointed Mr. Zhong Dezhu ("**Mr. Zhong**") as one of our joint company secretaries. Mr. Zhong joined our Group in 2013 as the financial manager of our Group and is responsible for our Group's financial accounting and audit, and corporate secretarial matters. However, Mr. Zhong does not possess any of the qualifications as stipulated in Rule 3.28 of the Listing Rules. Therefore, we have appointed Mr. Yuen Chi Wai ("**Mr. Yuen**"), *FCPA*, who meets the requirements under Rules 3.28 and 8.17 of the Listing Rules, as our joint company secretary to provide assistance to Mr. Zhong for an initial period of three years commencing from the Listing Date so as to fully comply with the requirements set forth under Rules 3.28 and 8.17 of the Listing Rules. Please refer to the section headed "Directors and senior management" in this prospectus for further information about the biography of Mr. Zhong and Mr. Yuen.

Our principal business activities are primarily in the PRC and Mr. Zhong has joined our Group since December 2013 as financial manager. Our Directors are of the view that Mr. Zhong possesses the relevant industry knowledge as well as experience in communicating with the management of our Group, and has built close working relationship with our Board and the management of our Group over the years. Therefore, our Directors believe that Mr. Zhong is suitable to act as our joint company secretary and is able to perform the function of a company secretary and to take the necessary actions in an effective and efficient manner.

Mr. Yuen will work closely with Mr. Zhong to jointly discharge the duties and responsibilities as company secretary and assist Mr. Zhong to acquire the relevant experience as required under Rule 3.28 of the Listing Rules. In addition, Mr. Zhong will endeavour to attend relevant training and familiarise himself with the Listing Rules and duties required for a company secretary of an overseas issuer listed on the Stock Exchange, including briefing on the latest changes to the applicable Hong Kong laws and regulations and the Listing Rules organised by our Company's Hong Kong legal advisers on an invitation basis and seminars organised by the Stock Exchange for overseas issuers from time to time.

Mr. Yuen, who will familiarise himself with the affairs of our Company, will communicate regularly with Mr. Zhong on matters relating to corporate governance, the Listing Rules as well as other laws and regulations which are relevant to our Company and its other affairs. Mr. Yuen will work closely with, and provide assistance to, Mr. Zhong in the discharge of his duties as company secretary. Mr. Zhong will also be assisted by the compliance adviser and the Hong Kong legal advisers of our Company, particularly in relation to Hong Kong corporate governance practices and regulatory compliance, on matters concerning our Company's ongoing compliance obligations under the Listing Rules and the applicable laws and regulations.

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver under and in respect of Rules 3.28 and 8.17 of the Listing Rules on certain conditions, among others:

(a) Mr. Zhong and Mr. Yuen are appointed as joint company secretaries of our Company, and Mr. Zhong must be assisted by Mr. Yuen, who possesses the qualifications or experience as required under Rule 3.28 of the Listing Rules throughout the period of three years commencing from the Listing Date (the "**Waiver Period**"); and

(b) the waiver can be revoked during the Waiver Period if Mr. Yuen ceases to provide assistance to Mr. Zhong or if there are material breaches of the Listing Rules by the Company.

Upon the expiry of the initial three-year period, the qualifications of Mr. Zhong will be re-evaluated to determine whether the requirements as stipulated in Rules 3.28 of the Listing Rules can be satisfied. In the event that Mr. Zhong, having had the benefit of the assistance from Mr. Yuen for three years and that Mr. Zhong has obtained relevant experience under Rules 3.28 of the Listing Rules at the end of the said initial three-year period, the above joint company secretaries arrangement would no longer be necessary.

## WAIVER FROM STRICT COMPLIANCE WITH RULE 4.04(1) OF THE LISTING RULES AND EXEMPTION FROM STRICT COMPLIANCE WITH SECTION 342(1) OF THE COMPANIES (WUMP) ORDINANCE IN RELATION TO PARAGRAPH 27 OF PART I AND PARAGRAPH 31 OF PART II OF THE THIRD SCHEDULE TO THE COMPANIES (WUMP) ORDINANCE

Rule 4.04(1) of the Listing Rules provides that the Accountant's Report contained in this prospectus must include, among others, the consolidated results of our Company and its subsidiaries in respect of each of the three financial years immediately preceding the issue of this prospectus, or such shorter period as may be acceptable to the Stock Exchange.

Section 342(1)(b) of the Companies (WUMP) Ordinance requires all prospectuses to include an accountant's report which contains the matters specified in the Third Schedule to the Companies (WUMP) Ordinance.

According to paragraph 27 of Part I of the Third Schedule to the Companies (WUMP) Ordinance, we are required to include in this prospectus a statement as to, among others, the gross trading income or sales turnover (as may be appropriate) of our Company for each of the three financial years immediately preceding the issue of this prospectus, including an explanation of the method used for the computation of such income or turnover, and a reasonable breakdown of the more important trading activities.

According to paragraph 31 of Part II of the Third Schedule to the Companies (WUMP) Ordinance, we are required to include in this prospectus a report by our auditors, with respect to, among others, the profits and losses of our Company for each of the three financial years immediately preceding the issue of this prospectus and assets and liabilities as at the date to which our financial statements were prepared.

Section 342A(1) of the Companies (WUMP) Ordinance provides that the SFC may issue, subject to such conditions (if any) as the SFC thinks fit, a certificate of exemption from compliance with the relevant requirements under the Companies (WUMP) Ordinance if, having regard to the circumstances, the SFC considers that the exemption will not prejudice the interests of the investing public and compliance with any or all of such requirements would be irrelevant or unduly burdensome, or is otherwise unnecessary or inappropriate.

The Accountant's Report for each of the three years ended 31 December 2017, 2018, 2019 and the ten months ended 31 October 2020 has been prepared and is set out in the Appendix I to this prospectus.

Pursuant to the relevant requirements set forth above, we are required to produce audited accounts for the three years ended 31 December 2020. However, an application was made to the Stock Exchange for a waiver from strict compliance with Rule 4.04(1) of the Listing Rules, and such waiver was granted by the Stock Exchange on the conditions that:

(i) this Prospectus must be issued on or before 16 March 2021 and our Company shall be listed on the Stock Exchange by 26 March 2021 (i.e. within three months after the end of our Company's latest financial year immediately preceding the issue of this prospectus);

(ii) our Company obtaining a certificate of exemption from the SFC on strict compliance with section 342(1)(b) in relation to paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (WUMP) Ordinance;

(iii) this prospectus must include the preliminary unaudited financial information for the financial year ended 31 December 2020 and a commentary on the results for the year. Such financial information to be included in this prospectus must (a) be prepared in compliance with the content requirements as for preliminary results announcements under Rule 13.49 of the Listing Rules; and (b) be agreed with the reporting accountant of our Company (the "**Reporting Accountant**") following their review under Practice Note 730 "Guidance for Auditors Regarding Preliminary Announcements of Annual Results" issued by the Hong Kong Institute of Certified Public Accountants; and

(iv) our Company will not be in breach of its constitutional documents or laws and regulations of the Cayman Islands or other regulatory requirements regarding its obligation to publish preliminary results announcements.

The application has also been made to the SFC for a certificate of exemption from strict compliance with the requirements under section 342(1) in relation to paragraphs 27 of Part I and 31 of Part II of the Third Schedule to the Companies (WUMP) Ordinance and a certificate of exemption has been granted by the SFC under section 342A of the Companies (WUMP) Ordinance on the conditions that:

(i) the particulars of the exemption be set forth in this prospectus;

(ii) this prospectus be issued on or before 16 March 2021; and

(iii) our Shares be listed on the Stock Exchange on or before 31 March 2021.

The applications to the Stock Exchange for a waiver from strict compliance with Rule 4.04(1) of the Listing Rules and to the SFC for a certificate of exemption from strict compliance with the requirements under section 342(1) in relation to paragraphs 27 of Part I and 31 of Part II of the Third Schedule to the Companies (WUMP) Ordinance were made on the grounds that strict compliance with the above requirements would be unduly burdensome and the exemption would not prejudice the interests of the investing public given the followings:

1. it was expected that this prospectus would be issued on 16 March 2021. There would not be sufficient time for our Company and the Reporting Accountant to finalise the audited financial statements for the year ended 31 December 2020 for inclusion in this prospectus. If the financial information for the year ended 31 December 2020 is required to be audited, our Company and the Reporting Accountant would have to carry out substantial volume of work to prepare, update and finalise the Accountant's Report and this prospectus, and the relevant sections of this prospectus will need to be updated to cover such additional period. This would involve additional time and costs since substantial work is required to be carried out for audit purposes. It would be unduly burdensome for the audited results for the year ended 31 December 2020 to be finalised in a short period of time. Our Directors consider that the benefits of such work to the existing and prospective shareholders of our Company may not justify the additional

work and expenses involved and the delay of the timetable for Listing, given that there has been no significant change in the financial position and operations of our Group since 31 October 2020; and

2. our Directors confirm that all information necessary for the public to make an informed assessment of our Group's activities, assets and liabilities, financial position, management and prospects has been included in this prospectus and that, as such, the waiver to be granted by the Stock Exchange and the exemption granted by the SFC from strict compliance with Rule 4.04(1) of the Listing Rules and the requirements under section 342(1) of the Companies (WUMP) Ordinance in respect of section 342(1)(b) in relation to paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (WUMP) Ordinance, respectively, will not prejudice the interests of the investing public. Our Directors and the Sole Sponsor confirm that they have performed sufficient due diligence work on our Group to ensure that, other than the listing expenses, there has been no material adverse change in our Group's business, assets and liabilities, financial position, trading position, management and prospects since 1 November 2020 (immediately following the date of the latest audited statement of financial position in the Accountant's Report set out in Appendix I to this prospectus) and up to the date of this prospectus, there has been no event since 1 November 2020 which would materially affect the information shown in the Accountant's Report as set out in Appendix I to this prospectus, the unaudited financial information of our Group for the year ended 31 December 2020 as set out in Appendix III to this prospectus and in the section headed "Financial Information" of this prospectus and other parts of this prospectus.

Our Company will comply with the requirements under Rules 13.46(2) of the Listing Rules in respect of the publication of its annual report. Our Company currently expects to issue its annual report for the financial year ended 31 December 2020 on or before 30 April 2021. In this regard, our Directors consider that the shareholders of our Company, the investing public as well as potential investors of our Company will be kept informed of the financial results of our Group for the financial year ended 31 December 2020.

Furthermore, our Directors confirm that they do not contemplate any material change to the share capital structure of our Company and each of the subsidiaries immediately following the Listing.

## DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (WUMP) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

## INFORMATION ON THE SHARE OFFER

This prospectus is published solely in connection with the Public Offer, which forms part of the Share Offer. For applicants in the Public Offer, this prospectus and the Application Forms set out the terms and conditions of the Public Offer.

The Public Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and conditions set out herein and therein. No person has been authorised to give any information or make any representations other than those contained in this prospectus and the Application Forms and, if given or made, such information or representations must not be relied on as having been authorised by our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective affiliates or any of our or their respective directors, officers, employees, representatives, agents or advisers or any other person or party involved in the Share Offer. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with our Shares shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information in this prospectus is correct as of any subsequent time.

Details of the structure of the Share Offer, including its conditions, are set out in the section headed "Structure of the Share Offer" in this prospectus, and the procedures for applying for the Public Offer Shares are set out in the section headed "How to apply for the Public Offer Shares" in this prospectus and on the relevant Application Forms.

## UNDERWRITING

The listing of the Shares on the Stock Exchange is sponsored by the Sole Sponsor. The Public Offer is fully underwritten by the Public Offer Underwriters subject to the terms and conditions of the Public Offer Underwriting Agreement. The Placing is expected to be fully underwritten by the Placing Underwriters subject to the terms and conditions of the Placing Underwriting Agreement. The Share Offer is managed by the Joint Bookrunners.

## RESTRICTIONS ON OFFER AND SALE OF SHARES

Each person acquiring the Public Offer Shares under the Public Offer will be required to confirm, and is deemed by his acquisition of the Public Offer Shares to have confirmed, that he is aware of the restrictions on offers of the Offer Shares described in this prospectus and the relevant Application Forms and that he is not acquiring, and has not been offered, any Offer Shares in circumstances that contravene any such restrictions.

No action has been taken to permit an offering of the Offer Shares or the distribution of this prospectus and/or the relevant Application Forms in any jurisdiction other than Hong Kong. Accordingly, without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

## SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our Shares on the Stock Exchange and we comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. You should seek the advice of your stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect your rights and interests.

All necessary arrangements have been made for our Shares to be admitted into CCASS.

All activities under CCASS are subject to the general rules of CCASS and CCASS operational procedures in effect from time to time.

## APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Our Company has applied to the Stock Exchange for the granting of the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Capitalisation Issue and the Share Offer.

No part of our Shares or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

Under section 44B(1) of the Companies (WUMP) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Offer Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by the Stock Exchange.

## SHARE REGISTERS AND STAMP DUTY

All Offer Shares issued pursuant to applications made in the Public Offer will be registered on the branch register of members of our Company to be maintained in Hong Kong by our Hong Kong Branch Share Registrar, Tricor Investor Services Limited. The principal register of members of our Company will be maintained in the Cayman Islands by Conyers Trust Company (Cayman) Limited. Dealings in our Shares registered in the branch register of members of our Company maintained by our Hong Kong Branch Share Registrar in Hong Kong will be subject to Hong Kong stamp duty.

## PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Share Offer are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of, dealing in or exercising any rights in relation to, our Shares. None of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective affiliates or any of our or their respective directors, officers, employees, representatives, agents or advisers or any other person or party involved in the Share Offer accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase, holding, disposition of, dealing in, or exercising any rights in relation to, our Shares.

## PROCEDURES FOR APPLICATION FOR OFFER SHARES

The application procedure for the Public Offer Shares is set out in the section headed "How to apply for the Public Offer Shares" in this prospectus and in the relevant Application Forms.

## STRUCTURE OF THE SHARE OFFER

Details of the structure of the Share Offer, including their respective conditions, are set out in the section headed "Structure of the Share Offer" in this prospectus.

## EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations of certain RMB amounts into Hong Kong dollars at specified rates. You should not construe these translations as representations that the RMB amounts could actually be, or have been, converted into Hong Kong dollar amounts (as applicable) at the rates indicated or at all. Unless we indicate otherwise, the translations of RMB amounts into Hong Kong dollars have been made at the rate of RMB1.0 to HK$1.1.

## ROUNDINGS

Amounts and percentage figures, including share ownership and operating data in this prospectus, may have been subject to rounding adjustments. In this prospectus, where information is presented in thousands or millions, amounts of less than one thousand or one million, as the case may be, have been rounded to the nearest hundred or hundred thousand, respectively, unless otherwise indicated or the context requires otherwise. Amounts presented as percentages have been rounded to the nearest tenth of a percent, unless otherwise indicated or the context requires otherwise. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

## DIRECTORS

| Name | Residential address | Nationality |
|---|---|---|
| *Executive Directors* | | |
| Mr. Ye Zhijie (葉志杰先生) | Unit B03–8, New Zone<br>Guankou Village<br>Guankou First Community Committee<br>Guankou County, Jimei District, Xiamen<br>Fujian Province<br>The PRC | Chinese |
| Mr. Huang Wengui (黃文桂先生) | Unit 302, No. 8 Guanrixi Second Lane<br>Huli District, Xiamen<br>Fujian Province<br>The PRC | Chinese |
| Mr. Qiu Limiao (邱禮苗先生) | Unit 4801, Luobinsen Plaza Phase II<br>No. 85 Huiwen Road<br>Siming District, Xiamen<br>Fujian Province<br>The PRC | Chinese |
| Mr. Ye Dan (葉丹先生) | Unit B03–8, New Zone<br>Guankou Village<br>Guankou First Community Committee<br>Guankou County, Jimei District, Xiamen<br>Fujian Province<br>The PRC | Chinese |
| Mr. Huang Kaining (黃楷寧先生) (formerly known as Huang Kai (黃凱)) | Unit 602, No. 11 Guanrixi First Lane<br>Huli District, Xiamen<br>Fujian Province<br>The PRC | Chinese |
| *Independent non-executive Directors* | | |
| Ms. Wong Tuen Sau (王端秀女士) | 22A-1 San Tong Ha Tsuen<br>Lam Tsuen<br>Tai Po<br>New Territories<br>Hong Kong | Chinese |

| Name | Residential address | Nationality |
|---|---|---|
| Mr. Cai Huinong (蔡慧農先生) (formerly known as Cai Huinong (蔡惠農)) | Unit 702, No. 83 Haifeng South Lane<br>Jimei District, Xiamen<br>Fujian Province<br>The PRC | Chinese |
| Mr. Huang Youling (黃有齡先生) | Unit 404<br>Block 1, No.11 Haishan Road<br>Huli District, Xiamen<br>Fujian Province<br>The PRC | Chinese |

## SENIOR MANAGEMENT

| Name | Residential address | Nationality |
|---|---|---|
| Mr. Ding Fulin (丁福林先生) | Unit 703<br>No. 457 Xinglong Road<br>Huli District, Xiamen<br>Fujian Province<br>The PRC | Chinese |
| Mr. You Zhongpeng (尤仲鵬先生) | Unit 502<br>No. 193 Tiyu Road<br>Siming District, Xiamen<br>Fujian Province<br>The PRC | Chinese |
| Mr. Zhong Dezhu (鍾德注先生) | No. 42, Houkeng She<br>Guoban Village<br>Dongfu Town<br>Haicang District, Xiamen<br>Fujian Province<br>The PRC | Chinese |
| Mr. Zhu Fenyong (朱奮勇先生) | Unit 805<br>Jinghui Garden Community<br>No. 106 Zhonglin Lane<br>Haicang District, Xiamen<br>Fujian Province<br>The PRC | Chinese |

For further information on the backgrounds of our Directors, please refer to the section headed "Directors and senior management" in this prospectus.

**PARTIES INVOLVED IN THE SHARE OFFER**

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| **Sole Sponsor** | **Kingsway Capital Limited**<br>*A licensed corporation permitted to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO*<br>7/F, Tower 1, Lippo Centre<br>89 Queensway<br>Hong Kong |
| **Joint Bookrunners and Joint Lead Managers** | **Kingsway Financial Services Group Limited**<br>*A licensed corporation permitted to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO*<br>7/F, Tower 1, Lippo Centre<br>89 Queensway<br>Hong Kong |
| | **Seazen Resources Securities Limited**<br>*A licensed corporation permitted to carry out type 1 (dealing in securities) regulated activity under the SFO*<br>Unit 4503–07, 45/F, The Center<br>99 Queen's Road Central, Central<br>Hong Kong |
| | **Zhongtai International Securities Limited**<br>*A licensed corporation permitted to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO*<br>19/F, Li Po Chun Chambers<br>189 Des Voeux Road Central, Central<br>Hong Kong |

**Haitong International Securities Company Limited**
*A licensed corporation permitted to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO*
22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

**SPDB International Capital Limited**
*A licensed corporation permitted to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO*
33/F, SPD Bank Tower, One Hennessy
1 Hennessy Road
Hong Kong

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| **Joint Lead Manager** | **ZMF Asset Management Limited**<br>*A licensed corporation permitted to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO*<br>Unit 2502, 25/F, World Wide House<br>19 Des Voeux Road Central, Central<br>Hong Kong |
| **Legal advisers to our Company** | *As to Hong Kong law*<br>**Chiu & Partners**<br>40th Floor<br>Jardine House<br>1 Connaught Place<br>Central<br>Hong Kong<br><br>*As to the PRC Law*<br>**Jingtian & Gongcheng**<br>Suite 45, K.Wah Centre<br>1010 Huaihai Road (M), Xuhui District<br>Shanghai 200031, the PRC |

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| | *As to Cayman Islands law*<br>**Conyers Dill & Pearman**<br>Cricket Square<br>Hutchins Drive<br>P.O. Box 2681<br>Grand Cayman KY1-1111<br>Cayman Islands |
| **Legal advisers to the Sole Sponsor and the Underwriters** | *As to Hong Kong law*<br>**Loeb & Loeb LLP**<br>2206–19 Jardine House<br>1 Connaught Place<br>Central<br>Hong Kong |
| | *As to the PRC law*<br>**Beijing Dentons Law Offices, LLP**<br>7th Floor, Building D<br>Parkview Green FangCaoDi<br>No. 9, Dongdaqiao Road<br>Chaoyang District<br>Beijing, the PRC |
| **Auditor and reporting accountant** | **PricewaterhouseCoopers**<br>Certified Public Accountants and<br>Registered PIE Auditor<br>22/F, Prince's Building<br>Central, Hong Kong |
| **Compliance adviser** | **Kingsway Capital Limited**<br>7/F, Tower 1<br>Lippo Centre<br>89 Queensway<br>Hong Kong |
| **Property valuer** | **Grant Sherman Appraisal Limited**<br>Unit 1005, 10/F<br>Capital Centre<br>151 Gloucester Road<br>Wanchai, Hong Kong |

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| **Industry consultant** | **Frost & Sullivan (Beijing) Inc.,**<br>**Shanghai Branch Co.**<br>Room 1018, Tower B<br>No. 500 Yunjin Road<br>Xuhui District<br>Shanghai, the PRC |
| **Receiving bank** | **Standard Chartered Bank (Hong Kong) Limited**<br>18/F, Standard Chartered Tower<br>388 Kwun Tong Road<br>Kwun Tong, Hong Kong |

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| **Registered office** | Cricket Square<br>Hutchins Drive<br>P.O. Box 2681<br>Grand Cayman KY1-1111<br>Cayman Islands |
| **Headquarters and principal place of business in the PRC** | 1#, No. 55, Guankou Avenue, Jimei District<br>Xiamen City<br>Fujian Province<br>The PRC |
| **Principal place of business in Hong Kong** | Suite No. 2, 3/F, Sino Plaza<br>255 Gloucester Road<br>Causeway Bay<br>Hong Kong |
| **Company's website** | **www.xiamenzhixin.com**<br>*(the information contained in this website does not form part of this prospectus)* |
| **Joint company secretaries** | **Mr. Yuen Chi Wai (袁志偉)**, *FCPA*<br>Suite No. 2, 3/F, Sino Plaza<br>255 Gloucester Road<br>Causeway Bay<br>Hong Kong<br><br>**Mr. Zhong Dezhu (鍾德注)**<br>No. 42, Houkeng She<br>Guoban Village<br>Dongfu Town<br>Haicang District, Xiamen<br>Fujian Province<br>The PRC |

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| **Authorised representatives** | **Mr. Ye Zhijie (葉志杰)**<br>Unit B03–8, New Zone<br>Guankou Village<br>Guankou First Community Committee<br>Guankou County, Jimei District, Xiamen<br>Fujian Province<br>The PRC |
| | **Mr. Yuen Chi Wai (袁志偉)**, *FCPA*<br>Suite No. 2, 3/F, Sino Plaza<br>255 Gloucester Road<br>Causeway Bay<br>Hong Kong |
| **Audit committee** | Ms. Wong Tuen Sau (王端秀) *(Chairman)*<br>Mr. Cai Huinong (蔡慧農)<br>Mr. Huang Youling (黃有齡) |
| **Nomination committee** | Mr. Cai Huinong (蔡慧農) *(Chairman)*<br>Ms. Wong Tuen Sau (王端秀)<br>Mr. Huang Youling (黃有齡) |
| **Remuneration committee** | Mr. Huang Youling (黃有齡) *(Chairman)*<br>Ms. Wong Tuen Sau (王端秀)<br>Mr. Cai Huinong (蔡慧農) |
| **Principal share registrar and transfer office in the Cayman Islands** | **Conyers Trust Company (Cayman) Limited**<br>Cricket Square<br>Hutchins Drive<br>P.O. Box 2681<br>Grand Cayman KY1-1111<br>Cayman Islands |
| **Hong Kong Branch Share Registrar** | **Tricor Investor Services Limited**<br>Level 54, Hopewell Centre<br>183 Queen's Road East<br>Hong Kong |

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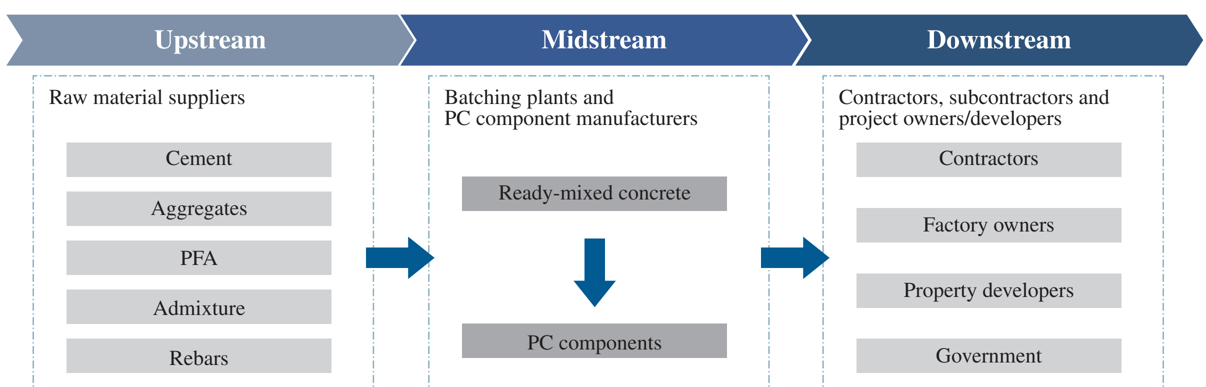
| **Principal bankers** | **China Construction Bank, Xinglin Branch**<br>Level 1–2, Composite Building<br>7 Xingbei Road<br>Xinglin District, Xiamen<br>Fujian Province<br>The PRC |
| | **Industrial Bank Co., Ltd., Xiamen Wenbin Branch**<br>Level 1–2, Zhongyan Industrial Annex Building<br>116 Lianyue Road<br>Siming District, Xiamen<br>Fujian Province<br>The PRC |

*The information presented in this section is derived from various official government publications and other publications as indicated, and from the Frost & Sullivan Report which was commissioned by us. Our Directors believe that the sources of information in this section are appropriate sources for such information. Our Directors have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by our Company, our Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, advisers or affiliates or any other party involved in the Share Offer (except for Frost & Sullivan) and no representation is given as to its accuracy, and accordingly, the information contained herein should not be unduly relied upon. The information and statistics may not be consistent with other information and statistics compiled within or outside Hong Kong. Our Directors confirm that, after taking reasonable care, there is no material adverse change in the market information disclosed in this section since the date of the Frost & Sullivan Report.*

## OVERVIEW OF MACRO ECONOMY IN THE PRC

The nominal GDP in China increased from RMB68.9 trillion in 2015 to RMB99.1 trillion in 2019, growing at a CAGR of approximately 9.5%. The historical growth of GDP was supported by the increasing population and urbanisation, driving up the nation's (i) construction industry output value from approximately RMB18.1 trillion in 2015 to RMB24.8 trillion in 2019, representing a CAGR of approximately 8.3%; and (ii) total investment in infrastructure from approximately RMB13.1 trillion in 2015 to RMB20.8 trillion in 2019, representing a CAGR of approximately 12.2%. Due to the steady growth of the macro economy and the rapid development of the real estate industry in China, it is expected by 2024, its construction industry output value and total investment in infrastructure will reach approximately RMB32.5 trillion and RMB30.7 trillion, respectively.

**Overall industry value chain of ready-mixed concrete and PC component market in the PRC**




*Source: Frost & Sullivan*

Raw material suppliers include excavators, manufacturers, dealers and traders. The raw material industry is highly fragmented without dominating industry players, attracting a diverse base of market participants ranging from SOEs, listed and private companies to individual industrial and commercial households.

Midstream batching plants and PC component manufacturers play an important role in the value chain as they are expected to possess the capital, technical, production, storage and logistics capabilities to fulfil the high requirements of its downstream industries to ensure the provision of safe, durable, environmental friendly and cost-efficient concrete-related products.

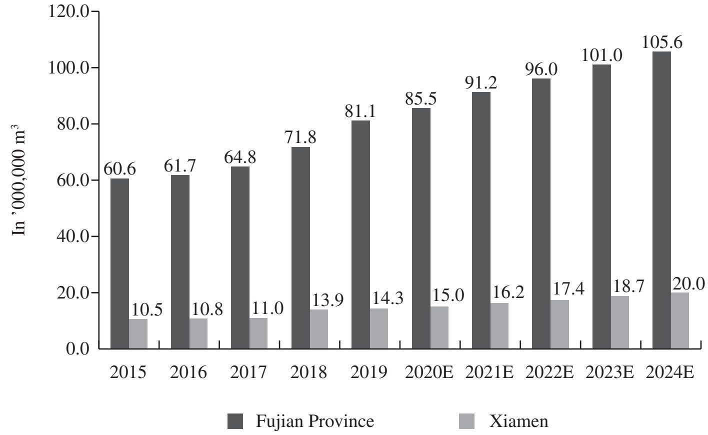
## OVERVIEW OF COMMERCIAL READY-MIXED CONCRETE INDUSTRY IN THE PRC, FUJIAN PROVINCE AND XIAMEN

### Industry definition

Concrete is a widely used composite construction material generally produced by combining cement, aggregates (comprising sand and gravel or crushed stones), water and additives to form a fluid paste, which can be poured and moulded into any desire shape before it cures and hardens over time to form a stone-like material. Hardened concrete possesses high compressive strength, durability, wind and water resistance and it is non-combustible, which is used extensively in buildings, bridges, highways, retaining walls, dams, channels, docks and other structures. Commercial ready-mixed concrete, also known as commercial concrete, refers to concrete that is mixed from a centralised batching plant for the delivery to construction site.

**Market size of commercial ready-mixed concrete in Fujian Province and Xiamen**

**Production volume of commercial ready-mixed concrete in Fujian Province and Xiamen: 2015–2024E**



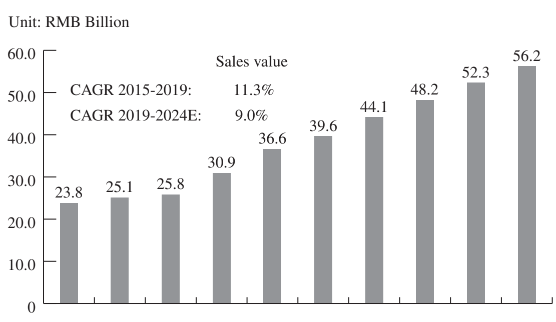

| | Fujian Province | Xiamen |
|---|---|---|
| CAGR 2015–2019: | 7.6% | 8.0% |
| CAGR 2019–2024E: | 5.4% | 6.9% |

*Source: China Concrete and Cement-based Products Association, Xiamen Bulk Cement Development Center, Frost & Sullivan*

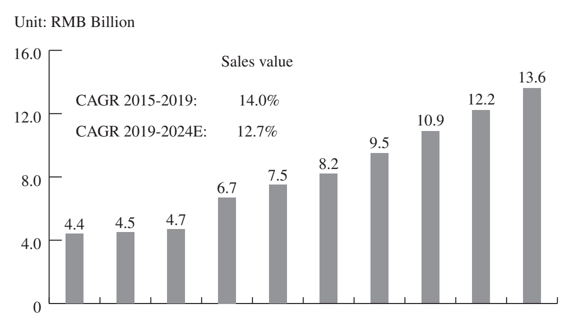
*Note:* According to the Frost & Sullivan Report, considering the nature of ready-mixed concrete, which is produced to order, its consumption volume will be similar to its production volume.

The production volume of commercial ready-mixed concrete in Fujian Province maintained a steady growth over a five-year period from approximately 60,600,000 $m^3$ in 2015 to approximately 81,100,000 $m^3$ in 2019 at a CAGR of approximately 7.6%. According to the Ministry of Civil Affairs of the PRC, Xiamen being the sub-provincial city of Fujian Province with the highest population density, has outgrown its provincial's ready-mixed concrete production volume at a CAGR of approximately 8.0%, from approximately 10,500,000 $m^3$ in 2015 to approximately 14,300,000 $m^3$ in 2019. It is expected the ready-mixed concrete production volume will continue to grow in Fujian Province and Xiamen, reaching approximately 105,600,000 $m^3$ and 20,000,000 $m^3$ respectively by 2024.

**Sales value of commercial ready-mixed concrete industry in Fujian Province, 2015–2024E**




**Sales value of commercial ready-mixed concrete industry in Xiamen, 2015–2024E**




*Source: China Concrete and Cement-based Products Association, Fujian Construction Engineering Cost Management Station, Xiamen Bulk Cement Development Center, Xiamen Construction Engineering Information, Frost & Sullivan*

The sales value of commercial ready-mixed concrete industry experienced continuous growth in the past few years, reached RMB36.6 billion and RMB7.5 billion in 2019 in Fujian Province and Xiamen respectively. The rapid growth was due to the rising of raw material price and therefore leading to the increase in the price of ready-mixed concrete in Fujian Province and Xiamen. Furthermore, the sales value of commercial ready-mixed industry in Fujian Province and Xiamen is expected to keep sustainable growth, and reach RMB56.2 billion and RMB13.6 billion by 2024, representing CAGRs of approximately 9.0% and 12.7%, respectively.

### Competitive landscape of the commercial ready-mixed concrete industry in the PRC and Fujian Province

The commercial ready-mixed concrete market in the PRC is highly fragmented, with top five manufacturers occupying in aggregate approximately 9.1% of market share in terms of production volume in 2019. Our Group accounted for approximately 0.04% of market share in terms of approximately 1,034,000 $m^3$ production volume in the commercial ready-mixed concrete market in the PRC in 2019.

In 2019, the market size of commercial ready-mixed concrete in Fujian Province and Xiamen was approximately 3.2% and 0.6% to the overall PRC market respectively, in terms of the production volume of commercial ready-mixed concrete.

The commercial ready-mixed concrete market in Xiamen is relatively concentrated, with top five manufacturers occupying approximately 26.6% of market share in terms of production volume in 2019. Our Group was the largest ready-mixed concrete manufacturer in Xiamen in terms of production volume in 2019 of approximately 1,034,000 $m^3$, which accounted for approximately 7.2% market share for the same year.

**Ranking and market share of top 5 commercial ready-mixed concrete manufacturers in terms of production volume in the PRC, 2019**

| Ranking | Commercial ready-mixed concrete manufacturer | Identity and background | Production volume of ready-mixed concrete | Market share |
|---|---|---|---|---|
| | | | (in '000,000 $m^3$) | |
| 1 | Company G | A H-Share listed company, mainly engaged in the manufacturing of cement, new materials and engineering services businesses. | 111.8 | 4.4% |
| 2 | Company H | An A-share listed company, mainly provides high-quality commercial ready-mixed concrete to 24 provinces in the PRC. | 48.0 | 1.9% |
| 3 | Company I | A wholly-owned subsidiary of an A-share listed company, mainly provides commercial ready-mixed concrete and PC components. | 37.8 | 1.5% |
| 4 | Company J | An A-share and H-share listed company, mainly engaged in the manufacturing of ready-mixed concrete, cement and clinker. | 17.3 | 0.7% |
| 5 | Company K | A Hong Kong listed company, mainly engaged in the manufacturing of ready-mixed concrete, cement and clinker. | 14.2 | 0.6% |
| | **Top 5** | | 229.1 | 9.1% |
| | **Total** | | 2,550.0 | 100.0% |

*Source: China Concrete and Cement-based Products Association, Frost & Sullivan*

**Ranking and market share of top 5 commercial ready-mixed concrete manufacturers in terms of production volume in Xiamen, 2019**

| Ranking | Commercial ready-mixed concrete manufacturer | Identity and background | Production volume of ready-mixed concrete | Market share |
|---|---|---|---|---|
| | | | (in '000 $m^3$) | |
| **1** | **Our Group** | | **1,034.0** | **7.2%** |
| 2 | Company L | A private commercial ready-mixed concrete manufacturer based in Xiamen, and mainly provides commercial ready-mixed concrete in Xiamen. | 751.3 | 5.3% |
| 3 | Company P | A joint venture controlled by two SOEs based in Xiamen, and mainly provides commercial ready-mixed concrete in Xiamen. | 691.9 | 4.8% |
| 4 | Company Q | A private company based in Xiamen, and mainly provides commercial ready-mixed concrete in Xiamen. | 670.9 | 4.7% |
| 5 | Company R | A private company based in Xiamen, and mainly provides commercial ready-mixed concrete in Xiamen. | 653.5 | 4.6% |
| | **Top 5** | | 3,801.6 | 26.6% |
| | **Total** | | 14,308.8 | 100.0% |

*Source: Xiamen Bulk Cement Development Center, Xiamen Municipal Bureau of Industry and Information Technology, Frost & Sullivan*

### Future development and trends of commercial ready-mixed concrete industry in the PRC

**1. *Increasing downstream demand from infrastructure and building construction***

The increasing urbanisation rate and the rapid development of the construction industry in the PRC have stimulated the demand for building materials production over the past few years, together with impetus from recent supportive government policies on prefabricated construction in the PRC. As one of the core raw material suppliers for prefabricated construction, it is expected that the commercial ready-mixed concrete industry will experience excellent development opportunities with buoyant market demand and steady growth of economy of the PRC, and therefore the industry will usher in a promising outlook.

**2. *Industry consolidation***

The concrete industry is highly fragmented which leads to low utilisation rate of resources in the entire industry. In 2017, the China Concrete & Cement-based Products Association issued "Guidelines on Elimination and Upgrading Ready-mixed Concrete Industry" (《預拌混凝土行業淘汰落後與轉型升級指導意見》), which indicates specific objectives and measures on the production of commercial ready-mixed concrete, for instance, optimising industry structure, eliminating backward production capacity, accelerating industrial consolidation and phasing out small scale ready-mixed concrete manufacturing enterprises with obsolete production capacities. By integrating existing resources and raising the industrial threshold, the commercial ready-mixed concrete industry will be able to establish and maintain a sound standard system and speed up industry upgrading in the future.

## OVERVIEW OF THE PC COMPONENT INDUSTRY IN FUJIAN PROVINCE AND XIAMEN

### Industry definition

PC components are factory-built construction products used in modern prefabricated buildings to be assembled on-site. Prefabricated building is a comprehensive demonstration of construction industrialisation and it can be divided into three major categories including prefabricated concrete building, prefabricated steel building and prefabricated timber building based on the types of the main structural component of the building. Prefabricated concrete building is the major mode of prefabricated building in the PRC. It has the advantages such as low cost and wide applicability. It is expected to maintain the leading position in the form selection of prefabricated construction structure. In terms of floor area, prefabricated concrete building accounted for approximately 56.0% of all prefabricated buildings in 2019 and is expected to account for approximately 57.0% of all prefabricated building in 2024.

### Comparison of prefabricated construction method and traditional construction method

| | Construction efficiency | Labour cost | Construction quality | Environment protection |
|---|---|---|---|---|
| **Prefabricated construction** | • Production is almost unaffected by weather conditions, making construction schedule more manageable<br>• High degree of mechanisation and standardisation ensures the high construction efficiency | • Manpower is replaced with modern equipment, which not only enhances production safety, but also reduces labour costs | • Prefabricated components are produced in a standard way in advance in the plant, and the quality is easier to control than traditional cast-in-situ constructions | • More environmental friendly by reducing material waste during construction, saving water and electricity, reducing construction energy consumption and noise in the process |
| **Traditional construction** | • The process of cast-in-situ construction is much more complicated and is limited by workers, weather and other external factors<br>• Improving construction efficiency is difficult for traditional construction | • Cast-in-situ construction relies on a large number of on-site workers, and because of the high labour intensity and potential physical injuries, workers gradually raised their wage requirements | • The poor standardisation degree of the traditional construction method and the low technical level make the error and quality of constructions difficult to control | • Cast-in-situ construction produces a lot of material waste, dust and noise pollution on the construction site, which is not in line with the concept of green environmental protection |

| Prefabricated construction | versus | Traditional construction |
|---|---|---|
| 160–210 days | Construction period | 250–300 days |
| 40–50 workers | On-site construction workers required | 150–160 workers |
| 0.051–0.067 $m^3/m^2$ | Water consumption | 0.085–0.09 $m^3/m^2$ |
| 7.0–7.1 $kWh/m^2$ | Energy consumption | 8.9–9.0 $kWh/m^2$ |
| 7.34–7.35 $kg/m^2$ | Construction wasters disposal | 23.75–23.80 $kg/m^2$ |
| 60–75 $\mu g/m^3$ | Dust level (PM10) | 85–100 $\mu g/m^3$ |

*Source: Frost & Sullivan*

Prefabricated construction embodies the specialisation, standardisation and industrialisation required by the modernisation of the construction industry. Compared with traditional construction method, prefabricated construction method significantly improves the construction efficiency and quality, in the meantime, it also reduces labour cost and environment pollution.

**Potential competition between ready-mixed concrete products and PC component products**

Ready-mixed concrete has been an imperative construction material to the construction industry due to its versatility, durability, high impermeability and customisability for precise necessities and capacity. It has been widely used in foundation works, buildings, road and highways, retaining walls and other structures according to various demand from construction engineering. With the recent adoption of PC components, it is expected that there will be some degree of competition between ready-mixed concrete products and PC component products, but the competition is expected to be minimal. Given there are applications of ready-mixed concrete in construction works that cannot be replaced by PC components such as construction sites without sufficient working space to carry out PC component installation, structures that require modification in the future as modification to prefabricated buildings will impact its overall stability, structure with design too complex for PC component connection, constructions using a two-way structure system and irregularly shaped buildings with little repetition of forms. Ready-mixed concrete also serves an important element to form homogenous connections between PC components and provide structural topping for horizontal diaphragm action, and it is used to form the foundations and sub-structure to the building.

Given the efficiency of prefabricated method of construction, it is expected to speed up the rate of urbanisation and promote construction activities, and thus driving the ready-mixed concrete industry forward at the same time. It is expected that the production volume of ready-mixed concrete will continue to grow steadily from 2019 to 2024 at a CAGR of approximately 5.4% and 6.9% in Fujian Province and Xiamen respectively despite of the high penetration rate of prefabricated building. Please refer to the paragraph headed "Market size of commercial ready-mixed concrete in the PRC, Fujian Province and Xiamen" and "Development of the prefabricated construction market in the PRC, Fujian Province and Xiamen" in this section for further details.

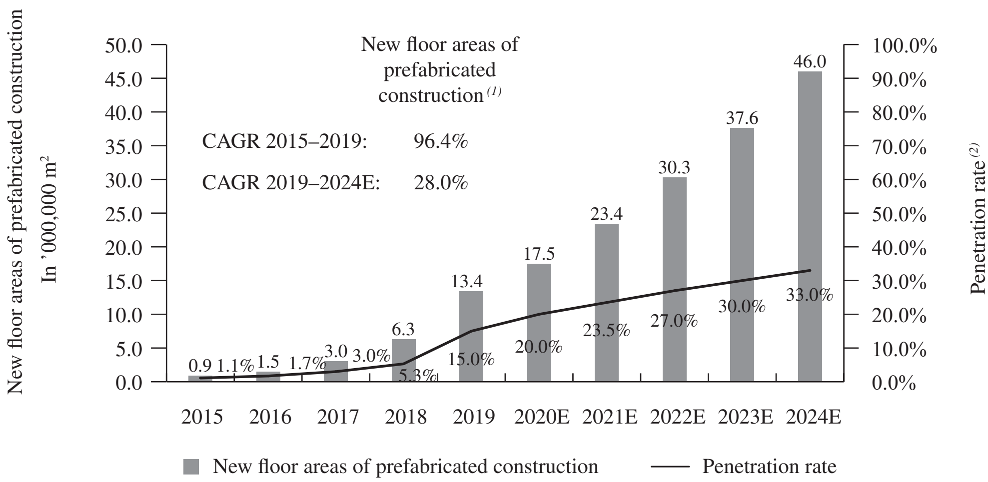
The construction industry uses multiple construction methods in completing a given construction project, as there are advantages and disadvantages for any given construction methodology. It is about finding the right balance for, mutual benefit of both traditional construction and prefabricated construction and thus, the potential competition between the ready-mixed concrete products and PC components products is limited, and both industries are expected to grow in unison in complement of each other.

**Development of the prefabricated construction market in the PRC, Fujian Province and Xiamen**

As the focus of the construction industrialisation development, prefabricated construction embraces an opportunity of explosive growth in the PRC. Guided by the development plan and incentive policies introduced by the central government, a large number of provinces and cities, including Fujian Province and Xiamen has started to experience an explosive growth of prefabricated constructions.

In 2016, the State Council issued the "Guiding Opinions of the General Office of the State Council on Vigorously Developing Prefabricated Buildings" (《國務院辦公廳關於大力發展裝配式建築的指導意見》), which sets a clear goal to strive to make prefabricated constructions account for 30% of all new floor areas in China within 10 years. Following the opinions, many provincial and municipal governments had subsequently formulated their own development plans for prefabricated building. For example, the "Implementation Opinions of the General Office of Fujian Provincial Government on Vigorously Developing Prefabricated Buildings" (《福建省人民政府辦公廳關於大力發展裝配式建築的實施意見》) introduced the development goal of increasing new floor areas of prefabricated building to more than 20% of total new floor areas in Fujian Province by 2020 and according to "The 13th Five-year Plan for the Development of Construction Industry in Fujian Province" (《福建省建築業發展「十三五」發展規劃》), the goal for Xiamen at 25% by 2020.

**New floor areas and penetration rate of prefabricated construction in Fujian Province: 2015–2024E**




*Source: Housing and Urban-rural Development of Fujian, Frost & Sullivan*

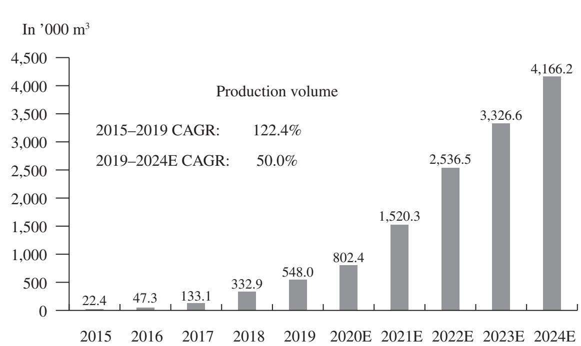
*Notes:*

1. New floor areas of prefabricated construction refers to the prefabricated construction area newly started during the reporting period, and the construction starts shall be based on the date when the building officially begins to break the ground.
2. The penetration rate of prefabricated construction refers to the proportion of prefabricated construction projects in terms of overall floor areas.

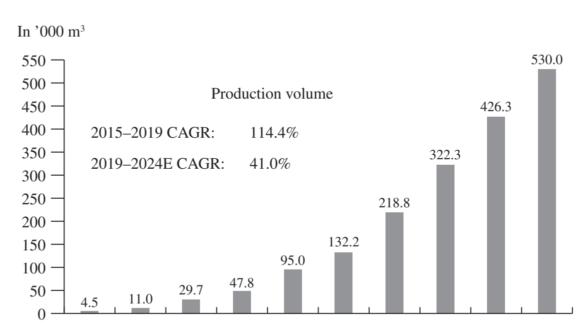
From 2015 to 2019, new floor areas of prefabricated building in Fujian Province increased from approximately 900,000 $m^2$ to 13,400,000 $m^2$ respectively, representing a CAGR of approximately 96.4%, with the favourable government policies and plans in place, it is expected to reach 46,000,000 $m^2$ in 2024. Whereas the penetration rate of prefabricated building in Fujian Province increased from approximately 1.0% in 2015 to 15.0% in 2019 and it is expected to reach approximately 33.0% by 2024.

**Market size of PC component industry in Fujian Province and Xiamen**

**Total production volume of PC component industry in Fujian Province, 2015–2024E**




**Total production volume of PC component industry in Xiamen, 2015–2024E**



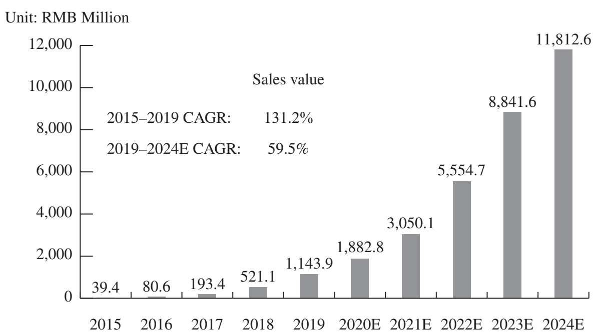

*Source: Housing and Urban-rural Development of Fujian, Frost & Sullivan*

*Note:* According to the Frost & Sullivan Report, given PC components are customised products produced to order, their consumption volume will be similar to their production volume.

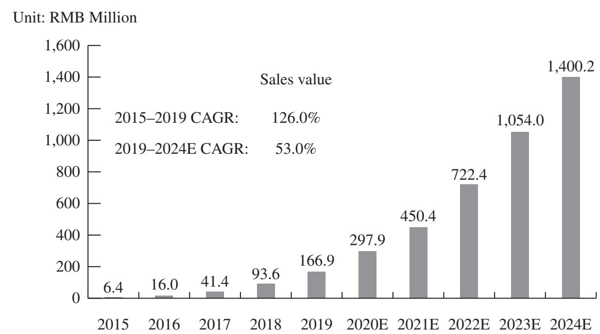
The total production volume of PC component in Fujian Province increased from approximately 22,400 $m^3$ in 2015 to approximately 548,000 $m^3$ in 2019 at a CAGR of approximately 122.4% and the total production volume of PC component in Xiamen increased from approximately 4,500 $m^3$ in 2015 to approximately 95,000 $m^3$ in 2019 at a CAGR of approximately 114.4%.

Under the various supportive government policies issued by the central, provincial and municipal government of the PRC, the PC component industry in Fujian Province and Xiamen will experience further growth with total production volume reaching approximately 4,166,200 $m^3$ and approximately 530,000 $m^3$ respectively by 2024.

**Sales value of PC components industry in Fujian Province, 2015–2024E**




**Sales value of PC components industry in Xiamen, 2015–2024E**




*Source: Housing and Urban-rural Development of Fujian, Frost & Sullivan*

In 2019, the market size of PC components in Fujian Province and Xiamen was approximately 3.6% and 0.5% to the overall PRC market respectively, in terms of the sales value of PC components.

The sales value of PC components in Fujian Province and Xiamen increased rapidly to RMB1,143.9 million and RMB166.9 million in 2019, respectively, with CAGRs of approximately 131.2% and 126.0% from 2015 to 2019, respectively. The General Office of Fujian Provincial People's Government has set the target of the proportion of the total area of prefabricated buildings in the total area of the newly-built buildings to reach over 35% in Fujian Province by 2025, the sales value of PC components in Fujian Province and Xiamen is expected to further increase to RMB11,812.6 million and RMB1,400.2 million by 2024 respectively.

The discrepancies between the CAGR of production volume and sales value from 2019 to 2024 is mainly due to the rising unit price of PC components, resulting higher growth rate of sales value than that of production volume.

**Competitive landscape of the PC component industry in Fujian Province and Xiamen**

In 2019, the market size of PC component in Fujian Province and Xiamen was approximately 3.0% and 0.5% to the overall PRC market respectively, in terms of the production volume of PC component.

The PC component market in Fujian Province is relatively concentrated, with top five manufacturers occupying approximately 40.6% of market share in terms of production volume in 2019. PC component manufacturers in Fujian Province primarily based their operations in major cities such as Fuzhou, Xiamen, Zhangzhou and Quanzhou. Our Group was the largest PC component manufacturer in Fujian Province in terms of production volume and revenue in 2019 of approximately 84,400 $m^3$ and RMB144.0 million, which accounted for approximately 15.4% and 12.6%, market share respectively in the same year.

The PC component market in Xiamen is highly concentrated, with only three manufacturers occupying 100.0% of market share in terms of production volume in 2019. Our Group was the largest PC component manufacturer in Xiamen in terms of production volume and revenue. As of 2019, the production volume and revenue of our Group reached 84,400 $m^3$ and RMB144.0 million respectively, and dominated the market with approximately 88.8% and 86.3% market share, respectively.

**Ranking and market share of top 5 PC component manufacturers in terms of production volume and revenue in Fujian Province, 2019**

| Ranking | PC component manufacturer | Identity and background | Production volume of PC component | Revenue of PC component | Market share in terms of production volume | Market share in terms of revenue |
|---|---|---|---|---|---|---|
| | | | (in '000 $m^3$) | RMB million | | |
| **1** | **Our Group** | | **84.4** | **144.0** | **15.4%** | **12.6%** |
| 2 | Company A | A manufacturer based in Zhangzhou and mainly focuses on design, production and sale of PC components. | 45.0 | 100.0 | 8.2% | 8.7% |
| 3 | Company B | A PC component manufacturer mainly provides PC components for public infrastructure needs. | 35.0 | 98.0 | 6.4% | 8.6% |
| 4 | Company C | A PC component manufacturer controlled by a SOE. | 30.0 | 90.0 | 5.5% | 7.9% |
| 5 | Company D | A PC component manufacturer based in Fuzhou and provides various PC component products. | 28.0 | 55.0 | 5.1% | 4.8% |
| | **Top 5** | | 222.4 | 487.0 | 40.6% | 42.6% |
| | **Total** | | 548.0 | 1,143.9 | 100.0% | 100.0% |

*Source: Housing and Urban-rural Development of Fujian, Frost & Sullivan*

**Ranking and market share of top 3 PC component manufacturers in terms of production volume and revenue in Xiamen, 2019**

| Ranking | PC component manufacturer | Identity and background | Production volume of PC component | Revenue of PC component | Market share in terms of production volume | Market share in terms of revenue |
|---|---|---|---|---|---|---|
| | | | (in '000 $m^3$) | RMB million | | |
| **1** | **Our Group** | | **84.4** | **144.0** | **88.8%** | **86.3%** |
| 2 | Company E | A PC component manufacturer mainly provides PC components for residential constructions. | 7.0 | 15.5 | 7.4% | 9.3% |
| 3 | Company F | A subsidiary controlled by a SOE, and mainly provides PC components for residential constructions. | 3.6 | 7.4 | 3.8% | 4.4% |
| | **Top 3** | | 95.0 | 166.9 | 100.0% | 100.0% |
| | **Total** | | 95.0 | 166.9 | 100.0% | 100.0% |

*Source: Housing and Urban-rural Development of Fujian, Frost & Sullivan*

## Drivers affecting the performance of ready-mixed concrete and PC component industry in the PRC

### 1. *Continuous urbanisation*

The urbanisation rates in the PRC and Fujian Province reached approximately 60.6% and approximately 66.5% in 2019 and are expected to reach approximately 67.3% and approximately 73.3% in 2024 respectively, representing a CAGRs of approximately 2.3% and approximately 0.4% respectively. The continuous urbanisation will drive the development of construction industry, and therefore stimulate the demand of ready-mixed concrete and PC component.

### 2. *Cost increase in construction industry*

The traditional method of construction is labour intensive, and as the cost of labour rises in recent years, it has led to the increase in production cost. Commercialisation of concrete and the adoption of prefabricated construction methods can highly reduce the reliance on labour and the time required for on-site construction and therefore enhance the productivity as compared to traditional construction method.

**3. *Strong support from government policies***

In recent years, the central and local government authorities have intensively introduced incentive policies to promote the development of construction industrialisation and prefabricated building. These policies have clearly defined industry standards and set development goals. In particular, the State Council promulgated to make prefabricated constructions account for 30% of all new floor areas in China within 10 years in 2016 and subsequently provincial and municipal government of Fujian Province and Xiamen has proposed that by 2020, new floor areas of prefabricated building will increase to more than 20% and 25% respectively. In 2018, the Office of the Department of Housing and Urban-Rural Development of Fujian Province (《福建省住房和城鄉建設廳辦公室》) promulgated "The Key Points of Construction Work of Fujian Province" (《福建省建築業工作要點》) to popularise prefabricated construction methods and accelerate the use of PC component related products in constructions. Moreover, according to "Notice on the Deadline for the Banning of On-site Mixing Concrete in Urban Areas" (《限期禁止在城市城區現場攪拌混凝土的通知》) issued in 2003, on-site mix of concrete in certain cities will be prohibited and it also vigorously promote the use of commercial ready-mixed concrete. The commercialisation of concrete increased from approximately 18% in 2006 to 42% in 2013 and it is expected to reach approximately 65% by 2020.

**4. *Increasing energy conservation and environmental production requirements in the construction industry***

Enhanced environmental protection and energy conservation as well as transformation of the development mode in the construction industry are important directions for the future development of the construction industry in China. Prefabricated construction adopts factory prefabrication, on-site dry assembly and other methods, which significantly shorten the construction period, reduce energy consumption, save resources, and reduce environmental pollution such as dust, noise and construction waste. The energy saving and environmental protection effects are notable. The development of green construction and the requirement for enhancing energy conservation and environmental protection in the construction industry will drive the popularisation of prefabricated construction.

**Future development and trends of PC component industry in the PRC**

**1. *Improvement of industry standards and norms***

Well-established industry standards and norms are essential for the development of industrialised construction. With sufficient industry standards and norms, enterprises can select and develop their technologies efficiently and incentive policies can be executed effectively. Government authorities in the PRC have introduced national evaluation standards and technical specifications for prefabricated building. The industrialised construction industry is at the stage of rapid growth, market leaders with contribution to the establishment of industry standards will accumulate initiative advantages and benefit from a healthier regulatory environment.

**2. *Increasing penetration of construction industrialisation***

Driven by supportive government policies, the penetration of construction industrialisation in residential building increases rapidly. In addition, with the technological advancements, improvement of management level and establishment of universal system, the application of construction industrialisation in the fields of industrial buildings, public buildings and infrastructures, is expected to improve as well. Moreover, as more large-scale real estate developers recognise and apply prefabricated construction in the fields of residential, infrastructural and public construction, the prefabricated construction industry changed from government dominated to market driven. As such, the marketisation for the demand in the prefabricated construction industry is expected to grow continuously.

**3. *Improvement in cost-effectiveness***

Currently the cost-effective advantage of prefabricated construction is not significant as compared to that of traditional construction, which limits the promotion of construction industrialisation to some extent. On the one hand, as some companies in the prefabricated construction industry gradually achieve economies of scale, the industry synergies will gradually emerge, and the cost-effectiveness of construction industrialisation is expected to improve accordingly. On the other hand, with the increase in labour costs, the cost-effectiveness of traditional construction is declining. As such, the cost-effective advantage of prefabricated construction as compared to traditional construction is expected to gradually increase in the future.

**4. *Technology reformation***

With the development of information technology and the establishment of universal system, it will not only improve productivity and reduce project delay, but also enhance the quality of buildings and improve safety. With the increasing level of education of the construction management personnel, they are now able to marshal the new technology and apply it effectively currently. Advancements in management methods to improve productivity and schedule performance will employ automation and expert systems to a greater degree.

**Key entry barriers of the ready-mixed concrete and PC component industry in the PRC**

**1. *Technical barrier***

Due to the uplifting of the current building quality and the increasing of high-rise buildings, equipped with strong technical research and production management ability is necessary for concrete manufacturing enterprises to enhance the performance and quality of ready-mixed concrete. Chinese government is vigorously promoting the upgrading and transformation of the building and construction materials industry and recommending the concrete products to have high performance in strength and durability, green and environmentally friendly, which in turn impose high technical requirement on concrete manufacturing enterprises. Due to the lack of development experience, new entrants will have difficulties grasping the market trend and technological know-how.

**2. *Environmental compliance barrier***

With the increasing attention of environmental sustainability, concrete manufacturing enterprises are expected to comply with more strict environmental protection laws and regulations on matters such as noise control, air pollution control, waste disposal, etc.. New entrants are required to devote a large amount of time, capital and effort in order to comply with various regulations which can be a potential barrier for these new entrants.

**3. *Managerial and practical industry experience barrier***

In general, customers of concrete related products award tenders based on track record of manufacturing enterprises and their abilities to meet supply, technical, safety, quality and time requirements of a project. As a result, new entrants with insufficient project management and industry experience will have difficulties winning tenders. Furthermore, sound management capabilities in operation and manufacturing is required to exert effective management and control over the output, product yield, production cost, production efficiency and inventory management. In particular, PC component manufacturing involves large-scale continuous production of non-standard products, for which manufacturing enterprises must be equipped with good system management capabilities in production and manufacturing. Therefore, good management skills are essential to improve profit and competitiveness, as well as to expand production scale, which may act as a barrier for new industry participants.

**4. *Capital barrier***

The concrete industry is a capital-intensive industry. It is necessary for the concrete manufacturing enterprises to have sufficient capital strength for fixed asset investment such as batching plants and machineries in the initial stage prior to operation. During the operational process, working capital sufficiency is also critical for concrete manufacturing enterprises since the credit period for customers tends to be longer than those from their suppliers, hence it is difficult for new entrants with insufficient capital to enter the market.

**Threats and challenges for the PC component industry in the PRC**

**1.** ***Labour shortages***

Labour shortages and the rising labour costs have become increasingly severe challenges in the construction industry. The number of workers willing to work in the traditional construction industry is decreasing. In addition, aging of labour force has become an increasing problem for the construction industry.

**2.** ***Technical talent***

The overall quality of PC components in the PRC is currently at a relatively low level due to a lack of talent, especially experienced professionals, and imperfect management systems. The lack of technical personnel may lead to a series of problems such as poor structural performance and inferior site management.

**Our Group's competitive strength over the competitors**

**1.** ***Leading manufacturer and pioneer in the PC component industry in Xiamen***

We are a leading and largest manufacturer in Xiamen in 2019 with over 13 years of experience in offering high quality ready-mixed concrete working with construction companies for various types of building and construction projects. Also, we are a pioneer of the PC component industry in Xiamen and the largest PC components provider in Fujian Province and Xiamen in terms of production volume in 2019.

**2.** ***Experienced management team***

Our executive Directors and senior management possess relevant operational expertise and experience and are familiar with ready-mixed concrete and PC component industry.

## IMPACT OF THE OUTBREAK OF COVID-19 ON THE READY-MIXED CONCRETE AND PC COMPONENT INDUSTRIES IN THE PRC AND FUJIAN PROVINCE

Since early 2020, there is an outbreak of COVID-19 in the PRC and certain countries around the world. In order to control the spread of COVID-19, the government of the PRC extended the Chinese New Year holiday and delayed the resumption of work; and imposed temporary restrictions or bans on passenger traffic in the PRC, resulting in disruptions to the business activities in the PRC.

The outbreak of COVID-19 in the PRC has been kept under control since mid-March, given the PRC reported no new local infections on March 2020 for the first time. The PRC government has toughened the measures to prevent imported cases as well as the second wave of the domestic outbreak. The major adverse impacts on the PRC's economic conditions were reflected between February and March 2020, including the contraction of industrial production, slowdown in retail sales, as well as a decrease in construction and infrastructure investment. The decline of construction activities came to a large extent from the strict quarantine measures implemented by the PRC government to restrain the further spread of COVID-19, which also limited the progress of construction projects. According to the World Economic Outlook published by the International Monetary Fund ("**WEO**"), the real GDP growth in China of June 2020 forecast is projected at 1.0% and 8.2% in 2020 and 2021, which is 1.2 percentage points and 9.2 percentage points higher than the April 2020 WEO forecast, respectively. The PRC is on track to ramp up infrastructure spending following the impact of the COVID-19 pandemic on the economy. As the PRC enterprises resumed production in an orderly manner, the demand in the construction industry is expected to recover close to the same level as last year which is driven by the new and resumed projects. The negative impact of COVID-19 on the ready-mixed concrete and PC components industry in the PRC is limited and short-term, and will not have a material impact on the PC component industry in Fujian Province or the future demand for PC components.

The central and local governments of the PRC had rolled out a series of supporting policies to stimulate and support the confidence of businesses and work resumption, 13 major cities and provinces, including Beijing, Shanghai and Fujian Province, released investment plans and "major infrastructure" projects for 2020 as of March 2020. Up to early April 2020, Fujian Province has introduced 45 measures to increase the financial subsidy of over approximately RMB2.9 billion to prevent and control the spread of COVID-19 and support enterprises to resume work and production. According to the Notice of the Fujian Provincial Development and Reform Commission on "Issuing the List of Provincial Key Projects (2020)" (《關於印發2020年度省重點專案名單的通知》) on February 2020, Fujian Province announced its investment budgets of RMB3.84 trillion for the infrastructure projects in 2020. As at 6 March 2020, SOE and industrial enterprises above designated size with annual main business revenue of RMB20.0 million or above, have officially resumed work at a rate of over 98% in Fujian Province. By the end of March 2020, the overall business resumption rates in Fujian Province and Xiamen reached approximately 70%, which was among the forefront in the PRC and the resumption rates for the industrial enterprise above the said designated size in Xiamen reached 100% by the end of April 2020. Moreover, Xiamen municipal government also announced the "Opinions on Accelerate the Development of Prefabricated Construction" ("關於印發加快發展裝配式建築實施意見的通知") on 22 April 2020 to speed up the upgrade and transformation of the construction industry by vigorously promote prefabricated construction after the COVID-19 outbreak, the outlook for the development of manufacturing and construction industries remain positive and will recover gradually.

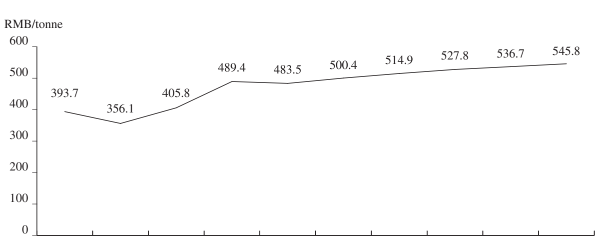
## PRICE TRENDS IN FUJIAN PROVINCE

### Raw materials

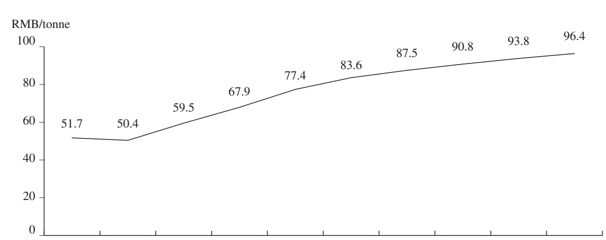
The major raw materials used in the building construction industry and concrete-related products are cement and aggregates. The price of these raw materials can vary widely from areas to areas depending on their supply and demand in those areas at any given time.

As for the average price movements in Fujian Province, over the period from 2015 to 2019, the average price of cement has demonstrated an overall uptrend from approximately RMB393.7 per tonne in 2015 to approximately RMB483.5 per tonne in 2019. The uptrend was largely influenced by "The Guiding Opinion on promoting the steady growth, efficiency and restructuring of the building materials industry" (《國務院辦公廳關於促進建材工業穩增長調結構增效益的指導意見》) issued by The General Office of the State Council in May 2016, which outlined the plan and target to (i) phase out excessive capacity; and (ii) forbid the expansion of capacity of cement production facilities before the end of 2017 and 2020, respectively. For the average price of aggregates, it remained relatively stable from 2015 to 2016, then began an increasing trend from 2017, the increase was mainly attributable by (i) the national special rectification action for sand mining in rivers and lakes which specified the scope of forbidden mining areas and further strengthened the management of sand mining in rivers and lakes issued by the Ministry of Water Resources; and (ii) the boost in crackdowns of illegal extraction and excavation of sand and stones following an interpretation issued by the Supreme People's Court of the PRC on the application of law in the trail of criminal cases concerning illegal and destructive mining. In the next four years, affected by the ongoing supply-side structural reform and stringent regulations on environmental protection in cement and aggregates industry, the average prices of cement and aggregates in Fujian Province are expected to stabilise with mild increase. By 2024, the average price of cement and aggregates are expected to reach RMB545.8 per tonne and RMB96.4 per tonne, respectively.

**Cement price trend in Fujian Province**




**Aggregates price trend in Fujian Province**




*Sources: Fujian Construction Engineering Cost Management Station*

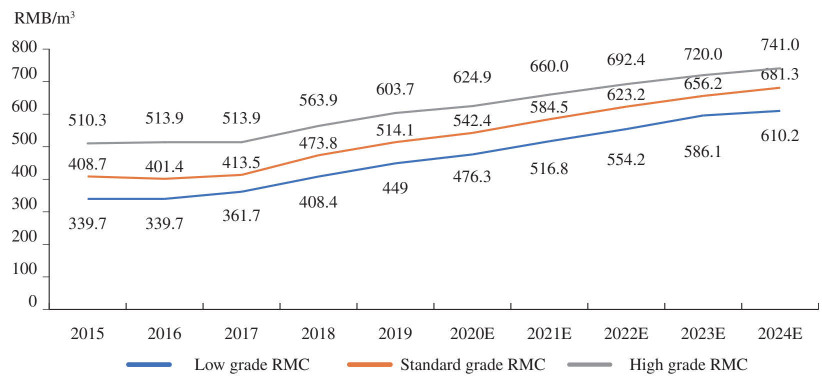
*Notes:*

1. All prices are exclusive of tax.
2. The prices from 2015 to 2019 are calculated based on the average of the average monthly price for the relevant year.

### Ready-mixed concrete

The ready-mixed concrete market exhibited similar price trends with the price of cement and aggregates. As raw material prices fluctuate, the price of ready-mixed concrete and other concrete-related products fluctuate accordingly. Despite the price fluctuation of raw materials, manufacturers of concrete-related products are generally able to shift the price fluctuation influence towards downstream industry participants.

**Ready-mixed concrete price trend in Xiamen**




*Source: Xiamen Construction Engineering Information*

*Notes:*

1. All prices are exclusive of tax.
2. The prices from 2015 to 2019 are calculated based on the average of the average monthly price for the relevant year.

### PC components

According to the Frost & Sullivan Report, due to the customisable nature of PC components, the average price may vary widely from component to component depending on specification, thus the price trend of PC components is unavailable.

## SOURCE OF INFORMATION

### Industry report from Frost & Sullivan

We have commissioned Frost & Sullivan, an Independent Third Party, to conduct a research on the ready-mixed concrete and PC component industries in the PRC and to prepare the Frost & Sullivan Report at a total fee of RMB675,000. Founded in 1961, Frost & Sullivan is a research institute providing industry research and market strategies in various industries.

### Methodology

The market research process for this study has been undertaken through detailed primary research which involves discussing the status of the industry with leading industry participants and industry experts. Secondary research involved reviewing company reports, independent research reports and data based on Frost & Sullivan's own research database.

### Assumptions and parameters

Frost & Sullivan has adopted the following key assumptions for making projections in the commissioned report:

- the PRC's economy and the relevant markets are likely to maintain steady growth in the forecast period;
- the PRC's social, economic, and political environment is likely to remain stable in the forecast period;
- the relevant projections in the industry have taken into account the outbreak of COVID-19;
- market drivers like increasing of urbanisation rate, policy supports from governments, growing of economy and etc..

This section summarises the principal PRC laws and regulations which are relevant to our business and operations. These include the laws and regulations relating to our ready-mixed concrete and PC components production and sales in the PRC and the relevant environmental protection, taxation, labour and foreign exchange laws and regulations. As this is a summary, it does not contain the detailed analysis of the PRC laws which are relevant to our business and operations.

## I. THE CONCRETE AND PC COMPONENT INDUSTRY

### Industry policy

The "Interim Provisions on Promoting Industrial Structure Adjustment" (《促進產業結構調整暫行規定》) was promulgated by the State Council on 2 December 2005 with effect on the same day, and the "Guidance Catalogue of Industrial Structure Adjustment (2019)" (《產業結構調整指導目錄(2019)》) (collectively, "**Industrial Structure Adjustment Provisions**") was promulgated by NDRC on 30 October 2019 and with effect on 1 January 2020. The "Guidance Catalogue of Industrial Structure Adjustment" is composed of three categories of industries, namely, the encouraged category, the restricted category and the eliminated category. The industries not belonging to the encouraged category, the restricted category or the eliminated category, but conforming to the relevant laws, regulations and policies of the state, shall belong to the permitted category. The permitted category shall not be listed into the "Guidance Catalogue of Industrial Structure Adjustment". The new investments project under the restricted category shall be prohibited. The investment administrative department shall not examine, approve, ratify or archive the projects under the restricted category. No financial institution shall grant loans for such projects, and no administrative departments of land administration, urban planning, construction, environmental protection, quality inspection, fire prevention, customs, or industry and commerce, etc. shall handle the relevant procedures for such projects. In case of any violation of the provisions to carry out construction based on investment or financing, the relevant entities and persons shall be subject to liabilities. With respect to the existing production capacities under the restricted category, the enterprises shall be allowed to, within a certain period, take measures to transform or upgrade themselves, and the financial institutions shall, in compliance with the credit principles, continue providing supports. The relevant administrative department of the state shall, when required by industrial structure optimisation and upgrading, comply with the principle of selecting the superior and eliminating the inferior and provide classified guidance.

All investments after the effective date of the Industrial Structure Adjustment Provisions in the eliminated category are prohibited. All regions, departments and enterprises concerned shall adopt strong measures to eliminate the prescribed production technology, equipment and products within a prescribed timeframe. For enterprises which fail to do so, the local people's governments at all levels and the competent authorities shall order suspension or closure in accordance with relevant PRC laws and regulations. If the products of such enterprises are regulated under the production permit system, the competent authorities shall revoke the production permits in accordance with the law. The State Administration for Industry and

Commerce (which has been changed to SAMR) shall supervise and urge the enterprises to undergo procedures for modification or cancellation of their registration in accordance with the law. The environmental protection and management authorities shall revoke the discharge licences of such enterprises. If the relevant requirement is not fulfilled, the person with direct responsibilities and the related leadership shall be pursued for liability.

As advised by our PRC Legal Advisers, since our Company's business does not belong to the encouraged category, the restricted category nor the eliminated category, our Company's business shall be listed into the permitted category.

**Ready-mixed concrete**

Pursuant to the "National Standard for Ready-mixed Concrete" (《預拌混凝土國家標準》(GB/T14902-2012)), issued by AQSIQ and SAC and published by Standards Press of China on 31 December 2012 and effective since 1 September 2013, standards are made for the production and acceptance of ready-mixed concrete.

Pursuant to the "Code for Acceptance of Constructional Quality of Concrete Structures" (《混凝土結構工程施工質量驗收規範》 (GB50204-2015)), promulgated by MOHURD and AQSIQ on 31 December 2014 and effective from 1 September 2015, the engineering of industrial, civil and general concrete structures, including cast-in-situ concrete structures and precast concrete structures is regulated.

Pursuant to the "Code for design of concrete structures" (《混凝土結構設計規範》(GB50010-2010)), promulgated by MOHURD and AQSIQ on 18 August 2010 and amended on 22 September 2015 and effective on the same day, the design of concrete structures is regulated.

Pursuant to the "Specification for mix proportion design of ordinary concrete" (《普通混凝土配合比設計規程》(JGJ55-2011)), published by MOHURD on 22 April 2011 and effective since 1 December 2011, mix proportion design of ordinary concrete is regulated. Pursuant to the "Standard for technical requirements and test method of sand and crushed stone (or gravel) for ordinary concrete" (《普通混凝土用砂、石質量及檢驗方法標準》(JGJ52-2006)), issued by Ministry of Construction of the PRC (currently known as MOHURD) on 19 December 2006 and effective since 1 June 2007, standards are made for technical requirements and test method of sand and crushed stone (or gravel) for ordinary concrete.

Pursuant to the "Sampling method for cement" (《水泥取樣方法》(GB/T12573-2008)), issued by AQSIQ and SAC on 30 June 2008 and effective since 1 April 2009, standards are made for sampling method for cement.

Pursuant to the "Standard for evaluation of concrete compressive strength" (《混凝土強度檢驗評定標準》(GB/T50107-2010)), issued by MOHURD and AQSIQ on 31 May 2010 and effective since 1 December 2010, standards are made for evaluation of concrete compressive strength.

Pursuant to the "Standard Quality Control of Concrete" (《混凝土質量控制標準》(GB50164-2011)), issued by MOHURD on 2 April 2011 and effective since 1 May 2012, standards are made for the quality control of concrete.

Pursuant to the "Fly ash used for cement and concrete" (《用於水泥和混凝土中的粉煤灰》(GB/T1596-2017)), issued by AQSIQ and SAC on 12 July 2017 and effective since 1 June 2018, standards are made for fly ash used for cement and concrete.

Pursuant to the "Ground granulated blast furnace slag used for cement, mortar and concrete" (《用於水泥、砂漿和混凝土中的粒化高爐礦渣粉》(GB/T18046-2017)), issued by AQSIQ and SAC on 29 December 2017 and effective since 1 November 2018, standards are made for ground granulated blast furnace slag used for cement, mortar and concrete.

Pursuant to the "Expansive agents for concrete" (《混凝土膨脹劑》(GB/T23439-2017)), issued by AQSIQ and SAC on 29 December 2017 and effective since 1 November 2018, standards are made for expansive agents for concrete.

Pursuant to the "Ready-mixed mortar" (《預拌砂漿》(GB/T25181-2019)), issued by AQSIQ and SAC on 30 August 2019 and effective since 1 July 2020, standards are made for ready-mixed mortar.

Pursuant to the "Concrete admixtures" (《混凝土外加劑》(GB8076-2008)), issued by AQSIQ and SAC on 31 December 2008 and effective since 30 December 2009, standards are made for concrete admixtures.

Pursuant to the "Common Portland Cement" (《通用矽酸鹽水泥》(GB175-2007)), issued by AQSIQ and SAC on 9 November 2007 and effective since 1 June 2008, standards are made for common portland cement.

Pursuant to the "Standard for test methods of concrete physical and mechanical properties" (《混凝土物理力學性能試驗方法標準》(GB/T50081-2019)), issued by MOHURD and SAMR on 19 June 2019 and effective since 1 December 2019, standards are made for test methods of concrete physical and mechanical properties.

Pursuant to the "Notice on the Deadline for the Banning of On-site Mixing Concrete in Urban Areas" (《關於限期禁止在城市城區現場攪拌混凝土的通知》) (商改發[2003]341號)), promulgated by MOFCOM, the Ministry of Public Security of the PRC, MOHURD and Ministry of Transport of the PRC on 16 October 2003, 124 cities including Beijing, on-site concrete mixing has been banned since 31 December 2003, and cities in other provinces (autonomous regions) have banned on-site concrete mixing since 31 December 2005. Xiamen is one of the 124 cities on the lists.

Pursuant to the "Quality Management Standard of Ready-mixed Commercial Concrete in Fujian Province" (《福建省預拌商品混凝土質量管理標準》) (閩建[2012]15號)), issued by Fujian Housing and Urban-Rural Construction Department on 5 December 2012 and newly amended on 16 July 2018, a special concrete laboratory is required.

Pursuant to the "Notice on Strengthening the Management of Ready-Mixed Commercial Concrete Industry" (《廈門市建設局關於加強預拌商品混凝土行業管理的通知》(廈建科[2014]53號)), promulgated by Xiamen Construction Bureau on 24 October 2014 and effective on the same day, some specific regulations have been made for the management of ready-mixed commercial concrete enterprises.

**PC components**

Pursuant to the "Reinforced concrete segments" (《預製混凝土襯砌管片》(GB/T22082-2017)), issued by AQSIQ and SAC on 29 December 2017 and effective since 1 November 2018, standards are made for reinforced concrete segments.

Pursuant to the "Guiding Opinions of the General Office of the State Council on Vigorously Developing Prefabricated Buildings" (《國務院辦公廳關於大力發展裝配式建築的指導意見》(國辦發[2016]71號)), promulgated by the General Office of State Council on 27 September 2016 and effective on the same day, it proposes to perfect standard and normative system, such as the national standards, the industry standards and the local standards for prefabricated buildings; innovate the architectural design for prefabricated buildings; optimise the production of prefabricated parts and components; improve the standard of construction; implement the collaborative construction of prefabricated building decoration with main structure and mechanical and electrical equipment; encourage the using of green building materials; promote the general contracting business. In principal, the prefabricated buildings should adopt the general contracting mode and the bidding can be carried out according to complex technical projects.

Pursuant to the "Action Plan for the 13th Five-Year Prefabricated Construction" (《「十三五」裝配式建築行動方案》(建科[2017]77號)), promulgated by MOHURD on 23 March 2017 and effective on the same day, the proportion of prefabricated buildings in newly constructed buildings should be more than 15% in the PRC by 2020, among which, such proportion should be more than 20% in major promoting areas, 15% in actively promoting areas and 10% in encouraged promoting areas. By 2020, over 50 prefabricated construction demonstration cities, over 200 prefabricated construction industrial bases and over 500 prefabricated construction demonstration projects will be developed, and over 30 prefabricated construction technology innovation bases will be built.

Pursuant to the "Administrative Measures for Prefabricated Construction Demonstration City" (《裝配式建築示範城市管理辦法》(建科[2017]77號)), promulgated by MOHURD on 23 March 2017 and effective on the same day, to be recognised as a prefabricated construction demonstration city by such administrative measures entails having relatively strong industrial foundation and playing an exemplary role in the development goal, supporting policy, technological standards, project implementation and development mechanism of prefabricated construction during the development of prefabricated construction. The relevant preferential support policies should lean towards such demonstration cities when formulating and implementing.

Pursuant to the "Administrative Measures for Prefabricated Construction Industrial Base" (《裝配式建築產業基地管理辦法》(建科[2017]77號)), promulgated by MOHURD on 23 March 2017 and effective on the same day, "Prefabricated Construction Industrial Base" refers to prefabricated construction related companies which possess definitive development goal, relatively strong industrial foundation, advanced and established techniques, capability in research and development innovation, strong industrial relevancy, and focus on the cultivation and training for prefabricated construction related talents as well as play an exemplary and encouraging role as demonstration. Such companies mainly consist of those engaged in the design, parts and components production, construction, equipment manufacturing, technology research and development for prefabricated construction. Industrial bases are given priority to enjoy relevant supporting policies from MOHURD and relevant housing and urban-rural development departments where they are located. Zhixin Construction Technology was recognised as a prefabricated construction industrial base by MOHURD in September 2020.

## II. THE CONSTRUCTION INDUSTRY

### Qualifications for operations

Pursuant to the "Regulations on the Quality Management of Construction Projects" (《建設工程質量管理條例》), promulgated by State Council on 30 January 2000, amended on 7 October 2017 and 23 April 2019 respectively, and the "Provisions on the Administration of Qualifications of Construction Enterprises" (《建築業企業資質管理規定》), promulgated by the MOHURD on 22 January 2015, revised on 13 September 2016 and 22 December 2018 respectively, every enterprise engaging in the production and sale of concrete, including foreign investment enterprise established in China by foreign investors, shall obtain a qualification certificate of construction enterprise from the construction administration.

Pursuant to the "PRC Construction Law" (《中華人民共和國建築法》) promulgated by the NPC Standing Committee on 1 November 1997, and revised on 22 April 2011 and 23 April 2019 respectively, and "Provisions on the Administration of Qualifications of Construction Enterprises" (《建築業企業資質管理規定》), the "Standards of Qualifications for Construction Enterprises (2014)" (《建築業企業資質標準(2014)》) promulgated by the MOHURD on 6 November 2014 and effective on 1 January 2015 and revised on 14 October 2016, enterprises engaged in the construction of concrete prefabricated components do not need to apply for Qualification Certificate of Construction Enterprise ("**QCCE**") anymore, the qualification for professional contracting ready-mixed concrete is not graded anymore, and qualified enterprises may produce concrete of various strength grades and special concrete. The term of validity for the QCCE is five years. Zhixin Construction Material acquired QCCE with certificate No. D335055835 for the ungraded ready-mixed concrete professional contractor issued by Xiamen Municipal Construction Bureau on 23 June 2016, the expiration date of which is 22 June 2021.

Pursuant to the "Opinions on Application for Safety Production License for 8 Specialized Contracting Enterprises, such as Earthwork and Concrete Prefabricated Components" (《住房和城鄉建設部辦公廳關於土石方、混凝土預製構件等8類專業承包企業申領安全生產許可證事宜的意見》(建辦質函[2015]269號)), promulgated by General Office of the MOHURD on 3 April 2015 and effective on the same date, enterprises engaged in the construction of concrete prefabricated components do not need to apply for safety production license of construction enterprises in accordance with the relevant provisions of safety production license management.

Pursuant to the "Unified Standard for Constructional Quality Acceptance of Building Engineering" (《建築工程施工質量驗收統一標準》) (GB50300-2013)), promulgated by the MOHURD on 1 November 2013 and effective on 1 June 2014, general standards on the methods, quality criteria and processes of construction acceptance are made.

Pursuant to "The 13th Five-Year Plan of Construction Industry" (《建築業發展「十三五」規劃》), promulgated by the MOHURD on 26 April 2017, the MOHURD aimed at upgrading and optimising the construction industry with various measures such as reducing the burden on the construction enterprises and offering financial support to major strategic projects.

**Production safety**

According to the "Production Safety Law of the People's Republic of China" (《中華人民共和國安全生產法》) promulgated by the NPC Standing Committee on 29 June 2002, revised on 27 August 2009 and 31 August 2014 respectively, production entities shall fulfil the production safety requirements under the Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards. Entities which fail to meet the production safety requirement may not engage in any production activities. Enterprises shall organise education and training on production safety for its staff. They shall also provide their staff with labour protective articles which meet the national or industrial standards and supervise and guide their staff to wear and use such articles according to the prescribed use.

**Bid and tender law**

Pursuant to the "Tendering and Bidding Law of the People's Republic of China" (《中華人民共和國招標投標法》) promulgated by the NPC Standing Committee on 30 August 1999 and revised on 27 December 2017 and effective from 28 December 2017, bids shall be invited for the following project construction items undertaken within the PRC, including surveying, design, construction, supervision and management of the project, as well as the purchase of important equipment and materials for the project construction: (i) large scale infrastructure or public utility projects and other projects relating to the public interest of society or public security; (ii) projects wholly or partly utilising State-owned capital or State funds; and (iii) projects utilising loan or aid funds provided by international organisations or foreign governments.

## III. FOREIGN INVESTMENT

### Negative list for foreign investment access

Pursuant to the "Special Administrative Measures (Negative List) (Edition 2020) for Foreign Investment Access" (《外商投資准入特別管理措施(負面清單) (2020年版)》), promulgated by the NDRC and the MOFCOM on 23 June 2020 and effective on 23 July 2020, foreign investors may not invest in areas where foreign investors are prohibited from investment as provided by the Negative List for Foreign Investment Access; a foreign investment permission must be obtained prior to investing in other areas that are not prohibited in the Negative List for Foreign Investment Access; when investment is made in areas for which there are equity requirements, no foreign-invested partnership may be established. Our PRC Legal Advisers are of the view that our Group's business is not specified in the Negative List for Foreign Investment Access.

## IV. REGULATIONS IN RELATION TO FOREIGN EXCHANGE CONTROLS

### Foreign exchange

The principal regulation governing foreign exchange in the PRC is "the Foreign Exchange Administration Rules of the PRC" (《中華人民共和國外匯管理條例》) which was issued by the State Council on 29 January 1996, became effective on 1 April 1996 and was amended on 14 January 1997 and 5 August 2008. Under these rules, the current account incomes of foreign exchanges can be retained or sold to financial authorities which manage exchange settlement and sale and purchase of foreign exchange. However, approval from the SAFE is required for the relevant capital account transactions of the foreign invested enterprises, such as the capital increase and decrease. Foreign invested enterprises may purchase foreign exchange without the approval of SAFE for trade and service related foreign exchange transactions by providing documents evidencing such transactions. In addition, foreign exchange transactions involving direct investment, loans and investment in securities outside the PRC are subject to limitations and require approvals from SAFE.

### Dividend distribution

The principal regulation governing distribution of dividends of foreign holding companies is the "Company Law of the PRC" (《中華人民共和國公司法》), promulgated by the NPC Standing Committee on 29 December 1993, subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005, 28 December 2013 and 26 October 2018. Under the law, foreign investment enterprises in China shall contribute 10% of the profits into their statutory surplus reserve upon distribution of their post-tax profits of the current year. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital.

## V. ENVIRONMENTAL PROTECTION

### General rules

In accordance with the "PRC Environmental Protection Law" (《中華人民共和國環境保護法》), promulgated by the NPC Standing Committee on 26 December 1989 and amended on 24 April 2014 and effective on 1 January 2015, the environmental protection department of the State Council shall formulate national environmental quality standards. People's governments of provinces, autonomous regions and centrally-administered municipalities may formulate local environmental quality standards for projects which are not governed by the national environmental quality standards; for projects which are governed by the national environmental quality standards, stricter local environmental quality standards which are stricter than the national environmental quality standards may be formulated by the PRC Government. Local environmental quality standards shall be filed with the environmental protection department of the State Council for record.

Enterprises discharge any pollutants in their daily operations and manufacture shall observe the national discharge standards which are regulated by the Ministry of Environmental Protection of the PRC, which has established various discharge standards, as amended and revised from time to time, with regards to discharge of water pollutants, solid pollutants, gas exhaust, noises and other pollutants.

### Environmental impact assessment

According to the "Administrative Regulations for the Environmental Protection of Construction Projects" (《建設項目環境保護管理條例》), promulgated by the State Council on 29 November 1998, revised on 16 July 2017 and effective on 1 October 2017, and "Environmental Impact Assessment Law of the People's Republic of China" (《中華人民共和國環境影響評價法》), promulgated by the NPC Standing Committee on 28 October 2002 and revised on 2 July 2016 and 29 December 2018, enterprises are required to engage institutions with corresponding environmental impact assessment qualifications to provide environmental impact assessment services and reports for submission to the competent environmental protection approval administration. The State shall implement classified administration of environmental impact assessment for construction projects in accordance with the degree of environmental impacts of construction projects. The construction unit shall produce environmental impact reports and environmental impact statements or complete environmental impact registration forms (hereinafter referred to as "**Environmental Impact Assessment Documents**").

For a construction project which is required to prepare an environmental impact report or environmental impact statement pursuant to the law, construction work may only be commenced after such an assessment is submitted to and approved by the environmental protection administrative authority. The construction of pollution prevention and control facilities in a construction project must be designed and commenced simultaneously with the main facility. Pollution prevention and control facilities shall not be put to use until the approval, upon inspection, by the original environmental protection authority which had approved the environmental impact assessment documents.

An enterprise which fails to submit assessment documents on the environmental impact of a construction project in accordance with the law or which commences construction work without permission will be ordered to cease construction.

**Pollutant discharge**

According to the "Laws of the People's Republic of China on the Prevention and Control of Water Pollution" (《中華人民共和國水污染防治法》), promulgated by the NPC Standing Committee on 11 May 1984, subsequently revised on 15 May 1996, 28 February 2008 and 27 June 2017, environmental impact assessment shall be conducted for any new construction, reconstruction and expansion of projects or other installations on water which directly or indirectly discharge pollutants into the water according to law. Enterprises and institutions that discharge pollutants directly or indirectly into the water shall obtain the pollutants discharge permits.

According to the "Law of the People's Republic of China on Prevention and Control of Environmental Pollution Caused by Solid Waste" (《中華人民共和國固體廢物污染環境防治法》) promulgated by the NPC Standing Committee on 30 October 1995, subsequently revised on 29 December 2004, 29 June 2013, 24 April 2015, 7 November 2016 and 29 April 2020, entities that generate industrial solid wastes shall obtain a pollutant discharge permit and provide the relevant information to the local environmental protection administrative authority, including the types, output volume, destination, storage and disposal of the industrial solid wastes.

According to the "Law of the People's Republic of China on Prevention and Control of Atmospheric Pollution" (《中華人民共和國大氣污染防治法》), promulgated by the NPC Standing Committee on 5 September 1987, last amended on 26 October 2018 and with effect on the same day, new construction, expansion and reconstruction projects which discharge pollutants into the air shall be subject to the relevant environmental protection regulations of the PRC.

Under the "Law on Prevention and Control of Environmental Noise Pollution of the People's Republic of China" (《中華人民共和國環境噪聲污染防治法》), promulgated by the NPC Standing Committee on 29 October 1996, amended on 29 December 2018 and with effect on the same day, industrial enterprises producing environmental noise pollution as a result of using their fixed facilities in industrial production must report to the local environmental protection administrative department in charge in relation to their facilities that produce noise pollution by category, quantity, and noise pollution level under normal operating conditions as well as the conditions of their noise pollution preventive facilities. They should also provide technical information about how to prevent and control noise pollution. Units producing environmental noise pollution should adopt remedial measures and pay discharge fees for exceeding the standards according to the PRC regulations.

## VI. TAXATION

### Enterprise income tax

Pursuant to the "PRC Tax Law" (《中華人民共和國企業所得稅法》), promulgated by the NPC on 16 March 2007, revised on 24 February 2017 and 29 December 2018, resident enterprises are subject to enterprise income tax at an applicable rate of 25% for all incomes generated within and outside the PRC, while non-resident enterprises which have established institutions or places of business in the PRC are subject to enterprise income tax for all incomes generated from such institutions or places of business in the PRC and all incomes generated outside the PRC which are actually related to the institutions or places of business established in the PRC where the enterprise income tax rate is 25%.

Non-resident enterprises which have not established any institutions or places of business in the PRC, or which have established institutions or places of business in the PRC but there are no actual relationship between the incomes generated in the PRC and such institutions or places of business are only subject to enterprise income tax for all incomes generated in the PRC at an applicable rate of 20%. However, according to the "Implementation Regulations of the PRC Enterprise Income Tax Law" (《中華人民共和國企業所得稅法實施條例》), promulgated by the State Council on 6 December 2007 and effective on 1 January 2008, revised on 23 April 2019, the aforesaid income of non-resident enterprise shall be subject to enterprise income tax at a reduced tax rate of 10%.

According to the "Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income" (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), promulgated by SAT on 21 August 2006, for a Hong Kong enterprise directly holds not less than 25% of the shares of a PRC enterprise, the dividend paid to the Hong Kong enterprise by the PRC enterprise shall be subject to a withholding tax rate of 5%. According to the "Notice on the Issues Concerning the Application of the Dividends Clauses of Tax Treaties" (《關於執行稅收協定股息條款有關問題的通知》) issued by SAT on 20 February 2009, the direct shareholding proportion of such corporate recipients of dividends distributed by the PRC enterprises must satisfy the minimum requirement under the tax treaty at all times during the 12 consecutive months preceding the receipt of the dividends.

**VAT**

Pursuant to the "Provisional Regulations of the People's Republic of China on Value-added Tax" (《中華人民共和國增值稅暫行條例》) ("**VAT Provisions**"), promulgated by the State Council on 13 December 1993 and last revised on 19 November 2017 and effective on the same day, organisations and individuals engaging in sale of goods or processing, repair and assembly services (hereinafter referred to as "**labour services**"), sales of services, intangible assets, immovables and importation of goods in the PRC shall be taxpayers of VAT, general VAT taxpayers engaging in sale of goods, services, lease of tangible movables or importation of goods other than those specifically listed in the VAT Law shall pay VAT at a tax rate of 17% pursuant to the VAT Provisions. According to the "Notice of Adjusting Value-added Tax Rates" (《財政部、稅務總局關於調整增值稅稅率的通知》), promulgated by the MOF and the SAT on 4 April 2018 and became effective on 1 May 2018, the tax rates of 17% and 11% applicable to any taxpayer who have VAT taxable sales activities shall be adjusted to 16% and 10% respectively. According to the "Announcement on Policies for Deepening the VAT Reform"(《關於深化增值稅改革有關政策的公告》) promulgated by the MOF, SAT and the General Administration of Customs on 20 March 2019 and became effective on 1 April 2019, for general VAT payers' sales activities or imports that are subject to VAT at an existing applicable rate of 16% and 10%, the applicable VAT rate is adjusted to 13% and 9% respectively. Therefore, during the Track Record Period and up to the Latest Practicable Date, for the enterprise selling the PC components, the tax rate of VAT shall be 17% before 1 May 2018, 16% before 1 April 2019 and 13% from 1 April 2019 respectively, and for the enterprise engaging in sale of transportation, the tax rate of VAT shall be 11% before 1 May 2018, 10% before 1 April 2019 and 9% from 1 April 2019 respectively.

Pursuant to "Notice of the Ministry of Finance and the State Administration of Taxation on Value-Added Tax Policies Concerning the Application of Low Tax Rates and Simplified Taxation Method for Certain Goods" (《財政部、國家稅務總局關於部分貨物適用增值稅低稅率和簡易辦法徵收增值稅政策的通知》), promulgated by MOF and SAT on 19 January 2009 and effective on 1 January 2009, and then revised on 25 May 2012 and 13 June 2014 with effect on 1 July 2014, and "Notice of the Ministry of Finance and the State Administration of Taxation on Simplifying Value-added Tax Rate Policies" (《關於簡併增值稅徵收率政策的通知》), promulgated by MOF and SAT on 13 June 2014 and effective on 1 July 2014, if general taxpayers sell concrete commodities (solely include cement concrete made of cement as the raw material), VAT shall be paid and calculated at the rate of 3% under the simplified method.

**Environmental protection tax**

Pursuant to the "Environmental Protection Tax Law of the People's Republic of China" (《中華人民共和國環境保護稅法》), promulgated by the NPC Standing Committee on 25 December 2016 and effective from 1 January 2018 and then revised on 26 October 2018, public institutions and other producers/operators that discharge taxable pollutants directly to the environment within the territorial areas of the PRC and other sea areas under the jurisdiction of the PRC are the taxpayers of environmental protection tax and shall pay such tax in accordance with the provisions of this law. The people's government of a province, autonomous region or centrally-administered municipality may propose the determination of and adjustment to the applicable tax amounts of the taxable air pollutants and water pollutants within the range of taxable amounts specified in the table of items and amounts of environmental protection tax annexed thereto by giving full consideration to local environmental bearing capacity, status quo of discharge of pollutants as well as the requirements of the socioeconomic development objectives, subject to approval by the standing committee of the people's congress at the same level and filing with the NPC Standing Committee and the State Council. Environmental protection tax shall be collected in accordance with the provisions of this law and the waste discharge fee shall no longer be collected from the effective date of this law.

**Urban maintenance and construction tax**

Under the "Provisional Regulations of the PRC on Urban Maintenance and Construction Tax" (《中華人民共和國城市維護建設稅暫行條例》) enacted by the State Council on 8 February 1985, implemented since 8 February 1985 and as amended on 8 January 2011, any taxpayer, whether an entity or individual, of product tax, VAT or business tax shall be required to pay urban maintenance and construction tax. The tax rate shall be 7% for a taxpayer whose domicile is in an urban area, 5% for a taxpayer whose domicile is in a county or a town, and 1% for a taxpayer whose domicile is not in any urban area or county or town.

**Education surcharges**

Pursuant to the "Provisional Regulations on the Collection of Education Surcharges" (《徵收教育費附加的暫行規定》), promulgated by the State Council on 28 April 1986, last revised on 8 January 2011 and effective on the same day, the computation and collection of education surcharges are based on the amount of value-added tax, business tax and consumption tax actually paid by entities and individuals. The rate of education surcharges is 3%, which shall be paid together with value-added tax, business tax or consumption tax respectively. Unless otherwise prescribed by the State Council, no region or authority may increase or reduce the education surcharge rate without authorisation.

## VII. LABOUR LAW AND REGULATIONS

Enterprises in China are mainly subject to the following PRC labour laws and regulations: "Labour Law of the PRC" (《中華人民共和國勞動法》), "PRC Labour Contracts Law" (《中華人民共和國勞動合同法》), the "Social Insurance Law of the PRC" (《中華人民共和國社會保險法》), the "Regulation of Insurance for Work-Related Injury" (《工傷保險條例》), the "Regulations on Unemployment Insurance" (《失業保險條例》), the "Provisional Measures on Insurance for Maternity of Employees (《企業職工生育保險試行辦法》), the "Interim Regulation on the Collection and Payment of Social Insurance Premiums" (《社會保

險費徵繳暫行條例》), the "Administrative Regulation on Housing Fund" (《住房公積金管理條例》) and other related regulations, rules and provisions issued by the relevant governmental authorities from time to time.

The principal regulations governing the employment contract is the PRC Labour Contracts Law, which was promulgated by the NPC Standing Committee on 29 June 2007 and amended on 28 December 2012 and came into effect on 1 July 2013. Pursuant to the PRC Labour Contracts Law, employers shall establish employment relationship with employees on the date that they start employing the employees. To establish employment, a written employment contract shall be concluded, or employers will be liable for the illegal actions. Furthermore, the probation period and liquidated damages shall be restricted by the law to safeguard employees' rights and interests.

As required under the Social Insurance Law of the PRC, the Regulation of Insurance for Work-Related Injury, the Provisional Measures on Insurance for Maternity of Employees and the Administrative Regulation on Housing Fund, enterprises in China are obliged to provide employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance, medical insurance and housing accumulation fund.

According to "Collection Measures on the Housing Provident Fund of Xiamen Municipality" (《廈門市住房公積金歸集辦法》), which was promulgated by Xiamen Housing Provident Fund Management Commission on 25 September 2009 and became effective from 1 October 2009, state organs, state-owned enterprises, collective enterprises in cities and towns, foreign-invested enterprises, institutions, private enterprises in cities and towns and other enterprises in cities and towns, private non-enterprise units and associations, and their urban employees, within the territory of Xiamen, shall pay housing provident fund contributions.

## VIII. REGULATIONS RELATING TO INTELLECTUAL PROPERTY

### Domain name

Pursuant to the "Measures for the Administration of Internet Domain Names" (《互聯網域名管理辦法》), promulgated on 24 August 2017 and with effect from 1 November 2017, "domain name" shall refer to the character mark of hierarchical structure, which identifies and locates a computer on the internet and corresponds to the internet protocol (IP) address of that computer. The principle of "first come, first serve" is followed for the domain name registration service. After completing the domain name registration, the applicants become the holder of the domain name registered by him/it.

### Patent

The NPC Standing Committee adopted the "Patent Law" (《中華人民共和國專利法》) in 1984, as most recently amended in 2008. A patentable invention, utility model or design must meet three conditions: novelty, inventiveness and practical applicability. Patents cannot be granted to scientific discoveries, rules and methods for intellectual activities, methods used to diagnose or treat diseases, animal and plant breeds or substances obtained by means of nuclear transformation. A patent is valid for a 20-year term in the case of an invention and a 10-year term in the case of a utility model or design, starting from the application date. A third-party user must obtain consent or a proper license from the patent owner to use the patent except for certain specific circumstances provided by law. Otherwise, the use will constitute an infringement of the patent rights.

**Trademarks**

Both "Trademark Law of the PRC" (《中華人民共和國商標法》) promulgated by the NPC Standing Committee in 1982 and amended respectively on 22 February 1993, 27 October 2001, 30 August 2013 and 23 April 2019, and became with effective on 1 November 2019 and the "Regulation on Implementation of Trademark Law of the PRC" (《中華人民共和國商標法實施條例》) promulgated by the State Council on 3 August 2002, amended on 29 April 2014 and with effective on 1 May 2014, provide protection to the holders of registered trademarks. In the PRC, registered trademarks include commodity trademarks, service trademarks, collective marks and certificate marks.

A registered trademark is valid for 10 years and is renewable every 10 years where a registered trademark needs to be used after the expiration of its validity term. A registration renewal application shall be filed within 12 months prior to the expiration of the term. Where renewal formalities are not completed upon expiry of the validity period, a six-month extension may be allowed, during which renewal formalities are still not commenced, the registered trademark shall be cancelled.

## IX. PROVISIONS ON THE MERGER AND ACQUISITION OF DOMESTIC ENTERPRISES BY FOREIGN INVESTORS

In light of the M&A Rules adopted on 8 August 2006, became effective on 8 September 2006 and amended on 22 June 2009, "mergers and acquisitions of domestic enterprises by foreign investors" refers to:

1. equity merger and acquisition: means a foreign investor converts a non-foreign invested enterprise (domestic company) to a foreign invested enterprise by purchasing the equity interest from the shareholder of such domestic company or the increased capital of the domestic company; or

2. a foreign investor establishes a foreign invested enterprise to purchase the assets from a domestic enterprise by agreement and operates the assets therefrom; or

3. assets merger and acquisition: means a foreign investor purchases the assets from a domestic enterprise by agreement and uses these assets to establish a foreign invested enterprise for the purpose of operation of such assets.

Mergers and acquisitions of domestic enterprises by foreign investors shall be subject to the approval of the MOFCOM or its delegates at provincial level. In the event that any domestic company, enterprise or natural person merges or acquires a domestic company that has affiliated relationship with it through an overseas company legally established or controlled by such domestic company, enterprise or natural person, the merger and acquisition applications shall be submitted to the MOFCOM for approval and any circumvention on the requirement including domestic re-investment of a foreign invested enterprise is not allowed.

According to the "Interim Measures for the Recordation Administration of the Formation and Modification of Foreign-Funded Enterprises" (《外商投資企業設立及變更備案管理暫行辦法》) promulgated by MOFCOM on 8 October 2016 and revised on 30 June 2018, the establishment and change of foreign-invested enterprises that do not involve the implementation of special management measures for foreign investors to invest into China shall be filed with the relevant commerce authorities, which has been repealed by the "Measures on Foreign Investment Enterprises Information Reporting" (《外商投資信息報告辦法》) as of 1 January 2020. Pursuant to the "Measures on Foreign Investment Enterprises Information Reporting" promulgated by the MOFCOM and the SAMR on 30 December 2019 and came into effect on 1 January 2020, where a foreign investor directly or indirectly conducts investment activities within China, the foreign investor or foreign-invested enterprise shall submit investment information to the competent authorities of commerce in accordance with the "Measures on Foreign Investment Enterprises Information Reporting".

## X. CIRCULAR 37 AND CIRCULAR 13

On 4 July 2014, the SAFE promulgated the Circular 37, according to which, (a) "SPV" is defined as "offshore enterprise directly established or indirectly controlled by domestic residents (including domestic institution and individual resident) with their legally owned assets or equity of domestic enterprises, or legally owned offshore assets or equity, for the purpose of offshore investment and financing; (b) a domestic resident must register with the SAFE before he or she contributes assets or equity interests to SPV; (c) following the initial registration, any major changes such as change in the overseas SPV's domestic resident shareholders, names of the overseas SPV and terms of operation or any increase or reduction of the overseas SPV, registered capital, share transfer or swap, merger or division, or similar development, shall be reported to the SAFE for registration in time, and failing to comply with the registration procedures as set out in Circular 37 may result in penalties.

On 13 February 2015, the SAFE promulgated the "Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving the Foreign Exchange Management Policies for Direct Investment" (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) ("**Circular 13**"), according to which, the banks will review and carry out foreign exchange registration under domestic direct investment as well as foreign exchange registration under overseas direct investment (collectively known as direct investment foreign exchange registration) directly, and the SAFE and its branches shall implement indirect supervision over foreign exchange registration of direct investment via the banks.

## BUSINESS DEVELOPMENT OF OUR GROUP

Our history started on 19 April 2007, when Zhixin Construction Material was established in Xiamen as a limited liability company by Mr. Ye, Mr. Ye Xiaojian, who was Mr. Ye's nephew, and an Independent Third Party. In late 1990s, having considered the potential business opportunity for the concrete industry in the PRC arising from the development of infrastructure and having accumulated sufficient experience in the PRC construction industry, Mr. Ye decided to specialise in the concrete industry in the PRC. For further details about Mr. Ye's experience in the PRC construction industry and concrete industry, please refer to Mr. Ye's biography in the section headed "Directors and senior management" in this prospectus. The initial registered capital of Zhixin Construction Material was RMB4,500,000, in which 40%, 30% and 30% was contributed by Mr. Ye, Mr. Ye Xiaojian and an Independent Third Party, respectively. The corresponding portion of registered capital of Zhixin Construction Material contributed by Mr. Ye was initially financed by Mr. Ye's personal financial resources. We commenced construction of our RMC Plant in 2007 which commenced commercial operation in 2007. Zhixin Construction Material was principally engaged in manufacturing, processing and sale of ready-mixed concrete.

In the course of expansion of our business, Mr. Ye founded Zhixin Logistics in December 2012 which principally engaged in the logistics business, with a view to secure the availability of transportation of raw materials and products of our Group. Zhixin Logistics later became a subsidiary of Zhixin Construction Material in November 2013.

In September 2014, with a view to expand our business to the production of PC component for prefabricated constructions, Zhixin Construction Material acquired Zhixin Construction Technology from two Independent Third Parties as Zhixin Construction Technology owned the land use right of a parcel of land that was later used for the construction of our PC Plant in order to cater for our business expansion. Zhixin Construction Technology principally engages in manufacturing and sale of PC components.

In February 2015, Mr. Huang, who was then a supplier of our Group and had more than 10 years of experience in the construction and construction material industries, envisaged the potential in the PC components business and became an equity holder of Zhixin Construction Technology. For further details about Mr. Huang's experience in the construction and construction material industries, please refer to Mr. Huang's biography in the section headed "Directors and senior management" in this prospectus.

We commenced the construction of our PC Plant and commenced production and sale of PC components in 2017.

### Business milestones

The following sets out our business development milestones:

2007 • Zhixin Construction Material was established as a limited liability company in the PRC and commenced the production and sale of ready-mixed concrete

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| 2008 | ● | We were first accredited as Excellent Enterprise of Xiamen Ready-mixed Concrete Industry* (廈門市預拌混凝土行業優秀企業) by Xiamen Bulk Cement Office* (廈門市散裝水泥辦公室) and Xiamen Construction Engineering Material Equipment Association* (廈門市建設工程材料設備協會) |
| 2008 | ● | We were first accredited as Excellent Enterprise of China Concrete Industry* (中國混凝土行業優秀企業) by Concrete Branch of China Construction Industry Association* (中國建築業協會混凝土分會) |
| 2011 | ● | We were first accredited as Model Enterprise of Green Production of China Concrete Industry* (中國混凝土行業綠色生產示範企業) by Concrete Branch of China Construction Industry Association* (中國建築業協會混凝土分會) |
| 2012 | ● | Zhixin Logistics was established as a limited liability company |
| 2014 | ● | We acquired Zhixin Construction Technology |
| 2016 | ● | We obtained the Professional Contracting of Ready-mixed Concrete Qualification* (預拌混凝土專業承包) from Xiamen Construction Bureau (廈門市建設局) |
| 2016 | ● | We were first awarded the Certificate of Green Building Materials Evaluation* (綠色建材評價標識證書) from China Building Material Test & Certification Group Co., Ltd.* (中國建材檢驗認證集團股份有限公司) |
| 2017 | ● | We commenced the construction of our PC Plant and commenced production and sale of PC Components |
| 2018 | ● | We received various accreditation including GB/T 23001-2017 Integration of Informatisation and Industrialisation Management System, GB/T 19001-2016/ISO 9001:2015 Quality Management System, GB/T 24001-2016/ISO 14001:2015 Environmental Management System and GB/T 28001-2011/OHSAS 18001:2007 Occupational Health Safety Management System |
| 2018 | ● | We were appointed as a standing council unit of the Integrated Pipe Gallery Construction and Underground Space Utilisation Committee* (綜合管廊建設及地下空間利用專業委員會) of China Municipal Engineering Association |
| 2019 | ● | We expanded our production base for manufacturing and storage of PC components by leasing a property in Guankou Town, Jimei District, Xiamen, with gross floor area of approximately 12,360 sq.m. of production facilities and site area of approximately 13,250 sq.m. of land, which is located on the east of the production facilities |

2019 • We were recognised as a Xiamen Municipal High and New Technology Enterprise* (廈門市市級高新技術企業) by Xiamen Municipal Bureau of Science and Technology* (廈門市科學技術局)

2020 • We were recognised as a Xiamen New Materials Enterprise* (廈門市新材料企業) by Xiamen Municipal Bureau of Industry and Information Technology* (廈門市工業和信息化局)

2020 • We were recognised as a Fujian Science and Technology Little Giant Leader Enterprise* (福建省科技小巨人領軍企業) by Fujian Department of Science and Technology* (福建省科學技術廳), Fujian Development and Reform Commission* (福建省發展和改革委員會), Fujian Provincial Bureau of Industry and Information Technology* (福建省工業和信息化廳) and Fujian Provincial Bureau of Finance (福建省財政局)

2020 • We were recognised as a Xiamen Science and Technology Little Giant Leader Enterprise* (廈門市科技小巨人領軍企業) by Xiamen Municipal Bureau of Science and Technology* (廈門市科學技術局), Xiamen Municipal Bureau of Finance* (廈門市財政局), Xiamen Development and Reform Commission* (廈門市發展和改革委員會), Xiamen Municipal Bureau of Industry and Information Technology* (廈門市工業和信息化局) and Xiamen Torch Development Zone for High Technology Industries Management Committee* (廈門火炬高技術產業開發區管理委員會)

2020 • We were recognised as a National Prefabricated Construction Industrial Base* (國家裝配式建築產業基地) by MOHURD

2020 • We were recognised as a Green Factory* (綠色工廠) by the Energy Conservation and Resources Utilisation Department of the Ministry of Industry and Information Technology* (工業和信息化部節能與綜合利用司) of the PRC

## OUR CORPORATE HISTORY

### Zhixin Construction Material

On 19 April 2007, Zhixin Construction Material was established in Xiamen as a limited liability company by Mr. Ye, Mr. Ye Xiaojian, who was Mr. Ye's nephew, and an Independent Third Party. Zhixin Construction Material commenced business in 2007 and was principally engaged in manufacturing, processing and sale of ready-mixed concrete. Its initial registered capital was RMB4,500,000, in which 40%, 30% and 30% was contributed by Mr. Ye, Mr. Ye Xiaojian and an Independent Third Party, respectively, at the time of the establishment of Zhixin Construction Material.

Zhixin Construction Material had subsequently undergone a series of capital injections and transfers of equity interest. As at 3 March 2015, the registered capital of Zhixin Construction Material was RMB100,000,000 and was contributed by Mr. Ye and an Independent Third Party as to 60% and 40% respectively.

Zhixin Logistics and Zhixin Construction Technology became a direct wholly-owned subsidiary of Zhixin Construction Material on 20 November 2017 and 1 December 2017, respectively.

On 4 December 2017, Mr. Ye and Mr. Huang acquired 15% and 25% equity interest of Zhixin Construction Material respectively held by a former business partner of Mr. Ye ("**Former Shareholder**"), who became a shareholder of Zhixin Construction Material in August 2009 and is an Independent Third Party, at a consideration of RMB15,000,000 and RMB25,000,000, respectively, which was determined with reference to the registered capital of Zhixin Construction Material of RMB100,000,000 at that time. After the acquisitions, Mr. Ye and Mr. Huang were interested in Zhixin Construction Material as to 75% and 25%, respectively. The disposal of equity interest in Zhixin Construction Material by the Former Shareholder was part of his divestment plan from our Group as he was not interested in developing PC components business.

As part of the Reorganisation, on 14 January 2019, Pakhim Chen HK acquired 9.99% and 3.33% equity interest in Zhixin Construction Material from Mr. Ye and Mr. Huang at a consideration of RMB10,489,500 and RMB3,496,500, respectively, which was determined with reference to the appraised net asset value of Zhixin Construction Material of RMB105,000,000 as at 31 December 2018. Pakhim Chen HK was wholly owned by Pakhim Chen BVI which was in turn wholly owned by Ms. Chen. Ms. Chen has over 10 years of finance work experience in a company established in the PRC which was principally engaged in, among others, trading of construction materials, and she was acquainted with Mr. Ye during her tenure in the related industry. Ms. Chen envisaged the potential in our Group and decided to invest in our Group by acquiring an aggregate of 13.32% equity interest in Zhixin Construction Material from Mr. Ye and Mr. Huang as aforementioned in this paragraph.

Set out below is the shareholding structure of Zhixin Construction Material as at 14 January 2019:

| Name of shareholder | Registered capital (RMB million) | Percentage of shareholding (%) |
|---|---|---|
| Mr. Ye | 65.01 | 65.01 |
| Mr. Huang | 21.67 | 21.67 |
| Pakhim Chen HK | 13.32 | 13.32 |
| **Total** | **100.00** | **100.00** |

On 23 January 2019, each of Mr. Ye and Mr. Huang transferred his entire interest in Zhixin Construction Material (representing 65.01% and 21.67% of the registered capital in Zhixin Construction Material) to Zhixin HK at a consideration of RMB68,260,500 and RMB22,753,500, respectively, which was determined with reference to the appraised net asset value of Zhixin Construction Material of RMB105,000,000 as at 31 December 2018.

Set out below is the equity holding structure of Zhixin Construction Material as at 23 January 2019 and up to the Latest Practicable Date:

| Name of equity holder | Registered capital (RMB million) | Percentage of equity holding (%) |
|---|---|---|
| Zhixin HK | 86.68 | 86.68 |
| Pakhim Chen HK | 13.32 | 13.32 |
| **Total** | **100.00** | **100.00** |

As advised by the PRC Legal Advisers, the registered capital of Zhixin Construction Material was fully paid-up as at the Latest Practicable Date.

**Zhixin Logistics**

On 27 December 2012, Zhixin Logistics was established in Xiamen as a limited liability company by Mr. Ye and an Independent Third Party. Zhixin Logistics commenced business in 2013 and principally engaged in the logistics business. Its initial registered capital was RMB2,000,000, of which 56% and 44% was contributed by Mr. Ye and an Independent Third Party, respectively, at the time of the establishment of Zhixin Logistics.

On 11 November 2013, the registered capital of Zhixin Logistics increased from RMB2,000,000 to RMB5,000,000, whereby the additional registered capital was contributed by Zhixin Construction Material, and Zhixin Construction Material became a shareholder of Zhixin Logistics. Upon completion of the capital injection, Zhixin Logistics was owned by Zhixin Construction Material as to 60%, Mr. Ye as to 22.40% and an Independent Third Party as to 17.60%.

On 6 May 2017, Mr. Ye acquired the entire interest held by the Former Shareholder in Zhixin Logistics (representing 17.60% of the then registered capital in Zhixin Logistics) at a consideration of RMB880,000, which was determined with reference to the registered capital of Zhixin Logistics. Upon completion of the equity transfer, Zhixin Logistics was owned by Zhixin Construction Material as to 60% and Mr. Ye as to 40%. The disposal of equity interest in Zhixin Logistics by the Former Shareholder was part of his divestment plan from our Group as disclosed in the paragraph headed "Our corporate history — Zhixin Construction Material" in this section.

On 20 November 2017, Zhixin Construction Material acquired 40% equity interest in Zhixin Logistics held by Mr. Ye at a consideration of RMB2,000,000, which was determined with reference to the registered capital of Zhixin Logistics. Following the acquisition and as at the Latest Practicable Date, Zhixin Logistics has become a direct wholly-owned subsidiary of Zhixin Construction Material.

As advised by the PRC Legal Advisers, the registered capital of Zhixin Logistics was fully paid-up as at the Latest Practicable Date.

**Zhixin Construction Technology**

On 2 November 2010, Zhixin Construction Technology was established in Xiamen as a limited liability company. On 23 September 2014, Zhixin Construction Material acquired 66% and 34% equity interest in Zhixin Construction Technology from two Independent Third Parties at a consideration of RMB12,210,000 and RMB6,290,000, respectively, which was determined with reference to the registered capital of Zhixin Construction Technology at the time of the acquisition, being RMB16,500,000. Zhixin Construction Technology principally engaged in manufacturing and sale of PC components and it commenced PC components business in 2017.

On 24 December 2014, the registered capital of Zhixin Construction Technology increased from RMB16,500,000 to RMB26,500,000, whereby the additional registered capital was contributed by Zhixin Construction Material.

On 2 February 2015, the registered capital of Zhixin Construction Technology increased from RMB26,500,000 to RMB37,000,000, whereby the additional registered capital was contributed by Zhixin Construction Material and Mr. Huang as to RMB3,100,000 and RMB7,400,000, respectively. Since then, Mr. Huang became an equity holder of Zhixin Construction Technology. Upon completion of the capital injection, Zhixin Construction Technology was owned by Zhixin Construction Material as to 80% and Mr. Huang as to 20%.

On 28 March 2017, the registered capital of Zhixin Construction Technology increased from RMB37,000,000 to RMB200,000,000, whereby the additional registered capital was contributed by Zhixin Construction Material and Mr. Huang as to RMB130,400,000 and RMB32,600,000, respectively. Upon completion of the capital injection, Zhixin Construction Technology was owned by Zhixin Construction Material as to 80% and Mr. Huang as to 20%.

On 1 December 2017, Zhixin Construction Material acquired 20% equity interest in Zhixin Construction Technology from Mr. Huang at a consideration of RMB7,400,000, which was determined with reference to the paid-up capital of Zhixin Construction Technology contributed by Mr. Huang as at the date of transfer. Following the acquisition and as at the Latest Practicable Date, Zhixin Construction Technology has become a direct wholly-owned subsidiary of Zhixin Construction Material.

As advised by the PRC Legal Advisers, the registered capital of Zhixin Construction Technology was RMB200,000,000 as at the Latest Practicable Date, of which RMB167,024,895.28 was fully paid-up and the remaining RMB32,975,104.72 will be paid up before 31 October 2060, which is in compliance with the articles of association of Zhixin Construction Technology and the applicable laws of the PRC.

## REORGANISATION

In preparation for the Listing, the companies comprising our Group underwent the Reorganisation, pursuant to which our Company became the holding company of our Group. The main steps of the Reorganisation were:

### (1) Incorporation of Yaohe BVI and Zhixin Investment BVI

On 24 October 2018, Yaohe BVI was incorporated in accordance with the laws of BVI as an investment holding company. It was authorised to issue a maximum of 50,000 shares of a single class of HK$1.00 each, of which one share was allotted and issued as fully paid to Mr. Huang at par.

On 31 October 2018, Zhixin Investment BVI was incorporated in accordance with the laws of BVI as an investment holding company. It was authorised to issue a maximum of 50,000 shares of a single class of HK$1.00 each, of which one share was allotted and issued as fully paid to Mr. Ye at par.

### (2) Incorporation of our Company, Zhixin Enterprises BVI and Zhixin HK

On 14 November 2018, our Company was incorporated in the Cayman Islands as an exempted company with an initial authorised share capital of HK$50,000 divided into 50,000 shares of HK$1.00 each, of which one share was allotted and issued as fully paid to the initial subscriber (being an Independent Third Party) at par, and then transferred to Zhixin Investment BVI at par. On the same date, 74 shares and 25 shares were allotted and issued as fully paid to Zhixin Investment BVI and Yaohe BVI, respectively, at par. Set out below is the shareholding structure of our Company as at 14 November 2018:

| Name of shareholder | Percentage of shareholding (%) |
|---|---|
| Zhixin Investment BVI | 75.00 |
| Yaohe BVI | 25.00 |
| Total | 100.00 |

On 20 November 2018, Zhixin Enterprises BVI was incorporated in the BVI as a limited liability company which was authorised to issue a maximum of 50,000 shares of a single class of HK$1.00 each, of which one share was allotted and issued as fully paid to our Company at par.

On 13 December 2018, Zhixin HK was incorporated in Hong Kong as a limited liability company, of which one share was allotted and issued to Zhixin Enterprises BVI.

Zhixin Enterprises BVI and Zhixin HK would act as the intermediate holding companies of our Group.

**(3) Acquisition of 13.32% equity interest in Zhixin Construction Material by Pakhim Chen HK**

On 14 January 2019, Pakhim Chen HK acquired 9.99% and 3.33% equity interest in Zhixin Construction Material from Mr. Ye and Mr. Huang at a consideration of RMB10,489,500 and RMB3,496,500, respectively, which was determined with reference to the appraised net asset value of Zhixin Construction Material of RMB105,000,000 as at 31 December 2018. The considerations were fully settled on 21 January 2019.

**(4) Acquisition of 86.68% equity interest in Zhixin Construction Material by Zhixin HK**

On 23 January 2019, Zhixin HK acquired 65.01% and 21.67% equity interest in Zhixin Construction Material from Mr. Ye and Mr. Huang at a consideration of RMB68,260,500 and RMB22,753,500, respectively, which was determined with reference to the appraised net asset value of Zhixin Construction Material of RMB105,000,000 as at 31 December 2018. The considerations were fully settled on 30 April 2019.

**(5) Allotment of shares by the Company and acquisition of 100% interest in Pakhim Chen HK by Zhixin Enterprises BVI**

On 12 August 2019, our Company issued and allotted 6,426 and 2,142 new shares at par to Zhixin Investment BVI and Yaohe BVI, respectively. On 12 August 2019, Zhixin Enterprises BVI acquired the entire interest in Pakhim Chen HK from Pakhim Chen BVI in consideration for the allotment and issue of 1,332 shares by our Company, credited as fully paid, to Pakhim Chen BVI at the direction of Zhixin Enterprises BVI. The acquisition of the entire interest in Pakhim Chen HK from Pakhim Chen BVI was completed on 27 September 2019.

Set out below is the shareholding structure of our Company as at 27 September 2019:

| Name of shareholder | Percentage of shareholding (%) |
|---|---|
| Zhixin Investment BVI | 65.01 |
| Yaohe BVI | 21.67 |
| Pakhim Chen BVI | 13.32 |
| **Total** | **100.00** |

Following the Reorganisation:

(i) our Company was owned by Zhixin Investment BVI, Yaohe BVI and Pakhim Chen BVI as to 65.01%, 21.67% and 13.32%, respectively; and

(ii) each of Zhixin Construction Material, Zhixin Logistics and Zhixin Construction Technology has become an indirect wholly-owned subsidiary of our Company.

The Reorganisation of our Group (being completion of the acquisition of Pakhim Chen HK by Zhixin Enterprises BVI) was completed on 27 September 2019. Each of the share or equity transfers regarding the Reorganisation mentioned above was properly and legally completed and settled.

## PRE-IPO INVESTMENT

### Investment by Pakhim Chen BVI

On 14 January 2019, Pakhim Chen HK, a company wholly owned by Pakhim Chen BVI which is in turn wholly owned by Ms. Chen, entered into a sale and purchase agreement with each of Mr. Ye and Mr. Huang pursuant to which Mr. Ye and Mr. Huang agreed to sell and Pakhim Chen HK agreed to purchase 9.99% and 3.33% equity interest in Zhixin Construction Material at a consideration of RMB10,489,500 and RMB3,496,500, respectively. Upon completion of such investment by Pakhim Chen BVI (the "**Pre-IPO Investment**"), Pakhim Chen BVI became interested in 13.32% of the equity interest in Zhixin Construction Material. On 12 August 2019, as part of the Reorganisation, Pakhim Chen BVI sold its entire interest in Pakhim Chen HK to Zhixin Enterprises BVI in consideration for the allotment and issue of 1,332 shares by our Company. Details of the Pre-IPO Investment are set out below:

| | | |
|---|---|---|
| Name of investor: | Pakhim Chen BVI (through Pakhim Chen HK) | |
| Name of counterparty of the Pre-IPO Investment: | Mr. Ye | Mr. Huang |
| Equity interest in Zhixin Construction Material acquired: | 9.99% | 3.33% |
| Amount of consideration paid: | RMB10,489,500 | RMB3,496,500 |
| Basis of determination of the consideration: | Based on the appraised net asset value of Zhixin Construction Material of approximately RMB105,000,000 as at 31 December 2018 | |
| Date of the agreement in relation to the Pre-IPO Investment: | 14 January 2019 | |

| | |
|---|---|
| Date of full settlement of consideration: | 21 January 2019 |
| Total number of Shares held by Pakhim Chen BVI: | Before completion of the Capitalisation Issue and the Share Offer: 1,332 Shares<br><br>After completion of the Capitalisation Issue and the Share Offer: 74,725,200 Shares |
| Cost per Share paid: | Before completion of the Capitalisation Issue and the Share Offer: Approximately RMB10,500 (equivalent to approximately HK$11,550) per Share<br><br>After completion of the Capitalisation Issue and the Share Offer: Approximately RMB0.19 (equivalent to approximately HK$0.209) per Share |
| Discount to the Offer Price: | A discount of approximately 86.07% to the Offer Price of HK$1.50 |
| Approximate effective shareholding in our Company upon Listing: | 9.99% |
| Special rights: | No special rights were granted. |
| Use of proceeds: | N/A, as the payment was made to Mr. Ye and Mr. Huang. |
| Lock-up period: | Nil. |
| Strategic benefits brought to our Group by the investor: | Our Directors are of the view that the Pre-IPO Investment is beneficial to our Group as it can assist us in broadening our shareholder base. In addition, Ms. Chen's positioning as a strategic investor of our Company, coupled with her financial work experience in, among others, trading of construction materials, will add value to the profile of our Company. With her experience, our Directors believe that Ms. Chen could provide industry specific insights and advice on our business development and expansion in the PRC. |

**Information regarding Pakhim Chen BVI**

Pakhim Chen BVI is an investment holding company incorporated in the BVI and is wholly owned by Ms. Chen. Between 2006 and 2018, Ms. Chen worked in a company established in Fujian Province, the PRC which was principally engaged in, among others, trading of construction materials where she acquainted with property developers and construction companies in Fujian Province, the PRC, and she gained knowledge about the construction and infrastructure industry in the PRC and was optimistic towards its development. In mid-2018, Ms. Chen became acquainted with Mr. Ye through Mr. Qiu Limiao, an executive Director and son-in-law of Mr. Ye, who was also a family friend of Ms. Chen. Ms. Chen considered that our Group had good reputation and she envisaged the potential in our Group's PC components business since it was a new type of construction material and there were favourable policies from the government, therefore, she decided to invest in our Group in late 2018. At the same time, our Group intended to expand our PC components business and we believed we could benefit from Ms. Chen's network of property developers and construction companies in Fujian Province so that we could be more familiar with the trends of local demands of PC components and the related business opportunities. After arm's length negotiation, Ms. Chen invested in our Group via the abovementioned Pre-IPO Investment arrangement.

Ms. Chen is a director of Pakhim Chen HK, which is a subsidiary of the Company. Therefore, she is a core connected person of the Company.

**Lock-up and public float**

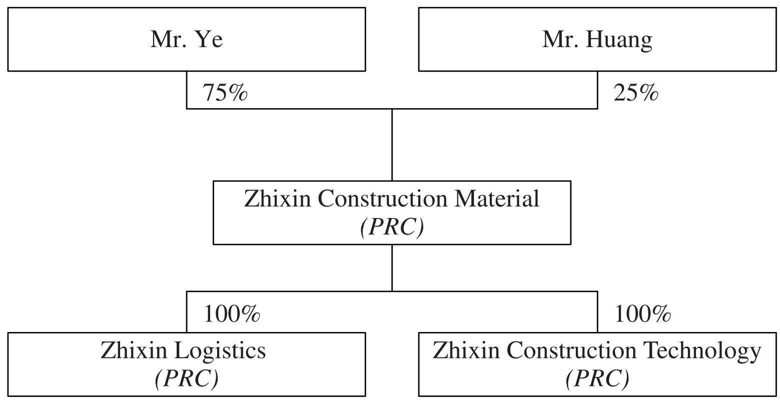
The Shares held by Pakhim Chen BVI will not be subject to lock-up. As Ms. Chen, the sole shareholder of Pakhim Chen BVI, is a director of a subsidiary of the Company, Pakhim Chen BVI is an associate of a core connected person of our Company. Shares held by Pakhim Chen BVI will not be counted towards the public float upon Listing.

**Compliance with interim guidance**

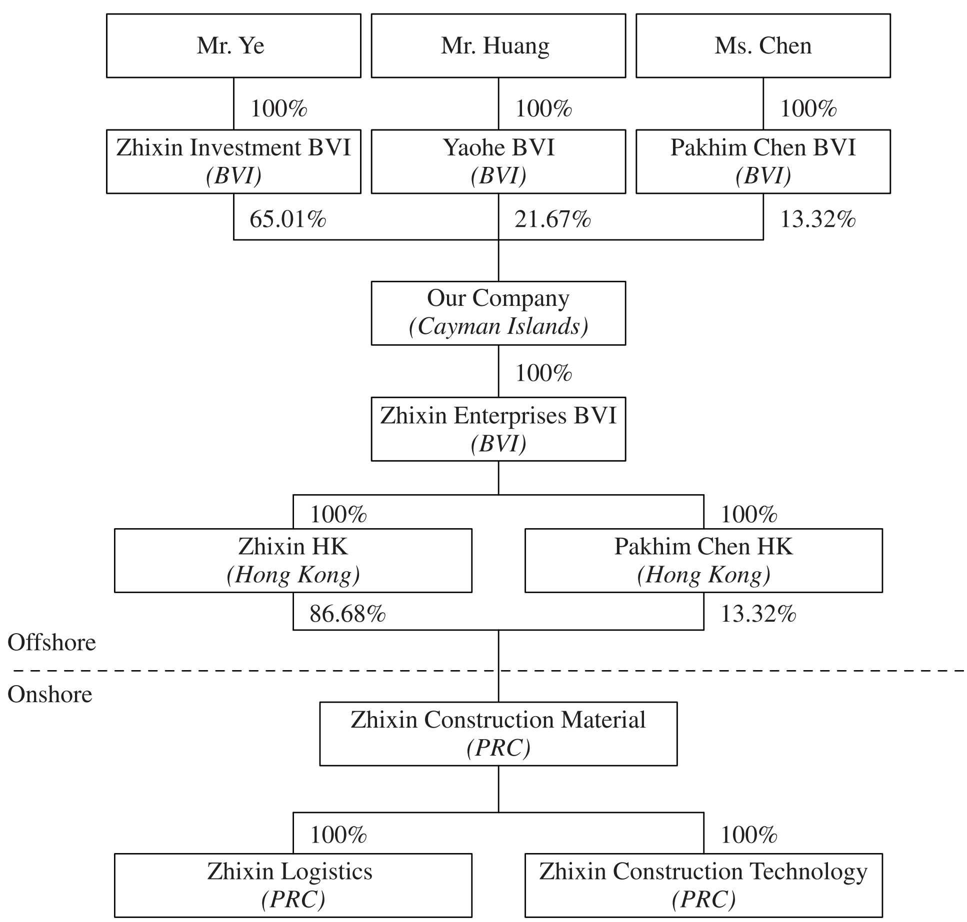
On the basis that (i) the consideration for the Pre-IPO Investment has been settled more than 28 clear days before the date of our first submission of the listing application to the Stock Exchange; and (ii) Pakhim Chen HK is not entitled to any special rights under the Pre-IPO Investment, the Sole Sponsor has confirmed that the terms of the Pre-IPO Investment are in compliance with (i) the Guidance Letter HKEx-GL-29-12 issued by the Stock Exchange in January 2012 and as updated in March 2017; and (ii) the Guidance Letter HKEx-GL43-12 issued by the Stock Exchange in October 2012 and as updated in July 2013 and March 2017.

**Group structure**

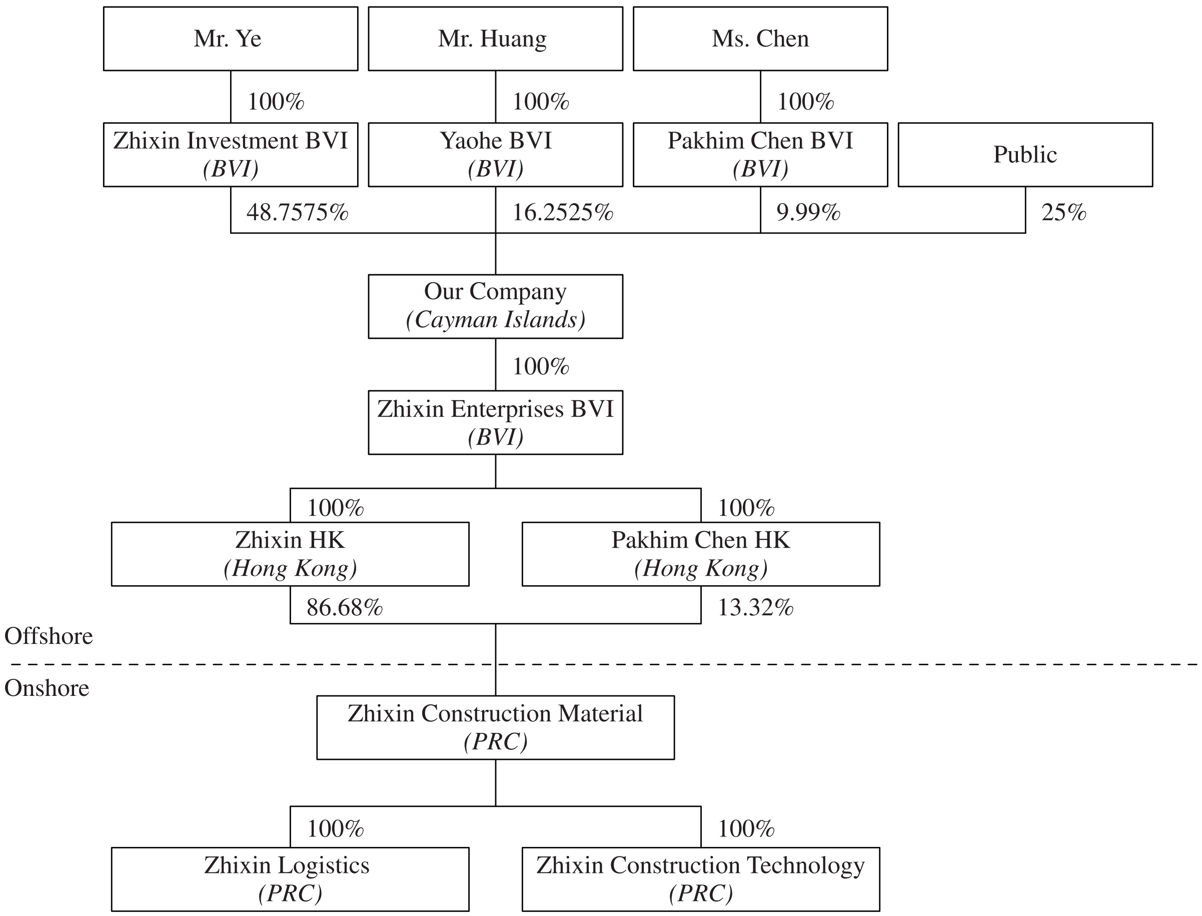
Set forth below was the corporate structure of our Group immediately prior to the Reorganisation:




Set forth below is the corporate structure of our Group after the Reorganisation but immediately prior to the Capitalisation Issue and the Share Offer:



Set forth below is the corporate structure of our Group following completion of the Capitalisation Issue and the Share Offer:




## GENERAL

Pursuant to the Circular 37, special purpose vehicles (the "**SPV**") refers to overseas companies directly incorporated or indirectly controlled by domestic residents (including domestic institutions and individual domestic residents) using the assets or rights and interests of domestic companies that they legally possess or the overseas assets or rights and interests they legally possess for the purpose of investments and financing. The Circular 37 requires timely amendments to the registration for any major change in respect of the SPV, including, among other things, any major change in the SPV's domestic resident shareholder, name of the SPV, term of operation, or any increase or reduction of the SPV's registered capital contributed by the domestic resident, share transfer or swap, and merger or division.

As advised by our PRC Legal Advisers, the Circular 37 applies to the Reorganisation and the Share Offer as Mr. Ye and Mr. Huang fall within the meaning of a domestic resident in the Circular 37. In accordance with the Circular 37, each of Mr. Ye and Mr. Huang completed the registration and filing of an overseas investment by a PRC resident with Xiamen Branch, China Minsheng Bank, in respect of his overseas investments in our Group and has complied with all the relevant formalities for such registration and filling.

Our PRC Legal Advisers have also confirmed that we have complied with applicable PRC laws and regulations and have completed relevant registrations and fillings from PRC government authorities for the Reorganisation, including the registration with Xiamen Market Regulation Bureau* (廈門市市場監督管理局) regarding Pakhim Chen HK's acquisition of the 13.32% equity interest in Zhixin Construction Material from Mr. Ye and Mr. Huang, and the acquisition by Zhixin HK of 86.68% equity interest in Zhixin Construction Material from Mr. Ye and Mr. Huang, as part of the Reorganisation pursuant to the PRC Company Law, the SAFE registration pursuant to the Circular 37 and the filing with Xiamen Municipal Bureau of Commerce pursuant to the then relevant PRC laws and regulations. In addition to the above-mentioned registrations and filings, we are not required to obtain other approvals from CSRC, MOFCOM or other relevant authorities for the Reorganisation and the Listing in the PRC.

## OVERVIEW

We are a leading manufacturer and supplier of concrete-based building materials in Xiamen, Fujian Province of the PRC. Our principal products can be broadly categorised into two types, namely, (i) ready-mixed concrete and (ii) PC components. During the Track Record Period and up to the Latest Practicable Date, all of our Group's products were sold in the PRC with primary focus in Fujian Province. According to the Frost & Sullivan Report, our Group was the largest manufacturer in terms of production volume for PC components in Fujian Province and Xiamen, and the largest manufacturer in terms of production volume for ready-mixed concrete in Xiamen, in 2019.

Established in April 2007, we have over 13 years of experience working with construction companies for various types of building and construction projects including (i) infrastructure, (ii) residential, (iii) commercial and industrial and (iv) municipal whereby we have established sound reputation in the construction industry in Fujian Province. For a decade, our Group was predominately a manufacturer of commercial concrete products. Embarking on the rapid development and urbanisation of Xiamen, our experienced management team has contributed to our successful growth from a humble batching plant to a major ready-mixed concrete supplier in Xiamen under the leadership and visionary of Mr. Ye, our founder, chairman of our Board and executive Director.

In September 2014, in the wake of advancement and maturity of prefabricated construction techniques in western countries and its penetration rate in northern China, our Group seized the opportunity and began our capital investments into the production of PC components for prefabricated constructions by acquiring the land use right of a parcel of land that was later used for the construction of our PC Plant and became amongst the first batch of enterprises in Xiamen to expand into the PC component manufacturing industry. Our PC Plant was put into commercial operation gradually in the second half of 2017. Up to 31 October 2020, we have invested totalling approximately RMB162.7 million in land use right and property, plant and equipment in Zhixin Construction Technology, for the PC component segment, since 2014.

Our Group currently owns and operates two production plants, namely the RMC Plant and PC Plant and leases one production workshop, namely the Jimei Workshop, in Xiamen, with a current aggregate annual production capacity of approximately 1,439,000 $m^3$ of ready-mixed concrete and approximately 119,800 $m^3$ of PC components. Given that transportation limitations and costs are important factors in making purchase decision for concrete-related products, the proximity of our production plants to customers and our truck fleet capabilities provide our Group with competitive advantages in terms of delivery time and logistics costs as compared to suppliers from further areas within Fujian Province.

Our customers are generally construction companies in Fujian Province. For the Track Record Period, approximately 99.9%, 98.2%, 88.9% and 77.4% of our revenue were derived from Xiamen, respectively. During the Track Record Period, our ready-mixed concrete and PC components were primarily sold on project basis. However, depending on our production capacity, we may occasionally accept small-scale ad hoc orders for our standard ready-mixed concrete products.

Set out below is an analysis of our Group's revenue contribution by product categories during the Track Record Period:

| | Year ended 31 December | | | | | | Ten months ended 31 October | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2018 | | 2019 | | 2019 | | 2020 | |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 (Unaudited) | % | RMB'000 | % |
| **Ready-mixed concrete**[(1)] | | | | | | | | | | |
| — Low grade | 190,711 | 47.7 | 164,441 | 32.2 | 237,845 | 40.2 | 160,215 | 36.6 | 190,885 | 31.6 |
| — Standard grade | 151,939 | 38.0 | 179,079 | 35.0 | 133,205 | 22.5 | 97,414 | 22.3 | 141,991 | 23.6 |
| — High grade | 43,779 | 11.0 | 97,868 | 19.1 | 52,414 | 8.9 | 45,722 | 10.5 | 37,903 | 6.3 |
| — CTB | 7,453 | 1.9 | 11,684 | 2.3 | 23,368 | 4.0 | 16,855 | 3.9 | 37,109 | 6.2 |
| Subtotal | 393,882 | 98.6 | 453,072 | 88.6 | 446,832 | 75.6 | 320,206 | 73.3 | 407,888 | 67.7 |
| **PC components** | | | | | | | | | | |
| — Tunnel segments | — | — | 31,303 | 6.1 | 43,583 | 7.4 | 35,789 | 8.2 | 1,230 | 0.2 |
| — Other construction components[(2)] | 5,637 | 1.4 | 26,892 | 5.3 | 100,382 | 17.0 | 81,110 | 18.5 | 193,037 | 32.1 |
| Subtotal | 5,637 | 1.4 | 58,195 | 11.4 | 143,965 | 24.4 | 116,899 | 26.7 | 194,267 | 32.3 |
| **Total** | 399,519 | 100.0 | 511,267 | 100.0 | 590,797 | 100.0 | 437,105 | 100.0 | 602,155 | 100.0 |

*Notes:*

1. Actual compressive strength of ready-mixed concrete is determined by test of compressive strength on test cubes made after curing for 28 days.

2. Other construction components primarily include floor slabs, square piles, beams and utility tunnel segments.

For the three years ended 31 December 2019 and the ten months ended 31 October 2020, our total revenue amounted to approximately RMB399.5 million, RMB511.3 million, RMB590.8 million and RMB602.2 million, respectively, while our aggregate sales volume amounted to approximately 1,086,382 $m^3$, 1,129,299 $m^3$, 1,104,321 $m^3$ and 1,002,218 $m^3$, respectively.

Our revenue derived from ready-mixed concrete for the three years ended 31 December 2019 and the ten months ended 31 October 2020 amounted to approximately RMB393.9 million, RMB453.1 million, RMB446.8 million and RMB407.9 million respectively, representing approximately 98.6%, 88.6%, 75.6% and 67.7% of our Group's revenue, respectively. The increase in revenue from ready-mixed concrete for the year ended 31 December 2018 was mainly attributable to the (i) the overall increase in average selling price of our ready-mixed concrete products from approximately RMB363.4 per $m^3$ for the year ended 31 December 2017 to approximately RMB417.1 per $m^3$ for the year ended 31 December 2018 as a result of the increase in price of raw materials, mainly price of cement; and (ii) the increase in sales volume of standard and high grade ready-mixed concrete mainly due to the increased demand from certain rail transit projects requiring ready-mixed concrete of high compressive strength, which was partially offset by the decrease in sales volume of low grade ready-mixed concrete. The decrease in revenue from ready-mixed concrete for the year ended 31 December 2019 was mainly attributable to (i) the significant increase in average monthly rainfall in Xiamen from approximately 49.3 millimetres for the year ended 31 December 2018 to approximately 147.7 millimetres for the year ended 31 December 2019, which reduced the level of construction activities due to prolonged adverse weather condition; and (ii) our on-going projects were at different construction stages which affected the grade strength of ready-mixed concrete required and the overall demand of our ready-mixed concrete. The increase in revenue from ready-mixed concrete from approximately RMB320.2 million for the ten months ended 31 October 2019 to approximately RMB407.9 million for the ten months ended 31 October 2020 was primarily due to (i) the overall increase in sales volume of ready-mixed concrete, in particular CTB due to the increase in demand from projects performing road works and standard grade ready-mixed concrete due to different construction stages of our on-going projects which affected the demand of the grade strength of our ready-mixed concrete; and (ii) the overall increase in average selling price of our ready-mixed concrete products from approximately RMB426.5 per $m^3$ for the ten months ended 31 October 2019 to approximately RMB439.7 per $m^3$ for the ten months ended 31 October 2020 mainly attributable to our ability to negotiate favourable pricing terms with our customers, which is in line with the industry pricing trend in Xiamen. Please refer to the section headed "Financial information — Gross profit and gross profit margin — Ready-mixed concrete" in this prospectus for details.

Our revenue derived from PC components for the three years ended 31 December 2019 and the ten months ended 31 October 2020 amounted to approximately RMB5.6 million, RMB58.2 million, RMB144.0 million and RMB194.3 million respectively, representing approximately 1.4%, 11.4%, 24.4% and 32.3% of our Group's revenue, respectively. The increase in revenue from PC components for the year ended 31 December 2018 was primarily due to the increase in sales volume of PC components from approximately 2,433 $m^3$ for the year ended 31 December 2017 to approximately 42,990 $m^3$ for the year ended 31 December 2018. The increase in sales volume of PC components was primarily attributable to our Group's success in winning new PC components projects, in particular rail transit projects to provide tunnel segments, floor slabs and square piles, which in aggregate contributed approximately RMB39.4 million to our total revenue for the year ended 31 December 2018. The increase in revenue from PC components for the year ended 31 December 2019 was primarily due to the (i) increase in average selling price of other construction components from approximately RMB1,575.2 per $m^3$ for the year ended 31 December 2018 to approximately RMB2,363.0 per $m^3$ for the year ended 31 December 2019 as a result of an increase in sales of floor slabs and utility tunnel segments which were priced relatively higher per $m^3$; and (ii) increase in sales volume of PC components from approximately 42,990 $m^3$ for the year ended 31 December 2018 to approximately 78,587 $m^3$ for the year ended 31 December 2019 as we had secured 28 new PC components projects during the year ended 31 December 2019. The increase in revenue from PC components from approximately RMB116.9 million for the ten months ended 31 October 2019 to approximately RMB194.3 million for the ten months ended 31 October 2020 was primarily due to the combined effects of (i) increase in revenue from sale of other construction components by approximately RMB111.9 million; and (ii) decrease in revenue from sale of tunnel segments by approximately RMB34.6 million. The increase in revenue from sale of other construction components was mainly due to the (i) increase in average selling price of other construction components from approximately RMB2,390.0 per $m^3$ for the ten months ended 31 October 2019 to approximately RMB2,623.9 per $m^3$ for the ten months ended 31 October 2020 as a result of an increase in sale of floor slabs and utility tunnel segments which were on average priced relatively higher per $m^3$; and (ii) increase in sales volume of other construction components from approximately 33,937 $m^3$ for the ten months ended 31 October 2019 to approximately 73,570 $m^3$ for the ten months ended 31 October 2020 as our tunnel segments production lines had been modified to produce other construction components since January 2020 due to our tunnel segment projects on hand were close to their completion and the increase in demand for our other construction component products, given we had secured 34 new PC components projects of other construction components during the ten months ended 31 October 2020. The decrease in revenue from sale of tunnel segments was mainly due to the decrease in sales volume of tunnel segments from approximately 29,650 $m^3$ for the ten months ended 31 October 2019 to approximately 1,028 $m^3$ for the ten months ended 31 October 2020 as our tunnel segments projects on hand were close to their completion.

## OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths are the key factors contributing to our Group's success:

### We are a leading manufacturer in Xiamen offering high quality ready-mixed concrete with solid track record

We are the largest ready-mixed concrete manufacturer and supplier in Xiamen in terms of production volume in 2019, with market share of approximately 7.2%, according to the Frost & Sullivan Report.

We have supplied ready-mixed concrete in Xiamen for more than 13 years since 2007. The high quality of our ready-mixed concrete products is demonstrated by our success of being repeatedly granted Excellent Enterprises in the China Concrete Industry* (中國混凝土行業優秀企業) between 2008 and 2019, certifying that our production facilities and product quality have complied with the ready-mixed concrete national standard in the PRC. With over 13 years of experience in manufacturing and supplying ready-mixed concrete and working with construction companies for various types of building and construction projects including (i) infrastructure, (ii) residential, (iii) commercial and industrial, and (iv) municipal, we have established sound reputation in the construction industry in Xiamen. During the Track Record Period, our Group had supplied ready-mixed concrete for over 480 construction projects in Xiamen. Our Directors believe that the quality of our products is essential to maintain the reputation of our Group.

Leveraging our extensive industry experience, established market position and our capability to produce wide range of ready-mixed concrete products, we believe that we are well positioned to capture the potential growth of ready-mixed concrete industry brought by the increasing urbanisation and industry consolidation and continue to lead the market in Xiamen.

**We, as a pioneer in the PC component industry in Xiamen, are well prepared and positioned to capture new opportunities in the fast-growing prefabricated construction industry**

Our Group has invested in PC components production since 2014, which was put into commercial operation gradually in the second half of 2017. According to the Frost & Sullivan Report, we are a pioneer of the PC component industry in Xiamen. In 2019, we were the largest PC components provider in Fujian Province and Xiamen in terms of production volume, with market share of approximately 15.4% and 88.8% respectively. Due to the supportive PRC government policies towards green building, as well as citizens' increasing demand for high quality residence driven by the general trend of consumption upgrade, the traditional construction methods are no longer sustainable. There are huge growth potentials in the prefabricated construction industry in the PRC, the total production volume of PC components in Xiamen increased from approximately 4,500 $m^3$ in 2015 to approximately 95,000 $m^3$ in 2019 at a CAGR of approximately 114.4%, according to the Frost & Sullivan Report. As such, we believe that prefabricated construction will become an inevitable trend of the construction industry as there are multiple advantages that prefabricated construction has over traditional construction in terms of efficiency, cost, environment protection and quality. Please refer to the section headed "Industry overview — Comparison of prefabricated construction method and traditional construction method" for more details.

We have independent proprietary intellectual properties for PC production methods and equipment in relation to the production of the tunnel segments and utility tunnel segments, which are designed to be used in underground rail transit and integrated underground utility tunnels respectively. For the accelerating progress of urbanisation in Xiamen, AMTR is one of the key development projects in Xiamen. The Chinese Government regards the integrated underground utility tunnels as an important carrier for escalating the urban transformation, it has presented the new growth potentials.

According to the nation's "The 13th Five-year Plan for the Development of Construction Industry in Fujian Province" (《福建省建築業發展「十三五」發展規劃》), it indicated that the need to promote prefabrication as part of the construction industrialisation and green building action plan. It has proposed 25% of newly-built buildings will be prefabricated in Xiamen by 2020. The prefabricated construction plays an indispensable role in China's national economy and is an inevitable trend. We believe our leading market position in Xiamen, equipped with extensive technology capabilities, ability to develop tailor-made products to meet our customers' special requirements as well as rapidly-expanding business model will allow us to continue to capitalise on the growth opportunities in our target markets. As such, we are well positioned to seize the opportunities arising from the explosive growth of prefabricated construction industry in China.

**We adopt a comprehensive and stringent quality control system**

We endeavour to deliver quality and carefully produced ready-mixed concrete and PC component products to our customers. We imposed rigorous quality control measures and adopt a comprehensive set of stringent quality control procedures throughout our production cycle, including product design, raw material examination, production process and product delivery to ensure the product quality. Our management system was certified in accordance with the standard required under ISO9001:2015 (quality management), OHSAS18001:2007 (occupational health and safety management), ISO14001:2015 (environmental management) and ISO50001 (energy management). For further details, please refer to the paragraph headed "Quality control" in this section for our Group's quality control measures.

Our stringent quality control measures, backed by our standardised operational procedures, have enabled us to ensure consistently high quality and efficiency of our products and reduce the operational risks inherent in our operation. Our ability to deliver our products with industry standards has enhanced our brand recognition among our customers and has further solidified our market leadership in Xiamen. Our Directors believe that the quality of our products is essential to maintain the reputation of our Group, which is the key factor for us to remain competitive and differentiate ourselves from our competitors, and hence our Group is devoted and committed to maintain the quality of our products and our high standard on quality management at both PRC national and industry standards could increase our customers' confidence in our products and further attract new customers, especially SOEs in the PRC which have tight quality requirements on the ready-mixed concrete and PC component products.

**We have an experienced management team with in-depth industry knowledge and skilled employees**

Mr. Ye, our founder, the chairman of the Board and an executive Director, has over 13 years of experience in ready-mixed concrete industry. His in-depth industry knowledge and extensive management experience have ensured quality production and timely delivery of our products, which smoothen the project's progression and enhance the customers' confidence. His experience and leadership will continue to play a key role in the future growth of our Group. Mr. Huang, our chief executive officer and executive Director, has over 15 years of experience in the construction and construction material industry. Mr. Huang is mainly responsible for our Group's strategic planning and supervision of implementation of our Group's policies. He brings a strong base of knowledge to our day-to-day operations. Our executive Directors and senior management possess relevant operational expertise and experience and are familiar with ready-mixed concrete and PC component manufacturing industry. They have enabled us to successfully achieve a competitive position in the industry. Please refer to the section headed "Directors and senior management" to this prospectus for the biographical details of our executive Directors and senior management.

In addition, our management team is supported by a team of skilled employees across all levels within our Group. We recognise the important roles that our employees contribute to the success of our business and place great emphasis in recruitment and training of our employees. We believe that the management team's technical expertise and professional knowledge of ready-mixed concrete and PC component industry and together with our well-trained employees are important to our business and will continue to strengthen and increase our competitiveness in the industry.

## BUSINESS STRATEGIES

Our primary objectives are to strengthen our leading market position in Fujian Province and continue to expand our scale of operations to achieve long-term sustainable business growth and increase our market share in the fast-growing PC component industry by pursuing the following strategies:

### Expansion of production capacity of PC components with greater production automation to achieve better production efficiency

Our Directors consider that it is crucial to capture business opportunities in order to reinforce our leading position in the PC component industry. We intend to achieve this by increasing our production capacity by approximately 150,000 $m^3$, improving our operational efficiency through digitalisation and automation, having considered the following:

(1) we were among the first batch of enterprises in Xiamen to enter into the PC component market in 2017. According to the Frost & Sullivan Report, our Group ranked first in terms of product volume of PC components for both Fujian Province and Xiamen in 2019, with market share of approximately 15.4% and 88.8% respectively;

(2) our Group's PC component business experienced significant growth during the Track Record Period, it contributed approximately RMB5.6 million, RMB58.2 million, RMB144.0 million and RMB194.3 million, or approximately 1.4%, 11.4%, 24.4% and 32.3% of our total revenue respectively;

(3) we expect that there will be a strong demand for our PC components going forward, as our (i) number of on-going projects for PC components had increased from 21 as at 31 December 2019 to 36 as at 31 October 2020; and (ii) ending value of backlog projects had increased from approximately RMB185.2 million as at 31 December 2019 to approximately RMB401.6 million as at 31 October 2020;

(4) the advantages of prefabrication method of construction as compared to traditional methods as detailed in the section headed "Industry overview — Overview of the PC component industry in Fujian Province and Xiamen — Comparison of prefabricated construction method and traditional construction method" are widely recognised, and the prefabrication method of construction is an inevitable trend in the PRC. The PRC Government acknowledged this by specifying both short-term and long-term development goals to encourage the use of PC components. Pursuant to the action plan promulgated by the MOHURD in "The 13th Five-Year Plan of Construction Industry" (《建築業發展「十三五」規劃》) in April 2017, which introduced the development goal of increasing the new floor areas of prefabricated buildings to more than 15% of the total new floor areas in the PRC by 2020, the Fujian Provincial and Xiamen municipal governments had subsequently promulgated specific development plans to increase new floor areas of prefabricated buildings to more than 20% and 25% by 2020 respectively and more than 35% for the entire Fujian Province by 2025. As such, it is expected that the penetration

rate of prefabricated building in Fujian Province and Xiamen will increase significantly in the coming years due to keen promotion of the government. For details regarding the government policies on the PC component industry, please refer to the section headed "Regulatory overview — I. The concrete and PC component industry — PC components";

(5) according to Frost and Sullivan Report (i) new floor areas of prefabricated building in Fujian Province increased from approximately 900,000 $m^2$ to 13,400,000 $m^2$ from 2015 to 2019, respectively, representing a CAGR of approximately 96.4%, and it is expected to increase at a CAGR of approximately 28.0% during 2019 to 2024, reaching approximately 46,000,000 $m^2$ by 2024; and (ii) the total production volume of PC components in (a) Fujian Province increased from approximately 22,400 $m^3$ in 2015 to approximately 548,000 $m^3$ in 2019 at a CAGR of approximately 122.4%, and it is expected to increase at a CAGR of approximately 50.0% during 2019 to 2024, reaching approximately 4,166,200 $m^3$ by 2024; and (b) Xiamen increased from approximately 4,500 $m^3$ in 2015 to approximately 95,000 $m^3$ in 2019 at a CAGR of approximately 114.4%, and it is expected to increase at a CAGR of approximately 41.0% during 2019 to 2024, reaching approximately 530,000 $m^3$ by 2024. According to Frost and Sullivan Report, the aforesaid decrease in CAGRs in 2019 to 2024, is due to the PC component market in Fujian Province is in its early development phase of the industry life cycle, with a relatively trivial base of new floor areas of prefabricated buildings and production volume in 2015, resulting in exceptionally high CAGRs during 2015 to 2019 as compared to the CAGR from 2019 to 2024 due to the effect of diminish return on each unit of growth;

(6) our Group's existing production capacity for PC component is insufficient to support our business expansion and keep up with market growth:

   a. for the Track Record Period, the utilisation rate of our PC Plant increased rapidly at approximately 12.6%, 42.9%, 70.1% and 84.7% respectively. So as to keep up with the increasing demand from our PC component projects, we have leased Jimei Workshop in June 2019, and equipped it with a stationary PC component production line with an annual production capacity of approximately 34,500 $m^3$. We believe that while stationary PC component production lines are relatively less capital-intensive to establish, their cost and production efficiency are significantly lower than that of carousel production lines, and thus can only serve as a temporary solution to our Group's foreseeable demand. Given the stationary production line at our Jimei Workshop will provide our Group with greater flexibility with our PC component production and enable us to fulfil small batch orders without disrupting the production efficiency of our carousel production lines, we expect to continue to utilise the production and storage facilities at Jimei Workshop after our expansion and we will carry out assessment on Jimei Workshop based on its utilisation rate to determine our renewal with the landlord upon expiry of the lease agreement (i.e. 31 May 2024);

b. we service the market demand in Fujian Province, (i) for the ten months ended 31 October 2020 approximately 30.1% and 69.9% of our revenue from PC components were derived from projects in Xiamen and outside of Xiamen respectively; (ii) approximately 30.1% and 69.9% of the ending value of backlog PC component projects as at 31 October 2020 belong to projects within Xiamen and outside of Xiamen respectively; and (iii) approximately 28.5% and 71.5% of our new contract value of PC component projects from 1 November 2020 to the Latest Practicable Date belong to projects in Xiamen and outside of Xiamen respectively.

According to Frost & Sullivan, given PC components are customised products produced to order, its consumption volume will be similar to its production volume. The following table sets forth the consumption volume of PC component in Fujian Province and Xiamen for periods indicated:

| | Consumption volume ($m^3$) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020E** | **2021E** | **2022E** | **2023E** | **2024E** |
| **Fujian Province** | 133,100 | 332,900 | 548,000 | 802,400 | 1,520,300 | 2,536,500 | 3,326,600 | 4,166,200 |
| **Xiamen** | 29,700 | 47,800 | 95,000 | 132,200 | 218,800 | 322,300 | 426,300 | 530,000 |

*Source: Frost & Sullivan*

Due to the fast-growing demand for PC components in Fujian Province and Xiamen, by the end of 2021, in order to maintain our market share in 2019 of approximately 15.4% and 88.8% respectively, we will require a production volume of approximately 234,126 $m^3$ and 194,294 $m^3$ respectively and our current aggregate annual production capacity of our PC Plant and Jimei Workshop of approximately 119,800 $m^3$ will not be sufficient for our Group to keep up with the growing consumption demand. We expect that our market position will be eroded if we are unable to timely expand our production capacity; and

c. the demand for our PC component products is bounded by seasonality, we consider the necessity to have sufficient production capacity buffer available to fulfil peak season demand during periods with high level of construction activities and tight production schedules, given PC components are customised products and normally unable to produce in advance. Moreover, we can generally negotiate favourable pricing terms during peak seasons, which could potentially increase our profitability. If we plan our business expansion without leaving sufficient production capacity buffer to fulfil peak season demand during certain months during the year, we may need to turn down potential projects in order to relieve production stress which may hinder our profitability.

(7) based on the competitive landscape of the PC component industry in Fujian Province and Xiamen is concentrated and dominated by a few manufacturers and the high entry barriers for new entrants to the industry (i.e. capital, technical, managerial and practical industry experience and environmental compliance) as detailed in the section headed "Industry overview — Overview of the PC component industry in Fujian Province and Xiamen — Key entry barriers of the ready-mixed concrete and PC component industry in the PRC" in this prospectus, we do not expect a large influx of competitors to enter the market in the near future;

(8) our Group is confident that we will be able to seize the growing market demand in Fujian Province, based on our (i) experience, position and reputation in the market; (ii) network of established customers including large SOEs; (iii) sales team's ability to secure PC component projects during the Track Record Period and up to the Latest Practicable Date; and (iv) non-legally binding strategic cooperation agreements and memoranda of understanding entered into between our Group and our existing or potential customers, in relation to specific cooperation projects or cooperation for projects in certain cities in Fujian Province in the future; and

(9) based on an analysis carried out by Frost & Sullivan and a holistic review by our Directors regarding the impact of the outbreak of COVID-19, the outbreak of COVID-19 is not expected to bring any permanent or material impact to our business operation and financial performance and any negative effects are believed to be short-term and will not have a material impact on the PC component industry in Fujian Province or the future demand for PC component products. For details, please refer to the sections headed "Business — Outbreak of COVID-19" and "Industry overview — Impact of the outbreak of COVID-19 on the ready-mixed concrete and PC component industries in the PRC and Fujian Province" in this prospectus.

In view of (i) the significant historical and expected growth in market demand; (ii) our current production capacity will be insufficient to allow us to keep up with the expected market growth; (iii) the competitive landscape of the PC component industry in Fujian Province and Xiamen; (iv) our ability to seize the growing market demand; and (v) the expected efficiency through digitalisation and automation, our Directors believe there is a strong commercial rationale for our Group to expand our PC component production capacity in order to capture the well-supported and fast-growing demand of the PC component industry, so as to reinforce our leading position and maintain our market share in Fujian Province.

**a.** ***Expanding our PC Plant with fully automatic production lines***

We intend to expand the PC component production facilities of our PC Plant by establishing two fully automatic carousel production lines and one stationary production line with an aggregate estimate annual production capacity of approximately 150,000 $m^3$. We plan to construct factory and buildings with gross floor area of approximately 12,000 sq.m. to house the new production lines and ancillary facilities on an existing parcel of land within our PC Plant with a site area of approximate 6,000 sq.m., which is currently being used as a storage site for our PC components. It is expected that the total cost for the new PC component production facilities will be approximately RMB105.2 million, which will be funded by the net proceeds of the Share Offer, and we expect the new production lines will commence trial production in October 2022 and commercial production in February 2023 respectively.

**b.** ***Leasing of storage site(s) for PC components***

Given we intend to utilise a parcel of land at our PC Plant, which is currently being used as our storage site for PC components, for our expansion plan to accommodate a factory and ancillary facilities for our new production lines, we will need to identify and lease new storage site(s) in proximity to our PC Plant with adequate storage capacity to serve our storage requirements before and after expansion.

Based on our experience, we estimate that it would require an aggregate site area of approximately 55,000 sq.m. of storage capacity to cope with our enlarged production capacity at the beginning of production for the new PC component production facilities.

We expect the total cost of leasing storage sites(s) with aggregate site area of approximately 55,000 sq.m. in proximity to our PC Plant will be approximately RMB4.3 million, which will be funded by the net proceeds of the Share Offer, the cost is expected to cover up to approximately 13 months' rental charges at approximately RMB6.0 per sq.m. per annum. Our Directors consider that our Group should secure funding to cover the rental charges for the replacement and additional storage capacity required for our PC component operation for a period at least from the commencement of construction of our new production facilities up to the time when the new production facilities is able to generate sufficient additional income that enables us to operate past our estimated breakeven period.

**c.** ***Purchase of raw materials for new production lines***

Given our Group is in the building material industry, we are exposed to similar liquidity risks to construction companies in relation to the mismatch between the time of receipt of payments from our customers and payments to our suppliers for raw materials. Our Directors consider during the production ramp-up period of our proposed new productions lines and before a full collection cycle has completed, our cash flow may become predicament to manage.

In order to ease off and mitigate the liquidity risks, we intend to allocate approximately RMB41.3 million from the net proceeds of the Share Offer to purchase raw materials for the production of PC components in our new production lines, the cost is expected to cover up to approximately 13 months' raw material purchases for our production.

**d.** ***Acquire flatbed trucks to support our expansion***

We currently rely on third party service providers for product delivery and logistical needs of our PC components. With the proposed new production lines and the expected increase in demand for PC component products, we intend to acquire 20 flatbed trucks to support our increased logistical needs.

Our Directors believe that our Group will be in a better position in terms of competitiveness, to establish our own flatbed truck fleet in order to expand our PC component business. We have carried on the business of sale of PC components since second half of 2017. During the Track Record Period, we did not own any flatbed trucks and we relied on third party service providers for delivery of products to our customers and transfer finished goods to our storage sites. However, the number of flatbed trucks available for rent or use in the market is limited and its availability is beyond our control. There is no guarantee that our Group can engage third party logistics service providers in accordance with our customers' delivery schedule, on reasonable pricing and other commercially acceptable terms. Due to the limitation of relying on flatbed trucks provided by third parties, our ability to satisfy customers' demand and respond to their delivery schedule and requirement could be impaired and our ability to secure customers' order may be adversely affected. This may constitute a bottleneck for us to expand our PC component business, as we expect the logistical demand to increase due to our plan to relocate our PC component storage off-site as part of our expansion and as our PC component business continues to grow. Furthermore, during the Track Record Period, we have engaged nine logistics service providers to handle our PC component logistical needs, but only two of them had recurred engagement with our Group, the reason was mainly attributable to the unsatisfactory quality of services provided by some of the logistics service providers and the logistics service providers' inability to meet our Group's growing demand as we became the largest PC component provider in Xiamen in terms of production volume in 2019. To truly develop our PC component business, it is in our Group's interest to purchase and operate our own flatbed truck fleet, so that we are in a better position to devise suitable delivery schedules and to provide customers with flexible, reliable and timely delivery services in the future, which would be tough to achieve in our Directors' opinion if we rely solely on external service providers for transportation of PC component on a long-term basis. Therefore, it is part of our Group's business strategies to acquire and operate our own flatbed truck fleet to capture future business opportunities.

In order to cater for the business growth of our PC component operations, we intend to acquire 20 flatbed trucks, to handle the transportation of PC components from our factory to our storage sites and customers.

We expect the total cost of expanding our truck fleet to support our expansion will be approximately RMB18.0 million, which is to be funded by net proceeds of the Share Offer. We plan to acquire the new flatbed trucks progressively over 18 months based on our actual logistical needs.

**e.** ***Enhance and expand our workforce to keep up with our business expansion***

As at the 31 October 2020, our PC component production team consisted of 252 staff which were employed by our Group and an average of approximately 362 factory workers outsourced by employment agents for the ten months ended 31 October 2020. Given that the new PC component production facilities will commence its trial production in October 2022, and commercial production in February 2023, we expect to recruit additional staff to support the business expansion as follows:

*Quality control, laboratory and design*

In light of the increase in production capacity, our Group will require additional product designers to draft and review shop drawings and mould designs for new projects, laboratory technicians and quality control officers to perform tests and prepare reports on raw materials to be used for production and finished goods.

*Production*

Our new production lines will require additional production supervisors, officers and managers for production planning, overall production process monitoring and the management of factory workers. Additional factory workers are also required to operate and monitor production machineries to ensure the production process at each station operates in accordance with product shop drawings at required specifications.

*Technical*

Our Group will require additional staff to maintain the new production lines and machineries to ensure the safety of our production.

*Finance and administration*

We will require additional finance and administrative staff to handle the increase in operation scale from our business expansion.

Based on (i) our experience for the operation of our current production facilities; and (ii) the assumption that the fully-automatic production lines will reduce our demand for staff to perform labour-intensive tasks (which were primarily outsourced to employment agents during the Track Record Period), we plan to progressively recruit up to 180 additional staff during the first 13 months of production. According to our estimated production volume during the first 13 months of production, we estimated that approximately 80 staff is required during the trial production, approximately 130 staff is required for the first five months of commercial production and 180 staff from the sixth month of commercial production. The breakdown of the estimated number of additional staff to be recruited by positions and their respective estimated average monthly salary per staff are as follows:

| Position | Estimated average monthly salary per staff | Estimated number of staff to be recruited |
|---|---|---|
| | RMB | |
| Supervisor | 10,780 | 6 |
| Production officer | 9,788 | 5 |
| Production deputy manager | 9,530 | 1 |
| Technical officer | 9,323 | 1 |
| Shift manager | 8,397 | 3 |
| Equipment operator | 8,000 | 12 |
| Factory worker | 7,625 | 98 |
| Inventory management officer | 7,620 | 5 |
| Production coordinator | 7,381 | 6 |
| Product designer | 7,263 | 6 |
| Quality inspection officer | 6,801 | 20 |
| Engineer | 6,707 | 1 |
| Laboratory technician | 6,384 | 2 |
| Clerk | 6,265 | 4 |
| Maintenance personnel | 6,241 | 10 |
| | | 180 |

We expect the total cost for enhancing and expanding our workforce will be approximately RMB12.7 million, which will be funded by the net proceeds of the Share Offer, the cost is expected to cover up to approximately 13 months' basic salaries of the additional staff. Our Directors consider that our Group should secure funding to cover the basic salary of such additional staff for a period at least from the expect time of hiring up to the time when the new production facilities are able to generate sufficient additional income that enables us to operate past our estimated breakeven period.

*Estimated breakeven period and investment payback period for expanding our PC component capacity*

For reference and illustration purpose only, set forth below is a highly hypothetical analysis on the payback period and breakeven point in respect of our new production facilities to be constructed at our PC Plant.

We consider that the new production facilities achieve breakeven when the revenue it generated is able to cover its operating costs and expenses arising in the same month on accounting basis. The production scale required to achieve breakeven varies depending on various factors, including but not limited to general economic and market conditions, market demands, utilisation rate of our production lines, market competition and price of raw materials. We consider that the new production facilities achieve investment payback whereby the accumulated future profit before tax from operating activities since the commencement of commercial production is able to cover the total investment amount. The time required to achieve investment payback varies depending on various factors, including those mentioned above and the capital expenditure such as costs of machinery and equipment.

Upon completion of the expansion of our PC component production facilities at our PC Plant by establishing two fully automatic carousel production lines and one stationary production line with an aggregate estimated maximum annual capacity of approximately 150,000 $m^3$. It is estimated that, based on the (i) current operating model of our Group; (ii) historical sales volume growth of our PC components during the Track Record Period with the assumption of a slower growth rate during its ramp-up period; (iii) average selling price of PC components for the year ended 31 December 2019; (iv) estimated influence of seasonality on product demand; (v) estimated future market size of the PC component in the Fujian Province; (vi) historical market share of our Group in Fujian Province; (vii) estimated number of staff to be recruited for the expansion and the salary of employees of similar positions for the year ended 31 December 2019; (viii) historical rate of depreciation on the additional machineries and equipment to be acquired for the expansion; and (ix) historical cost per revenue for other operating expenses with the assumption of lower cost efficiency during its ramp-up period, the payback period for the additional production capacity will be approximately 61 months and that breakeven could be achieved at approximately 13 months, from the date of commencement of production.

We believe our expansion plan fits our Group's strategic direction and are reasonable and feasible for the following key reasons:

(1) the additional production capacity, together with the existing capacity of our PC Plant and Jimei Workshop, will assist our Group to seize the growing future demand for PC component products in Fujian Province and allow us to participate in large scale projects of higher contractual value;

(2) greater production efficiency and cost savings can be achieved through sharing of existing ancillary facilities and manpower of our PC Plant;

(3) as changing moulds frequently during the production process of PC components would cause disruption to our production schedule, the increase in the number of production lines will allow greater flexibility and optimisation in planning our production for better production efficiency; and

(4) in view of the i4.0 model, we believe that continuing to embrace and adopt new advance technologies is the key factor for us to remain competitive and differentiate us from existing and future competitors. In particular, we believe that a greater implementation of production automation is essential such that our man-to-machine ratio and our reliance on employment agents can be further reduced and thus our cost efficiency and product quality can be further improved.

**Enhancing our information technology system**

Having considered our expansion plan and the associated increasing complexity in managing our business operation, we intend to introduce an ERP system so that our business operations can be better maintained and monitored through the system.

In addition, our Directors believe an ERP system will complement well with the new PC component production lines we intend to acquire as part of our expansion plan, which will further enhance our operating efficiency through our adoption of the i4.0 model by embracing digitalisation and automation. In particular, the system can enable us to enhance the accuracy and efficiency of our production plan, reduce production lead time and improve our product development cycle. Besides, under the system, sales data will be stored which in turn will assist us in analysing sales trends of our products and thus assist our management in formulating suitable business plans to capture market opportunities. The system will also allow us to perform real-time management of our financial data and enhance our cost management as well as to enhance our supply chain management.

We expect the total cost for the implementation of an ERP system will be approximately RMB8.0 million, which will be funded by the net proceeds of the Share Offer. We expect the implementation and adoption of an ERP system for our Group will take approximately 23 months.

**Further improve our environmental protection system**

We regard ourselves as a green manufacturer of construction material. In response to the expected increase in waste discharge and pollutants emission arising from our expansion plans, which will increase in production output through the implementation of new production lines and enhancement of our overall production efficiency, we intend to make improvements to our existing environmental protection system so as to maintain our current waste discharge and pollutants emission levels or within the approved levels required by the local environmental protection bureau.

In order to uphold our commitment to environmental responsibility, we plan to construct and install additional waste water, emission, noise and solid waste treatment facilities at our PC Plant.

We expect the total cost to further improve our environmental protection system will be approximately RMB7.0 million, which will be funded by the net proceeds of the Share Offer. We expect the implementation of the improved system will take approximately 10 months.

**Truck fleet expansion and replacement strategy**

We principally utilise our in-house delivery capability through Zhixin Logistics for our ready-mixed concrete operation's logistical needs. Zhixin Logistics has been in operation since 2012 and it has been an integral part of our business. As at 31 October 2020, our fleet consisted 76 mixer trucks, of which 52 mixer trucks are due for replacement as these vehicles had been utilised beyond their useful lives. During the Track Record Period, we disposed of 20 mixer trucks as they endured the normal wear and tear beyond their normal operating condition, and we purchased 14 mixer trucks as replacement. Moreover, our Group recorded an increasing number of on-going ready-mixed concrete projects as of the end of each of the three years ended 31 December 2019 and the ten months ended 31 October 2020 of 78, 89, 102 and 125 respectively. Thus, during the Track Record Period, we experienced a shortage of mixer and concrete pump trucks to meet customers' demand and had resorted to third party service providers to assist us with our deliveries and pump truck rental and service needs. In order to keep up with our customers' demand, we intend to purchase additional mixer trucks and concrete pump trucks as follows:

| | No. of units | Estimated average cost per unit | Total amount |
|---|---|---|---|
| | | RMB'000 | RMB'000 |
| Mixer trucks | 5 | 450 | 2,250 |
| Concrete pump trucks | 2 | 2,740 | 5,480 |
| | | | 7,730 |

Our Directors strongly believe our truck fleet is closely tie to our corporate image, given our truck fleet work closely with our customers. Being representatives of our Group at the front line of operation, our truck drivers and concrete pump truck operators are provided with clear standard of conduct which abide to our Group's values and are attired in uniforms when on duty and our self-owned trucks are branded with our name and logo.

As a leading manufacturer and supplier of the ready-mixed concrete industry in Xiamen, we consider the value adding role of our truck fleet and our reputation in the industry outweigh the monetary gains derived from the operation of our truck fleet and we consider it is in our Group's best interest to execute our expansion and replacement strategy for our truck fleet the following reasons:

(1) we believe that the ability for our Group to provide concrete pump rental is one of the factors that affect our customers' decision to source ready-mixed concrete from our Group. Based on our management's best knowledge, the supply of concrete pump trucks of high horsepower and long vertical placing boom is scarce among third party service

providers due to their high cost. Since the number of these concrete pump trucks available for rent or use in the market is limited and its availability is beyond our control, it may hinder our opportunity to participate in certain ready-mixed concrete projects;

(2) to reduce our reliance on third party service providers as there are no control over (i) their quality of service; (ii) the condition of their vehicles are in good operation condition to provide reliable services to our customers; (iii) their compliance to traffic laws and environmental protection regulations in disposing waste wash water; (iv) truck availability; and (v) the reasonableness of their pricing and terms;

(3) it would become increasingly costly to maintain older vehicles due to the rise in (i) insurance costs; (ii) maintenance and repairs; and (iii) breakdown rate which could possibly result in downtime;

(4) vehicles of good operation condition will ensure reliability, efficiency and quality of our services to our customers and the safety of our employees and the public at large; and

(5) new vehicles with higher emission standards are more fuel efficient and will lower our carbon footprint as compared to older vehicles.

We expect the total cost for the expansion and obsolescence replacement will be approximately RMB7.7 million, of which approximately RMB1.0 million, will be funded by the net proceeds of the Share Offer and the balance approximately RMB6.7 million will be funded by internal resources. We plan to acquire the new mixer and concrete pump trucks progressively over 17 months based on our actual logistical needs.

**BUSINESS MODEL AND OUR OPERATION**

We principally supply our ready-mixed concrete and PC components to construction companies for the use in building and construction projects.

Due to the logistical constraints of our products and the regional nature of the industry we operate in, our market is primarily focused on surrounding areas within proximity of Xiamen, where our production facilities are situated, details of which are set out in the paragraph headed "Production facilities" in this section.

Our customers consist mainly of construction companies in Fujian Province. During the Track Record Period, approximately 59.8%, 69.9%, 67.2% and 54.9% of our revenue were derived from SOE customers.

During the Track Record Period, approximately 95.3%, 98.1%, 99.0% and 99.4% of our revenue were made on project basis. We usually enter into a master contract with our customer for a given project, the master contract stipulates the general terms of the engagement, such as duration, type of products, specification, estimated unit price and expected volume of products required and other additional services required.

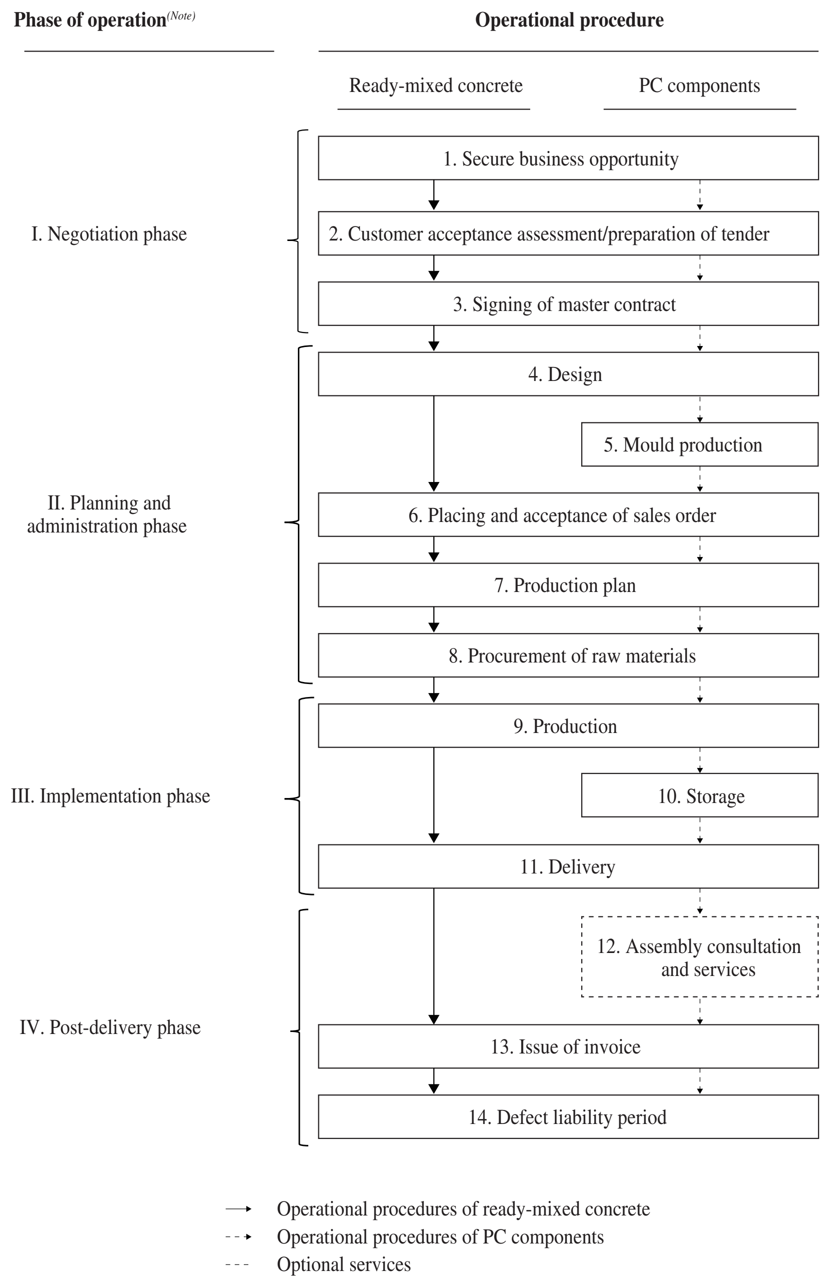
For ready-mixed concrete products, customers who have signed a master contract with our Group are generally able to place orders with us at least 12 to 24 hours before the requested delivery time, and due to the semi-finished nature of ready-mixed concrete which hardens over time, we only manufacture to order and do not keep any inventory. At the request of our customers, we also provide concrete pump rental and services.

We provide comprehensive solutions for our PC components customers that are customised to meet the technical specifications and requirements of the projects, spanning from component design, mould production, manufacturing and assembly consultation. We generally manufacture PC components in accordance with our production schedule. The finished components will be stored in our storage yards until delivery instructions had been given by our customers.

Subject to our production schedule, our Group may accept small-scale ad hoc orders for standard ready-mixed concrete from customers with no master contract entered with our Group. We require full prepayment on ad hoc sales orders prior to delivery.

Our Group owns and operates a truck fleet to handle our logistical needs in our operations. For details, please refer to the paragraph headed "Logistics and product delivery" in this section.

For illustration purposes, a simplified flow diagram of our key operational procedures for our projects is set out below:




*Note:* The diagram above is for general reference only, and the actual timeframe may vary from order to order depending on the complexity of the products required and the requirement of individual customers.

## I. Negotiation phase

### 1. *Secure business opportunity*

Our sales team is the primary contact point and is responsible for liaising with our existing and potential customers, which maintains regular contacts with industry players so as to obtain the latest market information and track new potential projects. During the Track Record Period, we obtained projects either by tender arrangements or direct negotiation with potential customers. For details regarding our sales and marketing strategies, please refer to the paragraph headed "Customers, sales and marketing — Sales and marketing activities" in this section.

### 2. *Customer acceptance assessment/preparation of tender*

In deciding whether to participate in a project, we will review and evaluate the technical and financial feasibility as well as the commercial viability of potential projects before our final acceptance or tender submission. It requires the efforts from members of our various teams in our assessment process, which involves work such as (i) negotiating contract terms; (ii) studying the technical specifications required by the potential project; (iii) production capacity simulation; (iv) budgeting; and (v) customer assessment.

### 3. *Signing of master contract*

When the terms of the contract are mutually agreed, our Group enters into master contract with our customers and our sales team arranges the relevant signing procedures. For SOE customers, their internal procedures for signing of master contract can be lengthy and may take longer period to process.

Our Group may accept small-scale ad hoc orders for standard ready-mixed concrete from customers with no master contract entered with our Group. For details, please refer to the paragraph headed "Business model and our operation — II. Planning and administration phase — 6. Placing and acceptance of sales order" in this section.

## II. Planning and administration phase

### 4. *Design*

*Ready-mixed concrete*

Our laboratory team is responsible for the mix design of our ready-mixed concrete. To achieve an optimal concrete mix that meets customers' specifications (i.e. grade strength and slump value) and the national standards at an acceptable cost, several factors such as strength-to-cementitious content, water-to-cement ratio and air content are considered when designing the concrete mix before deciding on the mix proportion.

*PC components*

Product design is the key to our PC components manufacturing. Besides having an optimal concrete mix for our production, PC component design requires the application of structure engineering technology, electromechanical engineering technology and materials science to realise the architecture design in the form of PC components under different specifications. The manufacturing process and assembling process of these PC components designed shall also be taken into consideration at the design phase. Thus, manufacturing craft, assembling and construction technology are also required for product design.

We have a strong design team of engineers capable of understanding the needs of our customers' architectural design and transforming it into industrial manufactory design that focuses on ease of transportation and assembly, safety and cost-efficiency. Our customers may provide construction drawings to us. Our design team is involved at different levels of our project's design phase, including the drafting of, review and/or commenting on, shop drawings and mould designs. The design of a given project generally depends on the nature, requirements and complexity of the project. The final design, usually in form of shop drawings, will be approved by our customer's designated licensed independent design institution.

**5.** ***Mould production** — applicable to PC components only*

Our PC Plant is equipped with a mould production workshop and a production team capable of fabricating reusable steel moulds to be utilised in our PC components production. We generally fabricate our own mould, but depending on our mould production capacity or the requirements of our customers, we may outsource the prefabrication of mould to independent manufacturers.

**6.** ***Placing and acceptance of sales order***

*Ready-mixed concrete*

Our ready-mixed concrete customers are generally able to place orders with our sales team through our mobile application or in written form, at least 12 to 24 hours before the requested delivery time throughout the contractual period.

*PC components*

Our customers of PC components generally place orders with our sales team, specifying details such as product type, quantity and expected delivery date, to facilitate our planning of production.

**7.** ***Production plan***

Our production team formulates monthly production plans in accordance with sales data provided by our sales team. The information will assist our production and procurement teams to appropriately allocate resources and make necessary procurement plans.

**8.** ***Procurement of raw materials***

Our procurement team is responsible for the purchase of cement, aggregates and other key raw materials used in our production. Raw materials are ordered according to our production plans and existing inventory level. For details regarding our procurement process, please refer to the paragraph headed "Procurement — Raw material purchase" in this section.

**III. Implementation phase**

**9.** ***Production***

Our production team will carry out the production process according to the monthly production plans in our respective production facilities. For further details on our production process, please refer to paragraphs headed "Production process" in this section.

During the Track Record Period, our Group engaged independent employment agents to source some of our factory workers for our PC component production lines. For details on our outsourcing arrangement, please refer to paragraphs headed "Procurement — Employment agents" in this section.

**10.** ***Storage****— applicable to PC components only*

Upon passing our quality control procedures, the finished PC components will be transported to and kept in our warehouses and storage yards.

**11.** ***Delivery***

Our transportation team is responsible for co-ordination of our fleet drivers and trucks with the assistance of our transportation despatch system.

*Ready-mixed concrete*

We generally handle the delivery of our ready-mixed concrete by our own truck fleet. Freshly produced ready-mixed concrete will be loaded onto mixer trucks directly, for delivery to construction sites. Our customer conducts on-site inspection of our ready-mixed concrete and endorses on the delivery note as acceptance.

*PC components*

We generally outsource the delivery of our PC components to independent logistics services providers. When our sales team receives delivery instructions from our customers, our transportation team will arrange our warehouse operatives and truck fleet to hoist the necessary components onto the trucks for delivery to construction sites. Our customer conducts on-site inspection of our PC components and endorses on the delivery note as acceptance.

For further details on our delivery process, please refer to the paragraphs headed "Logistics and product delivery" in this section.

**IV. Post-delivery phase**

**12. *Assembly consultation and services*** *— optional services applicable to PC components only*

Since prefabrication construction method is relatively new to contractors in Fujian Province, our construction and installation team provides optional assembly consultation and assembly services to our customers, terms of which are mutually agreed at the negotiation phase with the level of service required specified in the master contract.

(1) *Assembly consultation:*

(i) on-site assembly consultation — we will despatch technical advisers to station at our customers' construction sites to oversee and assist them with the assembly of PC components; and

(ii) off-site troubleshooting — we will provide customers with off-site support to resolve problems relating to the assembly of PC components.

(2) *Assembly services:*

Our Group offers assembly services for certain integrated underground utility tunnel projects. We generally outsource the on-site PC components assembly works to qualified independent services providers. We will despatch technical adviser to our customer's construction sites to oversee and assist with the assembly process.

**13. *Issue of invoice***

Our Group requires our customers to make progressive payments, generally on a monthly basis, based on the actual products delivered during the period. Depends on the project size or product nature, we may require our customers to make a deposit on each sales order before delivery. Our sales team prepares monthly billing statements to our customers to confirm the sales transaction records. After the billing statement is confirmed by our customers, our finance team will then issue invoices to them.

**14. *Defect liability period***

The terms and conditions in relation to defect liability period vary from contract to contract, normally ranging from 3 months to 24 months from the date of the practicable completion of the construction project, during which our Group is liable to rectify any product defects. During the Track Record Period, we did not experience any material claim by our customers in respect of product defects, and we did not make provision for any repair and maintenance cost in respect of product defects during the defects liability period.

**15. *Release of retention money***

In general, our customers may hold up retention money from the progress payment as stipulated under the contract terms. The retention money normally ranges from 5% to 20% of the total progress payment amount. The release of the retention money is normally due after the end of the defect liability period.

## OUR PRODUCTS

We are a manufacturer and supplier of concrete-based building materials. Our principal products include (i) ready-mixed concrete; and (ii) PC components. During the Track Record Period, our Group's products were mainly applied in construction sites in Fujian Province, which were produced in accordance with our customers' specifications and construction requirements, whilst conforming to the relevant PRC national and/or industry standards.

Concrete is a widely used composite construction material generally produced by combining cement, water and aggregates to form a fluid paste, which can be poured and moulded into any desirable shape before it cures and hardens over time to form a stone-like material. Hardened concrete possesses high compressive strength, durability, wind and water resistance and it is non-combustible, which is used extensively in buildings, bridges, roads and dams. The grade strength of concrete can be modified, depending on its intended structural application, by proportioning ingredients of the concrete mixture ratio and/or by adding admixtures and supplementary cementitious materials (such as PFA and mineral powder). However, compared to other binding materials, the tensile strength of concrete is relatively low, and is more prone to cracks and can even snap when exposed to enough flexural tensile stress, but when reinforced with rebar, it can be used to create solid, earthquake proof structures.

### (i) Ready-mixed concrete

Ready-mixed concrete refers to concrete that is mixed from a batching plant for delivery in its plastic or unhardened state, which will be poured, shaped and cured at the construction site instead of being mixed on-site.

Each batch of our ready-mixed concrete is tailor-made to the specifications agreed with our customers, which will be delivered by our mixer truck fleet to construction sites in accordance to our customers' orders and instructions. We offer concrete pumping service at our customers' discretion, our service includes the leasing and operation of our concrete pump trucks from our fleet made up of about 14 trucks, as at 31 October 2020, of various specifications, with a maximum vertical reach with placing boom up to 63 meters in height, which are operated by our licensed operators. The ready-mixed concrete we produce generally conform with the relevant national and industrial standards. For further details, please refer to the paragraphs headed "Quality control" in this section. The table below sets out the particulars of our ready-mixed concrete, which is categorised by its respective grade level:

| Grade level | Strength class[(1)] | Compressive strength[(2)] | Applications | Price range of products per $m^3$ during the Track Record Period[(3)] |
|---|---|---|---|---|
| Low grade | Between C15–C30 | Between 15 MPa to 34 MPa | Usually used in non-structural applications where support and strength are not critical, such as pathways, roads, drainage works, backing and haunching and so forth | RMB237 to RMB586 |
| Standard grade | Between C35–C45 | Between 35 MPa to 49 MPa | Usually used in commercial constructions for creating external walls, slabs, structural piling, foundations and beams for structural support and so forth | RMB284 to RMB877 |
| High grade | Over C50 | Over 50 MPa | Usually used in special structures to withstand high compressive loads such as shear walls and foundations of high-rise structures and highway bridges | RMB380 to RMB2,776 |
| CTB | C10 or below | 14 MPa or below | Usually used as a pavement base for highways, roads and airports to provide a stiffer and stronger base to reduce deflection | RMB155 to RMB291 |

*Notes:*

1. Grades of concrete are defined by the number next to the letter "C", which indicates the minimum compressive strength the concrete must possess after curing for 28 days. The grade number ascends at an interval of 5 and is understood in measurements of MPa, which denotes the overall compressive strength of the concrete.

2. Actual compressive strength of ready-mixed concrete is determined by test of compressive strength on test cubes made after curing for 28 days.

3. The price may include the cost of delivery, concrete pumping service and other surcharge levied on the customer, net of VAT.

## Conversion rates of raw materials

The following table sets forth the conversion rates of raw materials into our ready-mixed concrete by grade during the Track Record Period and the industry conversion rates:

| | Year ended 31 December | | | | | | Ten months ended 31 October | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2018 | | 2019 | | 2020 | | |
| | Consumption volume[1] | Conversion rates[2] | Consumption volume[1] | Conversion rates[2] | Consumption volume[1] | Conversion rates[2] | Consumption volume[1] | Conversion rate[2] | Industry conversion rates[3] |
| | (tonne) | (tonne/m$^3$) | (tonne) | (tonne/m$^3$) | (tonne) | (tonne/m$^3$) | (tonne) | (tonne/m$^3$) | (tonne/m$^3$) |
| **Low grade** | | | | | | | | | |
| — aggregates | 1,102,203 | 1.93 | 847,035 | 1.95 | 1,117,167 | 2.02 | 846,205 | 1.98 | 1.94 |
| — cement | 145,945 | 0.26 | 116,152 | 0.27 | 144,220 | 0.26 | 112,104 | 0.26 | 0.25 |
| — admixtures | 4,647 | 0.01 | 3,809 | 0.01 | 3,806 | 0.01 | 3,409 | 0.01 | 0.01 |
| — PFA | 27,476 | 0.05 | 16,485 | 0.04 | 24,751 | 0.04 | 21,247 | 0.05 | 0.06 |
| — mineral powder | 20,323 | 0.04 | 12,876 | 0.03 | 18,760 | 0.03 | 15,019 | 0.04 | — |
| | 1,300,594 | 2.29 | 996,357 | 2.30 | 1,308,704 | 2.36 | 997,983 | 2.34 | 2.26 |
| Production volume[4] (m$^3$) | 571,313 | | 434,177 | | 552,818 | | 427,577 | | |
| **Standard grade** | | | | | | | | | |
| — aggregates | 744,125 | 1.89 | 802,917 | 1.92 | 521,437 | 1.85 | 549,179 | 1.90 | 1.86 |
| — cement | 112,590 | 0.29 | 119,769 | 0.29 | 82,583 | 0.29 | 84,446 | 0.29 | 0.36 |
| — admixtures | 3,369 | 0.01 | 4,549 | 0.01 | 2,426 | 0.01 | 3,059 | 0.01 | 0.01 |
| — PFA | 29,580 | 0.08 | 27,295 | 0.07 | 17,477 | 0.06 | 18,360 | 0.06 | 0.07 |
| — mineral powder | 19,531 | 0.05 | 16,818 | 0.04 | 12,402 | 0.04 | 12,686 | 0.04 | — |
| | 909,195 | 2.32 | 971,348 | 2.33 | 636,325 | 2.25 | 667,730 | 2.30 | 2.30 |
| Production volume[4] (m$^3$) | 394,381 | | 417,370 | | 281,493 | | 288,751 | | |
| **High grade** | | | | | | | | | |
| — aggregates | 178,479 | 1.91 | 359,300 | 1.91 | 174,471 | 1.85 | 120,361 | 1.87 | 1.85 |
| — cement[5] | 29,795 | 0.32 | 63,826 | 0.34 | 33,105 | 0.35 | 22,743 | 0.35 | 0.47 |
| — admixtures | 475 | 0.01 | 1,036 | 0.01 | 452 | 0.01 | 407 | 0.01 | 0.01 |
| — PFA | 7,573 | 0.08 | 12,473 | 0.07 | 6,104 | 0.06 | 3,692 | 0.06 | 0.06 |
| — mineral powder | 6,055 | 0.06 | 9,327 | 0.05 | 4,810 | 0.05 | 3,468 | 0.05 | — |
| | 222,377 | 2.38 | 445,962 | 2.38 | 218,942 | 2.32 | 150,671 | 2.34 | 2.39 |
| Production volume (m$^3$) | 93,430 | | 187,955 | | 94,274 | | 64,475 | | |
| **CTB** | | | | | | | | | |
| — aggregates[6] | 36,264 | 1.06 | 48,396 | 0.95 | 83,359 | 0.86 | 136,966 | 0.85 | 0.86 |
| — cement | 2,806 | 0.08 | 4,688 | 0.09 | 9,289 | 0.10 | 14,572 | 0.09 | 0.10 |
| — stone powder | 34,872 | 1.02 | 58,862 | 1.15 | 113,834 | 1.17 | 189,902 | 1.18 | 1.14 |
| | 73,942 | 2.16 | 111,946 | 2.19 | 206,482 | 2.13 | 341,440 | 2.12 | 2.10 |
| Production volume (m$^3$) | 34,061 | | 51,047 | | 97,249 | | 160,799 | | |

*Notes:*

1. Consumption volume represents the amount of raw materials (except water) used for production of our ready-mixed concrete during the respective year/period.

2. Conversion rates is calculated by dividing the total consumption volume of raw materials for the year/period by the total production volume for the year/period.

3. Industry conversion rates were calculated by Frost & Sullivan based on the (i) industry guide "Specification for mix proportion design of semi-finished construction materials, such as concrete and mortar, in Fujian Province (2017)" (《福建省建設工程混凝土、砂漿等半成品配合比(2017版)》), published by Fujian

Construction Engineering Cost Management Station (福建省建設工程造價管理總站), which is formulated in accordance to the industry standard "Specification for mix proportion design of ordinary concrete" (《普通混凝土配合比設計規程》 (JGJ55-2011)), published by MOHURD (the "**Industry Guide**"); and (ii) data collected from accredited certification institution for CTB. As advised by Frost & Sullivan, the industry guide for mix proportion design of ordinary concrete serves as a reference point for concrete manufacturers, however, the mix proportion design used in the industry may vary depending on its intended application, and it is a common industry practice to use chemical or mineral admixtures as addition to the mix proportion design or use PFA as replacement for cement. Provided that the relevant sampling, testing and quality control methods required by the national standard as stipulated in their relevant contracts are adhered to, and the technical specifications are fulfilled and certified by Independent Third Party accredited certification institutions, there is no specific mandatory requirements stipulating the mix proportion design for ready-mixed concrete should be based on the industry standard for mix proportion design of ordinary concrete.

4. For the year ended 31 December 2019, approximately 2,668 $m^3$ and 5,470 $m^3$ of low grade and standard grade ready-mixed concrete were utilised for the production of our PC components, respectively.

5. During the Track Record Period, our Group primarily used P.052.5 cement in our mix proportion design for our high grade ready-mixed concrete, whereas the Industry Guide used P.042.5 cement, which is a relatively lower quality cement as compared to P.052.5 cement, therefore our Group was able to achieve the same grade strength with lower cement mix proportion and thus, the conversation rate of cement for high-grade ready-mixed concrete was lower than that of the industry conversation rate.

6. During the Track Record Period, our Group produced various types of CTB to be used in different projects. In order to achieve the desirable specifications, stones of different specifications (primarily ranging from 5 to 31.5 mm) and volume were used to produce CTB, and thus our conversion rate of aggregates for CTB may differ from project-to-project.

### (ii) PC components

PC components are concrete-based building material used in modern prefabricated method of construction, it is a process in which a structure is manufactured off-site in a controlled factory environment. The PC components are produced using codes and standards of conventional production facilities, which may include concrete batching, casting, reinforcement and curing, the finished PC components will then be delivered and assembled on-site where the structure is located. Comparing to traditional construction method, prefabricated construction using PC components (i) creates higher quality structures by strict production in a controlled casting environment, where it is easier to control the mixture, placement and curing; (ii) increases productivity with a lower demand of labour force with highly organised operation and some degree of automation; (iii) streamlines the construction schedule by preparing building components at a plant and performing on-site construction works simultaneously; (iv) reduces construction waste by tightly managed material flow; and (v) minimises dust and water pollution by implementing environmental control in a factory environment.

Our Group offers comprehensive solutions to our customers to cater for their construction needs. Besides the production and delivery of PC components, we work closely with our customers and provide our expertise throughout our operating phases. Our value-added services may include the review and recommendation on the overall prefabrication structural design, its specifications, as well as the design of PC moulds and components. We also provide optional post-delivery services such as technical and assembly consultation and assembly services.

During the Track Record Period, we were involved in construction projects of various types and sizes, based on the different types of project, our major PC component products can be further divided into (i) tunnel segments; and (ii) other construction components.

***Tunnel segments***

Our PC tunnel segments are designed to be used in underground rail transit construction projects, which are manufactured, cured and tested in our PC Plant, before being delivered, erected and assembled on-site, to form segmental rings and lining (i.e. underground tunnels), which become the support structure of the tunnel.

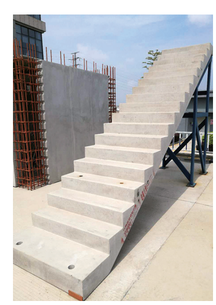
During the Track Record Period, all of our PC tunnel segments were tailor-made for and sold to subsidiaries of CSCEC, being the main contractors, among others, for the construction of AMTR in Xiamen.

The price of our tunnel segments may include delivery and other surcharge levied on our customers, net of VAT. Details of our pricing policy are set out in the paragraph headed "Customers, sales and marketing — Pricing policy" in this section. During the Track Record Period, the average unit price of our tunnel segments generally ranged from RMB1,207 per $m^3$ to RMB1,213 per $m^3$.

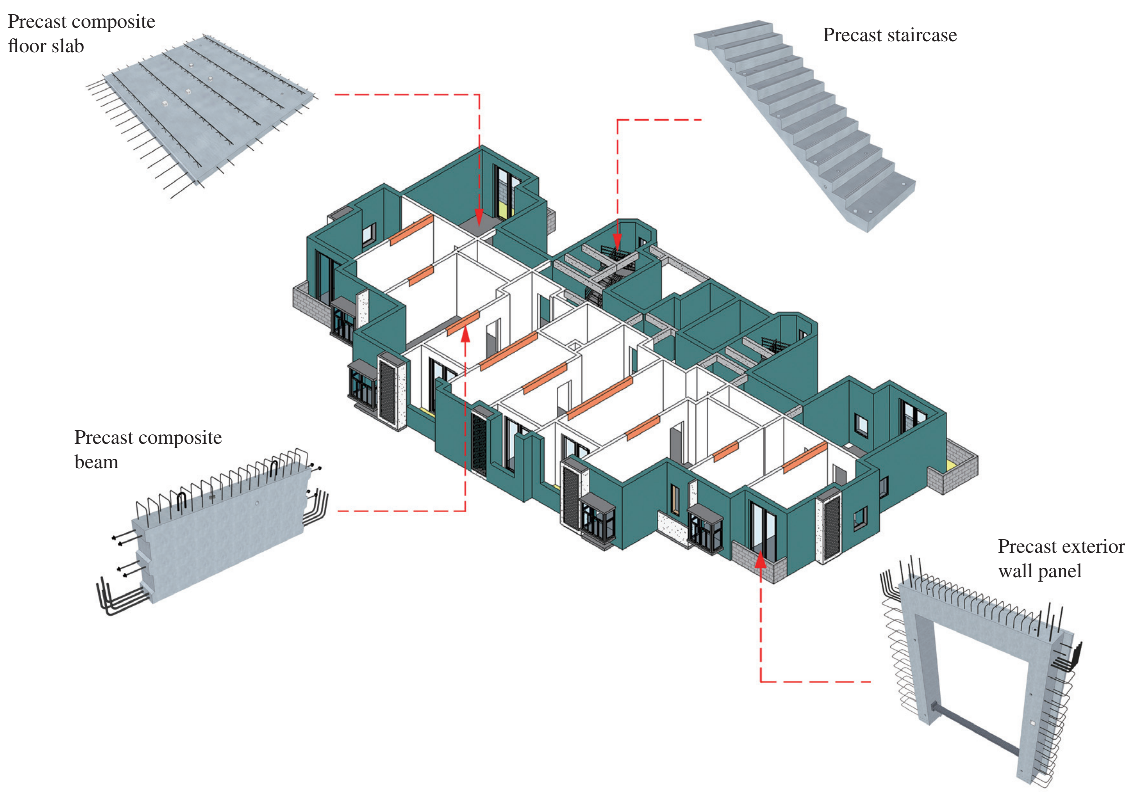
***Other construction components***

Other construction components primarily include floor slabs, square piles, beams and utility tunnel segments.

| **Type** | **Description** | **Price range of products per $m^3$ during the Track Record Period** | |
|---|---|---|---|
| Floor slabs | Our floor slabs refer to composite floor slabs which consist of concrete board, longitudinal and transverse reinforcement and trusses in a lateral direction. They will be assembled horizontally completed with in-situ concrete to form floors and ceilings of buildings.<br><br>According to different designs, elements such as junction boxes, horizontal conduits and bottom cases can be embedded in the floor slabs. | RMB2,478 to RMB3,733 |  |

| Type | Description | Price range of products per m$^3$ during the Track Record Period | |
|---|---|---|---|
| Square piles | Our square piles are reinforced concrete piles that will be assembled vertically as foundations to provide support for buildings and structures. | RMB914 to RMB1,625 |  |
| Beams | Our beams mainly include precast composite beams that will be assembled horizontally as structural elements to resist loads applied laterally to their axis. | RMB2,514 to RMB3,733 |  |
| Utility tunnel segments | Our precast utility tunnel segments are reinforced and constructed into integrated underground utility tunnels through assembly and cast-in-situ partly. The integrated underground utility tunnels are placed underground for laying municipal pipelines centrally to provide connections for utilities, such as electricity, communication, television, water supply, drainage and gas. They provide an accessible and safe space for multiple services' infrastructures and allow regular inspections, maintenance and easy replacement. | RMB1,110 to RMB2,994 |  |
| Other miscellaneous products | Apart from the major construction components products described above, we also offer other miscellaneous products, such as precast staircase, wall panel, paving slabs and trench cover. | RMB677 to RMB3,733 |   |

Our other construction components are manufactured in modules which can be connected to each other at reserved joints according to the architectural design. They are assembled by the construction workers using construction craft on the construction sites and constructed into buildings in various structures, appearances and functions. During the Track Record Period, our other construction components were used in prefabricated building construction projects including residential buildings, business parks and educational institutions. The following picture illustrates a prefabricated building using some of our other construction components and their respective installation positions:




The price of our PC constructional components may include delivery, relevant service charges and other surcharge levied on the customers, net of VAT. Details of our services and our pricing policy are set out in the paragraph headed "Customers, sales and marketing — Pricing policy" in this section.

## Conversion rates of raw materials

The following table sets forth the conversion rates of raw materials into our PC components by types during the Track Record Period and the industry conversion rates:

| | Year ended 31 December | | | | | | Ten months ended 31 October | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2018 | | 2019 | | 2020 | | |
| | Consumption volume[(1)] | Conversion rates[(2)] | Consumption volume[(1)] | Conversion rates[(2)] | Consumption volume[(1)] | Conversion rates[(2)] | Consumption volume[(1)] | Conversion rate[(2)] | Industry conversion rates[(3)] |
| | (tonne) | (tonne/$m^3$) | (tonne) | (tonne/$m^3$) | (tonne) | (tonne/$m^3$) | (tonne) | (tonne/$m^3$) | (tonne/$m^3$) |
| **Tunnel segments** | | | | | | | | | |
| — aggregates | N/A | N/A | 53,601 | 1.87 | 63,053 | 1.82 | N/A | N/A | 1.80 |
| — cement[(5)] | N/A | N/A | 9,454 | 0.33 | 11,069 | 0.32 | N/A | N/A | 0.45 |
| — rebars[(4)] | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 0.18 |
| — admixtures | N/A | N/A | 109 | 0.01 | 138 | 0.01 | N/A | N/A | 0.01 |
| — PFA | N/A | N/A | 1,838 | 0.06 | 1,633 | 0.05 | N/A | N/A | 0.06 |
| — mineral powder | N/A | N/A | 1,444 | 0.05 | 1,460 | 0.04 | N/A | N/A | — |
| | N/A | N/A | 66,446 | 2.32 | 77,353 | 2.24 | N/A | N/A | 2.50 |
| Production volume ($m^3$) | N/A | | 28,734 | | 34,722 | | N/A | | |
| **Other construction components** | | | | | | | | | |
| — aggregates | 9,038 | 1.96 | 31,393 | 1.88 | 88,869 | 1.79 | 146,368 | 1.88 | 1.88 |
| — cement | 1,681 | 0.36 | 5,537 | 0.33 | 15,601 | 0.31 | 27,218 | 0.35 | 0.32 |
| — rebars | 579 | 0.13 | 2,102 | 0.13 | 6,848 | 0.14 | 11,127 | 0.14 | 0.15 |
| — admixtures | 19 | 0.01 | 65 | 0.01 | 193 | 0.01 | 696 | 0.01 | 0.01 |
| — PFA | 85 | 0.02 | 1,076 | 0.06 | 2,301 | 0.05 | 4,376 | 0.06 | 0.07 |
| — mineral powder | 236 | 0.05 | 846 | 0.05 | 2,056 | 0.04 | 1,106 | 0.01 | — |
| | 11,638 | 2.53 | 41,019 | 2.46 | 115,868 | 2.34 | 190,891 | 2.45 | 2.43 |
| Production volume ($m^3$) | 4,623 | | 16,742 | | 49,706 | | 77,811 | | |

*Notes:*

1. Consumption volume represents the amount of raw materials (except water) used for production of our PC components during the respective year/period.

2. Conversion rates are calculated by dividing the total consumption volume of raw materials for the year/period by the total production volume for the year/period.

3. Industry conversion rates were calculated by Frost & Sullivan based on the (i) industry guide "Specification for mix proportion design of semi-finished construction materials, such as concrete and mortar, in Fujian Province (2017)" (《福建省建設工程混凝土、砂漿等半成品配合比(2017版)》), published by Fujian Construction Engineering Cost Management Station (福建省建設工程造價管理總站), which is formulated in accordance to the industry standard "Specification for mix proportion design of ordinary concrete" (《普通混凝土配合比設計規程》 (JGJ55-2011)), published by MOHURD (the "**Industry Guide**"); and (ii) data collected from various research institutions in the PRC for rebar conversion rates for 1.2m and 1.5m tunnel segments, floor slabs, square piles, columns, staircases, beams, utility tunnel segments, paving slabs and frame columns. As advised by Frost & Sullivan, the industry guide for mix proportion design of ordinary concrete is applicable to the ready-mixed concrete use in PC component production, details of which are set out in note 3 to the paragraph headed "(i) Ready-mixed concrete — Conversion rates of raw materials" of this subsection. Provided PC components are produced in accordance to shop drawings approved by the designated licensed Independent Third Party design institutions, ready-mixed concrete and rebars used in the PC component production are certified by Independent Third Party accredited certification institutions using

the relevant sampling, testing and quality control methods required by the industry and national standards as stipulated in their relevant contracts, there is no specific mandatory requirements to adhere to the industry conversion rates.

4. Rebars used to manufacture tunnel segments were provided by our customers.

5. For the two years ended 31 December 2019, our Group's tunnel segment was produced using high-grade ready-mixed concrete and we primarily used P.052.5 cement in our mix proportion design for our high grade ready-mixed concrete, whereas the Industry Guide used P.042.5 cement, which is a relatively lower quality cement as compared to P.052.5 cement, therefore our Group was able to achieve the same grade strength with lower cement mix proportion and thus, the conversation rate of cement for high-grade ready-mixed concrete was lower than that of the industry conversation rate.

### Seasonality

We normally record lower sales during the period from January to March due to Chinese New Year, when the construction activities are less active than other months of the year. Additionally, certain climatic conditions, such as heavy or prolonged rainfall, also negatively affect market demand of our products because the level of activity in the construction industry is relatively low under such conditions. We expect our operating results will continue to be influenced by such seasonality trend in the future. Please refer to the paragraph headed "Risk factors — Risks relating to our business and industry — The demand for our concrete products is bounded by seasonality, in particular, climatic seasonality, hence the weather conditions may impinge on the process of construction activities" for details.

## OUR PROJECTS

Our products can be applied in construction projects of different nature, which can be broadly categorised into (i) infrastructure, (ii) residential, (iii) commercial and industrial, and (iv) municipal. The table below sets out the principal types of construction our concrete-based products were applied in, which are categorised by their respective project nature:

| Project nature | Types of construction |
|---|---|
| Infrastructure | Consists of rail transit, integrated underground utility tunnels and roads and highways projects |
| Residential | Consists of private housing estates and residential buildings projects |
| Commercial and industrial | Consists of business parks, software parks, industrial parks and manufacturing plants projects |
| Municipal | Consists of public housing and educational institutions projects |

The following table sets forth the breakdown of our Group's revenue generated by product and by project nature[1] during Track Record Period:

| | Year ended 31 December | | | | | | Ten months ended 31 October | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2018 | | 2019 | | 2019 | | 2020 | |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 (Unaudited) | % | RMB'000 | % |
| **Ready-mixed concrete** | | | | | | | | | | |
| — Infrastructure | 165,537 | 41.4 | 200,041 | 39.1 | 143,074 | 24.2 | 116,734 | 26.7 | 123,334 | 20.5 |
| — Residential | 125,683 | 31.5 | 108,346 | 21.2 | 86,176 | 14.6 | 57,806 | 13.2 | 65,670 | 10.9 |
| — Commercial and industrial | 34,461 | 8.6 | 15,935 | 3.1 | 103,228 | 17.5 | 51,777 | 11.8 | 177,749 | 29.5 |
| — Municipal | 49,551 | 12.4 | 118,797 | 23.2 | 108,586 | 18.4 | 90,982 | 20.8 | 37,166 | 6.2 |
| — Others[2] | 18,650 | 4.7 | 9,953 | 2.0 | 5,768 | 0.9 | 2,907 | 0.8 | 3,969 | 0.6 |
| Subtotal | 393,882 | 98.6 | 453,072 | 88.6 | 446,832 | 75.6 | 320,206 | 73.3 | 407,888 | 67.7 |
| **PC components** | | | | | | | | | | |
| — Infrastructure | 1,479 | 0.4 | 40,794 | 8.0 | 53,937 | 9.1 | 45,292 | 10.4 | 47,824 | 7.9 |
| — Residential | 4,158 | 1.0 | 12,501 | 2.4 | 59,576 | 10.1 | 46,729 | 10.7 | 146,389 | 24.3 |
| — Commercial and industrial | — | — | 53 | 0.1 | 24,613 | 4.2 | 23,367 | 5.3 | 34 | 0.1 |
| — Municipal | — | — | 4,842 | 0.9 | 5,839 | 1.0 | 1,511 | 0.3 | — | — |
| — Others[2] | — | — | 5 | — | — | — | — | — | 20 | — |
| Subtotal | 5,637 | 1.4 | 58,195 | 11.4 | 143,965 | 24.4 | 116,899 | 26.7 | 194,267 | 32.3 |
| **Total** | 399,519 | 100.0 | 511,267 | 100.0 | 590,797 | 100.0 | 437,105 | 100.0 | 602,155 | 100.0 |

*Notes:*

1. Project nature is categorised based on the project description as stipulated in their respective master contracts and the principal utilisation of our products.

2. Others refer to sales with no master contracts for project nature categorisation.

The demand of our ready-mixed concrete and PC components is largely driven by the development of the construction industry and progress of urbanisation in Fujian Province, particularly Xiamen.

During the Track Record Period, AMTR and integrated underground utility tunnels were key development plans for Xiamen's urbanisation. With additional AMTR lines opening and utility facilities reaching further parts of the city, more residential buildings and commercial and industrial parks are built in Xiamen which triggers a larger demand for ready-mixed concrete and PC components as a result.

Consequently, our projects were predominately infrastructure and residential in nature during the Track Record Period, and the revenue generated from these projects amounted to approximately RMB296.9 million, RMB361.7 million, RMB342.8 million and RMB383.2 million, representing approximately 74.3%, 70.7%, 58.0% and 63.6% of our revenue, respectively. Moreover, the demand of commercial and industrial projects has been growing during the Track Record Period and the revenue generated from these projects amounted to approximately RMB34.5 million, RMB16.0 million, RMB127.8 million and RMB177.8 million, representing approximately 8.6%, 3.2%, 21.7% and 29.6% of our revenue, respectively.

During the Track Record Period and up to the Latest Practicable Date, we completed 418 and 72 projects for our ready-mixed concrete and PC components respectively. As at the Latest Practicable Date, we had 92 and 33 on-going projects (either in progress or yet to commence) for our ready-mixed concrete and PC components respectively.

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

| | Year ended 31 December | | | Ten months ended 31 October | From 1 November 2020 to the Latest Practicable Date |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | |
| **For ready-mixed concrete:** | | | | | |
| Number of opening projects | 77 | 78 | 89 | 102 | 125 |
| Number of new projects[(1)] | 68 | 73 | 164 | 105 | 23 |
| Number of completed projects[(2)] | 67 | 62 | 151 | 82 | 56 |
| Number of on-going projects as of the end of the year/period[(3)] | 78 | 89 | 102 | 125 | 92 |
| **For PC components:** | | | | | |
| Number of opening projects | — | 2 | 17 | 21 | 36 |
| Number of new projects[(1)] | 6 | 28 | 28 | 34 | 9 |
| Number of completed projects[(2)] | 4 | 13 | 24 | 19 | 12 |
| Number of on-going projects as of the end of the year/period[(3)] | 2 | 17 | 21 | 36 | 33 |
| Total number of on-going projects as of the end of the year/period[(3)] | 80 | 106 | 123 | 161 | 125 |

*Notes:*

1. Number of new projects refers to the total number of (i) projects with contracts entered into by our Group during the relevant year/period indicated; and (ii) projects commenced during the relevant year/period indicated with contracts signed in the following year/period.

2. Number of completed projects refers to projects completed by our Group during the relevant year/period indicated.

3. Number of on-going projects refers to the total number of (i) projects with contracts entered into by our Group and either in progress or yet to commence as at the relevant year/period indicated; and (ii) projects in progress as at the relevant year/period indicated with contracts signed in the following year/period.

## Major projects

The following tables set forth particulars of our major projects[(1)] by product categories during the Track Record Period in terms of revenue contribution:

***For ready-mixed concrete***

*For the ten months ended 31 October 2020*

| Rank | Project | Customer | Location | Project nature | Commencement date[(2)] | Completion date[(3)] | Contract sum[(4)] | Revenue recognised for the period | % of our revenue of ready-mixed concrete for the period[(6)] |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | RMB'000 | RMB'000 | |
| 1. | Project Y | Fujian No.5 Construction Engineering Company (福建省第五建築工程公司) | Xiamen | Commercial and industrial | August 2019 | On-going | 73,301 | 54,714 | 13.4% |
| 2. | Project AF | CSCEC Strait Construction and Development Co., Ltd. (中建海峽建設發展有限公司) | Xiamen | Commercial and industrial | July 2020 | On-going | 58,252 | 27,638 | 6.8% |
| 3. | Project Z | CSCEC Strait Construction and Development Co., Ltd. (中建海峽建設發展有限公司) | Xiamen | Commercial and industrial | July 2019 | On-going | 38,835 | 24,139 | 5.9% |
| 4. | Project P | China Construction Eighth Engineering Division (Xiamen) Construction Co., Ltd.* (中建八局(廈門)建設有限公司) | Xiamen | Residential | January 2019 | On-going | 49,009 | 21,083 | 5.2% |
| 5. | Project O | CSCEC Strait Construction and Development Co., Ltd. (中建海峽建設發展有限公司) | Xiamen | Commercial and industrial | June 2019 | On-going | 47,573 | 17,969 | 4.4% |
| 6. | Project AA | Xiamen Sizong Construction Co., Ltd. (廈門思總建設有限公司) | Xiamen | Residential | November 2019 | On-going | 23,301 | 17,151 | 4.2% |
| 7. | Project AG | China Railway 11th Bureau Group City Rail Engineering Co., Ltd. (中鐵十一局集團城市軌道工程有限公司) | Xiamen | Infrastructure | June 2020 | On-going | 41,749 | 16,750 | 4.1% |
| 8. | Project AH | Fangyuan Construction Group Co., Ltd. (方遠建設集團股份有限公司) | Xiamen | Municipal | February 2020 | On-going | 14,563 | 15,493 | 3.8% |
| 9. | Project AI | CSCEC Railway Investment Transit Construction Co., Ltd. (中建鐵投軌道交通建設有限公司) | Xiamen | Commercial and industrial | October 2019 | On-going | 38,835 | 14,465 | 3.5% |

*For the year ended 31 December 2019*

| Rank | Project | Customer | Location | Project nature | Commencement date(2) | Completion date(3) | Contract sum(4) | Revenue recognised for the year | % of our revenue of ready-mixed concrete for the year(6) |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | RMB'000 | RMB'000 | |
| 1. | Project M | Fujian Sijian Construction Engineering Co., Ltd.* (廈門特房建設工程集團有限公司) | Xiamen | Municipal | February 2019 | On-going | 48,542 | 53,079 | 11.9% |
| 2. | Project B | China Railway 24th Bureau Group Co., Ltd. (中鐵二十四局集團有限公司) | Xiamen | Infrastructure | November 2013 | On-going(5) | N/A | 37,039 | 8.3% |
| 3. | Project N | A wholly owned subsidiary of China Railway First Group Co., Ltd. (中鐵一局集團有限公司) | Xiamen | Infrastructure | January 2018 | On-going | 77,910 | 36,883 | 8.3% |
| 4. | Project O | CSCEC Strait Construction and Development Co., Ltd. (中建海峽建設發展有限公司) | Xiamen | Commercial and industrial | June 2019 | On-going | 47,573 | 32,468 | 7.3% |
| 5. | Project P | China Construction Eighth Engineering Division (Xiamen) Construction Co., Ltd.* (中建八局(廈門)建設有限公司) | Xiamen | Residential | January 2019 | On-going | 49,009 | 22,641 | 5.1% |
| 6. | Project J | A wholly owned subsidiary of China Construction Fourth Engineering Division Corp. Ltd. (中國建築第四工程局有限公司) | Xiamen | Municipal | December 2017 | On-going | 94,348 | 19,767 | 4.4% |
| 7. | Project Q | China Construction First Group Corp. Ltd. (中國建築一局(集團)有限公司) | Xiamen | Residential | March 2019 | On-going | 14,682 | 16,232 | 3.6% |
| 8. | Project R | Fujian Xingyan Construction Group Co., Ltd.* (福建省興岩建設集團有限公司) | Xiamen | Residential | May 2019 | On-going | 8,738 | 15,084 | 3.4% |

*For the year ended 31 December 2018*

| Rank | Project | Customer | Location | Project nature | Commencement date[(2)] | Completion date[(3)] | Contract sum[(4)] | Revenue recognised for the year | % of our revenue of ready-mixed concrete for the year[(6)] |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | RMB'000 | RMB'000 | |
| 1. | Project B | China Railway 24th Bureau Group Co., Ltd. (中鐵二十四局集團有限公司) | Xiamen | Infrastructure | November 2013 | On-going[(5)] | N/A | 69,284 | 15.3% |
| 2. | Project J | A wholly owned subsidiary of China Construction Fourth Engineering Division Corp. Ltd. (中國建築第四工程局有限公司) | Xiamen | Municipal | December 2017 | On-going | 94,348 | 55,645 | 12.3% |
| 3. | Project K | CSCEC Strait Construction and Development Co., Ltd. (中建海峽建設發展有限公司) | Xiamen | Residential | January 2018 | On-going | 58,252 | 52,684 | 11.6% |
| 4. | Project I | A wholly owned subsidiary of CCCC Fourth Harbor Engineering Co., Ltd. (中交第四航務工程局有限公司) | Xiamen | Infrastructure | August 2016 | August 2019 | 42,024 | 31,356 | 6.9% |
| 5. | Project L | Xiamen Haitou Engineering Construction Company (廈門海投工程建設有限公司) | Xiamen | Residential | April 2017 | September 2019 | 43,689 | 30,679 | 6.8% |

*For the year ended 31 December 2017*

| Rank | Project | Customer | Location | Project nature | Commencement date[(2)] | Completion date[(3)] | Contract sum[(4)] | Revenue recognised for the year | % of our revenue of ready-mixed concrete for the year[(6)] |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | RMB'000 | RMB'000 | |
| 1. | Project A | Xiamen Jianan Group Co., Ltd.* (廈門市建安集團有限公司) | Xiamen | Municipal | April 2016 | December 2019 | N/A | 34,341 | 8.7% |
| 2. | Project B | China Railway 24th Bureau Group Co., Ltd. (中鐵二十四局集團有限公司) | Xiamen | Infrastructure | November 2013 | On-going[(5)] | N/A | 32,489 | 8.2% |
| 3. | Project C | China Construction Fourth Engineering Division Corp. Ltd. (中國建築第四工程局有限公司) | Xiamen | Residential | March 2016 | February 2019 | N/A | 24,420 | 6.2% |
| 4. | Project D | China Railway First Group Co., Ltd. (中鐵一局集團有限公司) | Xiamen | Infrastructure | May 2015 | On-going | 58,374 | 23,688 | 6.0% |
| 5. | Project E | China Construction Third Engineering Bureau Group Co., Ltd. (中建三局集團有限公司) | Xiamen | Residential | July 2016 | October 2019 | 24,051 | 21,123 | 5.4% |
| 6. | Project F | Guangxi Construction Engineering Group No.1 Architecture and Engineering Co., Ltd. (廣西建工集團第一建築工程有限責任公司) | Xiamen | Infrastructure | April 2016 | December 2018 | N/A | 21,026 | 5.3% |
| 7. | Project G | CCCC Fourth Harbor Engineering Co., Ltd. (中交第四航務工程局有限公司) | Xiamen | Infrastructure | August 2016 | December 2019 | 42,024 | 18,534 | 4.7% |
| 8. | Project H | Zhongtian Construction Group Co., Ltd. (中天建設集團有限公司) | Xiamen | Residential | April 2017 | September 2018 | N/A | 15,009 | 3.8% |
| 9. | Project I | A wholly owned subsidiary of CCCC Fourth Harbor Engineering Co., Ltd. (中交第四航務工程局有限公司) | Xiamen | Infrastructure | August 2016 | August 2019 | 42,024 | 14,437 | 3.7% |

* *For identification purposes only*

*Notes:*

1. The aggregate revenue of major projects for each of the three years ended 31 December 2019 and the ten months ended 31 October 2020 representing not less than 50% of the total revenue derived from the sale of ready-mixed concrete for the respective year/period, which amounting approximately 52.0%, 52.9%, 52.3% and 51.3% of our revenue of ready-mixed concrete during the Track Record Period.

2. Commencement date refers to the contract date.

3. Completion date is determined based on the delivery date of the last order of products.

4. Contract sum refers to the estimated contract value of our project specified in the contract, while "N/A" represents the contract with no specified contract value. Revenue to be recognised is subject to the actual volume of products ordered by our customers for the year/period and price adjustment based on the prevailing market unit price for each of our products specified in the contracts, which may result in a difference from the estimated contract value.

5. Since November 2013 and up to the Latest Practicable Date, our Group has supplied ready-mixed concrete to China Railway 24th Bureau Group Co., Ltd. (中鐵二十四局集團有限公司) for the consumption in several rail transit projects that China Railway 24th Bureau Group Co., Ltd. involved in, including Line 1, 2, 3, 4 and 6 of AMTR.

6. Percentage of our revenue of ready-mixed concrete is calculated by dividing the revenue of the relevant project recognised for the relevant year/period by the total revenue derived from the sale of ready-mixed concrete during the relevant year/period.

***For PC components***

*For the ten months ended 31 October 2020*

| Rank | Project | Customer | Location | Project nature | Commencement date[(2)] | Completion date[(3)] | Contract sum[(4)] | Revenue recognised for the period | % of our revenue of PC components for the period[(5)] |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | RMB'000 | RMB'000 | |
| 1. | Project AB | Zhongjian Xinhongding Environment Group Ltd.* (中建鑫宏鼎環境集團有限公司) | Xiamen | Infrastructure | February 2019 | On-going | 64,148 | 33,721 | 17.4% |
| 2. | Project AJ | Xintai Construction Group Co., Ltd.* (鑫泰建設集團有限公司) | Zhangzhou | Residential | April 2020 | On-going | 29,435 | 29,560 | 15.2% |
| 3. | Project W | Customer A | Fuzhou | Residential | March 2019 | On-going | 58,407 | 10,396 | 5.4% |
| 4. | Project AD | A wholly owned subsidiary of China Construction Fourth Engineering Division Corp. Ltd. (中國建築第四工程局有限公司) | Longyan | Residential | November 2019 | November 2020 | 9,035 | 10,395 | 5.4% |
| 5. | Project AK | Nanli Construction Group Co., Ltd.* (南力建設集團有限公司) | Quanzhou | Residential | March 2020 | On-going | 10,491 | 9,360 | 4.8% |
| 6. | Project X | Yongfu Construction Group Co., Ltd. (永富建工集團有限公司) (formerly known as Fujian Yongfu Construction Group Co., Ltd. (福建省永富建設集團有限公司)) | Xiamen | Infrastructure | September 2018 | On-going | 22,759 | 8,366 | 4.3% |

*For the year ended 31 December 2019*

| Rank | Project | Customer | Location | Project nature | Commencement date[(2)] | Completion date[(3)] | Contract sum[(4)] | Revenue recognised for the year | % of our revenue of PC components for the year[(5)] |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | RMB'000 | RMB'000 | |
| 1. | Project T | Customer A | Xiamen | Infrastructure | June 2018 | On-going | 59,470 | 39,339 | 27.3% |
| 2. | Project V | China Construction First Group Corp. Ltd. (中國建築一局(集團)有限公司) | Xiamen | Commercial and industrial | April 2019 | December 2019 | 14,161 | 13,466 | 9.4% |
| 3. | Project W | Customer A | Fuzhou | Residential | March 2019 | On-going | 58,407 | 10,058 | 7.0% |
| 4. | Project X | Yongfu Construction Group Co., Ltd. (永富建工集團有限公司) (formerly known as (Fujian Yongfu Construction Group Co., Ltd. (福建省永富建設集團有限公司)) | Xiamen | Infrastructure | September 2018 | On-going | 22,759 | 9,755 | 6.8% |

*For the year ended 31 December 2018*

| Rank | Project | Customer | Location | Project nature | Commencement date[(2)] | Completion date[(3)] | Total contract sum[(4)] | Revenue recognised for the year | % of our revenue of PC components for the year[(5)] |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | RMB'000 | RMB'000 | |
| 1. | Project T | Customer A | Xiamen | Infrastructure | June 2018 | On-going | 59,470 | 19,665 | 33.8% |
| 2. | Project U | China Construction Sixth Engineering Division Corp. Ltd. (中國建築第六工程局有限公司) | Xiamen | Infrastructure | September 2018 | On-going | 17,203 | 11,638 | 20.0% |

*For the year ended 31 December 2017*

| Rank | Project | Customer | Location | Project nature | Commencement date[(2)] | Completion date[(3)] | Contract sum[(4)] | Revenue recognised for the year | % of our revenue of PC components for the year[(5)] |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | RMB'000 | RMB'000 | |
| 1. | Project S | CSCEC Strait Construction and Development Co., Ltd. (中建海峽建設發展有限公司) | Xiamen | Residential | May 2017 | May 2018 | 5,983 | 3,289 | 58.3% |

* *For identification purposes only*

*Notes:*

1. The aggregate revenue of major projects for each of the three years ended 31 December 2019 and the ten months ended 31 October 2020 represents not less than 50% of the total revenue derived from the sale of PC components for the respective year/period, approximately 58.3%, 53.8%, 50.5% and 52.4%, respectively, of our revenue of PC components during the Track Record Period.

2. Commencement date refers to the contract date.

3. Completion date is determined based on the delivery date of the last order of products.

4. Contract sum refers to the estimated contract value of our project specified in the contract, while "N/A" represents the contract with no specified contract value. Revenue to be recognised is subject to the actual volume of products ordered by our customers for the year/period and price adjustment based on the prevailing market unit price for each of our products specified in the contracts, which may result in a difference from the estimated contract value.

5. Percentage of our revenue of PC components is calculated by dividing the revenue of the relevant project recognised for the relevant year/period by the total revenue derived from the sale of PC components during the relevant year/period.

**New contract value**

New contract value represents the aggregate value of contracts that we entered into during a specified period and have a specified contract value. The value of a contract is the amount that we expect to receive (net of estimated VAT) based on the estimated demand of products as mutually agreed by us and our customers at the time of entering into the contract, subject to the actual volume of products ordered by our customers and price adjustment based on prevailing market unit price for each of our products specified in the contracts.

The following table sets forth our new contract value by product categories for the periods indicated:

| | Year ended 31 December | | | Ten months ended 31 October | From 1 November 2020 to the Latest Practicable Date |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Ready-mixed concrete | 162,062 | 266,037 | 511,885 | 438,578 | 142,600 |
| PC components | 14,687 | 161,564 | 196,312 | 413,109 | 98,523 |
| **Total** | 176,749 | 427,601 | 708,197 | 851,687 | 241,123 |

**Backlog**

Backlog is the estimate of the remaining contract value of our products yet to be completed as of a certain date. The contract value represents the amount that we expect to receive (net of estimated VAT) based on the estimated demand of products as mutually agreed by us and our customers at the time of entering into the contract, subject to the actual volume of products ordered by our customers and price adjustment based on prevailing market unit price for each of our products specified in the contracts. Backlog is not a measurement defined by generally accepted accounting principles.

The following table sets forth our backlog movement in terms of contract value by product categories for the periods indicated:

| | Year ended 31 December | | | Ten months ended 31 October | From 1 November 2020 up to 31 January |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) |
| **Ready-mixed concrete:** | | | | | |
| Opening value of backlog projects | 121,814 | 173,045 | 205,993 | 367,854 | 414,552 |
| New contract value | 162,062 | 266,037 | 511,885 | 438,578 | 86,039 |
| Revenue recognised[(1)] | (141,429) | (249,560) | (358,250) | (372,093) | (178,384) |
| Value of subsequent rectifications, modifications or adjustments[(2)] | 30,598 | 16,471 | 8,226 | (19,787) | (19,002) |
| Ending value of backlog projects[(3)] | 173,045 | 205,993 | 367,854 | 414,552 | 303,205 |
| **PC components:** | | | | | |
| Opening value of backlog projects | — | 6,486 | 115,401 | 185,202 | 401,562 |
| New contract value | 14,687 | 161,564 | 196,312 | 413,109 | 93,880 |
| Revenue recognised[(1)] | (5,637) | (49,827) | (122,669) | (192,213) | (66,546) |
| Value of subsequent rectifications, modifications or adjustments[(2)] | (2,564) | (2,822) | (3,842) | (4,536) | (6,275) |
| Ending value of backlog projects[(3)] | 6,486 | 115,401 | 185,202 | 401,562 | 422,621 |
| **Total** | 179,531 | 321,394 | 553,056 | 816,114 | 725,826 |

*Notes:*

1. Not all of our revenue is recorded in our backlog for a number of reasons, including (i) some contracts entered into between our Group and the customers do not have a specified contract value; and (ii) small-scale ad hoc orders with no master contracts.

2. The actual revenue of certain contracts may differ from its original contract value because the revenue that we recognise is subject to the actual volume of products ordered by our customers and price adjustment based on prevailing market unit price for each of our products specified in the contracts. This may result in addition or deduction of the original contract value of our projects during the Track Record Period, which was represented as the value of subsequent rectifications, modifications or adjustments.

3. During the Track Record Period and for the three months ended 31 January 2021, we had 62, 51, 30, 23 and 12 on-going contracts for ready-mixed concrete with unspecified contract values and nil, three, one, nil and nil on-going contracts for PC components with unspecified contract values, respectively, and thus they were not accounted for in our backlog calculation.

4. Our backlog may not be indicative of our future operating results. Please refer to the section headed "Risk factors — Our backlog and new contract value may not be indicative of our future results of operation" of this prospectus for details.

For ready-mixed concrete, we had approximately RMB173.0 million, RMB206.0 million, RMB367.9 million, RMB414.6 million and RMB303.2 million in terms of contract value in our backlog as of 31 December 2017, 31 December 2018, 31 December 2019, 31 October 2020 and 31 January 2021, respectively. For PC components, we had approximately RMB6.5 million, RMB115.4 million, RMB185.2 million, RMB401.6 million and RMB422.6 million in terms of contract value in our backlog as of 31 December 2017, 31 December 2018, 31 December 2019, 31 October 2020 and 31 January 2021, respectively.

## CUSTOMERS, SALES AND MARKETING

### Sales and marketing activities

Our Directors believe that our continuous efforts to maintain high quality products, competitive prices and on-time delivery are the key to building up and maintaining our customer base.

As at the Latest Practicable Date, our sales team consisted of 15 full time staff organised into two sales teams for the business development activities for our ready-mixed concrete and PC component products respectively.

Our sales representatives are responsible for sales administration matters including liaising on production schedule and product delivery with our respective departments, preparation of sales agreements, price setting, handling tendering arrangements, reconciliation of trade receivables with our finance department and provide post-sales services.

Our Group usually procures new customers through the following methods:

(1) Customers' direct approach: As the timing of delivery and transportation cost are major factors influencing the purchase decision for our potential customers. Being a major player of concrete products with sound reputation in Fujian Province, our Group is often directly approached by potential customers with projects in neighbouring regions to source ready-mixed concrete and/or PC components.

(2) Customer site visit: Our sales team visit existing and potential customers from time to time to increase our Group's exposure and explore new business opportunities. Customer site visit is one of our key channels in receiving invitations to tender and obtaining feedback on our Group's products and information on market trends, including changes in customers' demand, specifications and business conditions.

(3) Participate in tenders: Our sales team monitors and keeps track of new open tender notices in the media such as the government and customer websites, local newspapers and public gazettes for potential projects and we occasionally receive invitations for tender from potential customers as well.

Our design and finance teams will preliminary assess the technical and financial feasibility of tendering projects, and if we decide to tender, we will obtain quotations from our suppliers for budgeting and approval by our various departments, the sales team will then prepare the tender for submission to the potential customer.

During the Track Record Period, approximately 23.3%, 37.0%, 29.5% and 25.1% of our total revenue, respectively, were generated from projects secured through tender process. The following table sets forth the number of bids submitted for tendering, the number of projects secured through tender process and the tender success rate during the Track Record Period:

| | Year ended 31 December | | | Ten months ended 31 October |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** |
| Number of tenders submitted | 14 | 13 | 24 | 49 |
| Number of projects secured through tender process | 5 | 4 | 9 | 20 |
| Tender success rate (%)[1] | 36 | 31 | 38 | 41 |

*Note:* Tender success rate is calculated as the number of projects secured through tender process during a financial year/period, divided by the number of tenders submitted during that financial year/period.

(4) Conferences and meetings: Our management team frequently participates in conference and industry meetings organised by various government organisations and industry committees. Our Group has established connections with potential customers through these events.

(5) Business referral: Occasionally our Group receives business referrals from existing customers and through social and business network of the management team.

**Customers**

During the Track Record Period, SOE customers were our principal source of revenue. Our revenue generated from SOE customers amounted to approximately RMB238.9 million, RMB357.4 million, RMB397.3 million and RMB330.9 million representing approximately 59.8%, 69.9%, 67.2% and 54.9% respectively.

The following table sets forth the proportion of our revenue generated from SOEs and non-SOEs during the Track Record Period:

| | Year ended 31 December | | | | | | Ten months ended 31 October | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2018 | | 2019 | | 2019 | | 2020 | |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 (unaudited) | % | RMB'000 | % |
| **Ready-mixed concrete** | | | | | | | | | | |
| SOE | 233,268 | 58.4 | 314,524 | 61.5 | 311,573 | 52.7 | 217,548 | 49.8 | 272,191 | 45.2 |
| Non-SOE | 160,614 | 40.2 | 138,548 | 27.1 | 135,259 | 22.9 | 102,658 | 23.5 | 135,697 | 22.5 |
| | 393,882 | 98.6 | 453,072 | 88.6 | 446,832 | 75.6 | 320,206 | 73.3 | 407,888 | 67.7 |
| **PC components** | | | | | | | | | | |
| SOE | 5,637 | 1.4 | 42,924 | 8.4 | 85,686 | 14.5 | 68,892 | 15.8 | 58,686 | 9.8 |
| Non-SOE | — | — | 15,271 | 3.0 | 58,279 | 9.9 | 48,007 | 10.9 | 135,581 | 22.5 |
| | 5,637 | 1.4 | 58,195 | 11.4 | 143,965 | 24.4 | 116,899 | 26.7 | 194,267 | 32.3 |
| **Total** | 399,519 | 100.0 | 511,267 | 100.0 | 590,797 | 100.0 | 437,105 | 100.0 | 602,155 | 100.0 |

Our revenue generated from SOE customers increased from approximately RMB238.9 million for the year ended 31 December 2017 to approximately RMB357.4 million for the year ended 31 December 2018. The increase was mainly attributable to the increase in revenue from the supply of ready-mixed concrete and PC components to infrastructure projects, in particular rail transit projects, of approximately RMB34.5 million and RMB39.3 million, respectively.

Our revenue generated from SOE customers increased from approximately RMB357.4 million for the year ended 31 December 2018 to approximately RMB397.3 million for the year ended 31 December 2019. The increase was mainly attributable to the increase in revenue from the supply of PC components to infrastructure projects, in particular rail transit projects and underground utility tunnels projects, of approximately RMB13.1 million.

Our revenue generated from SOE customers increased from approximately RMB286.4 million for the ten months ended 31 October 2019 to approximately RMB330.9 million for the ten months ended 31 October 2020. The increase was mainly attributable to the increase in revenue from the supply of ready-mixed concrete to commercial and industrial projects in particular the software park and industrial park projects, of approximately RMB78.0 million.

During the Track Record Period, all of our revenue were generated from Fujian Province. Given Fujian Province is our Group's primary market, our production plants are strategically situated in close proximity to our major customers, which are connected to an extensive network of highways, allowing our Group to provide cost-effective and timely delivery to our customers.

As at 31 December 2017, 31 December 2018, 31 December 2019 and 31 October 2020, we had a total of 133, 140, 240 and 208 customers, respectively, out of whom 71, 87, 116 and 119 were recurring customers, representing approximately 53.4%, 62.1%, 48.3% and 57.2%, of our total customers for these respective periods. During the Track Record Period, our revenue generated from the recurring customers were approximately RMB316.7 million, RMB437.3 million, RMB472.5 million and RMB436.0 million, representing approximately 79.2%, 85.5%, 80.0% and 72.4% of our Group's total revenue, respectively.

During the Track Record Period, the total revenue attributable to the five largest customers of our Group amounted to approximately RMB169.7 million, RMB253.1 million, RMB242.3 million and RMB238.0 million, representing approximately 42.5%, 49.5%, 41.0% and 39.5% of our total revenue respectively. The total revenue attributable to the largest customer for the same period amounted to approximately RMB39.3 million, RMB69.5 million, RMB61.3 million and RMB93.1 million, representing approximately 9.8%, 13.6%, 10.4% and 15.5% of our Group's total revenue, respectively.

The following table sets forth basic information of our five largest customers during the Track Record Period:

*For the ten months ended 31 October 2020*

| Rank | Customer | Principal business activities | Major products sold | Commencement year of business relationship | Credit term | Revenue contributed | Approximate % of our total revenue |
|---|---|---|---|---|---|---|---|
| | | | | | | RMB'000 | % |
| 1 | CSCEC Strait Construction and Development Co., Ltd. (中建海峽建設發展有限公司)[1] | A SOE principally engaged in construction contracting works for building and municipal public utilities in the PRC | Ready-mixed concrete and PC components | 2017 | Within 10 to 20 days from the date of issue of the payment certificate by the customer or the invoice date (as the case may be). | 93,124 | 15.5 |
| 2 | Fujian No.5 Construction Engineering Company (福建省第五建築工程公司) | A SOE principally engaged in construction engineering contracting works for building and municipal public utilities in the PRC | Ready-mixed concrete | 2011 | Within 15 days from the date of issue of the payment certificate by the customer | 54,714 | 9.1 |
| 3 | China Construction Xinhongding Environmental Group Co., Ltd. (中建鑫宏鼎環境集團有限公司) | A private company principally engaged in construction contracting works for building and municipal public utilities in the PRC | Ready-mixed concrete and PC components | 2015 | Within 20 days from the date of issue of the payment certificate by the customer | 35,581 | 5.9 |
| 4 | Xintai Construction Group Co., Ltd. Zhangzhou Branch* (鑫泰建設集團有限公司漳州分公司) | A private company principally engaged in construction contracting works for building and municipal public utilities in the PRC | PC components | 2020 | Within 30 days from the date of issue of the payment certificate by the customer | 29,560 | 4.9 |
| 5 | Xiamen Sizong Construction Co., Ltd. (廈門思總建設有限公司) | A private company principally engaged in construction engineering contracting works for building and municipal public utilities in the PRC | Ready-mixed concrete and PC components | 2009 | Within 25 days from the date of issue of the payment certificate by the customer | 25,027 | 4.1 |
| | | Five largest customers | | | | 238,006 | 39.5 |
| | | All other customers | | | | 364,149 | 60.5 |
| | | Total revenue | | | | 602,155 | 100.0 |

*For the year ended 31 December 2019*

| Rank | Customer | Principal business activities | Major products sold | Commencement year of business relationship | Credit term | Revenue contributed | Approximate % of our total revenue |
|---|---|---|---|---|---|---|---|
| | | | | | | RMB'000 | % |
| 1 | CSCEC Strait Construction and Development Co., Ltd. (中建海峽建設發展有限公司)(1) | A SOE principally engaged in construction contracting works for building and municipal public utilities in the PRC | Ready-mixed concrete and PC components | 2017 | Within 10 to 20 days from the date of issue of the payment certificate by the customer or the invoice date (as the case may be). | 61,255 | 10.4 |
| 2 | Fujian Sijian Construction Engineering Co., Ltd.* (廈門特房建設工程集團有限公司) | A SOE principally engaged in construction contracting works for building and municipal public utilities in the PRC | Ready-mixed Concrete and PC components | 2010 | Within 15 days from the invoice date. | 53,083 | 9.0 |
| 3 | Customer A | A SOE principally engaged in construction contracting works for municipal public utilities and sale and manufacturing of PC components in the PRC | PC components | 2018 | Within 30 days from the invoice date. | 49,397 | 8.4 |
| 4 | China Railway First Group Co., Ltd. (中鐵一局集團有限公司)(2) | A SOE principally engaged in construction contracting works for railway, municipal public utilities and building in the PRC | Ready-mixed concrete and PC components | 2011 | Within 15 to 30 days from the date of issue of the payment certificate by the customer or the invoice date (as the case may be). | 41,507 | 7.0 |
| 5 | China Railway 24th Bureau Group Co., Ltd. (中鐵二十四局集團有限公司)(3) | A SOE principally engaged in construction contracting works for railway, municipal public utilities and building in the PRC | Ready-mixed concrete | 2008 | Within seven to 14 days from the invoice date. | 37,039 | 6.2 |
| | | Five largest customers | | | | 242,281 | 41.0 |
| | | All other customers | | | | 348.516 | 59.0 |
| | | **Total revenue** | | | | 590,797 | 100.0 |

*For the year ended 31 December 2018*

| Rank | Customer | Principal business activities | Major products sold | Commencement year of business relationship | Credit term | Revenue contributed | Approximate % of our total revenue |
|---|---|---|---|---|---|---|---|
| | | | | | | RMB'000 | % |
| 1. | China Railway 24th Bureau Group Co., Ltd. (中鐵二十四局集團有限公司)(3) | A SOE principally engaged in construction contracting works for railway, municipal public utilities and building in the PRC | Ready-mixed concrete | 2008 | Within seven to 14 days from the invoice date. | 69,545 | 13.6 |
| 2. | China Construction Fourth Engineering Division Corp. Ltd. (中國建築第四工程局有限公司)(4) | A SOE principally engaged in construction contracting works for building and municipal public utilities in the PRC | Ready-mixed concrete and PC components | 2013 | 10 days from the invoice date. | 58,181 | 11.4 |
| 3. | CSCEC Strait Construction and Development Co., Ltd. (中建海峽建設發展有限公司) | A SOE principally engaged in construction contracting works for building and municipal public utilities in the PRC | Ready-mixed concrete and PC components | 2017 | Within 10 to 20 days from the date of issue of the payment certificate by the customer or the invoice date (as the case may be). | 55,542 | 10.9 |
| 4. | CCCC Fourth Harbor Engineering Co., Ltd. (中交第四航務工程局有限公司)(5) | A SOE principally engaged in construction contracting works for municipal public utilities and sale and manufacturing of PC components in the PRC | Ready-mixed concrete | 2016 | 30 days from the invoice date. | 39,191 | 7.6 |
| 5. | Xiamen Haitou Engineering Construction Company* (廈門海投工程建設有限公司) | A SOE principally engaged in construction contracting works for building in the PRC | Ready-mixed concrete | 2010 | 20 days from the invoice date. | 30,679 | 6.0 |
| | | Five largest customers | | | | 253,139 | 49.5 |
| | | All other customers | | | | 258,128 | 50.5 |
| | | **Total revenue** | | | | 511,267 | 100.0 |

*For the year ended 31 December 2017*

| Rank | Customer | Principal business activities | Major products sold | Commencement year of business relationship | Credit term | Revenue contributed | Approximate % of our total revenue |
|---|---|---|---|---|---|---|---|
| | | | | | | RMB'000 | % |
| 1. | China Construction Third Engineering Bureau Group Co., Ltd (中建三局集團有限公司)(6) | A SOE principally engaged in construction engineering contracting works for municipal public utilities and building in the PRC | Ready-mixed concrete and PC components | 2012 | Within five to 30 days from the date of issue of the payment certificate or the invoice date (as the case may be). | 39,300 | 9.8 |
| 2. | Xiamen Jianan Group Co., Ltd.* (廈門市建安集團有限公司) | A private company principally engaged in construction engineering contracting works for building and municipal public utilities in the PRC | Ready-mixed concrete | 2009 | Within 15 to 30 days from the date of issue of the payment certificate by the customer or the invoice date (as the case may be). | 35,389 | 8.9 |
| 3. | CCCC Fourth Harbor Engineering Co., Ltd. (中交第四航務工程局有限公司)(5) | A SOE principally engaged in construction contracting works for municipal public utilities and sale and manufacturing of PC components in the PRC | Ready-mixed concrete | 2016 | 30 days from the invoice date. | 32,970 | 8.3 |
| 4. | China Railway 24th Bureau Group Co., Ltd. (中鐵二十四局集團有限公司)(7) | A SOE principally engaged in construction contracting works for railway, municipal public utilities and building in the PRC | Ready-mixed concrete | 2008 | Within seven to 14 days from the date of the invoice date. | 32,815 | 8.2 |
| 5. | China Railway First Group Co., Ltd. (中鐵一局集團有限公司)(7) | A SOE principally engaged in construction contracting works for railway, municipal public utilities and building in the PRC | Ready-mixed concrete and PC components | 2011 | Within 15 to 30 days from the date of issue of the payment certificate by the customer or the invoice date (as the case may be). | 29,268 | 7.3 |
| | | Five largest customers | | | | 169,742 | 42.5 |
| | | All other customers | | | | 229,777 | 57.5 |
| | | **Total revenue** | | | | 399,519 | 100.0 |

* *For identification purposes only*

*Notes:*

1. Consists of two entities namely, CSCEC Strait Construction and Development Co., Ltd. (中建海峽建設發展有限公司) and its wholly owned subsidiary, both of which are affiliates of CSCEC.

2. Consists of three entities namely, China Railway First Group Co., Ltd. (中鐵一局集團有限公司) and its wholly owned subsidiaries, affiliates of China Railway.

3. Consists of two entities namely, China Railway 24th Bureau Group Co., Ltd. (中鐵二十四局集團有限公司) and its wholly owned subsidiary, both of which are affiliates of CRCC.

4. Consists of two entities namely, China Construction Fourth Engineering Division Corp. Ltd. (中國建築第四工程局有限公司) and its wholly owned subsidiary, affiliates of CSCEC.

5. Consists of two entities namely, CCCC Fourth Harbor Engineering Co., Ltd. (中交第四航務工程局有限公司) and its wholly owned subsidiary, affiliates of CCCC.

6. Consists of three entities namely, China Construction Third Engineering Bureau Group Co., Ltd (中建三局集團有限公司) and two of its wholly owned subsidiaries, affiliates of CSCEC.

7. Consists of two entities namely, China Railway First Group Co., Ltd. (中鐵一局集團有限公司) and its wholly owned subsidiary, affiliates of China Railway.

Our Directors have confirmed that all of the above five largest customers of our Group are Independent Third Parties and none of our Directors or their respective close associates or any Shareholders who, to the best knowledge of our Directors own more than 5% of the issued Shares immediately after completion of the Share Offer and the Capitalisation Issue, has any interests in any of such five largest customers and none of our Group's five largest customers have any past or present relationships (including but not limited to employment, trust, financing, or family relationship) with our Group, our Directors, Shareholders, senior management or their respective associates.

During the Track Record Period, our Group did not experience any major disruption that may materially affect our business due to material delays or defaulting payments by our customers by reason of their financial difficulties.

**Discontinued connected transactions**

During the Track Record Period, our Group made certain sale of ready-mixed concrete to Xiamen Jichang, which are not expected to continue after Listing. The amounts of sale of ready-mixed concrete made to Xiamen Jichang by our Group during the Track Record Period are summarised as follows:

| | | Connected transaction historical amounts | | | |
|---|---|---|---|---|---|
| | | Year ended 31 December | | | Ten months ended 31 October |
| | Ceased connected transaction since | 2017 | 2018 | 2019 | 2020 |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Sale of ready-mixed concrete to Xiamen Jichang | December 2019 | 42 | — | 4,803 | — |

Xiamen Jichang is a limited liability company established in the PRC which is principally engaged in construction works. It is owned as to 80% and 20% by Mr. Ye Zhixiong and his son, Mr. Ye Xiaojian, respectively. Mr. Ye Zhixiong is the elder brother of Mr. Ye and the uncle of Mr. Ye Dan. Mr. Ye Xiaojian is the nephew of Mr. Ye and the cousin of Mr. Ye Dan, therefore a connected person of our Company.

Our Directors consider that the terms and pricing of our transactions with Xiamen Jichang were fair, reasonable and on normal commercial terms. We have not made any sales to Xiamen Jichang since December 2019. As at the Latest Practicable Date, the relevant trade receivables due from Xiamen Jichang had been settled.

**Key terms of master sales contracts entered into with our customers**

We generally enter into master sales contracts with our customers on project basis, which our Directors believe is in line with the general market practice of the industry. The master contract sets out the terms and conditions including the specifications of products, the estimated unit price, the expected volume and the delivery and payment methods. The terms of each master contract entered into between our Group and the customers may vary significantly as they depend on various factors such as the duration, nature and complexity of the project, the terms and conditions agreed between our customers and the respective project owner or developer etc.. The duration of the projects generally ranges from one to three years. The following table sets forth the summary of the typical key terms and conditions of the agreement with our customers:

| | |
|---|---|
| **Unit price, volume/quantity and specification of products and services:** | The contract specifies the specifications of products (e.g. grading level measurements), services required (e.g. concrete pumping, installation consultation etc.), estimated unit price (the price may include the cost of delivery, concrete pumping service and other surcharge levied on the customer, net of VAT.), expected volume/quantity to be purchased by our customers.<br><br>The value of a contract is the amount that we expect to receive (net of estimated VAT) based on the estimated demand of products as mutually agreed by us and our customers at the time of entering into the contract. |
| **Pricing:** | All of our sales are denominated in RMB on fixed price per unit basis, and the total contract value is calculated on the actual quantity of products delivered. However, the actual unit price of ready-mixed concrete will be determined on an order-by-order basis, with reference to the prevailing Guidance Price issued by the local government. For details, please refer to the paragraph headed "Pricing policy" in this section below. |

| | |
|---|---|
| **Price adjustment:** | The unit price can be negotiated for adjustment when certain criteria (such as change in raw material price (such as cement and aggregates), or local government guidance price of raw materials beyond a certain percentage) had been met.<br><br>Mutual agreement with parties is generally required before adjusted unit price becomes effective. |
| **Delivery terms:** | We are generally responsible for the delivery of our products to the construction site through road transportation according to the agreed delivery schedule. The contract stipulates the delivery location and manner of delivery. |
| **Transfer of liability:** | The liability is generally transferred from us to the customer upon acceptance at the designated construction sites. As for tunnel segments, the acceptance procedure will be conducted by our customers at their designated storage sites. |
| **Quality control:** | We are typically required to adhere to the agreed design specifications and relevant national standards in relation to the construction projects we undertaken. |
| **Payment terms:** | We adopt various payment methods in our sales contracts, including, among others: (i) full or partial prepayment; (ii) payment on delivery if the project period is within one month; or (iii) 70%–100% of the progress payment amount (actual sales orders completed) for the previous month shall be settled on a monthly basis, 5%–20% of the total progress payment amount shall be settled upon practical completion of the construction project and the balance of 5%–20% of the total progress payment amount will be retained by our customers as retention money and will be paid to us within six months upon expiration of the defect liability period. |
| **Defect liability period:** | Our Group may be required to provide a defects liability period ranging from 3 to 24 months for the practical completion of the construction project. During the defects liability period, our Group is responsible for remedial works which may arise from the defective works or materials used. |

| | |
|---|---|
| **Defaults/termination:** | Our customer may be entitled to terminate the contract if there is a breach of contract by us, and we might also pay the customer 0.05% to 20% of the total contract value under the agreement. |

Our customers usually settle payments by way of bank transfer and our sales team is responsible for collecting the outstanding payments from our customers. During the Track Record Period, we did not experience any material difficulty in collecting payments which caused a significant adverse impact on our business operation.

**Pricing policy**

Our pricing policy aims to facilitate a profitable and sustainable growth for our business. Our Group adopts a cost-plus pricing model in preparing our bid or quotation prices. For our ready-mixed concrete, the price will be determined primarily expressed as a certain percentage (typically within 13%) below the Guidance Price as set out in the Xiamen Construction Engineering Information in effect from time to time. As advised by our PRC Legal Advisers, there is no specific mandatory provision stipulating that the price for ready-mixed concrete products should be based on the relevant Guidance Price as set out in the Xiamen Construction Engineering Information published by the management organisation which is responsible for determining and publishing the comprehensive market price of ready-mixed concrete products in Xiamen under applicable PRC laws and regulations. In accordance with the Frost & Sullivan Report, although the Guidance Price is not a mandatory price control measure imposed by the PRC government authorities, professional associates, or the applicable PRC laws and regulations, it is an industry practice that the ready-mixed concrete manufacturers in Xiamen adopt the Guidance Price as a reference point in determining the price of the products. The level of spread from the Guidance Price above is generally determined with reference to various factors such as (i) prevailing market price; (ii) specification and volume of products required; (iii) customer relationship; (iv) complexity of the project; and (v) our Group's production capacity and resources at a relevant time. The unit price of our PC components is determined based on an estimated cost of (i) raw materials; (ii) labour; (iii) production; and (iv) transportation floating by a reasonable margin.

The prices of some raw materials are sensitive to the fluctuations of market prices. As such, some of our contracts contain a price adjustment clause that will trigger price adjustment review after a certain date or in case the market price of raw materials or guidance price of raw materials issued by the local government has experienced a significant fluctuation. We may negotiate with the customers over the increased price of the raw material to determine the adjustment on the unit price, a mutual agreement needs to be reached before a price adjustment will become effective. Whether or to what extent we are able to successfully negotiate the price adjustment to cover our increased cost of raw materials are mainly subject to our negotiations with our customers in each case. Please refer to the section headed "Risk factors — Risks relating to our business and industry — Fluctuation in the prices of our major raw materials may have adverse impact on our financial results".

**Credit policy and credit management**

In our risk evaluation process, we would consider the reputation of the potential customer and whether the project has obtained the necessary approvals. In determination of our price quotation or bid for a project, we take into account factors including the profile and prestige of the project, the payment schedule, duration of the project and cost and resources required to complete the project. We would also carry out certain procedures which may include conducting background search on the customer and the project through public and industry information available to us and performing site visits to potential customers. Only when we have completed our risk assessment process will our Group submit bids or indicate interest for potential projects and commence drafting of master contracts.

Credit terms given to our customers are generally set out in the relevant contract. The credit period offered to our customers generally within 40 days from the date of issue of the payment certificate by the customer or the invoice date (as the case may be). We closely monitor the payment from our customers pursuant to the terms of each respective project. In order to collect overdue trade receivables and retention receivables, our finance team monitors overdue payments closely and prepares a monthly ageing report showing the customers' overdue amounts. Our sales team will evaluate on a case-by-case basis and carry out appropriate follow-up actions to collect the overdue trade receivable.

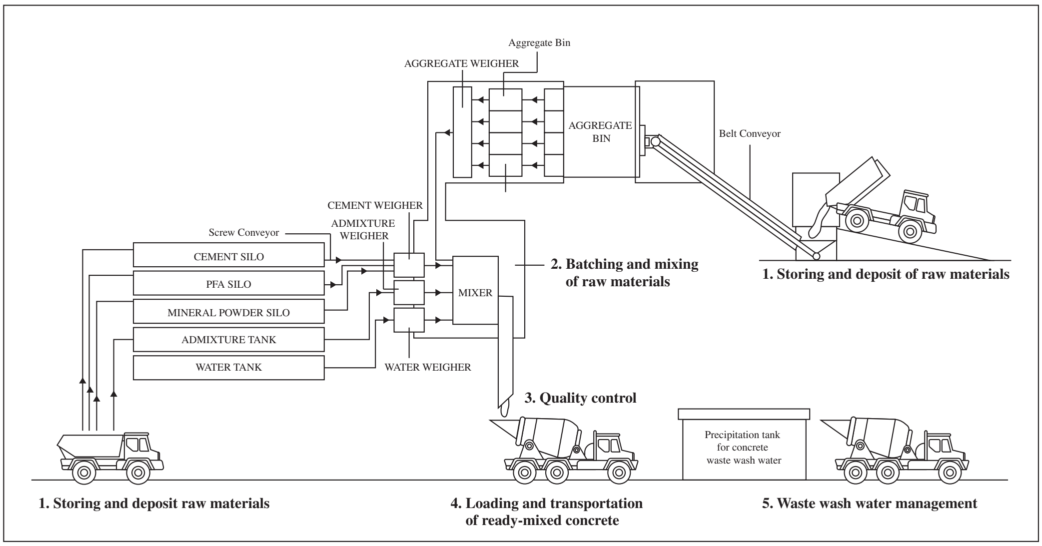
Our trade receivables turnover days is approximately 220.6 days, 196.9 days, 223.3 days and 242.6 days for the three years ended 31 December 2019 and the ten months ended 31 October 2020, respectively. Further details on our trade receivables turnover days are set out in the section headed "Financial information — Discussion on major items of the consolidated statements of financial position — Trade and other receivables" in this prospectus.

Under our credit policy, in case of outstanding trade receivables, we may discontinue to supply the products and take follow-up actions to collect the outstanding trade receivables. If the outstanding trade receivables are not paid after further liaison, on a case-by-case basis, we may take legal actions against our customers to recover the outstanding trade receivables if necessary.

## PRODUCTION PROCESS

### Ready-mixed concrete

The following diagram illustrates the major steps of the production process of ready-mixed concrete of our Group:




*Note:* The diagram is illustrative only, which is simplified and not drawn the scale

### 1. *Storing and deposit of raw materials*

Raw materials of our ready-mixed concrete consist mainly of cement, aggregates, PFA, mineral powder and admixtures. Our raw materials are usually stored in our warehouses when received, aggregates will be transferred and deposited into the aggregate bins of our batching stations as required by the production schedule. Our cement, admixtures, PFA and mineral powder are directly stored in the silos or tanks at our batching stations to protect them against rain, air moisture and wind.

### 2. *Batching and mixing of raw materials*

Each of our batching stations is deployed with a batching system to assist our plant operatives to monitor our production formulation, raw material, inventory usage and any abnormal conditions. The automated production process is initiated by our plant operatives through our batching system in accordance with our sales orders and batching notices.

Raw materials will be dispensed, weighted and mixed in proportion according to the pre-set formula from the batching system. The mixing process generally takes approximately 30 to 45 seconds.

**3.** ***Quality control***

Samples of the ready-mixed concrete would be taken upon completion of mixing, which are made into test cubes for curing for 28 days. Testing of grade strength is conducted on cured test cubes, where pressure is applied steadily on the test cubes and the maximum load applied to the test cubes before failure occurs are recorded as a mean of quality control. Samples of test cube which had been cured for 56 days would also be sent to an Independent Third Party accredited certification institution for testing to ensure the technical specifications are fulfilled.

**4.** ***Loading and transportation of ready-mixed concrete***

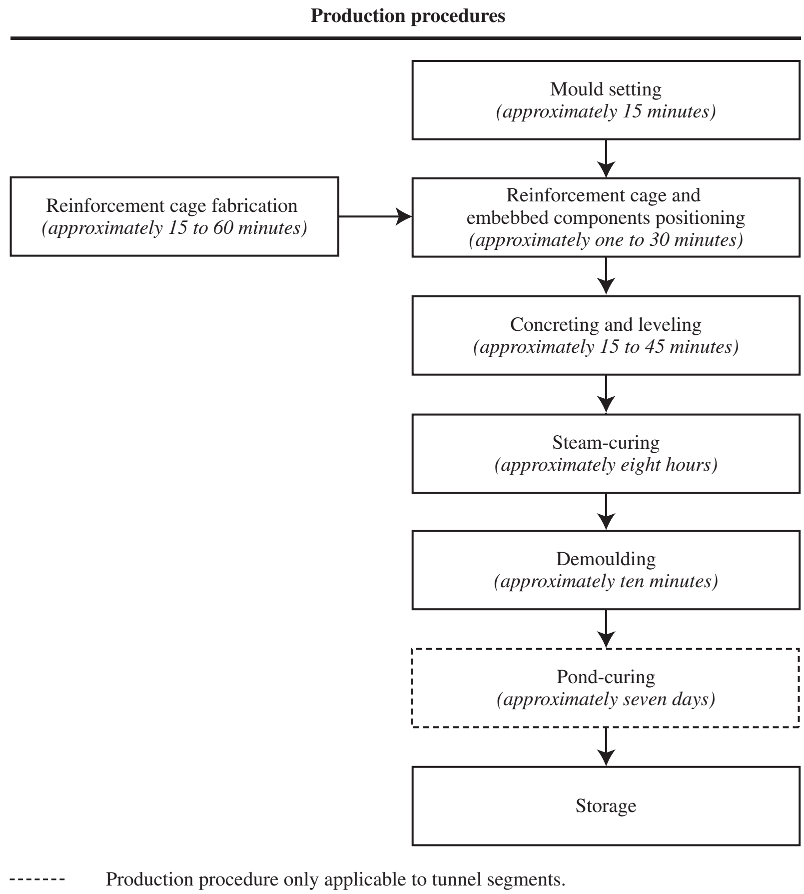
Upon completion of production, ready-mixed concrete will be immediately loaded onto the mixer drum of our mixer trucks for delivery. In general, owing to its curing nature, the length of delivery of ready-mixed concrete of our Group to the designated construction sites are within three hours.

**5.** ***Waste wash water management***

Waste wash water can generally be collected during the recycling of concrete and during cleaning of batching plant and equipment. We mainly acquire our waste wash water from rinsing (i) the tank of our mixer truck after each delivery; (ii) mixing equipment; and (iii) trucks and transporters of raw materials. The collected waste wash water will then be discharged to our precipitation tanks set up in our production facility for sedimentation. The precipitation process of waste wash water will separate the aggregates and PFA from other non-recyclable materials for reuse in our production process.

**PC components**

The major steps of the production process of PC components of our Group are outlined below:




Description of each of the key production steps of our PC components is set forth below:

***Mould setting***

Moulds are inspected, cleaned and fixed before production.

***Reinforcement cage fabrication***

Reinforcement cages are used to strengthen the structural integrity of our PC components. The fabrication process of reinforcement cage is semi-automated with the assistance of machineries and equipment. The process consists mainly of cutting, bending and welding.

***Reinforcement cage and embedded components positioning***

The prefabricated reinforcement cage, water and electricity pipes and other auxiliary embedded components are positioned into the mould, which will be inspected by members of our quality control team prior to concreting.

***Concreting and leveling***

Our production team will instruct the operative at our dedicated batching station to commence concrete mixing. The ready-mixed concrete will be poured into the mould and vibration equipment will be used on the fresh concrete for compaction, spreading and leveling. The surface of the concrete will then be chiseled and polished to eliminate any rough formations.

***Steam-curing***

Curing plays an important role on strength development and durability of concrete. Curing involves maintenance of desired moisture and temperature conditions, both at depth and near the surface, for extended periods of time. Properly cured concrete has an adequate amount of moisture for continued hydration and development of strength, volume stability, resistance to freezing and thawing, and abrasion and scaling resistance.

Moulds are then transferred to a closed-end steam curing chamber in a streamlined manner for steam-curing. The process usually takes approximately eight hours to enable the concrete to achieve the desirable strength level.

***Demoulding***

The PC components will be taken out of the steam curing chambers for demoulding once the steam-curing process is complete. Members of our quality control team will then carry out tests and inspection on the PC components and QR codes will be generated and attached on each of the PC components upon achieving satisfactory test results.

The QR code contains a web address, which opens up a detailed production record of the PC component when scanned.

***Pond-curing — applicable to tunnel segments only***

Tunnel segments will undergo the pond-curing process to further strengthen its load resistance. The process require the finished PC components to be immersed in our curing tanks for approximately seven days.

***Storage***

The finished products are transferred to our storage sites for storage. Spray-curing, a process of sprinkling of water on the finished PC components at set intervals, will continue for up to approximately 28 days to prevent drying and surface cracking.

## PRODUCTION FACILITIES, CAPACITY AND UTILISATION

### Wholly-owned production facilities

As at the Latest Practicable Date, our Group owns and operates two production plants, namely the RMC Plant and the PC Plant, both of which are strategically located in Xiamen, Fujian Province of the PRC. With the accessibility to well-developed highway transportation networks within Xiamen, it enables our Group to deliver products to our customers efficiently and facilitate the opportunity to development new customers in other major cities in Fujian Province.

The table below sets forth details of our RMC Plant:

| Site area (sq.m.) | Commencement of operations | Production and ancillary facilities detail | Production capacity (in '000 $m^3$)(1) | | | | Capacity utilisation rate (%)(2) | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Year ended 31 December | | | Ten months ended 31 October | Year ended 31 December | | | Ten months ended 31 October |
| | | | 2017 | 2018 | 2019 | 2020 | 2017 | 2018 | 2019 | 2020 |
| 36,411.7 | 2007 | • one batching station with:<br>— three 3.0 $m^3$ ready-mixed production lines<br>— one 4.5 $m^3$ ready-mixed production line<br>• one batching station with:<br>— one 2.0 $m^3$ ready-mixed production line<br>• one testing laboratory<br>• one concrete recycling centre<br>• one waste water treatment system<br>• one power generator<br>• one storage warehouse<br>• storage yards<br>• one office building | 1,439.0 | 1,439.0 | 1,439.0 | 1,200.0 | 76.0 | 75.8 | 71.9 | 78.5 |

*Notes:*

1. The production capacity refers to the aggregate estimated production capacity of our ready-mixed concrete production lines for the year/period, and is determined on the following assumptions:

   (i) 8 operating hours per shift, 2 shifts per day and 300 days per year basis after taking into account of routine inspections and maintenance;

   (ii) the production lines work under optimal conditions of the production facilities without any unexpected breakdown or interruptions;

   (iii) the average mixer truck preparation time (which includes the time for a mixer truck to get into position for loading, communicate with operator to confirm the order for loading and leaving the loading dock) is approximately 180 seconds on the basis of actual production experience;

(iv) each batch of ready-mixed concrete produced will fully utilise the maximum designed production volume of each of the mixers under each production line (i.e. a production line with a 3.0 $m^3$ mixer will produce 3.0 $m^3$ of ready-mixed concrete per batch), provided it will not overfill the mixer truck;

(v) the average loading time (which includes the input of raw materials, batching, weighting and mixing) for each batch of ready-mixed concrete is approximately 100 seconds on the basis of actual production experience;

(vi) mixer trucks will be fully loaded at their maximum drum capacity;

(vii) to fully load a mixer truck with drum capacity of 8 $m^3$, 12 $m^3$ and 8 $m^3$, 3, 3 and 4 batches of ready-mixed concrete is needed from our 3.0 $m^3$, 4.5 $m^3$, and 2.0 $m^3$ product lines, respectively;

(viii) the average production time per batch (includes mixer truck preparation time and loading time) of our 3.0 $m^3$, 4.5 $m^3$, and 2.0 $m^3$ product lines, is approximately 160 seconds, 160 seconds and 145 seconds, respectively (i.e. on average 157 seconds) on the basis of actual experience;

(ix) 7 mixer trucks with drum capacity of 8 $m^3$, 7 mixer trucks with drum capacity of 12 $m^3$ and 6 mixer trucks with drum capacity of 8 $m^3$, could be dispatched from our 3.0 $m^3$, 4.5 $m^3$ and 2.0 $m^3$ ready-mixed concrete production lines per hour, respectively; and

(x) the hourly output of ready-mixed concrete of approximately 56 $m^3$, 84 $m^3$ and 48 $m^3$, for each of our 3.0 $m^3$, 4.5 $m^3$ and 2.0 $m^3$ ready-mixed concrete production line, respectively.

2. The capacity utilisation rate is derived from dividing the actual production volume by the production capacity for the year/period.

3. During the Track Record Period, the ready-mixed concrete produced by our RMC Plant were mainly sold to our customers.

During the Track Record Period, the utilisation rate of our RMC Plant was approximately 76.0%, 75.8%, 71.9% and 78.5%, respectively. The utilisation rate remained stable at approximately 76.0% and 75.8% for two years ended 31 December 2018, respectively, but decreased to approximately 71.9% for the year ended 31 December 2019. The decrease of utilisation rate for the year ended 31 December 2019 was in line with the decrease in sales volume of our ready-mixed concrete, which is mainly driven by the decrease in demand for our ready-mixed concrete, primarily attributable to (i) the significant increase in average monthly rainfall in Xiamen from approximately 49.3 millimetres for the year ended 31 December 2018 to approximately 147.7 millimetres for the year ended 31 December 2019, which reduced the level of construction activities due to prolonged adverse weather condition; and (ii) our on-going projects were at different construction stages which affected the grade strength (in particular standard and high grade) of ready-mixed concrete required by our customers and the overall demand of our ready-mixed concrete. The utilisation rate for the ten months ended 31 October 2020 slightly increased as compared to the year ended 31 December 2019 of approximately 71.9% to approximately 78.5% was mainly resulted from increase in the demand of our products, in particular CTB due to the increase in demand from projects performing road works and standard grade ready-mixed concrete due to different stage of our on-going projects.

The table below sets forth details of our PC Plant:

| Site area (sq.m.) | Commencement of operations | Production and ancillary facilities detail | Production capacity (in '000 m³)(1) | | | | Capacity utilisation rate (%)(3) | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Year ended 31 December | | | Ten months ended 31 October | Year ended 31 December | | | Ten months ended 31 October |
| | | | 2017 | 2018 | 2019 | 2020 | 2017 | 2018 | 2019 | 2020 |
| 52,221.8 | 2017 | • three PC component carousel production lines<br>• one stationary PC component production line<br>• two semi-automated rebar processing lines<br>• one batching station with two 4.0 $m^3$ ready-mixed concrete production lines(4)<br>• one mould production workshop<br>• three steam-curing chambers<br>• one steam-curing unit<br>• one curing tank<br>• storage yards<br>• one office building | 36.7 | 105.9 | 111.1 | 71.2 | 12.6 | 42.9 | 70.1 | 84.7 |

*Notes:*

1. The production capacity refers to the aggregate estimated production capacity of our PC component production lines for the year/period, and is determined on the following assumptions:

   (i) 8 operating hours per shift, 1 shift per day for our carousel production lines and 300 days per year basis after taking into account of routine inspections and maintenance;

   (ii) our steam-curing chambers of our carousel production lines takes 8 hours to cure a batch of PC components;

   (iii) 8 operating hours per shift and 2 shifts per day for our and stationary production line and 300 days per year basis after taking into account of routine inspections and maintenance;

   (iv) stationary production line requires 8 hours of manual steam-curing per batch;

   (v) the production lines work under optimal conditions of the production facilities without any unexpected breakdown or interruptions;

   (vi) the two 4.0 $m^3$ ready-mixed concrete production lines will be sufficient and will not create a bottleneck for our PC component production;

   (vii) for the three years ended 31 December 2019, a carousel production line is dedicated to produce tunnel segments and two carousel production lines are dedicated to produce floor slabs and utility tunnel segments, while stationary production line is dedicated to produce as square piles, beams and stairs on the basis of historical production mix of major products. Since January 2020, our tunnel segments carousel production line was modified to produce other construction components as the production for our rail transit projects on hand had been completed;

(viii) for the three years ended 31 December 2019, our carousel production lines on average can produce approximately 37.4 $m^3$ of PC components per hour on the basis of actual production experience that, we are able to process 16.6 pallets with 2.5 unit per pallet and 0.9 $m^3$ per unit of PC components per hour. For the ten months ended 31 October 2020, subsequent to the modifications made to our tunnel segments carousel production line, our carousel production lines on average can produce approximately 26.8 $m^3$ of PC components per hour on the basis of actual production experience that, we are able to process 11.4 pallets with 4.7 units per pallet and 0.5 $m^3$ per unit of PC components per hour; and

(ix) our stationary production line on average can produce approximately 4.5 $m^3$ of PC components per hour on the basis of actual production experience that, we are able to process 3 pallets with 3 units per pallet and 0.5 $m^3$ per unit of PC components per hour during the Track Record Period.

2. Considering that the production lines at our PC Plant commenced operation at different times during the two years ended 31 December 2017 and 2018, their respective production capacity was calculated on a pro-rata basis in their respective year of commencement of operation.

3. The capacity utilisation rate is derived from dividing the actual production volume by the production capacity for the year/period.

4. During the Track Record Period, the batching station at our PC Plant was dedicated to supply ready-mixed concrete for our PC component production.

During the Track Record Period, the utilisation rate of our PC Plant was approximately 12.6%, 42.9%, 70.1% and 84.7%, respectively. As our PC Plant was put into commercial operation gradually since the second half of 2017, the production scale was comparatively lower than the estimated production capacity and resulted in low utilisation rate. The utilisation rate of our PC Plant gradually increased from approximately 12.6% for the year ended 31 December 2017 to approximately 42.9% for the year ended 31 December 2018, and further increased to approximately 70.1% for the year ended 31 December 2019, primarily reflected the increase in our actual production volume as a result of the increase in demand for our PC components. The utilisation rate for the ten months ended 31 October 2020 increased from approximately 70.1% for the year ended 31 December 2019 to approximately 84.7% was mainly due to the (i) increased in number of on-going PC component projects; and (ii) change in product mix as more utility tunnel segments, which generally have a relatively large volume per unit, were produced during the period.

To continue support our growth, we plan to expand our production capacity for our PC components through greater production automation. For details, please refer to the section headed "Future plans and use of proceeds" in this prospectus.

**Leased production facilities**

During the Track Record Period, our Group leased various locations in close proximity to our PC Plant from Independent Third Parties, for production and storage purposes to keep up with the increasing production demand of our PC component projects. As at the Latest Practicable Date, we leased a property with total gross floor area of approximately 12,360.4 sq.m. of production facility and a parcel of land, located on the east of the production facility, with site area of approximately 13,250 sq.m. for the production and storage of our PC components. For details, please refer to subsection headed "Properties — Leased properties" in this section.

The table below sets forth details of our leased production workshops:

| Production workshop | Approximate gross floor area (sq.m.) | Duration of the lease | Production and ancillary facilities detail | Production capacity (in '000 $m^3$)[(1)] | | | | Capacity utilisation rate (%)[(3)] | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Year ended 31 December | | | Ten months ended 31 October | Year ended 31 December | | | Ten months ended 31 October |
| | | | | 2017 | 2018 | 2019 | 2020 | 2017 | 2018 | 2019 | 2020 |
| Jimei Workshop | 12,360.4[(4)] | 1 June 2019 – 31 May 2024 | • one stationary PC component production line<br>• one semi-automated rebar processing line<br>• one steam-curing unit | — | — | 17.2 | 28.7 | — | — | 28.6 | 61.2 |
| Haicang Workshop | 3,120.0 | 22 March 2019 – 15 July 2019[(5)] | • one stationary PC component production line<br>• one semi-automated rebar processing line<br>• one steam-curing unit | — | — | 2.7 | — | — | — | 58.8 | — |

*Notes:*

1. The production capacity refers to the aggregate estimated production capacity of each stationary PC component production line for the period and is determined on the following assumptions:

   (i) 8 operating hours per shift, 1 shift per day and 300 days per year basis for our Haicang Workshop;

   (ii) 8 operating hours per shift, 1 shift per day and 300 days per year basis for our Jimei Workshop;

   (iii) stationary production lines require 8 hours of manual steam-curing per batch;

   (iv) the production lines work under optimal conditions of the production facilities without any unexpected breakdown or interruptions;

   (v) the ready-mixed concrete will be supplied by the two 4.0 $m^3$ ready-mixed concrete production lines at our PC Plant and its capacity will be sufficient and timing of deliveries will not create a bottleneck for our PC component production;

   (vi) stationary production lines at Haicang Workshop and Jimei Workshop are dedicated to produce square piles, beams and stairs on the basis of historical production mix of major products;

(vii) our stationary production lines at Haichang Workshop on average can produce approximately 4.5 $m^3$ of PC components per hour on the basis of actual production experience that, we are able to process 3 pallets with 3 units per pallet and 0.5 $m^3$ per unit of PC components per hour; and

(viii) our stationary production lines at Jimei Workshop on average can produce approximately 14.4 $m^3$ of PC components per hour on the basis of actual production experience that, we are able to process 9.6 pallets with 3 units per pallet and 0.5 $m^3$ per unit of PC components per hour.

2. Considering that the production lines of Haicang Workshop and Jimei Workshop commenced operation at different times during the year ended 31 December 2019, their respective production capacity was calculated on a pro-rata basis in their respective year of commencement of operation.

3. The capacity utilisation rate is derived from dividing the actual production volume by the production capacity for the period.

4. In addition to the gross floor area of approximately 12,360.4 sq.m. of our production facility, our Jimei Workshop contains a parcel of land, located on the east of the production facility, with site area of approximately 13,250.0 sq.m. leased by our Group. For details, please refer to subsection headed "Properties — Leased properties" in this section.

5. The original lease term of Haicang Workshop was from 22 March 2019 to 21 March 2020. As our Group requires a larger workshop to meet our production needs, we rented Jimei Workshop which has a larger site area, the lease agreement of Haicang Workshop was early terminated by our Group and the lease was ended on 15 July 2019.

The utilisation rate of our Jimei Workshop was approximately 28.6% and 61.2% for the period ended 31 December 2019 and the ten months ended 31 October 2020, respectively. The low utilisation rate for the period ended 31 December 2019 was mainly due to the production of our Jimei Workshop was newly commenced in October 2019, which involved trial production period in the beginning of operation, and therefore the production volume was comparatively low and yet to achieve the production scale. Given the utilisation rate of our PC Plant reached approximately 70.0% for the year ended 31 December 2019, Jimei Workshop provides additional production capacity to support the demand and potential growth of our PC components business, especially during the peak season.

**Major machinery and equipment**

***Ready-mixed concrete***

Our ready-mixed concrete production lines are fully automated and consist of five main systems: material storage system, material conveying system, material weighing system, batching and mixing system and control system.

***PC components***

We produce PC components under the following production systems:

(a) *Stationary production system*

Under the stationary production system, production pallets are mounted onto the floor and workers need to carry equipment and machineries from one pallet to another in order to carry out each of the production processes. Stationary production lines provide greater flexibility with our PC component products in terms of size and shape, require relatively less time and capital to establish and ideal for small batch production. However, the production process is relatively less efficient and labour-intensive with slower product availability.

*Our PC component stationary production line*

(b) *Carousel production system*

Under carousel production system, production pallets are placed on a circulatory system, where pallets rotate to workstations automatically and workers remain at their workstations to complete the required production process(es). Our carousel production lines are computer controlled and production processes are semi-automated, which means less manual labour involvement, higher efficiency, quality, consistent products and ideal for large batch production. However, carousel production lines are more machinery and equipment reliant and takes longer to establish.


*Our PC component carousel production line (tunnel segments)*(Note)

*Our PC component carousel production line (other construction components)*

*Note:* Our tunnel segments carousel production line had been modified to produce other construction components since January 2020.

We possess our own machinery and equipment to manufacture of our products. The following table sets forth information of the major machinery and equipment our Group owned and used in the course of our operation as at 31 October 2020:

| Type | Core components | Functions | Quantity (unit) |
|---|---|---|---|
| Batching and mixing system | • Mixer | For batching and mixing of raw materials to produce concrete | 7 |
| Rebar processing system | • Digital rebar straightening and cutting machine | For straightening and cutting of rebar materials to produce reinforcement cages | 3 |
| | • Digital rebar bending machine | For bending of rebar materials to produce reinforcement cages | 3 |
| | • Digital mesh welding machine | For welding mesh to produce reinforcement cages | 1 |
| Concrete spreader system | • Concrete spreader | For pouring fresh concrete into the mould | 3 |
| | • Vibration table | For compaction, spreading and leveling of wet concrete | 3 |
| Curing system | • Closed-end steam curing chamber | For steam-curing of PC components | 3 |
| Demoulding system | • Hydraulic panel turnover machine | For demoulding PC components automatically using hydraulic power | 3 |
| Circulatory system | • Side-shifter | For transversal transport of PC components within the production line | 7 |
| | • Electric crane | For transport of PC components | 28 |

As at 31 December 2017, 31 December 2018, 31 December 2019 and 31 October 2020, the aggregate net carrying value of our machineries amounted to approximately RMB33.9 million, RMB79.1 million, RMB76.4 million and RMB81.1 million, respectively. The expected useful life of our machinery and equipment is ranged from 3 to 15 years. For details of the depreciation method of major machinery and equipment, please refer to Notes 28 and 14 to the Accountant's Report as set out in Appendix I to this prospectus.

## Repair and maintenance

We conduct checks and carry out repair and maintenance works on our machineries and equipment on a regular basis to maximise production efficiency and avoid unexpected interruption of our operations. Our technical department generally carry out scheduled maintenance inspections on fixed intervals, the interval and duration of maintenance depends on the nature and category of the machineries to be serviced. We normally carry out scheduled maintenance works without interruption to our production.

During the Track Record Period, the costs of repair and maintenance amounted to approximately RMB2.7 million, RMB1.2 million, RMB1.9 million and RMB2.4 million, respectively. During the Track Record Period and up to the Latest Practicable Date, we did not experience any significant or prolonged interruptions of our manufacturing operations arising from breakdowns or failure of machineries or equipment which materially or adversely affect our operations or financial position.

## PROCUREMENT

### Raw material purchase

Raw material cost is the largest component in our Group's production cost structure and accounted for approximately 80.9%, 80.7%, 79.3% and 74.8% respectively of our total production cost for the Track Record Period. Raw materials for our Group's production include cement, aggregates, admixtures, PFA, mineral powder and rebars. During the Track Record Period, save for the rebars used to manufacture tunnel segments and some utility tunnel segments which were provided by our customers, all of our raw materials were sourced from suppliers in Fujian Province which enables us to shorten our lead time and reduce transportation costs.

Our procurement team is responsible for formulating our procurement plan and budget in accordance to our production plan on monthly basis. Our Group carries out procurement process according to the procurement plan. Quotations from various suppliers from our suppliers list will be obtained to compare the prices and quality prior to order placements. To ensure the quality of our concrete products, we have stringent quality control procedures for incoming raw materials. For details, please refer to the sub-section headed "Quality control — Incoming quality assurance" in this section.

The following table sets forth the breakdown of our Group's purchases by type of raw materials during the Track Record Period:

| | Year ended 31 December | | | | | | | | | Ten months ended 31 October | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | | 2018 | | | 2019 | | | 2019 | | | 2020 | | |
| | Purchase volume | Purchase amount | % of total purchases | Purchase volume | Purchase amount | % of total purchases | Purchase volume | Purchase amount | % of total purchases | Purchase volume | Purchase amount | % of total purchases | Purchase volume | Purchase amount | % of total purchases |
| | (tonne) | RMB'000 | % | (tonne) | RMB'000 | % | (tonne) | RMB'000 | % | (tonne) | RMB'000 (unaudited) | % | (tonne) | RMB'000 | % |
| Aggregates | 1,896,548 | 132,774 | 45.1 | 2,061,470 | 140,617 | 38.6 | 2,087,230 | 173,190 | 44.3 | 1,604,515 | 126,999 | 44.4 | 1,871,952 | 171,275 | 44.2 |
| Cement | 270,320 | 97,648 | 33.2 | 330,176 | 137,752 | 37.8 | 289,710 | 120,773 | 30.9 | 218,540 | 86,718 | 30.3 | 267,442 | 107,901 | 27.8 |
| Rebars | 1,421 | 6,198 | 2.1 | 2,789 | 10,524 | 2.9 | 8,922 | 33,010 | 8.4 | 6,592 | 24,239 | 8.5 | 12,885 | 44,486 | 11.5 |
| Admixtures | 9,047 | 16,913 | 5.7 | 9,355 | 19,833 | 5.4 | 6,566 | 13,366 | 3.4 | 4,864 | 10,658 | 3.7 | 8,060 | 12,573 | 3.2 |
| PFA | 72,027 | 15,373 | 5.2 | 70,200 | 16,738 | 4.6 | 47,678 | 11,637 | 3.0 | 34,338 | 8,240 | 2.9 | 56,063 | 13,777 | 3.6 |
| Mineral powder | 49,006 | 12,583 | 4.3 | 43,881 | 15,625 | 4.3 | 38,837 | 13,861 | 3.5 | 28,590 | 9,498 | 3.3 | 35,697 | 12,962 | 3.3 |
| Others (Note) | N/A | 12,690 | 4.4 | N/A | 23,015 | 6.4 | N/A | 24,993 | 6.5 | N/A | 19,383 | 6.9 | N/A | 24,785 | 6.4 |
| **Total purchases** | | 294,179 | 100.0 | | 364,104 | 100.0 | | 390,830 | 100.0 | | 285,735 | 100.0 | | 387,759 | 100.0 |

*Note:* Other purchases primarily consisted of fuel oil, embedded components and stone powder. Since some of the embedded components are in unit of pieces, the purchases volume in tonne is not applicable.

During the Track Record Period, our total purchases amounted to approximately RMB294.2 million, RMB364.1 million, RMB390.8 million and RMB387.8 million, respectively. Our total purchases increased by approximately RMB69.9 million or 23.8% for the year ended 31 December 2018 as compared to the year ended 31 December 2017, which was mainly attributable to the increase in purchases of cement by approximately RMB40.1 million. Such increase was primarily due to the (i) increase in demand for high grade ready-mixed concrete, which generally requires higher cement ratio in its mixture; (ii) increase in average purchases cost of cement from approximately RMB361.2 per tonne for the year ended 31 December 2017 to approximately RMB417.2 per tonne for the year ended 31 December 2018; and (iii) overall increase in purchases volume of cement to cope with our increase in PC component production.

Our total purchases increased by approximately RMB26.7 million or 7.3% for the year ended 31 December 2019 as compared to the year ended 31 December 2018, which was mainly attributable to (i) increase in purchases of aggregates by approximately RMB32.6 million primarily due to the increase in average purchases cost of aggregates from approximately RMB68.2 per tonne for the year ended 31 December 2018 to approximately RMB83.0 per tonne for the year ended 31 December 2019; and (ii) increase in purchases of rebars by approximately RMB22.5 million to cope with our production of other construction components. Such increase was partially offset by the decrease in purchases of cement by approximately RMB17.0 million for the year ended 31 December 2019 primarily due to the decrease in demand for high grade ready-mixed concrete.

Our total purchases increased by approximately RMB102.0 million or 35.7% for the ten months ended 31 October 2020 as compared to the ten months ended 31 October 2019, which was mainly attributable to (i) increase in purchases of rebars by approximately RMB20.2 million due to the increase in demand for our other construction components; and (ii) increase in purchases of aggregates and cement by approximately RMB44.3 million and RMB21.2 million respectively, primarily due to the (i) overall increase in production volume of ready-mixed concrete and PC components; and (ii) increase in average purchases cost of aggregates and cement from approximately RMB79.2 per tonne and RMB396.8 per tonne for the ten months ended 31 October 2019 to approximately RMB91.5 per tonne and RMB403.5 per tonne for the ten months ended 31 October 2020, respectively.

For the sensitivity analysis of the impact of hypothetical changes in the raw material cost on our Group's net profit during the Track Record Period, please refer to the section headed "Financial information — Discussion on major items of the consolidated statements of comprehensive income — Sensitivity analysis — Cost of raw materials" in this prospectus.

## Suppliers

Our Group's procurement team sources new suppliers through (i) direct approach from potential suppliers; (ii) referrals; and (iii) online search. When selecting a supplier, our Group considers several factors, including the quality of raw materials, price, reputation, supply and delivery capability, scale of supply and geographic location. Our procurement team will also conduct site visits to potential suppliers and obtain samples of raw material from them. Following our management review of the assessment with satisfactory result, our Group will include the new supplier in our supplier list.

As at 31 December 2017, 31 December 2018, 31 December 2019 and 31 October 2020, we had a total of 297, 362, 284 and 188 raw material suppliers, respectively, out of whom 63, 99, 114 and 115 were recurring suppliers, representing approximately 21.2%, 27.3%, 40.1% and 61.2% of our total suppliers for these respective periods.

For the Track Record Period, the total purchase from our Group's five largest suppliers amounted to approximately RMB89.2 million, RMB152.5 million, RMB187.5 million and RMB216.7 million, representing approximately 30.3%, 41.9%, 48.0% and 55.9% of our Group's total purchase, respectively. The total purchase from our Group's largest supplier for the same period amounted to approximately RMB32.6 million, RMB91.3 million, RMB71.2 million and RMB71.6 million, representing approximately 11.1%, 25.1%, 18.2% and 18.5% of our Group's total purchase, respectively. We have established close business relationships with our five largest suppliers, ranging from one year to 12 years, all of whom are domestic suppliers in the PRC.

The following table sets forth the breakdown of our purchase from our five largest suppliers during the Track Record Period:

*For the ten months ended 31 October 2020*

| Rank | Supplier | Principal business activities | Major products supplied | Commencement year of business relationship | Credit term | Purchase amount | Approximate % of our total purchase amount |
|---|---|---|---|---|---|---|---|
| | | | | | | RMB'000 | % |
| 1 | Fujian Yongding Minfu Construction Materials Co., Ltd. (福建省永定閩福建材有限公司)[(1)] | A private company principally engaged in manufacturing and sale of cement | Cement and mineral powder | 2008 | Within 30 days from the invoice date | 71,615 | 18.5 |
| 2 | Longyan City Yongding District Longxia Building Materials Business Department* (龍岩市永定區龍夏建材經營部)[(2)] | A sole proprietorship enterprise principally engaged in the trading of construction materials | Aggregates and stone powder | 2019 | Within 60 days from the invoice date | 61,705 | 15.9 |
| 3 | Longyan City Yongding District Fengfa Building Materials Business Department* (龍岩市永定區楓發建材經營部)[(3)] | A sole proprietorship enterprise principally engaged in the trading of cement and other construction materials | Aggregates and stone powder | 2019 | Within 60 days from the invoice date | 43,980 | 11.3 |

| Rank | Supplier | Principal business activities | Major products supplied | Commencement year of business relationship | Credit term | Purchase amount | Approximate % of our total purchase amount |
|---|---|---|---|---|---|---|---|
| | | | | | | RMB'000 | % |
| 4 | Putian Shunlei Building Materials Co., Ltd.* (莆田順磊建材有限公司)(4) | A private company principally engaged in the trading of construction materials | Stones and stone powder | 2018 | Within 30 days from the invoice date | 24,302 | 6.3 |
| 5 | Zhangzhou Road & Bridge Materials Development Co., Ltd.* (漳州路橋物資發展有限公司)(5) | A SOE principally engaged in the trading of construction materials | Rebars | 2018 | Within 15 days from the invoice date | 15,085 | 3.9 |
| | | Five largest suppliers | | | | 216,687 | 55.9 |
| | | All other suppliers | | | | 171,073 | 44.1 |
| | | Total purchases | | | | 387,760 | 100.0 |

*For the year ended 31 December 2019*

| Rank | Supplier | Principal business activities | Major products supplied | Commencement year of business relationship | Credit term | Purchase amount | Approximate % of our total purchase amount |
|---|---|---|---|---|---|---|---|
| | | | | | | RMB'000 | % |
| 1. | Fujian Yongding Minfu Construction Materials Co., Ltd. (福建省永定閩福建材有限公司)(1) | A private company principally engaged in manufacturing and sale of cement | Cement and mineral powder | 2008 | Within 30 days from the invoice date | 71,224 | 18.2 |
| 2. | Longyan City Yongding District Fengfa Building Materials Business Department* (龍岩市永定區楓發建材經營部)(3) | A sole proprietorship enterprise principally engaged in the trading of cement and other construction materials | Aggregates and stone powder | 2019 | Within 60 days from the invoice date | 42,713 | 11.0 |
| 3 | Longyan City Yongding District Longxia Building Materials Business Department* (龍岩市永定區龍夏建材經營部)(2) | A sole proprietorship enterprise principally engaged in the trading of construction materials | Aggregates and stone powder | 2019 | Within 60 days from the invoice date | 32,147 | 8.2 |
| 4. | Putian Shunlei Building Materials Co., Ltd.* (莆田順磊建材有限公司)(4) | A private company principally engaged in the trading of construction materials | Stones and stone powder | 2018 | Within 30 days from the invoice date | 23,106 | 5.9 |
| 5. | Xiamen Chuanpei Industrial Co., Ltd.* (廈門川佩實業有限公司)(6) | A private company principally engaged in the trading of construction materials | Cement and mineral powder | 2019 | Within 60 days from the invoice date | 18,321 | 4.7 |
| | | Five largest suppliers | | | | 187,511 | 48.0 |
| | | All other suppliers | | | | 203,319 | 52.0 |
| | | Total purchases | | | | 390,830 | 100.0 |

*For the year ended 31 December 2018*

| Rank | Supplier | Principal business activities | Major products supplied | Commencement year of business relationship | Credit term | Purchase amount | Approximate % of our total purchase amount |
|---|---|---|---|---|---|---|---|
| | | | | | | RMB'000 | % |
| 1. | Fujian Yongding Minfu Construction Materials Co., Ltd. (福建省永定閩福建材有限公司)(1) | A private company principally engaged in manufacturing and sale of cement | Cement and mineral powder | 2008 | Within 30 days from the invoice date | 91,264 | 25.1 |
| 2. | Yaohe Trading(7) | A private company principally engaged in the trading of construction materials | Cement and mineral powder | 2009 | Within 60 days from the invoice date | 23,647 | 6.5 |
| 3. | Changtai County Banling Building Material Processing Factory* (長泰縣半嶺建材加工廠)(8) | An individual industrial and commercial household principally engaged in the selling of aggregates, PFA and other construction materials | Stones | 2016 | Within 60 days from the invoice date | 14,094 | 3.9 |
| 4. | Fujian Bajun Building Material Co., Ltd.* (福建八駿建材有限公司)(9) | A private company principally engaged in the trading of construction materials | Cement | 2013 | Within 60 days from the invoice date | 13,241 | 3.6 |
| 5. | Shishi Mingjian Building Materials Trading Co., Ltd.* (石獅市明建建材貿易有限公司)(10) | A private company principally engaged in processing and sales of PFA, aggregates and other construction materials | PFA | 2016 | Within 50 days from the invoice date | 10,219 | 2.8 |
| | | Five largest suppliers | | | | 152,465 | 41.9 |
| | | All other suppliers | | | | 211,639 | 58.1 |
| | | Total purchases | | | | 364,104 | 100.0 |

*For the year ended 31 December 2017*

| Rank | Supplier | Principal business activities | Major products supplied | Commencement year of business relationship | Credit term | Purchase amount | Approximate % of our total purchase amount |
|---|---|---|---|---|---|---|---|
| | | | | | | RMB'000 | % |
| 1. | Fujian Yongding Minfu Construction Materials Co., Ltd. (福建省永定閩福建材有限公司)(Note 1) | A private company principally engaged in manufacturing and sale of cement | Cement and mineral powder | 2008 | Within 30 days from the invoice date | 32,623 | 11.1 |
| 2. | Yaohe Trading(Note 7) | A private company principally engaged in the trading of construction materials | Cement and mineral powder | 2009 | Within 60 days from the invoice date | 17,474 | 5.9 |
| 3. | Changtai County Banling Building Material Processing Factory* (長泰縣半嶺建材加工廠)(Note 8) | A private company principally engaged in the selling of aggregates, PFA and other construction materials | Stones | 2016 | Within 60 days from the invoice date | 14,589 | 5.0 |
| 4. | Xiamen Ayihong Trading Co., Ltd.* (廈門啊一紅貿易有限公司)(Note 11) | A private company principally engaged in the trading of construction materials | Cement | 2016 | Within 30 days from the invoice date | 13,404 | 4.5 |
| 5. | Supplier A(Note 12) | A private company principally engaged in the trading of construction materials | Cement | 2013 | Within 40 days from the invoice date | 11,121 | 3.8 |
| | | Five largest suppliers | | | | 89,211 | 30.3 |
| | | All other suppliers | | | | 204,968 | 69.7 |
| | | Total purchases | | | | 294,179 | 100.0 |

* *For identification purposes only*

*Notes:*

1. Fujian Yongding Minfu Construction Materials Co., Ltd. ("**Minfu Construction Materials**") is a limited liability company established in the PRC in 2005 with registered and paid-up capital of RMB28.0 million, it became acquainted with our Group through direct approach by the supplier.

2. Longyan City Yongding District Longxia Building Materials Business Department ("**Longxia Building Materials**") is a sole proprietorship enterprise established in the PRC in 2018 with capital contribution of RMB2.0 million, it became acquainted with our Group by referral from the local people's government of Longyan City.

3. Longyan City Yongding District Fengfa Building Materials Business Department ("**Fengfa Building Materials**") is a sole proprietorship enterprise established in the PRC in 2018 with capital contribution of RMB20.0 million, it became acquainted with our Group by referral from the local people's government of Longyan City.

4. Putian Shunlei Building Materials Co., Ltd ("**Shunlei Building Materials**") is a limited liability company established in the PRC in 2016 with registered and paid-up capital of RMB20.0 million, it became acquainted with our Group through direct approach from the supplier.

5. Zhangzhou Road & Bridge Materials Development Co. Ltd. ("**Zhangzhou Road & Bridge**") is a SOE established in PRC in 2012 with registered and paid-up capital of RMB200.0 million, it became acquainted with our Group through the direct approach by our Group.

6. Xiamen Chuanpei Industrial Co., Ltd ("**Chuanpei Industrial**") is a limited liability company established in PRC in 2017 with registered and paid-up capital of RMB30.0 million and RMB10.0 million respectively, it became acquainted with our Group through referral by Mr. Huang.

7. Yaohe Trading is a company established in the PRC with limited liability on 6 June 2008, and was a connected supplier of our Group. For details, please refer to the subsection headed "Discontinued connected transactions — 1. Purchase of raw materials from Yaohe Trading".

8. Changtai County Banling Building Material Processing Factory ("**Banling Building Material**") is an individual industrial and commercial household business established in PRC in 2015 without statutory requirements for capital contribution, it became acquainted with our Group through direct approach from the supplier.

9. Fujian Bajun Building Material Co., Ltd. ("**Bajun Building Material**") is a limited liability company established in PRC in 2010 with registered and paid-up capital of RMB20.0 million, it became acquainted with our Group through the direct approach from the supplier.

10. Shishi Mingjian Building Materials Trading Co., Ltd. ("**Mingjian Building Materials**") is a limited liability company established in PRC in 2011 with registered and paid-up capital of RMB10.0 million and nil respectively, it became acquainted with our Group through direct approach from the supplier.

11. Xiamen Ayihong Trading Co., Ltd. ("**Ayihong Trading**") is a limited liability company established in PRC in 2013 with registered and paid-up capital of RMB50.0 million and RMB10.0 million respectively, it became acquainted with our Group through direct approach from the supplier.

12. Supplier A is a limited liability company established in PRC in 2013 with registered and paid-up capital of RMB40.0 million, it became acquainted with our Group through direct approach from the supplier.

***Major suppliers during the Track Record Period***

Our Group does not place significant reliance on any of our major suppliers due to the availability of raw materials we use in our production is generally in abundance on the market. During the Track Record Period, we mainly purchased cement, aggregates. PFA and rebars from our major suppliers, and we select our suppliers based on criteria as mentioned in the paragraph headed "Suppliers" above. Our Group's changes in major suppliers during the Track Record Period was affected by a number of factors, including those set out below:

*Cement*

Our Group normally avoids mixing cement from different manufacturers into the same batch of concrete due to the properties of different cement may vary widely, which may create complications in our mixture formulation process and increase the standard deviation in obtaining the desire product strength and durability.

Minfu Construction Materials had been our supplier since 2008 and our Group had grown accustomed in working with their cement, and thus Minfu Construction Materials was our largest cement supplier throughout the Track Record Period. However, depending on the intended structural application of our products and customers' request, we may source other brands of cement from other suppliers, but since the volume and frequency of such purchases are relatively low, we generally purchase other brands of cement indirectly through their authorised distributors or other construction material trading companies instead of directly from the manufacturer.

Ayihong Trading is an authorised distributor of a certain brand of cement, during the Track Record Period, our total purchase from Ayihong Trading amounted to approximately RMB13.4 million, RMB9.1 million, RMB0.8 million and nil, respectively. The significant decrease in purchase was primarily attributable to that (i) our Group has commenced purchasing directly from the manufacturer of such brand of cement since 2018; and (ii) we reduced our purchase of this particular brand of cement since 2019.

Bajun Building Material is an authorised distributor of a certain brand of cement, during the Track Record Period, our total purchase from Bajun Building Material amounted to approximately RMB7.4 million, RMB13.2 million, RMB9.9 million and RMB1.3 million, respectively. The decrease in purchase since 2019 was primarily attributable to that (i) our Group purchased directly from the manufacturer of such brand of cement in 2019; and (ii) we reduced our purchase of this particular brand of cement since 2019.

Yaohe Trading is a trader of construction material and a connected person of our Group, for the two years ended 31 December 2018, we purchased cement and mineral powder from Yaohe Trading amounted to approximately RMB17.5 million and RMB23.6 million respectively. In order to reduce our reliance on connected suppliers, we have ceased our purchase from Yaohe Trading since November 2018. For details, please refer to the subsection headed "Discontinued connected transactions — 1. Purchase of raw materials from Yaohe Trading".

Chuanpei Industrial is a trader of construction material and an authorised distributor of certain brands of cement and mineral powder. Our Group became acquainted with Chuanpei Industrial through referral by Mr. Huang in 2019. Mr. Huang first became acquainted with the sole shareholder of Chuanpei Industrial ("**Chuanpei Shareholder**") in September 2018 before Chuanpei Shareholder acquired Chuanpei Industrial, when the Chuanpei Shareholder and an Independent Third Party acquired 51% and 49% equity interest in Lianhui Construction Material, a connected supplier of our Group during the Track Record Period, from Mr. Huang and his spouse respectively. In July 2019, with an urgent need of a company wholly owned by himself to develop his own cement and mineral powder supply business, Chuanpei Shareholder decided to acquire the entire equity interest in Chuanpei Industrial, which was dormant at the relevant time, rather than establishing a new company. Between July and September 2019, Chuanpei Industrial managed to secure a mineral powder dealership and a cement distributorship in Xiamen from two separate construction raw material suppliers. After assessing the quality, price, scale, reputation, and going through our standard supplier selection procedures, we began procuring cement and mineral powder from Chuanpei Industrial, and it became one of our major suppliers in 2019. In July 2019, Chuanpei Shareholder lent a total of approximately RMB4.0 million to Chuanpei Industrial as initial working capital, which was funded by his personal savings and part of the proceeds from the sale of his spouse's property in Xiamen. In December 2019, Chuanpei Shareholder decided to inject

RMB5.0 million into Chuanpei Industrial. Such capital injection was funded partly by Chuanpei Shareholder's personal savings and partly by recalling the aforementioned borrowings from Chuanpei Industrial. In April 2020, Chuanpei Shareholder decided to make a further capital injection of RMB5.0 million into Chuanpei Industrial, which was funded by obtaining a loan of RMB5.0 million from Chuanpei Industrial. For the year ended 31 December 2019 and the ten months ended 31 October 2020, we purchased cement and mineral powder from Chuanpei Industrial amounted to approximately RMB18.3 million and RMB8.4 million, respectively. The decrease in purchases from Chuanpei Industrial for the ten months ended 31 October 2020 was mainly attributable to the decrease in purchases of cement from Chuanpei Industrial as we (i) reduced the purchases of a certain brand of cement sold by Chuanpei Industrial; and (ii) started to purchase such particular brand of cement from a new cement supplier with purchases amounted to approximately RMB9.8 million for the ten months ended 31 October 2020 as it granted a longer credit period to our Group.

Supplier A is a trader of construction material and had supplied a certain brand of cement to our Group during the Track Period. For the two years ended 31 December 2018, our total purchase from Supplier A amounted to approximately RMB11.1 million and RMB3.1 million respectively. The decrease in purchase was primarily attributable to that Supplier A had discontinued in trading cement in 2018 to focus on trading of other construction materials.

*Aggregates*

According to the Frost & Sullivan Report, the aggregates industry in the PRC is highly fragmented. During the Track Record Period, pursuant to various policies issued by the PRC Government, led to a sluggish supply of aggregates to satisfy the concrete-based building material industry in Xiamen, and in order to secure the aggregates required for our production and to reduce the burden of our procurement team to identify and manage an overwhelmingly large amount of small aggregates suppliers in a highly fragmented market, a clause was introduced in our purchase contracts, which requires aggregates suppliers to refer suitable suppliers to our Group in case they are unable to meet our Group's planned monthly purchase volume. For the two years ended 31 December 2018, we relied heavily on the supply guarantee arrangement clause to source sufficient aggregates to satisfy our growing production needs. For details, please refer to the paragraph headed "Supply guarantee arrangement with aggregate suppliers" in this section.

In 2018, the local people's government of Longyan City in support of its small and micro enterprises, referred to our Group two aggregates suppliers, namely, Fengfa Building Materials and Longxia Building Materials. According to the Longyan City Yongding District Longtan Town People's Government ("**Longtan Town Government**"), in its effort to consolidate the fragmented aggregates market in Longtan Town, the Longtan Town Government encouraged the owners of Fengfa Building Materials and Longxia Building Materials, who are both regarded as resourceful and experienced, to establish sole proprietorship enterprises in December 2018 to engage in the trading of aggregates and other construction materials by sourcing from fragmented suppliers in Longtan Town. Since June 2013, the owner of Fengfa Building Materials, Ms. Huang Lin (黃琳), has been working as an operating manager responsible for the purchase and sales of construction materials and tiles at an individual industrial and commercial household located in downtown Longyan City and principally engaged in the trading of construction materials and tiles, where she had become acquainted with a vast number of aggregates traders, aggregates processing plant operators and stone quarry operators. The owner of Longxia Building Materials, Mr. Lai Xiaohui (賴曉輝), has approximately five years of experience in the aggregates trading industry prior to the establishment of Longxia Building Materials. Mr. Lai Xiaohui worked at a company located in Longyan City principally engaged in the processing and selling of recycled aggregates, from May 2017 to May 2019, where he assisted in the founding of the company and served as the major operating personnel responsible for the sale of recycled aggregates. Prior to that, Mr. Lai Xiaohui was engaged in the trading of aggregates for approximately three years as an individual industrial and commercial household. Drawing on his experience in the industry, Mr. Lai Xiaohui has familiarised himself with and established his network in the aggregates market with a number of small aggregate suppliers in Longyan City, including some of his friends, former classmates and fellow villagers.

Furthermore, both Fengfa Building Materials and Longxia Building Materials were classified as small and micro enterprises under the PRC laws and regulations prior to their referral to our Group in 2018 and therefore were eligible to enjoy the supportive policies available to small and micro enterprises from time to time. According to the Longtan Town Government, the purpose of introducing such policies was to encourage the selling of construction materials to locations outside Longyan City, consolidate the fragmented aggregates market in Longyan City and ultimately increase the town's tax revenue. Longyan City is a naturally resourceful city located approximately 150 kilometres away from Xiamen and surrounded by mountain ranges with an abundant supply of aggregates but with comparatively low level of construction activities, which created an excess supply of aggregates in the Longyan City market, while there is an excess demand for aggregates in Xiamen due to its rapid growth of urbanisation and development. However, due to the distance between Longyan City and Xiamen, increase in transportation costs generally outweighs the price difference of aggregates between Longyan City and Xiamen. Since the introduction of the supportive policies by Longtan Town Government in or about November 2018, both Fengfa Building Materials and Longxia Building Materials are small and micro enterprises eligible for supportive policies including tax reliefs, therefore they are in a better position than other aggregates suppliers to consolidate the local fragmented aggregates market and to bridge the price gap between Longyan City and Xiamen by offering more competitive price to enterprises in Xiamen.

In view of (i) the similar fragmented aggregates market in Xiamen; (ii) our heavy reliance on supply guarantee arrangement with our suppliers in sourcing sufficient aggregates for our production; and (iii) our satisfactory assessment of the quality, price, scale, reputation, and going through our standard supplier selection procedures, our Group shifted some of our aggregates purchases from smaller aggregates suppliers in Xiamen to Fengfa Building Materials and Longxia Building Materials in 2019, and they became our major suppliers in the same year, given the respective owner of both suppliers had related experience in the industry and established supplier networks prior to their establishment of sole proprietorship enterprises. For the year ended 31 December 2019 and the ten months ended 31 October 2020, our Group purchased approximately 473,107 tonnes and 467,695 tonnes of aggregates, amounted to approximately RMB42.3 million and RMB42.7 million, from Fengfa Building Materials respectively and approximately 363,421 tonnes and 661,912 tonnes of aggregates, amounted to approximately RMB32.1 million and RMB61.1 million, from Longxia Building Materials respectively.

To the best of our Directors' knowledge, information and belief having made all reasonable enquiries, (a) Fengfa Building Materials had (i) three customers; (ii) 16 employees; (iii) revenue of approximately RMB49.9 million and net profit of approximately RMB2.9 million for the year ended 31 December 2019, and revenue of approximately RMB18.9 million and net profit of approximately RMB0.6 million for the six months ended 30 June 2020; (iv) approximately 85.6% and 41.2% of its revenue were derived from our Group for the year ended 31 December 2019 and the six months ended 30 June 2020, respectively; and (v) the ultimate beneficial owner of Fengfa Building Materials has been Ms. Huang Lin (黃琳), an Independent Third Party, since its establishment; and (b) Longxia Building Materials had (i) five customers; (ii) 19 employees; (iii) revenue of approximately RMB46.0 million and net profit of approximately RMB1.1 million for the year ended 31 December 2019, and revenue of approximately RMB63.2 million and net profit of approximately RMB1.0 million for the six months ended 30 June 2020; (iv) approximately 69.8% and 79.9% of its revenue were derived from our Group for the year ended 31 December 2019 and the six months ended 30 June 2020, respectively; and (v) the ultimate beneficial owner of Longxia Building Materials has been Mr. Lai Xiaohui (賴曉輝), an Independent Third Party, since its establishment. The decrease in sales from Fengfa Building Materials to our Group for the six months ended 30 June 2020 was mainly because Fengfa Building Materials's suppliers were unable to maintain stable supply of aggregates due to the impact of COVID-19 and, as a result, we reduced our purchases from Fengfa Building Materials.

To the best of our Directors' knowledge, information and belief having made all reasonable enquiries, Fengfa Building Materials operates on a matched trade sales model while Longxia Building Materials operates on a back-to-back order sales model, whereby (i) Fengfa Building Materials and Longxia Building Materials would locate the source of supply only after receiving order for product type and specification; (ii) Fengfa Building Materials would approach its network of suppliers to gather sufficient stock for onward sales to its customers; and (iii) Longxia Building Materials would normally first approach its major supplier, a company located in Longyan City and principally engaged in the processing and selling of recycled aggregates ("**Longxia's Major Supplier**"), and if Longxia's Major Supplier is unable to provide the quantity or type of products, it would then approach other smaller aggregates traders to back against its customers' order. Once the source of supply is identified, Fengfa Building Materials and Longxia Building Materials would organise transportation for direct delivery from their respective suppliers to their customers and no inventory will be kept by Fengfa Building Materials and Longxia Building Materials. Moreover, our Group's average purchase size from Fengfa Building Materials and Longxia Building Materials were normally in small manageable batches. For the year ended 31 December 2019, our average purchase size of aggregates and stone powder from (i) Fengfa Building Materials was approximately 54.3 tonnes and 43.7 tonnes respectively; and (ii) Longxia Building Materials was approximately 52.3 tonnes and 48.1 tonnes respectively. For the ten months ended 31 October

2020, our average purchase size of aggregates and stone powder from (i) Fengfa Building Materials was approximately 46.1 tonnes and 42.1 tonnes respectively; and (ii) Longxia Building Materials was approximately 49.2 tonnes and 44.9 tonnes respectively.

Longxia Building Materials had a total of 17 and 23 suppliers for the year ended 31 December 2019 and the ten months ended 31 October 2020 respectively. Longxia Building Materials had been the Xiamen distributor of Longxia's Major Supplier since December 2018. Longxia's Major Supplier possesses a processing plant of approximately 70,000 sq.m. with annual production capacity of approximately 1.2 million tonnes. For the year ended 31 December 2019 and the ten months ended 31 October 2020, Longxia Building Materials sourced approximately 67.9% and 62.5% of its total aggregates from Longxia's Major Supplier respectively, and its remaining suppliers are small individual industrial and commercial household and sole proprietorship aggregate suppliers located in or within close proximity of Longyan City. Fengfa Building Materials had a total of 45 and 36 suppliers for the year ended 31 December 2019 and the ten months ended 31 October 2020, respectively. Fengfa Building Materials's largest supplier, a company located in Longyan City and principally engaged in the processing and selling of aggregates, ("**Fengfa's Major Supplier**"). Fengfa's Major Supplier possesses a processing plant of approximately 24,000 sq.m. with annual production capacity of approximately 0.6 million tonnes. For the year ended 31 December 2019 and the ten months ended 31 October 2020, Fengfa Building Materials sourced approximately 44.6% and 41.0% of its aggregates from Fengfa's Major Supplier respectively, and its remaining suppliers are small individual industrial and commercial household and sole proprietorship aggregate suppliers located in or in close proximity of Longyan City. As confirmed by our Directors, our Group had not previously purchased any aggregates from Longxia's Major Supplier and Fengfa's Major Supplier. To the best of our Directors' knowledge having made all reasonable enquiries, both Fengfa's Major Supplier and Longxia's Major Supplier do not own or operate any aggregate mines.

Banling Building Material sources its stones from a stone quarry in Changtai County, during the Track Record Period, our total purchase from Banling Building Material amounted to approximately RMB14.6 million, RMB14.1 million, RMB4.4 million and nil respectively. The decrease in purchase was primarily attributable to that the stone quarry which Banling Building Material sources from, reduced its production output during 2019 to satisfy local environment protection policies, and as a result, our Group increased our stone purchases from another supplier, namely Shunlei Building Materials since 2019 to fulfil our production demand. For the two years ended 31 December 2019 and the ten months ended 31 October 2020, our total purchase from Shunlei Building Materials amounted to approximately RMB4.3 million, RMB23.1 million and RMB24.3 million respectively.

Our Group considers that it is impractical to impose policies to require our aggregates suppliers to be corporate entities, as the aggregates market in Fujian Province is fragmented and dominated by individual industrial and commercial household and sole proprietorship suppliers. As such, we believe that we would not be able to source sufficient aggregates for our daily production needs if we restrict ourselves to purchase aggregates from corporate entities only. We believe that the risks associated with the procurement of raw materials from non-corporate entities are different and lower than that from other suppliers including labour suppliers, and we have sufficient internal control and assessment procedures to manage the risks associated with procurement of raw materials from non-corporate entities such as product quality.

*PFA*

During the Track Record Period, we primarily sourced PFA, among others, from Mingjian Building Materials and two other PFA suppliers, our total purchase from Mingjian Building Materials amounted to approximately RMB7.2 million, RMB10.2 million, RMB4.9 million and RMB6.4 million respectively. Since we generally select our PFA suppliers based on criteria as mentioned in the paragraph headed "Suppliers" above, the amount purchased from any given supplier may change from year-to-year.

*Rebars*

Zhangzhou Road & Bridge is a SOE and a trader of, among other things, rebars and other construction materials. During the Track Record Period, our total purchase from Zhangzhou Road & Bridge amounted to approximately nil, RMB2.6 million, RMB7.3 million and RMB15.1 million respectively. During the ten months ended 31 October 2020, Zhangzhou Road & Bridge became one of our five largest suppliers, it was mainly attributable to the increase in demand for rebars for our PC component production and the modification made to our tunnel segment production line to produce other PC components since January 2020 as the production for our rail transit projects on hand had been completed (rebars used to manufacture tunnel segments were provided by our customers).

During the Track Record Period, Mr. Huang had more than 5% of the interests in one of our five largest suppliers, namely Yaohe Trading. Saved as disclosed above, none of our Directors or their respective close associates or any Shareholders who, to the best knowledge of our Directors own more than 5% of the issued Shares immediately after completion of the Share Offer and the Capitalisation Issue, has any interests in any of our five largest suppliers during the Track Record Period.

During the Track Record Period, we did not enter into any long-term contracts with any of our suppliers and have not experienced any significant shortage of raw materials and accessories causing material disruption to our operations.

## Discontinued connected transactions

During the Track Record Period, we have made certain purchases with our connected persons, which are not expected to continue or resume after Listing.

Set out below is a summary of the discontinued connected transactions:

| Item | Connected person | Nature of transactions | Ceased connected transaction since | Connected transaction historical amounts | | | |
|---|---|---|---|---|---|---|---|
| | | | | Year ended 31 December | | | Ten months ended 31 October |
| | | | | 2017 | 2018 | 2019 | 2020 |
| | | | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| 1 | Yaohe Trading | Purchase of raw materials | November 2018 | 17,474 | 23,647 | — | — |
| 2 | Lianhui Construction Material | Purchase of raw materials | February 2018 | 2,875 | 132 | N/A | N/A |
| 3 | Ms. Du | Purchase of raw materials | May 2018 | 500 | 1,753 | — | — |
| 4 | Guishun Logistics | Provision of logistics services | March 2019 | 310 | 326 | 77 | — |

### 1. *Purchase of raw materials from Yaohe Trading*

During the Track Record Period, we purchased cement and mineral powder from Yaohe Trading. Yaohe Trading is a company established in the PRC with limited liability on 6 June 2008 with a registered capital and paid-up capital of RMB28.0 million, and owned as to 70% and 30% by Mr. Huang and his spouse Ms. Lin Lingling respectively. Yaohe Trading is principally engaged in the trading of building materials, and had been a major supplier of our Group since 2009. In February 2015, Mr. Huang, envisaged the potential in the PC component business and became an equity holder of Zhixin Construction Technology. Subsequently, Mr. Huang became an equity holder of Zhixin Construction Material in December 2017. Yaohe Trading had 18, 19, 14 and 10 employees as at 31 December 2017, 2018, 2019 and 31 October 2020, respectively. Yaohe Trading had 45, 49, 38 and 30 customers and recorded revenue of approximately RMB109.2 million, RMB116.0 million, RMB91.8 million and RMB68.2 million, and net profit of approximately RMB0.9 million, RMB1.4 million, RMB1.1 million and RMB1.6 million, and net profit margin of approximately 0.8%, 1.3%, 1.2% and 2.4%, for the three years ended 31 December 2019 and the ten months ended 31 October 2020, respectively. Yaohe Trading's net profit margin increased from approximately 0.8% for the year ended 31 December 2017 to approximately 1.3% for the year ended 31 December 2018 was mainly due to the decrease in finance costs from approximately RMB1.1 million for the year ended 31 December 2017 to approximately RMB0.7 million for the year ended 31 December 2018 mainly due to repayment of bank borrowings of approximately RMB5.5 million during 2018. The increase in Yaohe Trading's net profit margin for the ten months ended 31 October 2020 was mainly attributable to the increase in the non-operating income.

For the three years ended 31 December 2019 and the ten months ended 31 October 2020, the aggregate purchases made by us from Yaohe Trading amounted to approximately RMB17.5 million, RMB23.6 million, nil and nil, which accounted for approximately 5.9%, 6.5%, nil and nil of our purchase, respectively. Our purchase accounted for approximately 16.0% and 20.4% of Yaohe Trading's revenue, respectively, for the two years ended 31 December 2018. Our Directors consider that the terms and pricing of the said transactions were fair, reasonable and on normal commercial terms. In order to reduce our reliance on connected suppliers, we have not made any purchases from Yaohe Trading since November 2018. As at the Latest Practicable Date, Yaohe Trading continues to operate independently from our Group.

**2. *Purchase of raw materials from Lianhui Construction Material***

During the Track Record Period, we purchased mineral powder and PFA from Lianhui Construction Material. Lianhui Construction Material is a company established in the PRC with limited liability on 20 August 2013 with a registered and paid-up capital of RMB10.0 million, which (i) was owned as to 70% and 30% by Mr. Huang and his son, namely Mr. Huang Kaining, respectively, from establishment to 31 May 2018; (ii) was owned as to 70% and 30% by Mr. Huang and, his spouse, Ms. Lin Lingling, respectively, from 1 June 2018 to 4 September 2018; and (iii) has been owned by two Independent Third Parties since 5 September 2018. One of the Independent Third Party is Chuanpei Shareholder, who acquired the entire equity interest of Chuanpei Industrial and became its director in July 2019. Chuanpei Industrial was the fifth largest supplier of our Group for the year ended 31 December 2019. The other Independent Third Party ("**Party B**") is a friend of Mr. Huang. Save as disclosed above and the paragraph headed "Suppliers' relationship among themselves" below, the Chuanpei Shareholder and Party B do not have any past or present relationship (including but not limited to employment, trust, financing, or family relationship) with our Group, Directors, Shareholders, senior management or their respective associates. In order to obtain funds for their other business ventures (including Yaohe Trading and Guishun Logistics), on 4 September 2018, (i) Mr. Huang disposed of 51% and 19% equity interest in Lianhui Construction Material held by him to Chuanpei Shareholder and Party B at a consideration of RMB5.1 million and RMB1.9 million, respectively; and (ii) Ms. Lin Lingling disposed of 30% equity interest in Lianhui Construction Material held by her to Party B at a consideration of RMB3.0 million. After such transfers of equity interest, Chuanpei Shareholder and Party B were interested in Lianhui Construction Material as to 51% and 49%, respectively. The consideration of such transfer of equity interest was determined with reference to the registered capital and net asset value of Lianhui Construction Material as at 31 August 2018 and was settled in the following manner:

(1) Chuanpei Shareholder settled the consideration of (i) RMB3.1 million on 5 September 2018 which was funded from part of the proceeds from the sale of his spouse's property in Xiamen; and (ii) RMB2.0 million on 19 May 2020 which was funded by his spouse's savings, by bank transfer; and

(2) Party B settled in full the consideration of RMB4.9 million in aggregate on 5 September 2018 by bank transfer.

As at 31 December 2017, Lianhui Construction Material had 16 customers and two employees. For the year ended 31 December 2017, Lianhui Construction Material recorded revenue of approximately RMB7.4 million and net profit of approximately RMB0.1 million. For the three years ended 31 December 2019 and the ten months ended 31 October 2020, the aggregate purchases made by us from Lianhui Construction Material amounted to approximately RMB2.9 million, RMB0.1 million, nil and nil respectively. Our Directors consider the terms and pricing of the said transactions were fair, reasonable and on normal commercial terms. We have not made any purchases from Lianhui Construction Material since February 2018 to reduce our reliance on connected transaction. Further, on 5 September 2018, Mr. Huang and his spouse, Ms. Lin Lingling disposed of all their interest in Lianhui Construction Material to two Independent Third Parties, namely Chuanpei Shareholder and Party B. Despite the fact that Lianhui Construction Material would no longer constitute a connected person subsequent to the disposal by Mr. Huang and his spouse in September 2018, given that our Group was contemplating an application for Listing in or around late 2018, Mr. Ye considered purchasing from Lianhui Construction Material again would give a false impression that Mr. Huang disposed Lianhui Construction Material to continue selling raw materials to our Group through Chuanpei Shareholder and Party B, and thus, there were no reasons for our Group to purchase from Lianhui Construction Material subsequent to Mr. Huang's disposal. As at the Latest Practicable Date, Lianhui Construction Material continues to operate independently from our Group.

**3. *Purchase of raw materials from Ms. Du***

During the Track Record Period, we purchased aggregates from Ms. Du. Ms. Du is the niece of Mr. Ye, and the cousin of Mr. Ye Dan, therefore a connected person of our Company. For the three years ended 31 December 2019 and ten months ended 31 October 2020, the aggregate purchases made by us from Ms. Du amounted to approximately RMB0.5 million, RMB1.8 million, nil and nil respectively. Our Directors consider the terms and pricing of the said transactions were fair, reasonable and on normal commercial terms. We have not made any purchases from Ms. Du since May 2018.

**4. *Provision of logistics services by Guishun Logistics***

During the Track Record Period, our Group engaged Guishun Logistics to provide us with logistics services. Guishun Logistics is a company established in the PRC with limited liability on 6 June 2007 with a registered and paid-up capital of RMB10.0 million, which (i) was owned as to 80% and 20% by Mr. Huang and his son, Mr. Huang Kaining, respectively from 3 March 2016 to 18 June 2018; (ii) was respectively owned as to 80% and 20% by Mr. Huang and his spouse, Ms. Lin Lingling from 19 June 2018 to 24 October 2019 and (iii) has been owned as to 30% and 70% by Mr. Huang and Ms. Lin Lingling since 25 October 2019. Guishun Logistics had 46, 23, 18 and 20 employees as at 31 December 2017, 2018 and 2019 and 31 October 2020, respectively. For the three years ended 31 December 2019 and the ten months ended 31 October 2020, Guishun Logistics had 18, 16, 21 and 17 customers and recorded revenue of approximately RMB8.2 million, RMB8.9 million, RMB11.6 million and RMB5.7 million, and net profit of approximately RMB0.1 million, RMB0.1 million, RMB0.7 million and RMB0.3 million, respectively. For the three years ended 31 December 2019 and the ten months ended 31 October 2020, the total fee paid made by us to Guishun Logistics amounted to approximately RMB0.3 million, RMB0.3 million, RMB0.1 million and nil, representing approximately 3.8%, 3.7%, 0.7% and nil of Guishun Logistics' revenue, respectively. Our Directors considered the fees charged by Guishun Logistics were comparable with the fees charged by other logistics providers of similar services, and that the fees were reasonable, fair and on normal commercial terms. This arrangement between our Group and Guishun Logistics has ceased since March 2019. As at the Latest Practicable Date, Guishun Logistics continues to operate independently from our Group.

During the Track Record Period and up to the Latest Practicable Date, our Group had not experienced any difficulties in sourcing raw materials and logistics services from Independent Third Parties and accessing water for our production process. Moreover, our major raw materials are common raw materials readily available in the markets, our Directors do not foresee any significant difficulty in our sourcing procurement activities.

**Equity interest in certain suppliers held under trust arrangement by our Group during the Track Record Period**

*Xiamen Tongwang Construction Material Technology Co., Ltd.*

Xiamen Tongwang Construction Material Technology Co., Ltd. (廈門砼旺建材科技有限公司) ("**Tongwang Construction Material**") is a limited company established in PRC on 30 October 2012, which (i) was owned as to 38% by our Group (on trust for an Independent Third Party ("**Tongwang Co-Founder**") as explained further below) and 62% by various employees of our Group ("**Co-investing Employees**") since its establishment until 31 May 2018; (ii) was owned as to 28% by our Group (on trust for the Tongwang Co-Founder) and 72% by the Co-investing Employees from 1 June 2018 to 4 December 2018; and (iii) has been owned by Tongwang Co-Founder and another Independent Third Party since 5 December 2018. Tongwang Construction Material is principally engaged in the trading of admixtures. Prior to setting up Tongwang Construction Material, the Tongwang Co-Founder had worked in a company for about seven years, whose principal business is manufacturing and trading of cements and limestone. His last position in such company was quality control manager and he was well-experienced in admixture processing. Through prior transactions between such company and our Group, the Tongwang Co-Founder became acquainted with one of the Co-investing Employees who was responsible for handling the transactions between such company and our Group. The Tongwang Co-Founder was later introduced to the rest of the Co-investing Employees, who were employees of our Group responsible for production of ready-mixed concrete. In 2012, the Tongwang Co-Founder was interested in establishing a business to engage in processing and sale of admixture. He approached the Co-investing Employees and Mr. Ye at or around the same time to explore the cooperation model as he considered that our Group would be a good customer of his business. The Tongwang

Co-Founder learnt that the Co-investing Employees were interested in investing in the business venture of the Tongwang Co-Founder. After considering (i) the technical capabilities in relation to admixture processing of Tongwang Co-Founder; (ii) our Group's need for a stable supply of admixture for our ready-mixed concrete production; (iii) greater transparency in purchasing from people whom Mr. Ye is familiar with; and (iv) the gratitude Mr. Ye has towards the Co-investing Employees for the services to our Group, Mr. Ye (on behalf of Zhixin Construction Material) agreed to source admixture from Tongwang Co-Founder and the Co-investing Employees' business venture on the condition that (i) Zhixin Construction Material should become a nominal equity holder and hold the equity interest in Tongwang Construction Material on behalf of Tongwang Co-Founder so as to procure Tongwang Construction Material to timely and stable supply admixture under prevailing market prices (i.e. similar to those offered by other independent suppliers of admixture) which would attain compatible standard to Zhixin Construction Material and (ii) Tongwang Co-Founder would assume responsibility for any loss caused to us as result of Tongwang Construction Material's failure to supply admixture in a timely and stable manner under prevailing market prices. It is also believed that the trust arrangement could mitigate the potential risk of abuse by the Co-investing Employees due to their conflict of interest, and the good reputation of Zhixin Construction Material would help Tongwang Construction Material to develop customer network and secure more customer orders, thereby increasing the revenue of Tongwang Construction Material. Therefore, Zhixin Construction Material and the Tongwang Co-Founder entered into a written trust agreement pursuant to which our Group agreed to hold 38% equity interest in Tongwang Construction Material on behalf of the Tongwang Co-Founder since October 2012.

Our Group (including Zhixin Construction Material) was uninterested to invest in Tongwang Construction Material in view of its trivial businesses and our intention to focus on the development of our principal business at the relevant time, i.e. production and sale of ready-mixed concrete. In late 2018, our Group was contemplating an application for Listing. As our Group was able to source admixture from other suppliers with comparable terms, we negotiated with the Tongwang Co-Founder to terminate the trust arrangement and the trust arrangement was terminated in December 2018. At the relevant time, the Co-investing Employees also wanted to divest their investment in Tongwang Construction Material due to (i) the investment return of Tongwang Construction Material was not very lucrative; and (ii) taking into account our Group's proposed application for Listing and our Group's intention to avoid potential conflict of interest upon successful application for Listing, and they disposed of their interest in the company in December 2018. All of the Co-investing Employees remained as employees of our Group as at the Latest Practicable Date.

For the three years ended 31 December 2019 and the six months ended 30 June 2020, Tongwang Construction Material had approximately 10, nine, six and five employees, and five, five, four and four customers, respectively. For the three years ended 31 December 2019, Tongwang Construction Material recorded revenue of approximately RMB16.2 million, RMB14.3 million and RMB9.3 million, of which approximately 68.2%, 70.5% and nil were derived from our Group, and net profit of approximately RMB0.2 million, RMB0.3 million and RMB0.3 million respectively. Our total purchase from Tongwang Construction Material amounted to approximately

RMB11.0 million, RMB10.1 million, nil and nil, respectively, representing approximately 3.7%, 2.8%, nil and nil of our total purchase of materials, respectively during the Track Record Period. We have not made any purchases from Tongwang Construction Material since January 2019. Save as disclosed above, there is no other cooperation between Zhixin Construction Material, Tongwang Construction Material, Tongwang Co-founder and the Co-investing Employees. During the two years ended 31 December 2018, we did not experience any shortages or delivery delays of admixture from Tongwang Construction Material causing disruptions to our production. During the two years ended 31 December 2018, the price and terms offered by Tongwang Construction Material were fair and reasonable and based on normal commercial terms.

*Fujian Zhixin Shuanghui Mineral Co., Ltd.*

Fujian Zhixin Shuanghui Mineral Co., Ltd. (福建智欣雙惠礦業有限公司) ("**Shuanghui Mineral**") is a limited company established in PRC on 22 August 2008, which (i) was owned as to two Independent Third Parties since establishment until 14 January 2010; (ii) was owned as to three Independent Third Parties from 15 January 2010 to 30 May 2013; (iii) was owned as to 60% by our Group (on trust for an Independent Third Party as further explained below) and 40% by an Independent Third Party from 31 May 2013 to 19 November 2018; and (iv) has been owned by an Independent Third Party since 20 November 2018. Shuanghui Mineral is principally engaged in exploitation, processing of stones and sales of construction materials. Pursuant to a written trust agreement, a trust arrangement was entered into between Zhixin Construction Material and an Independent Third Party (the "**Then Shuanghui Mineral Beneficial Owner**") between May 2013 and November 2018 pursuant to which our Group held 60% equity interest in Shuanghui Mineral on behalf of the Then Shuanghui Mineral Beneficial Owner, who is a friend of Mr. Ye and a supplier of stones, in view of (i) the strategic benefits which could bring about to Shuanghui Mineral by the good reputation of Zhixin Construction Material if it became a nominal equity holder of Shuanghui Mineral; and (ii) the potential cooperation opportunity between Zhixin Construction Material and Shuanghui Mineral arising from our Group's need for a long-term supplier of certain types of stones. It is believed that the good reputation of Zhixin Construction Material would help Shuanghui Mineral to develop customer network and secure more customer orders, thereby increasing the revenue of Shuanghui Mineral.

Our total purchase from Shuanghui Mineral amounted to approximately RMB7.2 million, nil, nil and nil respectively, representing approximately 2.5%, nil, nil and nil of our total purchase of materials during the Track Record Period, respectively. We have not made any purchases from Shuanghui Mineral since August 2017. In 2018, following the expiration of the mining right of Shuanghui Mineral, our Group expected that Shuanghui Mineral would not be able to continue to supply raw materials to our Group, hence our Group and the Then Shuanghui Mineral Beneficial Owner agreed to terminate the trust arrangement in November 2018. During the year ended 31 December 2019, our Group obtained certain entrusted loans with total principals amounting to approximately RMB68.8 million from a company established in the PRC which is wholly owned by the Then Shuanghui Mineral Beneficial Owner for working capital purpose. For further details, please refer to the section headed "Financial information — Discussion on major items of the consolidated statements of financial position — Borrowings" in this prospectus. Save as disclosed above, there is no other cooperation between Zhixin Construction Material, Shuanghui Mineral and the Then Shuanghui Mineral Beneficial Owner.

**Suppliers' relationship among themselves**

*KZJ New Materials Group Co., Ltd., and Kezhijie New Material Group Fujian Co., Ltd.*

During the Track Record Period, KZJ New Materials Group Co., Ltd. (科之杰新材料集團有限公司), and Kezhijie New Material Group Fujian Co., Ltd. (科之杰新材料集團福建有限公司), (collectively the "**New Materials Group**"), both are our suppliers. They are limited liability companies established in the PRC on 10 August 2004 and 1 February 2008 respectively, wholly owned subsidiaries of a listed company which is listed on the Shenzhen Stock Exchange (Stock code: 002398), an Independent Third Party. Our total purchase from New Materials Group amounted to approximately RMB3.7 million, RMB4.9 million, RMB3.5 million and RMB3.0 million respectively, representing approximately 1.3%, 1.3%, 0.9% and 0.8% of our total purchase during the Track Record Period, respectively.

*Xiamen Lishunxiang Logistics Co., Ltd.*

Chuanpei Shareholder was also the shareholder of Xiamen Lishunxiang Logistics Co., Ltd. (廈門麗順祥物流有限公司) ("**Lishunxiang Logistics**"), one of our Group's logistics supplier, during the period between 1 February 2019 to 8 April 2020. Lishunxiang Logistics is a limited company established in the PRC on 1 February 2019, which (i) owned as to 51% by Chuanpei Shareholder and 49% by an Independent Third Party ("**Lishunxiang Co-founder**") from 1 February 2019 to 8 April 2020; and (ii) has been owned by the Lishunxiang Co-founder and her sister, both Independent Third Parties, since 9 April 2020. Chuanpei Shareholder became acquainted with the Lishunxiang Co-founder and her sister, who engaged in the provision of logistics services to businesses as individuals, in 2015 through their provision of logistics services to Chuanpei Shareholder's former employer, a company principally engaged in the trading of construction materials and the provision of logistics services. In April 2020, Chuanpei Shareholder offered to dispose of his 51% equity interest in Lishunxiang Logistics to the Lishunxiang Co-founder and her sister, as Chuanpei Shareholder (i) wanted to devote more time and resources to his construction material businesses, especially Chuanpei Industrial which is his wholly-owned business; and (ii) believed trading construction materials would potentially provide a more attractive financial return than the provision of logistics services.

As at 31 December 2019, Lishunxiang Logistics had 28 employees with revenue of approximately RMB14.1 million and net profit of approximately RMB0.5 million, of which approximately 77.3% of revenue was derived from our Group. Lishunxiang Logistics is principally engaged in transportation service, the total fee paid made by us to Lishunxiang Logistics amounted to approximately nil, nil, RMB10.9 million and RMB5.2 million respectively, representing approximately nil, nil, 2.8% and 1.3% of our total purchase during the Track Record Period, respectively. The decrease in fees paid by our Group to Lishunxiang Logistics for the ten months ended 31 October 2020 was mainly attributable to the impact of COVID-19 as some of Lishunxiang

Logistics' drivers were not able to return to Xiamen from their hometown after the Chinese New Year holiday and thus Lishunxiang Logistics' delivery capacity reduced. As a result, we (i) engaged a new logistics service provider in late February 2020; and (ii) increased the employment of the services of an existing logistics service provider to meet our demand in cement logistics. For the ten months ended 31 October 2020, our Group engaged six other service providers of cement logistics apart from Lishunxiang Logistics and the total fee paid to them during the period amounted to approximately RMB9.4 million. Our Directors consider that the terms and pricing of the logistics services provided by Lishunxiang Logistics compared to those of such other logistics service providers were fair, reasonable and on normal commercial terms.

*Zhangzhou Road & Bridge and Xiamen Road & Bridge International Trade Co., Ltd.*

During the Track Record Period, Zhangzhou Road & Bridge and Xiamen Road & Bridge International Trade Co., Ltd. ("**Xiamen Road & Bridge**"), both are our suppliers. They are limited liability companies established in the PRC on 16 February 2012 and 25 October 2000 respectively, indirectly owned by Xiamen State-owned Assets Supervision and Administration Commission as to 98.8% and 100%, respectively. Our total purchase from Zhangzhou Road & Bridge amounted to approximately nil, RMB2.6 million, RMB7.3 million and RMB15.1 million, representing nil, 0.7%, 1.9% and 3.9% of our total purchase during the Track Record Period, respectively. Our total purchase from Xiamen Road & Bridge amounted to approximately RMB0.5 million, RMB0.5 million, nil and RMB11.0 million, representing 0.2%, 0.1%, nil and 2.8% of our total purchase during the Track Record Period, respectively. The increase in purchase from Zhangzhou Road & Bridge and Xiamen Road & Bridge for the ten months ended 31 October 2020 was mainly attributable to the increase in demand for rebars for our PC component production and the modification made to our tunnel segment production line to produce other PC components since January 2020 as the production for our rail transit projects on hand had been completed (rebars used to manufacture tunnel segments were provided by our customers).

*Bajun Building Material and Xiamen Nianhua Building Material Co., Ltd.*

During the Track Record Period, both Bajun Building Material and Xiamen Nianhua Building Material Co., Ltd. ("**Xiamen Nianhua Building**") are our suppliers. They are limited liability companies established in the PRC on 20 January 2010 and 8 January 2015, respectively. Bajun Building Material has been owned as to 90% and 10% by an Independent Third Party and his spouse respectively (collectively "**Bajun Building Material's Shareholders**") since 1 July 2019. Xiamen Nianhua Building has been owned as to 95% and 5% by the daughter of the Bajun Building Material's Shareholders, which is an Independent Third Party, and another Independent Third Party since 28 August 2019, respectively. Our total purchase from Bajun Building Material amounted to approximately RMB7.4 million, RMB13.2 million, RMB9.9 million and RMB1.3 million respectively, representing approximately 2.5%, 3.6%, 2.5% and 0.3% of our total purchase during the Track Record Period, respectively. Our total purchase from Xiamen Nianhua Building amounted to approximately nil, nil, nil and RMB9.8 million respectively, representing approximately nil, nil, nil and 2.5% of our total purchase during the Track Record Period, respectively.

To the best knowledge of our Directors, save as disclosed in this section, our Directors have confirmed that the (i) twenty largest suppliers of our Group (representing approximately 59.6%, 61.2%, 76.7% and 84.0% of our total purchase during the Track Record Period respectively) have no past or present relationships (including but not limited to employment, trust, financing, or family relationship) ("**Past or Present Relationships**") with our Group, our Directors, Shareholders, senior management or their respective associates during the Track Record Period; and (ii) ten largest suppliers of our Group (representing approximately 44.8%, 51.8%, 62.9% and 69.0% of our total purchase during the Track Record Period respectively) have no Past or Present Relationships among themselves.

**Key terms of framework purchase contracts entered into with our suppliers**

We have not entered into any long-term agreement with our suppliers, which our Directors believe is in line with the general market practice of the industry. However, we generally enter into framework purchase contracts with our suppliers, which would stipulate purchase terms such as the specifications of products, the unit price and the expected purchase volume over a period of time and general terms and conditions of the sale and purchase of products. The following table sets forth the summary of the typical key terms and conditions of our contracts with our suppliers:

| | |
|---|---|
| **Duration:** | The duration of contracts generally ranges from one to two years. |
| **Unit price, volume and specification of products:** | The contract specifies the specification of products, unit price, expected volume (where applicable) to be purchased by our Group. There is no minimum purchase commitment on our Group. |
| **Pricing:** | A price per unit will generally be stipulated in the master contract for reference, however, the exact price per unit is generally fixed in separate purchase order at prevailing market price or with reference to guidance price issued by the local government (where applicable). All of our purchases are denominated in RMB. |
| **Price adjustment:** | Certain contracts may have a price adjustment clause that will trigger in case the market price of raw materials or guidance price issued by the local government has changed beyond a certain percentage.<br><br>Mutual agreement with parties is generally required before the adjusted unit price becomes effective. |

| | |
|---|---|
| **Delivery terms:** | Delivery locations and manner of delivery using one of the following transport arrangements as agreed between the parties:<br><br>1. the supplier delivers the raw materials to us; or<br><br>2. we pick up the raw materials from the supplier; or<br><br>3. an Independent Third Party logistics service provider is engaged for pick-up and delivering the raw materials to us; |
| **Transfer of liability:** | The liability is transferred from the supplier to us when:<br><br>1. we have completed quality check of the raw materials; or<br><br>2. the raw materials are transferred from the suppliers' trucks to our designated trucks, tanks or warehouse. |
| **Payment terms:** | Our Group is generally required to settle payment within 12 to 90 days from the first day of the succeeding month of the invoice date.<br><br>We are generally required to settle our purchases on a monthly basis for purchases made in the previous month. We make payment for raw materials by way of bank transfers and bank's acceptance bill. |
| **Product return:** | If the quality falls below the specified requirements under the relevant agreement, the supplier will be liable to replace the products. |
| **Default/termination:** | We are entitled to terminate the contract if there is a breach of contract by the supplier. |
| **Supply guarantee arrangement**[Note]**:** | If the supplier is unable to supply sufficient aggregates to satisfy our Group's planned monthly purchase volume, the supplier must coordinate with other suppliers to satisfy our purchase volume |

*Note:* Applicable only to framework purchase contracts entered into between our Group and aggregates suppliers.

**Supply guarantee arrangement with aggregate suppliers**

According to the Frost & Sullivan Report, the aggregates industry in the PRC is highly fragmented. During the Track Record Period, due to the implementation of strict environmental protection policies such as the (i) "Notice on Launching the National Special Rectification Action for Sand Mining in Rivers and Lakes" (關於開展全國河湖採砂專項整治行動的通知) issued by the Ministry of Water Resources which specified the scope of forbidden mining areas and further strengthened the management of sand mining in rivers and lakes; and (ii) the "Interpretation of Several Issues Concerning the Application of Law in Criminal Cases of Illegal Mining and Destructive Mining"《關於辦理非法採礦、破壞性採礦刑事案件適用法律若干問題的解釋》issued by Supreme People's Court and the "Overall Planning of Mineral Resources in Xiamen (2016–2020)" 《廈門市礦產資源總體規劃(2016–2020)》 issued by the Xiamen Municipal People's Government to crack down on illegal sand and gravel mining, the fragmentation of the aggregates industry was further worsen as the industry was closely regulated and monitored, leading to the shutdown of many aggregates suppliers. Accordingly, this led to a sluggish supply of aggregates to satisfy the concrete-based building material industry in Xiamen.

In order to secure the aggregates required for our production and to reduce the burden of our procurement team to identify and manage an overwhelmingly large amount of small aggregates suppliers in a highly fragmented market, a clause was introduced in our purchase contracts, which requires aggregates suppliers to refer suitable suppliers to our Group in case they are unable to meet our Group's planned monthly purchase volume. In accordance with the Frost & Sullivan Report, it is an industry norm that in the event that the aggregates supplier is unable to supply sufficient aggregates to satisfy ready-mixed company's planned purchase volume, the supplier could coordinate with other suppliers who also meet the qualification to satisfy that purchase volume according to the agreement. The terms of our supply guarantee arrangement with aggregate suppliers are in line with industry practice. We normally determine, in tripartite agreements with the aggregates suppliers and the referred suppliers, the terms such as the supply volume, product specification, pricing, quality, delivery and payment terms, to be on equivalent terms as stipulated in the purchase contracts entered into between our Group and the respective aggregates suppliers. Additionally, to simplify the payment process, pursuant to the tripartite agreements, our Group is able to complete our purchases from referred suppliers by collectively settling our balances with the aggregates suppliers for their distribution to the respectively referred suppliers. Our Group will not be liable for settlement to the referred suppliers and we are free from any obligations or responsibilities for any payment disputes between the aggregates suppliers and the referred suppliers.

During the Track Record Period, approximately 1,191,203 tonnes, 1,322,404 tonnes, 39,728 tonnes and nil of aggregates were purchased through referred aggregates suppliers, which amounted to approximately RMB84.7 million, RMB88.4 million, RMB2.5 million and nil, representing approximately 28.8%, 24.3%, 0.6% and nil of our total purchases, with 51, 67, 9 and nil aggregates suppliers and 139, 126, 8 and nil referred suppliers involved in the supply guarantee arrangement, respectively. For the two years ended 31 December 2018, our Group relied heavily on the supply guarantee arrangement in sourcing sufficient aggregates for our growing production need. For the year ended 31 December 2019, in our effort to reduce reliance on referred suppliers, our Group (i) sourced from four new aggregates suppliers, whom were able to provide the quantity and quality required by our Group on terms equivalent to other aggregates suppliers, namely Fengfa Building Materials, Longxia Building Materials, Zhangzhou Taiwan Business Investment Zone Jiaomei Jinglin Materials Business Department (漳州台商投資區角美璟林建材經營部) and Xianyou County Xinkai Trading Company (仙遊縣欣凱貿易商行) with an aggregate purchase amounted to approximately RMB90.4 million; and (ii) increased our stone purchases from an existing supplier, Shunlei Building Materials, by approximately RMB17.4 million as compared to 2018. For details, please refer to the paragraph headed "Major suppliers during the Track Record Period — Aggregates" in this section. During the Track Record Period, our Group purchased approximately 705,345 tonnes, 739,066 tonnes, 1,210,974 tonnes and 742,345 tonnes of aggregates, amounted to approximately RMB48.1 million, RMB52.2 million, RMB96.3 million and RMB67.5 million, respectively, from our aggregates suppliers except referred aggregates suppliers, Fengfa Building Materials and Longxia Building Materials.

During the Track Record Period and up to the Latest Practicable Date, we have not experienced any material interruptions of operations as a result of any disputes or claims between us, aggregates suppliers or referred suppliers, or other uncertainties and contingencies which may materially and adversely affect the business of our Group.

**Employment agents**

During the Track Record Period, our Group outsourced some factory workers for our PC component production lines from seven independent employment agents. The employment agents engaged by us are corporate entities, principally engaged in providing labour outsourcing services. When selecting an employment agent or whether to continue to engage an employment agent, our Group considers several factors, including but not limited to, its background, technical capability, experience, price, service quality, labour resources, reputation and safety record. We believe that by engaging employment agents, our Group can circumvent tedious administrative processes and minimise the risks of labour shortage. According to the Frost & Sullivan Report, the labour workforce in the PRC has high levels of mobility, and it is common to engage employment agents or source labour from other provinces within the PRC, including PC components production sector in Xiamen, due to more skilled and experienced workforce compared to local workers. In particular, majority of the employment in Xiamen are migrant workers. According to the Frost & Sullivan Report, approximately 70% of the employment in Xiamen in the first half of 2020 are migrant workers. The majority of the employment agents we engaged during the Track Record Period were established and sourced their factory workers in northern China, given that (i) Xiamen lacks the workforce that is willing to accept low-skilled labour-intensive jobs; (ii) prefabricated construction industry in southern China was developing at rapid pace under supportive government policies; (iii) development of prefabricated constructions in northern China is more advanced than southern China; and (iv) level of construction activities is lower during winter in northern China due to the harsh weather conditions, which results in significantly fewer jobs and less income for construction workers in northeast China during winter, the employment agents from northern China have larger labour resources and more experience in PC components production than that sourced locally, which enables local factory workers with less experience to have access to their skills, ensures stable supply of skilful labour and minimises the risks of labour shortage. Our Directors believe that skill level is a highly preferable factor to consider when recruiting factory workers for our PC component production. Notwithstanding that factory workers are generally deploy to complete low-skilled labour-intensive procedures, skilled workers are more efficient in completing such procedures, hence require less training and reduce the burden of our Group's supervisors and quality control personnel to closely monitor inexperienced and unskilled workers. Moreover, employment agents generally deploy factory workers at our production plants based on our production schedules and the turnover rate of factory workers may fluctuation during the year, so workers who are proficient with the relevant skills are more preferable.

We have maintained business relationships ranging from one to two years with our employment agents during the Track Record Period. The outsourced factory workers were mainly deployed together with our self-hired factory workers to perform low-skilled labour-intensive procedures, such as rebar processing, concreting and various production procedures at our PC component production lines. As our Group's PC component operation was still in its early development phase, we consider the outsource arrangements will enhance our workforce flexibility, manageability and cost-efficiency in allocating our manpower than maintaining a large full-time workforce.

The following table sets forth the breakdown of our outsourcing cost by employment agents during the Track Record Period:

*For the ten months ended 31 October 2020*

| Rank | Employment agent | Principal business activities | Commencement year of business relationship | Credit term | Outsourcing amount attributable to employment agent | Approximate % of our total outsourcing amount attributable to employment agents | Average factory workers dispatched during the period[8] |
|---|---|---|---|---|---|---|---|
| | | | | | RMB'000 | % | |
| 1 | Employment Agent F [1] | Construction labour subcontracting, manufacturing of PC components | 2019 | 25 days | 25,811 | 70.0 | 300 |
| 2 | Employment Agent G [2] | Construction and construction machinery and equipment leasing | 2019 | 25 days | 10,675 | 29.0 | 58 |
| 3 | Employment Agent C [3] | Construction labour subcontracting, manufacturing of PC components | 2018 | 30 days | 352 | 1.0 | 4 |
| | | Total | | | 36,838 | 100.0 | 362 |

*For the year ended 31 December 2019*

| Rank | Employment agent | Principal business activities | Commencement year of business relationship | Credit term | Outsourcing amount attributable to employment agents | Approximate % of our total outsourcing amount attributable to employment agents | Average factory workers dispatched during the year(8) |
|---|---|---|---|---|---|---|---|
| | | | | | RMB'000 | % | |
| 1. | Employment Agent C (3) | Construction labour subcontracting, manufacturing of PC components | 2018 | 30 days | 4,975 | 44.3 | 67 |
| 2. | Employment Agent F (1) | Construction labour subcontracting, manufacturing of PC components | 2019 | 25 days | 4,683 | 41.7 | 111 |
| 3. | Employment Agent G (2) | Construction and construction machinery and equipment leasing | 2019 | 25 days | 1,243 | 11.1 | 22 |
| 4. | Employment Agent D (4) | Construction labour subcontracting, manufacturing of PC components | 2018 | 15 days | 323 | 2.9 | 65 |
| | | Total | | | 11,224 | 100.0 | 265 |

*For the year ended 31 December 2018*

| Rank | Employment agent | Principal business activities | Commencement year of business relationship | Credit term | Outsourcing amount attributable to employment agents | Approximate % of our total outsourcing amount attributable to employment agents | Average factory workers dispatched during the year(8) |
|---|---|---|---|---|---|---|---|
| | | | | | RMB'000 | % | |
| 1. | Employment Agent C (3) | Construction labour subcontracting, manufacturing of PC components | 2018 | 30 days | 4,504 | 87.1 | 66 |
| 2. | Employment Agent B (5) | Construction labour subcontracting, manufacturing of PC components, construction machinery and equipment leasing | 2017 | 25 days | 413 | 8.0 | 39 |
| 3. | Employment Agent D (4) | Construction labour subcontracting, manufacturing of PC components | 2018 | 15 days | 244 | 4.7 | 53 |
| 4. | Employment Agent E (6) | Construction labour subcontracting, green management | 2018 | N/A | 10 | 0.2 | 7 |
| | | Total | | | 5,171 | 100.0 | 165 |

*For the year ended 31 December 2017*

| Rank | Employment agent | Principal business activities | Commencement year of business relationship | Credit term | Outsourcing amount attributable to employment agents | Approximate % of our total outsourcing amount attributable to employment agents | Average factory workers dispatched during the year[(8)] |
|---|---|---|---|---|---|---|---|
| | | | | | RMB'000 | % | |
| 1. | Employment Agent A [(7)] | Construction labour subcontracting and construction machinery and equipment leasing | 2017 | 25 days | 1,209 | 85.3 | 25 |
| 2. | Employment Agent B [(5)] | Construction labour subcontracting, manufacturing of PC components and equipment leasing | 2017 | 25 days | 209 | 14.7 | 25 |
| | | Total | | | 1,418 | 100.0 | 50 |

*Notes:*

1. Employment Agent F is a limited liability company established in the PRC in 2019 and based in Lingyuan City with registered and paid-up capital of RMB3.0 million and nil respectively, it became acquainted with our Group through the referral by Employment Agent D and had approximately 240 employees. The factory workers despatched by Employment Agent F were primarily responsible for the production of PC components, the processing of rebar and general labour. The outsourcing cost was calculated based on a fixed price per unit of (i) PC component produced (by type); and (ii) rebar processed. The production volume of PC components and rebar processed attributable to factory workers dispatched by Employment Agent F amounted to approximately 21,908.65 $m^3$ and 23,491.4 m for the year ended 31 December 2019, and 63,699.4 $m^3$ and 17,890.9 $m^3$ for the ten months ended 31 October 2020, respectively. During the Track Record Period, our Group was the only customer of Employment Agent F. For the year ended 31 December 2019, Employment Agent F recorded revenue of approximately RMB4.7 million and net profit of approximately RMB0.4 million. For the six months ended 30 June 2020, Employment Agent F recorded revenue of approximately RMB10.7 million and net profit of approximately RMB0.9 million.

2. Employment Agent G is a limited liability company established in the PRC in 2010 and based in Xiamen with registered and paid-up capital of RMB10.0 million and nil respectively, it became acquainted with our Group through direct approach by the employment agent. The factory workers despatched by Employment Agent G were primarily responsible for the processing of rebar, on-site formwork and installation of PC components. The outsourcing costs was calculated based on a fixed price per unit of utility tunnel segment installed.

3. Employment Agent C is a limited liability company established in the PRC in 2014 and based in Haimen City with registered and paid-up capital of RMB5.0 million and RMB5.0 million respectively, it became acquainted with our Group through direct approach by our Group and had approximately 70 employees. The factory workers dispatched by Employment Agent C were primarily responsible for the production of PC components and general labour. The outsourcing cost was calculated based on a fixed price per unit of PC component produced (by type). For the two years ended 31 December 2019 and the ten months ended 31 October 2020, the production volume of PC components attributable to factory workers dispatched by Employment Agent C amounted to approximately 28,926.8 $m^3$, 32,041.3 $m^3$ and 158.0 $m^3$ of PC components, respectively.

4. Employment Agent D was a limited liability company established in the PRC in 2018 and based in Dalian City with registered and paid-up capital of RMB3.0 million and nil respectively and dissolved in 2019, it became acquainted with our Group through direct approach by the employment agent and had approximately 12 employees at the time of deregistration in 2019. The factory workers dispatched by Employment Agent D were primarily responsible for the production of PC components, the processing of rebar and general labour.

The outsourcing cost was calculated based on a fixed price per unit of (i) PC component produced (by type); and (ii) rebar processed. The production volume of PC components and rebar processed attributable to factory workers dispatched by Employment Agent D amounted to approximately 1,678.9 $m^3$ and 15,467.8 m for the year ended 31 December 2018 and approximately 3,013.5 $m^3$ and 12,877.2 m for the year ended 31 December 2019, respectively. During the Track Record Period, our Group was the only customer of Employment Agent D. For the year ended 31 December 2018, Employment Agent D recorded revenue of approximately RMB0.2 million and net profit of approximately RMB0.02 million. For the year ended 31 December 2019, Employment Agent D recorded revenue of approximately RMB0.3 million and net profit of approximately RMB0.03 million.

5. Employment Agent B is a limited liability company established in the PRC in 2017 and based in Shijiazhuang City with registered and paid-up capital of RMB3.0 million and nil respectively, it became acquainted with our Group through direct approach by the employment agent and had approximately 200 employees. The factory workers dispatched by Employment Agent B were primarily responsible for the production of PC components. The outsourcing cost was calculated based on a fixed price per unit of PC component produced (by type). For the two years ended 31 December 2018, the production volume of PC components attributable to factory workers dispatched by Employment Agent B amounted to approximately 525.1 $m^3$, 630.4 $m^3$, respectively. Employment Agent B had 2 customers including our Group during the Track Record Period. For the year ended 31 December 2017, Employment Agent B recorded revenue of approximately RMB1.4 million and net profit of approximately RMB0.1 million. For the year ended 31 December 2018, Employment Agent B recorded revenue of approximately RMB2.0 million and net profit of approximately RMB0.1 million.

6. Employment Agent E is a limited liability company established in the PRC in 2015 and based in Xiamen with registered and paid-up capital of RMB2.0 million and RMB2.0 million respectively, it became acquainted with our Group through direct approach by the employment agent and had approximately 63 employees. The factory workers dispatched by Employment Agent E were primarily responsible for the production of PC components. The outsourcing cost was calculated on an hourly basis.

7. Employment Agent A is a limited liability company established in the PRC in 2016 and based in Changsha City with registered and paid-up capital of RMB3.0 million and nil respectively, it became acquainted with our Group through direct approach by the employment agent and had approximately 60 employees. The factory workers dispatched by Employment Agent A were primarily responsible for the production of PC components. The outsourcing cost was calculated on an hourly rate basis. For the year ended 31 December 2017, the production volume of PC components attributable to factory workers dispatched by Employment Agent A amounted to approximately 1,162.1 $m^3$.

8. Average factory workers dispatched during the year/period is calculated based on the total headcount for the year/period, divided by the number of months of the respective employment agent engaged during the year/period.

### Key terms of outsourcing contracts entered into with our employment agents

We have not entered into any long-term agreement with our employment agents, we generally engage employment agents on a project-by-project basis for factory workers. We select the employment agents from our list of qualified employment agents. The following table sets forth the summary of the typical key terms and conditions of the agreement with our employment agents:

| | |
|---|---|
| **Duration:** | The duration of the engagement normally varies depending on the scope of our projects. |

| | |
|---|---|
| **Our responsibilities:** | We are responsible for providing training related to operational techniques and production safety. |
| **Employment agents responsibilities:** | The employment agents are responsible for recruiting and arranging their own workers to undertake the labour work at our PC component production lines as required and determined by us and under the supervision of our production and project managers and in compliance with all applicable laws and regulations. The employment agents are responsible for any safety accidents arising from their failure to follow our safety procedures. The employment agents shall engage their own works and bear the social insurance and housing funds, other welfare benefits of the factory workers in accordance with relevant PRC laws and regulations. |
| **Pricing:** | The pricing of the contract is primarily calculated based on a fixed price per unit of PC component produced (by type) or rebar processed. We make payments directly to our employment agents, who are then responsible for paying their workers. |
| **Payments terms:** | The employment agents are paid in accordance with the status of the respective projects. In general, 80%–90% of the progress payment amount (actual sales orders completed) for the previous month shall be settled on a monthly basis, 10%–12% of the total progress payment amount shall be settled upon practical completion of the construction project and the balance of 5%–20% of the total progress payment amount will be retained by us as retention money and will be paid to the employment agents upon expiration of the defect liability period. Except one employment agent is partially prepaid according to our production schedule. |
| **Default/termination:** | We are entitled to terminate the contract if there is a breach of contract by the employment agents. |

For the three years ended 31 December 2019 and the ten months ended 31 October 2020, the cost of outsourcing amounted to approximately RMB1.5 million, RMB6.0 million, RMB14.7 million and RMB40.3 million, respectively of which approximately RMB1.4 million, RMB5.2 million, RMB11.2 million and RMB36.8 million were attributable to outsourcing cost of employment agents. The increase of outsourcing cost during the Track Record Period was in line with our PC component operation growth, as we mainly relied on employment agents to supplement factory worker labour resources for our PC component production. During the Track Record Period, we had a total of 111, 304, 438 and 459 factory workers (including existing and former factory workers) involved in our PC components production, of which 50, 165, 265 and 362 were outsourced factory workers provided by our employment agents. For details please refer to the section headed "Financial information — Discussion on major items of the consolidated statements of comprehensive income — Cost of sales — Outsourcing cost". The outsourced factory workers were involved in the production of approximately 1,687.2 $m^3$, 31,236.1 $m^3$, 56,963.4 $m^3$ and 76,738.9 $m^3$ of PC components, representing approximately 36.5%, 68.7%, 67.5% and 98.6% of our Group's total production volume for the three years ended 31 December 2019 and the ten months ended 31 October 2020, respectively. The production of PC components involve key steps as detailed in the paragraph headed "Production Process — PC Components" in this section, and our production procedures generally involves both self-hired and outsourced factory workers. Therefore, the production volume attributable to self-hired factory workers will overlap with the production volume attributable to outsourced factory workers. During the Track Record Period, our direct labour cost attributable to the production of PC components were approximately RMB5.6 million, RMB12.4 million, RMB18.0 million and RMB18.9 million, respectively, of which approximately RMB1.7 million, RMB5.4 million, RMB7.3 million and RMB3.5 million were attributable to the factory workers directly hired by our Group respectively.

Set forth below is the outsourcing fee charged by our employment agents:

| Type of PC components (Unit) | Outsourcing fee charged by our employment agents | Industry range of outsourcing fee of PC components |
|---|---|---|
| Floor slabs (RMB/$m^3$) | 420 | 348–480 |
| Square pile (RMB/$m^3$) | 70 | 70–80 |
| Beams (RMB/$m^3$) | 500 | 348–550 |
| Tunnel segments (RMB/piece) | 1,248–1,360 | 1,248–1,574 |
| Rebar processing (RMB/m) | 7.6 | 7.6–9.0 |
| Other miscellaneous products (RMB/$m^3$) | 300–809 | 300–809 |
| Daywork (RMB/day) | 290 | 180–350 |

*Source: Frost & Sullivan*

In view of the above, our Directors believe, and Frost & Sullivan concurs that the outsourcing fees charged by each of the employment agents engaged by our Group during the Track Record Period were reasonable and comparable to those charged by industry peers providing similar services.

For details regarding our quality control on outsourced factory workers, please refer to paragraph headed "Quality control — Quality assurance on employment agents and outsourced factory workers" in this section. Our PRC Legal Advisers are of the view that these arrangements with employment agents are in compliance with the applicable PRC laws and regulations in all material respects. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any material interruption of operations as a result of any disputes between us and the employment agents or other uncertainties and contingencies which may materially and adversely affect the business of our Group.

Our Directors confirmed that all of the above employment agents of our Group are Independent Third Parties and none of our Directors or their respective close associates or any Shareholders who, to the best knowledge of our Directors own more than 5% of the issued Shares immediately after completion of the Share Offer and the Capitalisation Issue, has any interests in any of such employment agents and none of above employment agents have any past or present relationships (including but not limited to employment, trust, financing, or family relationships) with our Group, our Directors, Shareholders, senior management or their respective associates during the Track Record Period.

## LOGISTICS AND PRODUCT DELIVERY

We principally utilise our in-house delivery capability through Zhixin Logistics as well as independent logistics service providers to ensure efficient (i) delivery of our products to customers; and (ii) pick up of purchases from suppliers.

As at 31 October 2020, our truck fleet consisted of 76 concrete mixer trucks and 14 pump trucks. Our track fleet is equipped with positioning satellite systems. It enables us to track and monitor our trucks instantly or at regular intervals. We can track the trucks' real-time location during each phase of the ready-mix cycle, including the waiting time, pouring time, idle time, loading time, deadhead and travel time, thus we can allocate our trucks efficiently and allow us to optimise our service schedules. With our own truck fleet, we are able to plan the delivery route in advance based on the customers' orders in order to ensure timely delivery of the products to our customers. Our logistics department can track the delivery of finished products to our customers and accurate estimated-time-of-arrival, this allows for better customer service and enhance flexibility and efficiency.

Our Group primarily relies on our truck fleet for our logistical needs, however, depending on our transportation capacity and availability, we may occasionally engage Guishun Logistics and Independent Third Parties logistics service providers. The logistics service providers shall be responsible for all risks relating to the products in transit upon completion of loading.

In addition, we maintain close liaison with our customers. In the event that we foresee that there would be delays in the delivery of our products to our customers, we will discuss alternative arrangement with our customers as soon as possible. During the Track Record Period and up to the Latest Practicable Date, our Group did not experience any material loss or delay in delivery of our products and no material dispute or claims were made against our logistics service providers.

For details of our business relationship with Guishun Logistics, please refer to paragraph headed "Procurement — Discontinued connected transactions — 4. Provision of logistics services by Guishun Logistics" in this section.

We do not have a fixed replacement cycle policy for our trucks, therefore, there is no pre-determined period of use for our trucks but instead we assess on a vehicle-by-vehicle basis. To ensure our trucks are well maintained and operating efficiently, we conduct annual inspection and maintenance for all the trucks.

## INVENTORY MANAGEMENT

Our inventory is comprised primarily of raw materials, work-in-progress and finished goods. Our raw materials mainly include cement, aggregates, admixtures, PFA, mineral powder and rebars. Work-in-progress refers to PC components which are under production process. Finished goods comprised only PC components as our ready-mixed concrete are semi-finished products in nature, and we only manufacture to order and do not keep any inventory.

Our Group maintains and procures raw materials in accordance with our anticipated production schedules while taking into account the transportation lead time for different raw materials. This is to assure sufficient supply of raw materials to support the continuous production needs, minimise wastage and avoid accumulation of obsolete inventories. We store raw materials in accordance with their categories and in a way to protect the environment. Aggregates are stored in the closed yard with automatic water spraying system and insulation board to prevent the spread of dust and reduce the noise pollution at work. Cement, PFA and mineral powder are stored separately in sealed storage silos with dust collectors and audible high-level alarms to minimise the dust emissions and to avoid over-filling.

The following table sets forth the movement of our Group's raw materials in terms of volume during the Track Record Period:

**For the ten months ended 31 October 2020**

| | As at the beginning of period | Purchases volume | Consumption volume[1] | Used for mould production[2] | Shrinkage[3, 4, 5] | As at the end of period |
|---|---|---|---|---|---|---|
| | (tonne) | (tonne) | (tonne) | (tonne) | (tonne) | (tonne) |
| — Aggregates[4] | 36,381 | 1,871,952 | (1,799,078) | — | (25,635) | 83,620 |
| — Cement | 2,456 | 267,442 | (261,083) | — | (4,864) | 3,951 |
| — Rebars[5] | 662 | 12,868 | (11,127) | (1,143) | (725) | 535 |
| — Admixtures | 231 | 8,060 | (7,570) | — | (161) | 560 |
| — PFA | 1,036 | 56,063 | (47,675) | — | (5,038) | 4,386 |
| — Mineral powder | 639 | 35,697 | (32,279) | — | (1,662) | 2,395 |
| — Stone powder | 3,033 | 192,581 | (189,902) | — | (2,689) | 3,023 |
| | 44,438 | 2,444,663 | (2,348,714) | (1,143) | (40,774) | 98,470 |

### For the year ended 31 December 2019

| | As at the beginning of year (tonne) | Purchases volume (tonne) | Consumption volume[1] (tonne) | Used for mould production[2] (tonne) | Shrinkage[3, 4, 5] (tonne) | As at the end of year (tonne) |
|---|---|---|---|---|---|---|
| — Aggregates[4] | 34,735 | 2,087,230 | (2,048,356) | — | (37,228) | 36,381 |
| — Cement | 8,680 | 289,710 | (295,867) | — | (67) | 2,456 |
| — Rebars[5] | 269 | 8,922 | (6,848) | (1,049) | (632) | 662 |
| — Admixtures | 682 | 6,566 | (7,015) | — | (2) | 231 |
| — PFA | 10,131 | 47,678 | (52,266) | — | (4,507) | 1,036 |
| — Mineral powder | 3,225 | 38,837 | (39,488) | — | (1,935) | 639 |
| — Stone powder | 3,183 | 115,392 | (113,834) | — | (1,708) | 3,033 |
| | 60,905 | 2,594,335 | (2,563,674) | (1,049) | (46,079) | 44,438 |

### For the year ended 31 December 2018

| | As at the beginning of year (tonne) | Purchases volume (tonne) | Consumption volume[1] (tonne) | Used for mould production[2] (tonne) | Shrinkage[3, 4, 5] (tonne) | As at the end of year (tonne) |
|---|---|---|---|---|---|---|
| — Aggregates[4] | 124,225 | 2,061,470 | (2,142,642) | — | (8,318) | 34,735 |
| — Cement | 2,911 | 330,176 | (319,426) | — | (4,981) | 8,680 |
| — Rebars[5] | 123 | 2,789 | (2,102) | (511) | (30) | 269 |
| — Admixtures | 911 | 9,355 | (9,568) | — | (16) | 682 |
| — PFA | 3,636 | 70,200 | (59,167) | — | (4,538) | 10,131 |
| — Mineral powder | 1,807 | 43,881 | (41,311) | — | (1,152) | 3,225 |
| — Stone powder | 7,237 | 56,022 | (58,862) | — | (1,214) | 3,183 |
| | 140,850 | 2,573,893 | (2,633,078) | (511) | (20,249) | 60,905 |

### For the year ended 31 December 2017

| | As at the beginning of year (tonne) | Purchases volume (tonne) | Consumption volume[1] (tonne) | Used for mould production[2] (tonne) | Shrinkage[3, 4, 5] (tonne) | As at the end of year (tonne) |
|---|---|---|---|---|---|---|
| — Aggregates[4] | 309,631 | 1,896,548 | (2,070,109) | — | (11,845) | 124,225 |
| — Cement | 25,642 | 270,320 | (292,817) | — | (234) | 2,911 |
| — Rebars[5] | 12 | 1,421 | (579) | (190) | (541) | 123 |
| — Admixtures | 389 | 9,047 | (8,510) | — | (15) | 911 |
| — PFA | 813 | 72,027 | (64,714) | — | (4,490) | 3,636 |
| — Mineral powder | 456 | 49,006 | (46,145) | — | (1,510) | 1,807 |
| — Stone powder | 20,488 | 21,680 | (34,872) | — | (59) | 7,237 |
| | 357,431 | 2,320,049 | (2,517,746) | (190) | (18,694) | 140,850 |

*Notes:*

1. Consumption volume represents the amount of raw materials used for production of our ready-mixed concrete and PC components during the respective year/period.

2. It represents the amount of rebars used for fabrication of mould to be utilised in our PC components production.

3. Shrinkage represents the loss of raw materials during our production process and the amount of raw materials used for research and development by our design team, repair and maintenance, operating consumption.

4. During the Track Record Period, our Group's shrinkage of aggregates amounted to approximately 11,845 tonnes, 8,318 tonnes, 37,228 tonnes and 25,635 tonnes, representing approximately 0.6%, 0.4%, 1.8% and 1.4% of our consumption volume, respectively. The increase in shrinkage of aggregates for the year ended 31 December 2019 was mainly attributable to the significant increase in average monthly rainfall in Xiamen for the year ended 31 December 2019 as compared to 2018. According to the Frost & Sullivan Report, it is a common industry phenomenon that an average increase in moisture content of our aggregates (in particular sand) will be resulted during transportation to warehouses in the period of heavy rainfall seasons. Also, the aggregates will dry up in warehouses while pending for consumption, the weight of aggregates will hence decrease from the reduction of moisture content, which will create a greater variance in weight between purchase and consumption, thus, will lead to higher shrinkage. As stipulated in the purchase contracts entered into between our Group and our sand suppliers, our Group generally accepts a maximum moisture content level of 5.0% at acceptance.

5. During the Track Record Period, our Group's shrinkage of rebars amounted to approximately 541 tonnes, 30 tonnes, 632 tonnes and 725 tonnes, of which approximately 436 tonnes, nil, 639 tonnes and 693 tonnes, respectively, were used for the fabrication of PC component storage racks and part of the construction of PC Plant and Jimei Workshop to support the production of PC components. The remaining scrap rebars from our production process would usually be resold.

Our Group produces PC components in accordance with production schedule agreed with our customers. Finished products will be stored in our warehouses and storage yards and maintained by our warehouse operatives until delivery instructions have been given by our customers.

Our Group conducts physical stock counts on a regular basis to ensure the accuracy and completeness of inventory record.

### Inventory levels and turnover rate

As at 31 December 2017, 31 December 2018, 31 December 2019 and 31 October 2020, our Group's inventory amounted to approximately RMB17.8 million, RMB20.5 million, RMB27.8 million and RMB51.6 million respectively, representing about 4.9%, 6.0%, 6.0% and 8.6% of our current assets on such periods respectively. For the Track Record Period, our Group's average inventory turnover rate was approximately 20.8 days, 16.1 days, 18.5 days and 25.1 days, respectively. Please refer to the section headed "Financial information — Discussion on major items of the consolidated statements of financial position — Inventories" of this prospectus for detailed analysis of our inventory levels.

## OUTBREAK OF COVID-19

Since early 2020, the PRC and certain countries around the world encountered an outbreak of COVID-19, a highly contagious disease. In order to reduce the risk of widespread of COVID-19, the government of the PRC announced to extend the Chinese New Year holiday and delayed the resumption of work in the PRC. Different local governments of the PRC have imposed temporary restrictions or bans on passenger traffic to control the spread of COVID-19. Our Directors have carried out a holistic review of the impact of COVID-19 on our operations, and confirmed that, based on the measures imposed by the central and local governments of the PRC as at the Latest Practicable Date, COVID-19 is not expected to bring any permanent or material impact to our business operation and financial performance based on the following grounds:

### A. Force majeure

Our customers had extended the Chinese New Year holiday and temporarily suspended their construction projects due to the outbreak of COVID-19. As confirmed by our Directors, we are able to fulfil our obligations under respective contracts with our customers when our customers resume construction works and the temporary suspension would not lead to a breach of the relevant contracts since there is generally no specific timetable stipulated in our sales contracts. As at the Latest Practicable Date, we had not received any notice from our customers that we were or would be subject to penalty for delay in projects due to the outbreak of COVID-19. Moreover, pursuant to the Guidance Part 1 of the Supreme People's Court on Several Issues Concerning the Proper Trial of Civil Cases Involving COVID-19 Epidemic in Accordance with Law (最高人民法院關於依法妥善審理涉新冠肺炎疫情民事案件若干問題的指導意見(一)) and Contract Law of the PRC (the "**PRC Contract Law**"), if the epidemic situation or the epidemic prevention and control measures directly cause the contract to be unable to be performed, the provisions of force majeure (不可抗力) shall be applied in accordance with the law, that is, either party to a contract that is not able to perform the contract shall give a notice to the other party in time so as to reduce the losses that may be caused to the other party and provide evidence within a reasonable time and the liabilities shall then be exempted in part or in whole in light of the effects of the epidemic situation or the epidemic prevention and control measures, except as otherwise provided by law. As advised by our PRC Legal Advisers, even if any suspension of projects due to the outbreak of COVID-19 occurs in the future, leading to our Group's breach of the relevant contracts, the relevant liabilities for breach of contract, including but not limited to liquidated damages, would be exempted in part or in whole after our Group has duly fulfilled the duty of notification according to applicable PRC laws and regulations.

### B. Impact on our daily operations

While our production was temporarily suspended from late January 2020 to mid February 2020 in accordance with the extension of the Chinese New Year holiday and delay in resumption of work announced by the government of the PRC, which has gradually resumed since mid February 2020 and fully resumed in mid March 2020. In addition, for our PC components, we have maintained an inventory of our products, which we estimate that it is sufficient for sale to our customers for approximately three weeks. As such, we believe that the temporary suspension of our production was in compliance with the PRC Government's announcements to extend the Chinese New Year holiday and delay in resumption of work would not cause any material delay in our production.

**C. Impact on our employees**

Effective since February 2020, our Group has implemented epidemic prevention contingency plan setting forth epidemic prevention measures in accordance to local regulatory requirements and with reference to international guidelines issued by the World Health Organization. Our Group has also established epidemic prevention working teams consisting of executive Directors and senior management to carry out and monitor the key epidemic prevention measures and resulting situation. For details of the key epidemic prevention measures adopted by us, please refer to the paragraph headed "Occupational health and safety" in this section. As at the Latest Practicable Date, none of our Directors and/or employees had been suspected or confirmed to have contracted the COVID-19.

**D. Impact on the demand for our products**

We have communicated with our customers to keep track of the status of resumption of their construction projects. To the best knowledge of our Directors after making reasonable enquiries, 102 and 21 on-going projects as at 31 December 2019 with initial contract sum of approximately RMB879.5 million and RMB290.1 million for our ready-mixed concrete and PC components respectively had been temporarily suspended in late January 2020 due to the outbreak of COVID-19, and all on-going projects as at the Latest Practicable Date had resumed their construction works by the end of May 2020. Due to temporary suspension of our customers' operations, we had a slower collection of trade receivables from February to May 2020 and thus our trade receivables and trade receivables turnover days increased to approximately RMB540.3 million and 242.6 days for the ten months ended 31 October 2020 from approximately RMB417.8 million and 223.3 days for the year ended 31 December 2019, respectively. For the detailed discussion on the impact of outbreak of COVID-19 on the ready-mixed concrete and PC components industry in Fujian Province, please refer to the section headed "Industry overview" in this prospectus.

Construction activities are normally less active during the period from January to March due to Chinese New Year and we have maintained stable working relationship with our major suppliers and customers. Based on our historical experience, our customers will generally speed up their construction activities to catch up on delayed construction progress caused by unanticipated interruptions. Should the demand for our products increase, we may increase the number of production hours and days by adjusting our maintenance frequency and arranging production during public holidays to fulfil the production schedule. As such, we consider that the demand for our products is not affected by COVID-19 and the outbreak of COVID-19 is expected to bring limited impacts to us.

**E. Impact on the supply of our raw materials**

We have maintained an inventory of raw materials, which we estimate that it is sufficient for our production for up to three weeks. All of our suppliers are located in Fujian Province with short procurement lead time, any temporary restriction or interruption on the transportation of our raw materials is not expected to cause disruption to our production. Our Directors confirm that we have not encountered any supply chain disruption caused by the outbreak of COVID-19 since our resumption of operation.

**F. Impact on delivery of our products**

All of our production plants and workshop are situated in Xiamen, which are in close proximity to the construction sites of our customers' projects, as such we do not contemplate any material restriction or interruption on the transportation of our products to construction sites in surrounding areas within proximity of Xiamen. Please refer to the paragraph headed "Logistics and product delivery" in this section for further details of our product delivery arrangement.

As disclosed above, based on the measures imposed by the central and local governments of the PRC as at the Latest Practicable Date, our Directors are of the view that COVID-19 is not expected to bring any permanent or material interruption to our operations. We have performed the hypothetically worst case scenario assuming (i) our business operations to be fully suspended and thus no revenue would be generated since January 2021; (ii) settlement of trade receivables based on historical settlement pattern; (iii) settlement of trade payables when due; (iv) 10% of the estimated net proceeds to be received by us from the Share Offer for general working capital; (v) settlement of bank borrowings upon maturity; and (vi) assuming all other variables remain constant, our Directors are of the view that our working capital as at the Latest Practicable Date is sufficient to maintain our Group's financial viability for approximately 17 months from the date of this prospectus. Therefore, our Directors believe that it is unlikely for our Group to change the usage of the net proceeds from the Share Offer for purposes other than our Group's future plans as disclosed in the paragraph headed "Business strategies" in this section. There is no certainty as to the timing of the end of the outbreak of COVID-19, our Directors will continue to assess the impact of the COVID-19 on our Group's operation and financial performance and closely monitor our Group's exposure to the risks and uncertainties in connection with the epidemic. For details, please refer to the section headed "Risk factors — Risks relating to our business and industry — The recent outbreak of the contagious COVID-19 in the PRC and worldwide may have a material adverse effect on our business, results of operation, financial condition and prospects" in this prospectus.

## G. Contingency plans implemented by our Group

Since February 2020, a contingency management group ("**CMG**") has been set up and consists of chief executive officer, chief operating officer, chief financial officer and company secretary of the Company, to deploy a business continency plan ("**BCP**") to mitigate possible disruption on our business operations in the event of the outbreak of the COVID-19:

*Impact assessment on supply chain*

The CMG has considered that our diverse suppliers pool can ensure the stability of our supply chain. Nevertheless, the CMG has also commenced to solicit new and additional suppliers as alternative supply chain source based on prudent consideration.

*Workforce stability monitoring*

We would discuss and prepare the internal contingency plans for different scenarios during the planning stage of production of ready-mixed concrete and PC components. The contingency plans would generally include, but not limited to, the contacts of the parties involved in the projects, the assignment of alternate personnel to replace any project team members in the event they have fallen ill.

If any employees have been confirmed positive for COVID-19, our production of ready-mixed concrete and PC components would consider suspending for at least 14 days to prevent further spreading.

*Impact assessment on business sustainability*

We are in close communication with our customers on construction project status to assess our ability to fulfil the obligations under the respective sales contract with our customer. However, our sales contract generally contains a clause that if we are not able to perform the respective contract due to the force majeure events, we shall give a notice to the customers within a reasonable time so as to reduce the losses and our liabilities shall then be exempted in part or in whole in light of the effects of the force majeure events.

*Financial viability monitoring*

The chief financial officer is responsible for communicating with sales team and finance team regarding the settlements of trade receivables and payables and for updating the forecast and report to our Directors of the latest financial viability on a monthly basis. The chief financial officer has also commenced soliciting additional bank financing sources and options, including expanding or diverging unutilised banking facilities.

The joint company secretaries are responsible for monitoring the result of BCP on a continuous basis, report to our Directors and make proper disclosure, upon listed, to the public of any major risks and changes, including the filing under inside information disclosure. The Company has also engaged a qualified law firm in PRC for long-term legal advisory service. Our Directors are of the view that the implementation of these plans will not incur any material additional costs that will significantly affect our financial performance and business operations.

## QUALITY CONTROL

We endeavour to deliver quality and carefully produced products to our customers and imposed rigorous quality control measures throughout our production cycle, including product design, raw material examination, production process and product delivery. During the Track Record Period, we had no material dispute with our suppliers regarding the quality of raw materials delivered and we had not received any material claims or complaints about the quality of our products.

We have obtained and maintained the ISO9001:2015 certifications for our quality management system. Our quality management system is to ensure the quality of our products comply with the relevant national, provincial and industrial standards as well as meeting the requirements of our customers. Our Group performs quality assurance procedures with reference to various national and industrial standards, with major standards such as JGJ55-2011, GB50010-2010 and GB/T25181-2010 for the batching design of ready-mixed concrete, GB/T12573-2008, GB175-2007, GB/T1596-2017, GB/T23439-2017, GB/T18046-2017, GB8076-2008 and JGJ52-2006 for incoming raw material, GB50164-2011 for production of ready-mixed concrete, and GB/T50081-2019, GB/T50107-2010, GB/T14902-2012, GB50204-2015 and GB/T22082-2017 for outgoing finished goods. For details, please refer to paragraphs headed "Regulatory overview — I. The concrete and PC component industry — Ready-mixed concrete" and "Regulatory overview — I. The concrete and PC component industry — PC components" of this prospectus.

Standard laboratories have been established for each of our production plants to test the quality and functions of raw materials and finished products. We also have a quality control department to conduct the overall control and management of product quality. As at the Latest Practicable Date, our quality control department had 19 staff and our laboratory team had 66 staff responsible for conducting inspection and testing work to monitor quality in different production aspects.

Our major quality control procedures are as follows:

### (i) Product design quality assurance

Our laboratory team is responsible to ascertain the mix design of our ready-mixed concrete would meet the prescribed specification. Our laboratory team may conduct internal testing on our sample test cubes of concrete to ascertain the technical qualities. We may also send the samples of test cubes of concrete to Independent Third Party accredited certification institution for testing before production to ensure the technical specifications are fulfilled.

Our design team is responsible to conduct review on the shop drawings and mould design of our PC component products. The final shop drawings will be sent to our customer's designated licensed Independent Third Party design institutions for approval, to ascertain it meets the prescribed specifications.

**(ii) Incoming quality assurance**

We require our suppliers of cement and rebars to provide product quality certificates on incoming raw materials. Our laboratory and quality control department perform sample testing and routine inspection on incoming raw materials before they are put in storage or used in our production, to ensure that such materials comply with our required quality standards stipulated in the relevant purchase agreements. If the raw materials fail to meet our specifications and requirements, they will be returned to suppliers.

**(iii) Production process quality assurance**

During the production process, our quality control department carries out intermediate quality control inspections, reviews and tests on a sample basis at various stages of our production process to ensure that the production process is in order.

**(iv) Outgoing quality assurance**

Our laboratory and quality control teams perform tests and inspections on finished products on a sample basis to ensure the products meet the prescribed specifications and quality. Sample test cubes of concrete, extracted from our ready-mixed concrete and PC components, will be sent to independent accredited certification institutions for grade strength testing according to national standards.

**(v) Quality assurance on employment agents and outsourced factory workers**

During the Track Record Period, our Group engaged various employment agents to assist us sourcing factory workers for different aspects of our PC component production. To ensure the quality of our products and services conforms to required standard, we place stringent control on our outsourced service providers.

We generally evaluate and select employment agents based on (i) technical capability; (ii) quality of products and/or services; (iii) reputation in meeting production schedules; (iv) services charges; and (v) past compliance records. We maintain a list of qualified employment agents approved by our management. We source from approved service providers. We may enter into outsourcing contract with approved employment agents, which specifies our requirements and specifications of services and/or products expected. We assess the performance of employment agents from time to time. We may inspect or perform sample testing on the services and/or products and compare with our required specifications as quality check to ensure the quality of works performed by our outsourced factory workers fulfils our requirements.

Outsourced factory workers for our PC component production lines are generally responsible for low-skilled labour-intensive procedures. They work under close supervision of our production and project managers. New factory workers will receive initial training as well as on-the-job training to ensure operating procedures and safety protocols are understood and adhered to.

## LICENCES AND PERMITS

Our PRC Legal Advisers have confirmed that we have obtained all necessary approvals, consents, registrations, licences and permits for all of our operations and are within their respective effective periods during the Track Record Period and as at the Latest Practicable Date. Furthermore, our Directors have confirmed that our Group has not experienced any failure in applying for renewal of the following approvals, consents, registrations, licences and permits since establishment. The following table sets forth details of the material licences and permits applicable to our operations:

| Licences/Permits | Awarding authority | Scope | Holder | Effective period |
|---|---|---|---|---|
| Fujian Province Pollutant Discharge Permit (福建省排污許可證) | Xiamen Environmental Protection Bureau Jimei Branch (廈門市環境保護局集美分局) | Water | Zhixin Construction Material | 10 November 2015 to 9 November 2020 *(Note)* |
| Fujian Province Pollutant Discharge Permit (福建省排污許可證) | Xiamen Jimei District Ecology and Environmental Branch (廈門市集美區生態環境局) | Air | Zhixin Construction Technology | 30 August 2019 to 29 August 2022 |
| Construction Enterprise Qualification Certificate (建築業企業資質證書) | Xiamen Construction Bureau (廈門市建設局) | Professional Contracting of Ready-mixed Concrete | Zhixin Construction Material | 23 June 2016 to 22 June 2021 |
| Food Business Licence (食品經營許可證) | Market and Quality Supervision Commission of Jimei District, Xiamen (集美區市場監督管理局) | Hot food production and sale | Zhixin Construction Material | 20 December 2016 to 19 December 2021 |
| Food Business Licence (食品經營許可證) | Market and Quality Supervision Commission of Jimei District, Xiamen (集美區市場監督管理局) | Hot food production and sale | Zhixin Construction Technology | 24 January 2019 to 26 February 2022 |

*Note:* As advised by the PRC Legal Advisers, according to the Classification Management Catalog of Pollutant Discharge Permits for Stationary Sources of Pollution (2019 Edition) (《固定污染源排污許可分類管理名錄(2019年版)》), pollutant discharging units that are subject to registration and administration, such as Zhixin Construction Material, do not need to apply for a pollutant discharging permit, but should fill in a pollutant discharging registration form on the National Platform for the Management of Pollutant Discharging Permits (全國排污許可證管理信息平台). Zhixin Construction Material has filled in the pollutant discharging registration form, which is valid from 2 November 2020 to 1 November 2025, on the National Platform for the Management of Pollutant Discharging Permits on 2 November 2020.

## CERTIFICATIONS

The following table sets forth certain certifications with respect to processing and quality control during the Track Record Period and as at the Latest Practicable Date:

| Nature | Certification | Awarding organisation or authority | Holder | Year of grant | Expiry date |
|---|---|---|---|---|---|
| Occupational Health and Safety Management System Certification (職業健康安全管理體系認證證書) | OHSAS 18001 | China Quality Mark Certification Group Co., Ltd. (方圓標誌認證集團) | Zhixin Construction Technology | 2017 | 14 November 2023 |
| | | | Zhixin Construction Material | 2018 | 26 November 2021 |
| Environmental Management System Certification (環境管理體系認證證書) | ISO 14001 | China Quality Mark Certification Group Co., Ltd. (方圓標誌認證集團) | Zhixin Construction Technology | 2017 | 14 November 2023 |
| | | | Zhixin Construction Material | 2018 | 26 November 2021 |
| Quality Management System Certification (質量管理體系認證證書) | ISO 9001 | China Quality Mark Certification Group Co., Ltd. (方圓標誌認證集團) | Zhixin Construction Technology | 2017 | 14 November 2023 |
| | | | Zhixin Construction Material | 2018 | 28 February 2024 |
| Energy Management Systems Certificate (能源管理體系認證證書) | ISO 50001 | China Quality Mark Certification Group Co., Ltd. (方圓標誌認證集團) | Zhixin Construction Technology | 2020 | 15 December 2022 |
| Work Safety Standardisation Certificate (安全生產標準化證書) | N/A | Xiamen Security Production Management Association (廈門市安全生產管理協會) | Zhixin Construction Technology | 2017 | December 2023 |
| | | | Zhixin Construction Material | 2019 | November 2022 |
| "Three Star Rating" Green Building Materials Evaluation Label (三星級綠色建材評價標識證書) | N/A | CTC (中國建材檢驗認證集團股份有限公司) | Zhixin Construction Material | 2019 | 20 November 2022 |

## AWARD AND ACCREDITATIONS

The following table sets forth some of our major recognitions and awards:

| Year of award | Recognitions and awards | Awarding organisation or authority |
|---|---|---|
| 2008–2015 | Excellent Enterprise of the China Concrete Industry (中國混凝土行業優秀企業) | Concrete Branch of China Construction Industry Association (中國建築業協會混凝土分會) |
| 2008 | Excellent Enterprise of the Xiamen ready-mixed Concrete Industry (廈門市混凝土行業優秀企業) | Xiamen Bulk Cement Office and Xiamen Construction Engineering Materials Equipment Association (廈門市散裝水泥辦公室及廈門市建設工程材料設備協會) |
| 2010–2011 | Excellent Enterprise of the Xiamen ready-mixed Concrete Industry (廈門市混凝土行業優秀企業) | Xiamen Bulk Cement Office and Xiamen Construction Engineering Materials Equipment Association (廈門市散裝水泥辦公室及廈門市建設工程材料設備協會) |
| 2011–2016 | Model Enterprise of Green Production of the China Concrete Industry (中國混凝土行業綠色生產示範企業) | Concrete Branch of China Construction Industry Association (中國建築業協會混凝土分會) |
| 2015 | Member of the China Concrete and Cement-based Products Association (中國混凝土與水泥製品協會會員) | China Concrete and Cement-based Products Association (中國混凝土與水泥製品協會) |
| 2015 | Member of the Fujian Engineering Construction Quality Security Association Detection Branch (福建省工程建設質量安全協會檢測分會會員) | Fujian Engineering Construction Quality Security Association Detection Branch (福建省工程建設質量安全協會檢測分會) |
| 2016 | Advanced Enterprise for Water Conservation (節水型先進企業(單位)) | Xiamen Construction Bureau (廈門市建設局) |
| 2016–2017 | Excellent Enterprise of the China Concrete Industry (中國混凝土行業優秀企業) | China Northeast Architectural Design & Research Institute Co., Ltd. (中國建築東北設計研究院有限公司) |
| 2017 | Excellent Enterprise (優秀企業) | The Branch Concrete of Fujian Construction Industry Association (福建省建築業協會混凝土分會) |
| 2017 | Member of Fujian Provincial Building Industrial Association (福建省建築產業現代化協會會員) | Fujian Provincial Building Industrial Association (福建省建築產業現代化協會) |

| Year of award | Recognitions and awards | Awarding organisation or authority |
| --- | --- | --- |
| 2017–2018 | Model Enterprise of Green Production of the China Concrete Industry (中國混凝土行業綠色生產示範企業) | Model Enterprise of Green Production of the China Concrete Industry Evaluation Committee (中國混凝土行業綠色生產示範企業評審委員會) |
| 2018 | Member of Xiamen Building Materials Industry Association (廈門市建築材料行業協會會員) | Xiamen Building Materials Industry Association (廈門市建築材料行業協會) |
| 2018 | Xiamen Innovative Brand (改革開放四十周年廈門創新品牌) | Xiamen Association of Commerce Chamber (廈門市商業聯合會) |
| 2018 | Member of China Municipal Engineering Association Utility Tunnel Construction and Underground Space Utilisation Committee (中國市政工程協會綜合管廊建設及地下空間利用專業委員會會員) | China Municipal Engineering Association Utility Tunnel Construction and Underground Space Utilisation Committee (中國市政工程協會綜合管廊建設及地下空間利用專業委員會) |
| 2018 | China Building Material Certification (中國建材認證) | CTC (中國建材檢驗認證集團股份有限公司) |
| 2018–2019 | Excellent Enterprise of the China Concrete Industry (中國混凝土行業優秀企業) | Excellent Enterprise of the China Concrete Industry Evaluation Committee (中國混凝土行業優秀企業評審委員會) |
| 2019 | Xiamen Municipal High and New Technology Enterprise (廈門市市級高新技術企業) | Xiamen Municipal Bureau of Science and Technology (廈門市科學技術局) |
| 2020 | Xiamen New Materials Enterprise (廈門市新材料企業) | Xiamen Municipal Bureau of Industry and Information Technology (廈門市工業和信息化局) |
| 2020 | Fujian Science and Technology Little Giant Leader Enterprise (福建省科技小巨人領軍企業) | Fujian Department of Science and Technology (福建省科學技術廳), Fujian Development and Reform Commission (福建省發展和改革委員會), Fujian Provincial Bureau of Industry and Information Technology (福建省工業和信息化廳) and Fujian Provincial Bureau of Finance (福建省財政局) |

| Year of award | Recognitions and awards | Awarding organisation or authority |
|---|---|---|
| 2020 | Xiamen Science and Technology Little Giant Leader Enterprise (廈門市科技小巨人領軍企業) | Xiamen Municipal Bureau of Science and Technology (廈門市科學技術局), Xiamen Municipal Bureau of Finance (廈門市財政局), Xiamen Development and Reform Commission (廈門市發展和改革委員會), Xiamen Municipal Bureau of Industry and Information Technology (廈門市工業和信息化局) and Xiamen Torch Development Zone for High Technology Industries Management Committee (廈門火炬高技術產業開發區管理委員會) |
| 2020 | Green Factory (綠色工廠) | Energy Conservation and Resources Utilisation Department of the Ministry of Industry and Information Technology of the PRC (工業和信息化部節能與綜合利用司) |
| 2020 | National Prefabricated Construction Industrial Base (國家裝配式建築產業基地) | MOHURD |

## EMPLOYEES

As at the Latest Practicable Date, we had 628 full time employees who were directly employed by our Group of which 627 in the PRC and one in Hong Kong. The following table sets forth the breakdown of our employees by function as at the Latest Practicable Date:

| Employee (by function) | As at the Latest Practicable Date |
|---|---|
| General management | 14 |
| Production | 168 |
| Transportation | 176 |
| Construction and installation | 41 |
| Procurement | 30 |
| Quality control, laboratory and design | 95 |
| Technical | 19 |
| Sales and marketing | 15 |
| Finance and administration | 70 |
| **Total** | 628 |

### Recruitment, remuneration and training policies

We generally recruit our employees from the open market by placing recruitment advertisements. We offer competitive remuneration packages to our employees. Our Directors believe that continuous education and training are important to maintain the quality of us. We arrange new and current staff members to attend training courses to ensure their competence and to keep them abreast of the latest developments and best practices in the industry to enhance their work performance. For the Track Record Period, our total staff costs were approximately RMB41.9 million, RMB53.4 million, RMB54.6 million and RMB52.2 million, respectively.

Our Directors consider that we have maintained good relationships with our employees. We have not experienced any significant problems with our employees or any disruptions to our operations due to labour disputes nor have we experienced any difficulties in the recruitment or retention of experienced staff or skilled personnel during the Track Record Period and as at the Latest Practicable Date.

## OCCUPATIONAL HEALTH AND SAFETY

Our Group is committed to our health and safety standards and regularly review our systems to ensure that they are adequate for our business operations. Under our integrated management system, we are awarded with the OHSAS 18001:2007 certification for our occupational health and safety system.

We regard occupational health and safety as one of our important social responsibilities, and thus we lay significant emphasis on safety control to minimise work-related accidents. Our business operations involve mechanical processes, use of electricity and heavy equipment, welding, heavy lifting, loading and transportation process. As a result, our employees and the general public may face risks of various occupation-related accidents and injuries. We have in place safety guidelines and operating manuals setting our safety measures for our operations, including amongst others, machinery and equipment operations, fire prevention, traffic safety, construction site safety and other work-related injury prevention procedures.

Management personnel of each department is responsible to coordinate workplace safety procedures in their own department. We conduct equipment maintenance on a regular basis to ensure they operate smoothly and safely. Safety-related inspection is carried out on a monthly basis to (i) oversee the implementation of the safety measures at our production plants; (ii) critically examine all factors, such as processes, procedures and equipment, that may potentially cause injury or fatality; and (iii) identify where action is necessary to control hazards.

In order to enhance our employees' awareness on occupational safety issues, we equip our employees with sufficient occupational safety knowledge, by providing safety orientation for all new employees and regular safety training for workers performing duties for our manufacturing, delivery and assembly processes.

During the Track Record Period and up to the Latest Practicable Date, as advised by our PRC Legal Advisers and based on the certification issued by relevant safety production supervision, (i) we have not been fined by relevant departments due to any significant safety incident and (ii) there were no other material work-related injuries or fatalities. We were not subject to any material claims for personal or property damages as at the Latest Practicable Date.

**Precautionary measures for COVID-19**

Effective since February 2020, our Group has implemented epidemic prevention contingency plan setting forth epidemic prevention measures in accordance to local regulatory requirements and with reference to international guidelines issued by the World Health Organization. Our Group has also established CMG consisting of executive Directors and senior management to carry out and monitor the key epidemic prevention measures and resulting situation.

Key epidemic prevention measures implemented include, but not limited to:

- fulfilment of all required epidemic prevention conditions imposed by the government for resuming our operation;
- providing sufficient epidemic prevention supplies (e.g. masks, sanitiser) for our staff in accordance to government's requirement;
- implementation of necessary epidemic prevention measures at our workplace in accordance to local authorities' guidelines in Xiamen, including but not limited to strictly applying 14-days observation periods of staff before they can be re-admitted into our workplace (for those classified in higher epidemic risk category), strongly requiring temperature testing and masks wearing by all staff and incoming guests and frequently sanitising our workplace;
- disengaging all off-site work if our business partners do not meet reasonable epidemic prevention requirements; and
- setting up emergency dealing and reporting procedures and contact information for suspicious and confirmed cases.

We believe such measures are effective in reducing the risk of spreading of COVID-19 among our employees. As at the Latest Practicable Date, none of our Directors and/or employees had been suspected or confirmed to have contracted the COVID-19.

## ENVIRONMENTAL COMPLIANCE AND POLLUTION CONTROLS

**Our environmental protection policy and risks identification**

Our Group has established environmental protection policy that targets to manage the environmental impact of our business operation, to demonstrate our commitment to operate our business with no significant and adverse impact on the environment and to ensure that our operations are in compliance with the relevant environmental requirements pursuant to the laws of the PRC.

Our environmental safety and health monitoring team, which is under our administrative department, is responsible for monitoring the implementation of our environmental protection policy and reviewing our environmental protection targets, as well as managing and assessing environmental risks, and reporting to our chief operating officer for the environmental affairs. Our chief operating officer is responsible for overseeing the environmental protection matters to ensure compliance with the environmental protection laws and regulations. We have engaged a qualified law firm in PRC for routine legal advisory service to advise us on relevant laws and regulations whenever necessary.

We have internal manuals which specify the standards of our environmental protection and to identify various environmental risks. We update such internal manuals and our environmental protection policy from time to time for full compliance with the changing standards on environmental protection. We perform regular on-site inspections at our production plants and internal assessments for environmental risks to ensure that our environmental protection policy is duly implemented. Our environmental safety and health monitoring team carry out regular environmental inspections and assessments regarding environmental matters in accordance to our internal manuals to ensure the prescribed actions and targets are fulfilled by our employees. Environmental data is collected and reported in the environmental inspection reports. In the event of any incidents identified during the environmental inspections, we will carry out the necessary investigations and rectification actions accordingly.

Our Group is committed to environmental responsibility in all aspects of our business, from procurement of raw materials to treatment of wastes. Under our integrated management system, we are awarded with the ISO 14001:2015 certification for our environmental management system. We regard ourselves as a green manufacturer of construction material and take environmental protection seriously as we endeavour to produce environmental-friendly products.

**Impact of environmental risks on our Group**

Our operations are subject to certain environmental protection laws and regulations promulgated by the PRC Government, such as Environmental Protection Law of the PRC (《中華人民共和國環境保護法》). In compliance with the applicable PRC laws and regulations, our Group had obtained all required approvals for the permission of waste water discharge, noise and air pollutants emission, and solid waste disposal for our ready-mixed concrete in RMC Plant and PC components production in PC Plant and Jimei Workshop, respectively. A summary of the environmental protection laws and regulations applicable to our Group is set out in the section headed "Regulatory overview — V. Environmental protection" of this prospectus. If we fail to comply with the applicable environmental protection laws and regulations, we may be subject to fine or penalty. The laws and regulations on environmental protection may change from time to time and any change may increase our cost of compliance and place burden on our operations when we have to comply with it. Please refer to the paragraph headed "Risk factors — Risks relating to our business and industry — We are subject to environmental protection laws and regulations and may be exposed to potential costs for environmental compliance. Our failure to comply with environment regulations may subject us to penalties." for details.

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, our Group had complied with the relevant environmental laws and regulations in all material respect and we were not subject to any material fines, penalties or compensation as a result of violation of the applicable environmental laws and regulations.

**Environmental risks identification, assessment, and management**

Our Directors consider that the major environmental risks of our operations include (i) waste wash water, (ii) dust, (iii) noise pollution and (iv) solid waste. We identify and assess environmental risks according to the relevant legal requirement and environmental consequence. We have adopted the following measures to identify, assess, and manage risks that may arise from these aspects.

**For ready-mixed concrete production**

During our production process, we aim to produce in an environmental-friendly manner. Zhixin Construction Material was recognised as a Model Enterprise for Green Production by the Concrete Branch of China Construction Industry Association for the years from 2011 to 2016 and by the Model Enterprise of Green Production of the China Concrete Industry Evaluation Committee for the years from 2017–2018, and an Advanced Enterprise for Water Conservation by the Xiamen Construction Bureau in 2016. Moreover, since November 2016 our ready-mixed concrete products have been accredited with the highest "Three-Star Rating" for Green Building Material Evaluation Label by the CTC. During the Track Record Period, we have adopted the following procedures to make our products and production processes environmental-friendly and to manage risks that may arise from the following aspects:

*Waste wash water recycling*

Waste wash water can generally be collected during the recycling of concrete and during cleaning of batching plant and equipment. We handle our discharge of waste wash water in accordance with the "Integrated Wastewater Discharge Standard" (GB8978-1996), jointly issued by AQSIQ and MEE. We mainly acquire our waste wash water from rinsing (i) the tank of our mixer truck after each delivery; (ii) mixing equipment; and (iii) trucks and transporters of raw material. The collected waste wash water will then be discharged to our precipitation tanks set up in our production facility for sedimentation. The precipitation process of waste wash water will separate the aggregates and PFA from other non-recyclable materials for reuse in our production process.

*Dust*

Dust is generated mainly from the loading process of aggregates, the unloading of powder and particle materials, the batch charging process and the agitation of ground dust. We minimise our PM level in the atmosphere of our batching plant in accordance with the "Emission Standard of Air Pollutants for Cement Industry" (GB4915-2013), jointly issued by AQSIQ and MEE.

To reduce dust generated from the loading process of aggregates, our warehouses are installed with automatic sprinkler systems and utilise a dust tight seal design to confine the amount of dust being released into the atmosphere. We also require our trucks to be covered when loaded with aggregates. We designate specific personnel to regularly check the effectiveness of the dust removal devices in the tubular powder material bins to ensure that the dust removal devices are operating normally and that no dust is discharged. We also designate specific personnel to manage raised dust during our production process, by adopting methods such as spraying water and covering the dust source or spraying covering agents.

*Noise pollution*

Noise may be generated during the loading and mixing phase of our production of ready-mixed concrete. We minimise our noise emission in accordance with the "Emission Standard for Industrial Enterprises Noise at Boundary" (GB12348-2008), jointly issued by AQSIQ and MEE. We tend to select low noise generating equipment and machinery for our production whenever possible in order to minimise noise emission.

*Solid waste*

Solid waste such as obsolete concrete blocks may be generated from our production process. We handle our solid waste in accordance with the "Standard for Pollution Control on the Storage and Disposal Site for General Industrial Solid Waste" (GB18599-2001), jointly issued by AQSIQ and MEE. We store the solid wastes before they were transferred to a qualified third party for disposal in order to prevent pollution of the environment caused by industrial solid wastes.

**For PC component production**

Our PC component production does not operate in a highly polluting industry and our production technologies and processes do not involve heavy pollution. However, we regard environmental protection as an important corporate responsibility and therefore place great emphasis on environmental protection measures and policies in our daily operations and have established and implemented various internal control measures regarding environmental compliance and pollution controls.

According to the "Guiding Opinions of the General Office of the State Council on Vigorously Developing Prefabricated Buildings" (《國務院辦公廳關於大力發展裝配式建築的指導意見》) promulgated by the General Office of the State Council on 27 September 2016, the use of PC components in construction is highly encouraged. In response to the increasing environmental friendly building demands following the guiding opinion, our Group expanded into the PC components market and commenced operation in the second half of 2017, in part of our effort to facilitate industrial energy and resource conservation as well reducing the pollution caused by construction activities. Moreover, our PC component products have been certified by the CTC in April 2018 as "Green Building Materials & Products".

During the Track Record Period, the aggregate annual costs incurred by our Group on environmental compliance, mainly included depreciation and staff costs, were approximately RMB0.4 million, RMB0.7 million, RMB0.8 million and RMB0.7 million, respectively.

**Emissions and consumption**

***Air emission***

The table below sets forth a breakdown of our gas emission during the Track Record Period:

| | Year ended 31 December | | | Ten months ended 31 October |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 |
| | (tonnes) | (tonnes) | (tonnes) | (tonnes) |
| **Gas emissions** | | | | |
| Nitrogen oxides[(1)] | 15.82 | 16.03 | 14.82 | 13.33 |
| Sulphur oxides[(1)] | 0.03 | 0.03 | 0.03 | 0.03 |
| PM[(1)] | 1.14 | 1.16 | 1.07 | 0.96 |
| | 16.99 | 17.22 | 15.92 | 14.32 |
| Emission density[(2)] | 0.04 | 0.03 | 0.03 | 0.02 |

*Notes:*

1. Refers to the gas emissions resulting from the consumption of fuel in our Group's daily operations, including our vehicles and equipment, taking into account the relevant emission rates and driving distances, which exclude external logistics service providers (i.e. flatbed trucks for the delivery of PC components).

2. Refers to the emission of gas per million of revenue in the corresponding year/period.

Our Group emits gas amid our daily operations from the consumption of gaseous fuels, such waste gas mainly include pollutants such as nitrogen oxides ($NO_x$) and sulfur oxides ($SO_x$) and respiratory suspended particles such as PM. During the Track Record Period, our Group emitted a total of approximately 16.99 tonnes, 17.22 tonnes, 15.92 tonnes and 14.32 tonnes of waste gas, respectively, and maintained a stable emission intensity. The intensity of our gas emission mainly depends on the driving distances incurred by our logistics activities from our truck fleet during the corresponding period.

The increase in air emission for the year ended 31 December 2018 is mainly due to the increase in sales volume of ready-mixed products from approximately 1,083,949 $m^3$ for the year ended 31 December 2017 to approximately 1,086,309 $m^3$ for the year ended 31 December 2018. The decrease in air emission for the year ended 31 December 2019 is mainly due to the decrease in sales volume of ready-mixed products from approximately 1,086,309 $m^3$ for the year ended 31 December 2018 to approximately 1,025,734 $m^3$ for the year ended 31 December 2019.

The table below sets forth a breakdown of our greenhouse gas emission during the Track Record Period:

| | Year ended 31 December | | | Ten months ended 31 October |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 |
| | (tonnes of $CO_2e$) | (tonnes of $CO_2e$) | (tonnes of $CO_2e$) | (tonnes of $CO_2e$) |
| **Greenhouse gas emission** | | | | |
| Direct emission(1) | 5,330.52 | 5,399.76 | 4,990.40 | 4,541.49 |
| Indirect emission(2) | 3,343.52 | 3,508.67 | 3,617.19 | 3,260.44 |
| | 8,674.04 | 8,908.43 | 8,607.59 | 7,801.93 |
| Emission density(3) | 21.71 | 17.42 | 14.57 | 12.96 |

*Notes:*

1. Refers to the carbon dioxide ($CO_2$) emission, methane ($CH_4$) emission and nitrous oxide ($N_2O$) emission attributed to the consumption of fuel in daily operation, including our vehicles and equipment, which exclude external logistics service providers (i.e. flatbed trucks for the delivery of PC components).

2. Refers to the carbon dioxide ($CO_2$) emission, methane ($CH_4$) emission and nitrous oxide ($N_2O$) emission attributed to the use of electricity by our Group.

3. Refers to the emission of greenhouse gas per million of revenue in the corresponding year/period.

Our Group generates direct and indirect emissions of greenhouse gases due to consumption of fuel and electricity. During the Track Record Period, the total greenhouse gas emission of our Group was approximately 8,674.04 tonnes of carbon dioxide equivalent, 8,908.43 tonnes of carbon dioxide equivalent, 8,607.59 tonnes of carbon dioxide equivalent and 7,801.93 tonnes of carbon dioxide equivalent, respectively.

The increase in direct greenhouse gas emission for the year ended 31 December 2018 is mainly due to the increase in sales volume of ready-mixed products from approximately 1,083,949 $m^3$ for the year ended 31 December 2017 to approximately 1,086,309 $m^3$ for the year ended 31 December 2018. The decrease in direct greenhouse gas emission for the year ended 31 December

2019 is mainly due to the decrease in sales volume of ready-mixed products from approximately 1,086,309 $m^3$ for the year ended 31 December 2018 to approximately 1,025,734 $m^3$ for the year ended 31 December 2019.

The increase in indirect greenhouse gas emission for the year ended 31 December 2018 is mainly due to the increase in production volume from our production facilities from approximately 1,097,808 $m^3$ for the year ended 31 December 2017 to approximately 1,136,025 $m^3$ for the year ended 31 December 2018. The decrease in indirect greenhouse gas emission for the year ended 31 December 2019 is mainly due to the decrease in production volume from our production facilities from approximately 1,136,025 $m^3$ for the year ended 31 December 2018 to approximately 1,118,400 $m^3$ for the year ended 31 December 2019.

***Discharge of dust and solid waste***

The table below sets forth a breakdown of our industrial waste during the Track Record Period:

| | Year ended 31 December | | | Ten months ended 31 October |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** |
| | **(tonnes)** | **(tonnes)** | **(tonnes)** | **(tonnes)** |
| **Industrial waste** | | | | |
| Dust[(1)] | 0.68 | 0.72 | 0.71 | 0.66 |
| Solid waste[(1)] | 326.00 | 345.00 | 338.00 | 302.00 |
| | 326.68 | 345.72 | 338.71 | 302.66 |
| Emission density[(2)] | 0.82 | 0.68 | 0.57 | 0.50 |

*Notes:*

1. Refers to industrial waste discharged during our production.

2. Refers to industrial waste discharged per million of revenue in the corresponding year/period.

Our Group generates non-hazardous industrial wastes, including dust and solid waste during our production process. During the Track Record Period, our Group discharged approximately 326.68 tonnes, 345.72 tonnes, 338.71 tonnes and 302.66 tonnes of industrial waste, respectively, and achieved a stable discharge intensity.

The increase in the discharge of dust for the year ended 31 December 2018 is mainly due to the increase in production volume from our production facilities from approximately 1,097,808 $m^3$ for the year ended 31 December 2017 to approximately 1,136,025 $m^3$ for the year ended 31 December 2018. The decrease in the discharge of dust for the year ended 31 December 2019 is mainly due to the decrease in production volume from our production facilities from approximately 1,136,025 $m^3$ for the year ended 31 December 2018 to approximately 1,118,400 $m^3$ for the year ended 31 December 2019.

The increase in the discharge of solid waste for the year ended 31 December 2018 is mainly due to the increase in production volume from our production facilities from approximately 1,097,808 $m^3$ for the year ended 31 December 2017 to approximately 1,136,025 $m^3$ for the year ended 31 December 2018. The decrease in the discharge of solid waste for the year ended 31 December 2019 is mainly due to the decrease in production volume from our production facilities from approximately 1,136,025 $m^3$ for the year ended 31 December 2018 to approximately 1,118,400 $m^3$ for the year ended 31 December 2019.

***Water consumption***

The table below sets forth a breakdown of our water consumption during the Track Record Period:

| | Year ended 31 December | | | Ten months ended 31 October |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** |
| | **($m^3$)** | **($m^3$)** | **($m^3$)** | **($m^3$)** |
| **Water consumption** | | | | |
| For production use[(1)] | 140,590 | 141,890 | 142,600 | 128,590 |
| Consumption density[(2)] | 351.90 | 277.53 | 241.37 | 213.55 |

*Notes:*

1. Refers to water consumed during our production process.

2. Refers to water consumption per million of revenue in the corresponding year/period.

During the Track Record Period, our Group consumed approximately 140,590 $m^3$, 141,890 $m^3$, 142,600 $m^3$and 128,590 $m^3$ of water, respectively, during our production process and we did not encounter any problems in sourcing water that is fit for purpose.

The increase in the water consumption for the year ended 31 December 2018 is mainly due to the increase in production volume of our PC components from approximately 4,623 $m^3$ for the year ended 31 December 2017 to approximately 45,476 $m^3$ for the year ended 31 December 2018. The increase in the water consumption for the year ended 31 December 2019 is mainly due to increase in production volume of our PC components from approximately 45,476 $m^3$ for the year ended 31 December 2018 to approximately 84,428 $m^3$ for the year ended 31 December 2019.

**Resources consumption**

We aim to carry out our production in an environmental-friendly manner. Electricity and water are consumed in our production process and minimising resources consumption is one of the key considerations in our operations. Our Group advocates the concept of green office and encourages our employees to reduce resources consumption, including the promotes of electricity-saving such as switch off lights in public areas during non-working hours, minimise water consumption by using water-saving appliances, and reduce waste generation through the use of recycling bins, so as to minimise the impact on the environment.

**Supply chain management**

Our Group places high importance on the management of potential environmental and social risks of our supply chain when we procure raw materials. As at 31 December 2017, 31 December 2018, 31 December 2019 and 31 October 2020, we had a total of 297, 362, 284 and 188 raw material suppliers, respectively, all of which are located in Fujian Province. Amongst our supply chain consisted of, among others, cement manufacturers, rebar manufacturers, quarry miners and river sand miners. Our Group has adopted a stringent and standardised procurement system and a supplier selection process which also take environmental and social risk control of suppliers into account in order to regulate the procurement system and control cost effectively and enhance the transparency of procurement management.

*Supplier assessment*

Our Group expects our suppliers to fulfill the standards in terms of environment, quality, society, corporate governance as well as commercial ethics. We require our suppliers to (i) obtain and maintain valid permits, licenses, government approvals and certifications or proof of compliance of relevant rules and regulations, including those related to environmental protection (where applicable) required by the relevant PRC laws, rules and regulations; and (ii) deliver positive influences on the environmental and social matters, the scope of which mainly includes operational compliance, employees' health and workplace safety issues, social responsibility, commercial ethics and environmental protection. Our Group will select suppliers with no material non-compliance or unethical behaviours. We will consider to terminate or not to renew (as the case may be) the supply contract with the relevant enterprises or suppliers that may cause or have caused material environmental, social and governance impacts. Through the aforesaid assessment process, we aim to minimise potential environmental and social risks of our supply chain.

Our Directors confirm that, during the Track Record Period, none of our major suppliers were subject to any material fines, penalties or compensation as a result of violation of the applicable environmental laws and regulations.

### ESG Working Group

Upon Listing, our Board will be responsible for devising strategies and targets in relation to environmental, social and governance ("**ESG**"). We will establish a team of four members which shall comprise the chairman of the audit committee, the chief executive officer, the chief operating officer (or chief financial officer) and an executive Director ("**ESG Working Group**"). The ESG Working Group shall be primarily responsible for, among others, updating our ESG policies and monitoring the effectiveness of implementation, ensuring our compliance with the relevant laws and regulations in these aspects, evaluating significant ESG matters through the conduct of stakeholders engagement, and reviewing and adopting the materiality and climate change impact assessments and reports in respect of our Group's impact on health, safety, environment and society in accordance with the requirements under Appendix 27 to the Listing Rules.

## INSURANCE

During the Track Record Period, we maintain insurance to cover damage of our vehicles. We also purchase pension insurance, medical insurance, employment insurance, work injury insurance, maternity insurance and personal injury insurance for our employees.

Consistent with what we believe to be customary practice in China, we do not carry fire, flooding or other property insurance for our production facilities, or any third-party liability insurance to cover claims in respect of property or environmental damage arising from accidents on our properties or relating to our properties or operations, nor do we carry any business interruption insurance or key-man life insurance on our key employees. For details, please refer to the section headed "Risk factors — Risks relating to our business and industry — Our insurance policies may not be sufficient to cover damage or liabilities from claims and litigation and our insurance premium may increase from time to time".

Our Directors believe that the current insurance policies taken out by us provide sufficient coverage of the risks to which we may be exposed and are in line with the industry norm. During the Track Record Period, our total insurance premiums amounted to approximately RMB2.0 million, RMB2.0 million, RMB1.8 million and RMB1.3 million respectively. As at the Latest Practicable Date, we have not received any material insurance claims against us.

## INTELLECTUAL PROPERTY

We rely on a combination of patents, trademarks and domain name registrations to establish and protect our intellectual property rights. We sell our products under the "Zhixin" brand name, which has been registered with the PRC trademark office of SAMR or National Intellectual Property Administration of the PRC (國家知識產權局) and the Hong Kong Intellectual Property Department. We believe this brand name is an important asset of our business. We have been granted 62 patents by the National Intellectual Property Administration of the PRC and have one patent application pending in the PRC.

Further details of our intellectual property rights are set forth in the paragraph headed "Further information about the business of our company — 8. Intellectual property rights of our Group" in Appendix VI to this prospectus.

As at the Latest Practicable Date, we had not engaged in, and were not aware of, any litigation or legal proceedings for the violation of intellectual property rights or any material violation.

## RESEARCH AND DEVELOPMENT

Our research and development are conducted by our design team. As at the Latest Practicable Date, our Group's design team had ten staff.

Our research and development are initiated from meeting the customers' demand of product design and focus on improving the efficiency of production process of existing products. The research and development are generally conducted based on the existing machines and equipment which are available in our plants.

We participated in the formulation of one national standard for concrete industry and one provincial standard for concrete and PC component industry respectively as at the Latest Practicable Date. The below sets forth the standards we have participated in:

### National standard

Ground Granulated Blast Furnace Slag Used for Cement, Mortar and Concrete (《用於水泥、砂漿和混凝土中的粒化高爐礦渣粉》GB/T18046-2017)

### Provincial standard

Technical Specification for Ground Granulated Blast Furnace Slag Applied in Concrete of Fujian (《福建省粒化高爐礦渣粉在水泥混凝土中應用技術規程》DBJ/T13-66-2015)

Technical Specification for Composite Monolithic Precast Utility Funnel Engineering (《疊合整體式預製綜合管廊工程技術規程》DB23/T2278-2018)

Our technical department is also responsible for patent application. If a new or altered technical process is found to improve the production technology and meet the patent application requirements, we may apply for a patent. As at the Latest Practicable Date, our Group has owned 62 patents. For details of patents registered by our Group, please refer to paragraphs headed "Intellectual property" in this section.

During the Track Record Period, the aggregate annual costs incurred by our Group on research and development, including staff costs and depreciation, were approximately RMB0.9 million, RMB0.7 million, RMB0.9 million and RMB0.8 million, respectively.

## COMPETITION

The concrete industry in the PRC is directly affected by geographical location. Our Group's operation is primarily focused on surrounding areas within proximity of Xiamen, we consider only those companies with a presence in Xiamen as our primary competitors. According to the Frost & Sullivan Report, we are the largest ready-mixed concrete and PC components manufacturer and supplier in Xiamen in terms of production volume in 2019 with market share of approximately 7.2% and 88.8% respectively. The ready-mixed concrete market in Xiamen is relatively fragmented, with top five market participants occupying approximately 26.6% of market share in terms of production volume in 2019. We do not consider most of the market participant to be a competitive threat to our Group as we operate at a larger scale. The PC components market in Xiamen is highly concentrated, with only two other competitors occupying approximately 11.2% of market share in terms of production volume in 2019.

Due to high requirements of (i) technical research and production management ability; (ii) amount of time, capital and effort in order to comply with various environment regulations; (iii) good system management capabilities in production and manufacturing and; (iv) capital strength for fixed asset investment, new entrants typically face high entry barriers because of high substantial amounts of investments and efforts required to compete with the existing players in the market. Our Directors believe that our ability to maintain a stable supply of high-quality products and our efficiency in managing production, is one of the traits that distinguishes us from our competitors and allow us to compete effectively with our major competitors in the ready-mixed concrete and PC components production industry.

## PROPERTIES

### Owned properties

As of the Latest Practicable Date, we owned two parcels of land and the buildings erected thereon and one property in Fujian Province of the PRC in connection with our business operations for production, storage, offices, investment and ancillary purposes, including (i) a parcel of land with a total site area of approximately 36,411.7 sq.m. and the buildings erected thereon with a total gross floor area of approximately 8,068.8 sq.m. situated at No. 55 Guankou Avenue, Jimei District, Xiamen, Fujian Province, the PRC, where our RMC Plant operates; (ii) a parcel of land with a site area of approximately 52,221.8 sq.m. and the buildings erected thereon with a total gross floor area of approximately 23,630.0 sq.m. situated at No. 77 Houshantou Road, Jimei District, Xiamen, Fujian Province, the PRC, where our PC Plant operates; and (iii) a property with a total gross floor area of approximately 154.4 sq.m. situated at Shop No. D120 of Block 5, Wanda Plaza, No. 2 Jinjiang Avenue, Jiaomei Town, Zhangzhou Taiwan Merchant Investment Zone, Zhangzhou, Fujian Province, the PRC.

As at the Latest Practicable Date, our Group held two investment properties namely (i) a property with gross floor area of approximately 154.4 sq.m., which is currently vacant and (ii) certain unused area of our RMC Plant with a total site area and gross floor area of approximately 18,786.6 sq.m. and 2,721.7 sq.m., respectively, which includes a parcel of land and a six-storey office building and has been leased to an Independent Third Party, namely China Railway 24th Bureau Group Co., Ltd. (中鐵二十四局集團有限公司) ("**China Railway 24th Bureau**") since 2014, for their production and office use respectively. The commercial rationale for our Group to lease the aforesaid unused area of our RMC Plant to China Railway 24th Bureau instead of utilising it for our past expansion and future expansion as discussed in the subsection headed "Business strategies" in this section ("**Future Expansion**"), are as follows:

(i) China Railway 24th Bureau has been a customer of our Group since 2008 and was our fourth, first and fifth largest customer in terms of revenue for the three years ended 31 December 2019 respectively. China Railway 24th Bureau is a SOE principally engaged in, among others, construction contracting works for railway, municipal public utilities and buildings in the PRC. Our Group considers China Railway 24th Bureau as one of the leading construction contractors in Xiamen and our lease arrangement with them will further strengthen our long-term business relationship;

(ii) the total site area of approximately 18,786.6 sq.m. was insufficient to meet our Group's planned operation demand for our PC component expansion, given the total site area of our current PC Plant is approximately 52,221.8 sq.m.;

(iii) the duration in respect of our current lease agreement with China Railway 24th Bureau is six years from 1 January 2017 to 31 December 2022, and pursuant to a clause in the lease agreement, our Group may subject to compensation charge of approximately RMB39.0 million for early termination; and

(iv) greater cost savings and efficiency can be achieved by establishing our Future Expansion within our PC Plant as compared to the unused area of our RMC Plant in view of the following:

   (a) sharing of existing PC component production related ancillary facilities and manpower at our PC Plant; and

   (b) the six-storey office building with a gross floor area of approximately 2,721.7 sq.m. on the unused area of our RMC Plant will need to be demolished prior to reconstruction.

As at the Latest Practicable Date, our land and buildings with a total gross floor area of approximately 88,633.5 sq.m. and 31,698.8 sq.m., respectively, are pledged in favour of a bank in the PRC to secure certain bank borrowings. As advised by our PRC Legal Advisers, during the term of pledge, the transferal of the pledged land and buildings is subject to the consent of the pledgee.

As advised by our PRC Legal Advisers, we had obtained all necessary land use right certificates and building ownership right certificates for our land use rights and buildings. We are entitled to occupy, use, sell, transfer, lease, charge or dispose of such land use and/or properties rights in accordance with the applicable PRC laws. For further details with respect to all of our property interests, please refer to the valuation report as set out in Appendix IV "Property valuation report" to this prospectus.

## Leased properties

The following table sets forth the summary of properties leased by us in the PRC as at the Latest Practicable Date:

| No. | Location | Usage | Term | Tenancy period | Monthly rent | Approximate site area (sq.m.) | Approximate gross floor area (sq.m.) |
|---|---|---|---|---|---|---|---|
| 1 | The plant and its east side of No. 382 Sanshe Road, Guankou Town, Jimei District, Xiamen, Fujian Province, the PRC | Production and storage | 5 years | 1 June 2019– 31 May 2024[(Note)] | RMB380,000 (from 1 June 2019 to 31 May 2022); RMB399,000 (from 1 June 2022 to 31 May 2024) | 13,250.0 | 12,360.4 |
| 2 | The north side of No. 77 Houshantou Road, Guankou Town, Jimei District, Xiamen, Fujian Province, the PRC | Storage | 1 year | 20 June 2020– 19 June 2021 | RMB84,301 | 16,025.4 | — |
| 3 | The east side of No.77 Houshantou Road, Guankou Town, Jimei District, Xiamen, Fujian Province, the PRC | Storage | 1 year | 1 September 2020– 31 August 2021 | RMB59,861 | 11,402.0 | — |
| 4 | In between the north side of Jimei Road, the south side of Fuxia Railway Bridge and the east side of Zone B of Software Park Phase III, Jimei District, Xiamen, Fujian Province, the PRC | Storage | 3 years | 18 June 2020– 17 June 2023 | RMB79,250 (from 18 June 2020 to 17 June 2022); RMB105,667 (from 18 June 2022 to 17 June 2023) | 46,666.9 | — |
| 5 | The northwest side of the intersection of Guankou Road and Jinghu South Road, Jimei District, Xiamen, Fujian Province, the PRC | Storage | 3 years | 1 July 2020– 30 June 2023 | RMB37,000 (from 1 July 2020 to 30 June 2022); RMB49,333 (from 1 July 2022 to 30 June 2023) | 16,666.8 | — |

*Note:* Upon the expiry of the tenancy period, our Group has the right of first refusal to renew the lease on same terms and conditions, for so long the landlord continues to lease out the underlying leased property.

As of the Latest Practicable Date, we leased and occupied five parcels of land and one property in Fujian Province of PRC from Independent Third Parties with an aggregate site area and gross floor area of approximately 104,011.1 sq.m. and 12,360.4 sq.m., respectively, for production and storage purposes. As advised by our PRC Legal Advisers, the lease in respect of those land and properties in the PRC entered into between us and the lessors does not violate the explicit mandatory and prohibitive provision of laws and administrative regulations of the PRC. All tenancy agreements for building properties have been registered with the relevant PRC authorities.

## LITIGATION AND CLAIMS

During the Track Record Period, we are subject to legal proceedings, investigations and claims arising in the ordinary course of our business. Save as disclosed in the paragraph headed "Non-compliance" in this section, our PRC Legal Advisers have advised that our Group has complied with relevant laws and regulations in all material aspects during the Track Record Period. As at the Latest Practicable Date, there were no material litigation or arbitration proceedings or administrative proceedings pending or threatened against us or any of our Directors initiated by any government authorities or third parties which would have a significant adverse effect on our financial condition, results of operation or reputation.

## NON-COMPLIANCE

During the Track Record Period, we did not make contribution in full in respect of social insurance and housing provident fund for 1,299 and 226 of our employees (including existing and former employees), respectively.

### Reasons for the non-compliance

The non-compliance is mainly caused by (i) our finance department at the relevant time being not fully familiar with the relevant regulatory requirements and made the social insurance and housing provident fund contribution based on local minimum wages; and (ii) certain of our employees were unwilling to make such social insurance contributions.

### Legal consequences including potential maximum penalty

As advised by our PRC Legal Advisers, from 1 July 2011 if an employer fails to pay its social insurance contribution in accordance with the Social Insurance Law of the PRC (中華人民共和國社會保險法), the regulator may order it to pay the overdue amount within the prescribed time limit and impose an overdue fine equivalent to 0.05% of the overdue amount per day. If the employer still fails to pay within the prescribed time limit, the regulator may impose a fine of one to three times of the overdue amount. If an employer fails to pay its housing provident fund contributions in accordance with the Regulations on the Administration of Housing Provident Fund (住房公積金管理條例), the regulator may order for payment of contribution within the prescribed time limit, failing which the regulator may apply to the People's Court of compulsory enforcement.

Our Directors believe that such non-compliance would not have a material and adverse effect on our business and results of operations, considering that (i) we have obtained letters of confirmation from the Human Resources and Social Security Bureau of Jimei District of Xiamen (廈門市集美區人力資源和社會保障局) dated 9 October 2019, 8 January 2020, 11 June 2020 and 13 July 2020, Human Resources and Social Security Bureau of Xiamen (廈門市人力資源和社會保障局) dated 12 June 2020 and 9 July 2020 and Xiamen Housing Provident Fund Center (廈門市住房公積金中心) dated 21 October 2019, 3 January 2020, 9 June 2020 and 9 July 2020, respectively, confirming that we had not been penalised for violating the laws and regulations for social insurance and housing provident fund contributions. As advised by our PRC Legal Advisers, the Human Resources and Social Security Bureau of Jimei District of Xiamen, Human Resources and Social Security Bureau of Xiamen and Xiamen Housing Provident Fund Center have the authority and are competent to make the aforesaid confirmations; (ii) as of the Latest Practicable Date, we had not received any notification from the relevant PRC authorities requiring us to pay material shortfalls with respect to social insurance and housing provident funds; (iii) we had not been subject to any material administrative penalties during the Track Record Period and up to the Latest Practicable Date; (iv) we were not aware of any material employee complaints nor were involved in any material labour disputes with our employees with respect to social insurance and housing provident funds; (v) we have made provisions in the amount of approximately RMB2.7 million, RMB2.6 million, RMB2.0 million and RMB1.1 million during the Track Record Period for the unpaid amount of social insurance and housing provident fund contributions respectively; (vi) our Controlling Shareholders have undertaken to, pursuant to the terms and condition of the Deed of Indemnity, indemnify us against any losses and penalties which we may suffer as a result of the failure of our Group to comply with relevant laws, rules and regulations concerning social insurance and housing provident fund contributions.

As advised by our PRC Legal Advisers, based on the above reasons, the likelihood that we would be subject to any substantial financial loss for any shortfall for social insurance and housing provident fund during the Track Record Period is low.

**Internal control and rectification measures**

We have taken the following rectification measures to prevent future occurrences of such non-compliances:

- *Enhanced internal control policy.* Established an enhanced internal control policy, setting out proper procedures and standards with respect to social insurance and housing provident fund contribution in compliance with relevant PRC laws and regulations, which had been circulated to all employees;

- *External regulatory counselling.* Engaged a PRC legal counsel to advise us on the relevant laws and regulations or related updates regularly, in an interval no less than annually, or whenever there are substantial regulatory changes;

- *Increased compliance awareness.* Allocated a sufficient training budget to ensure our management and staff will receive proper continuous development on matters of corporate governance and compliance, including latest regulatory update of social insurance and housing provident fund contribution;

- *Review.* Established a dual review control which designates and requires our vice financial president and human resource manager to perform a monthly review of the accuracy and completeness of the monthly calculation and payment of insurance and housing provident fund contribution; and

- *Monitoring and reporting.* Delegated our chief executive officer to monitor and review the performance of the relevant internal controls from time to time, receive and review monthly monitoring report from the relevant management and be held accountable for reporting promptly to the Board when potential breaches arise.

We have implemented our enhanced internal control policy on the payment of social insurance and housing provident fund contribution for employees in compliance with relevant laws and regulations since December 2019. As advised by our PRC Legal Advisers, as at the Latest Practicable Date, we were in compliance with the requirements relating to social insurance and housing provident fund contribution in material respects and had made contributions for social insurance in accordance with relevant PRC laws and regulations.

Our Directors are of the view, and the Sole Sponsor concurs, that the historical non-compliant incidents during the Tract Record Period as mentioned above did not involve any dishonesty on the part of our Directors or their occurrence did not cause the Sole Sponsor to cast any doubt on their integrity or competence, and that such non-compliant incidents (i) do not affect our Directors' suitability to act as directors of a listed company under Rule 3.08 and 3.09 of the Listing Rules; and (ii) do not affect our Company's suitability for listing under Rule 8.04 of the Listing Rules.

We had not been involved in any non-compliance matters which, in the opinion of our Directors, resulted or may result in a material impact on our business operation and financial condition during the Track Record Period and up to the Latest Practicable Date.

## INTERNAL CONTROL SYSTEMS AND RISK MANAGEMENT

In preparation for the Listing, we have engaged an independent third party consultant (the "**Internal Control Consultant**") to perform a comprehensive review of our Group's internal control system (the "**Internal Control Review**"). The scope of the Internal Control Review performed by the Internal Control Consultant includes, among other things, controls over revenue and receipt cycle, purchase and payment cycle, production management, inventory and cost management, financial reporting, cash flow, investment and financing management, taxation management, risk management, corporate governance and compliance management. Upon the completion of the Internal Control Review, while the Internal Control Consultant did not identify any significance deficiencies or weaknesses in our internal control system, they did however provide recommendations to our management to further enhance our internal control system. Our

Group have adopted and implemented all of the major recommendations. The Internal Control Consultant had performed a follow-up review subsequently to review our Group's newly adopted policies and the implementation status of our improved internal controls. According to the result of the last follow-up review completed on 11 December 2020, all necessary key controls and newly adopted measures of our Group were effectively designed and implemented from their respective implementation dates up to 31 October 2020.

Based on the above, our Directors believe that the internal control measures, when implemented, will effectively ensure a proper internal control system and maintain good corporate governance practices of our Group. In view of the measures in place, our Directors are of the view, and the Sole Sponsor concurs, that these internal control measures adopted by us are adequate and effective under the Listing Rules to ensure ongoing compliance with the relevant laws and regulations by our Group.

Key risks relating to our business operation are set out in the section headed "Risk factors" in this prospectus. The following sets out the key measures adopted by us under our risk management and internal control systems for managing the more particular operational and financial risks relating to our business operations:

**Liquidity risk**

Please refer to the section headed "Financial information — Liquidity and capital resources — Liquidity management" of this prospectus.

**Credit risk**

Please refer to the paragraph headed "Customers, sales and marketing — Credit policy and credit management" in this section.

**Risk of potential inaccurate cost estimation and cost overruns**

Please refer to the paragraph headed "Customers, sales and marketing — Pricing policy" in this section.

**Quality control risk**

Please refer to the paragraph headed "Quality control" in this section.

**Risk relating to outsource factory workers' performance**

Please refer to the paragraph headed "Quality control — (v) Quality assurance on employment agents and outsourced factory workers" in this section.

**Occupational health and safety risk**

Please refer to the paragraph headed "Occupational health and safety" in this section.

**Environmental compliance risk**

Please refer to the paragraph headed "Environmental compliance and pollution controls" in this section.

**Regulatory risk management**

***Anti-corruption and anti-bribery measures***

We adopt a zero-tolerance approach to bribery and corruption and are committed to acting fairly and with integrity in all our business dealings and relationships wherever and whenever operate. In order to comply with the applicable laws and regulations in relation to anti-corruption and anti-bribery, we have established and implemented anti-corruption and anti-bribery policy and measures to prohibit all forms of bribery-and-corruption acts or intention of such acts, specifically summarised below:

i. soliciting or accepting any advantages from others as a reward for or inducement to doing any act in relation to our Group's business;

ii. offering any advantage to an agent of another as a reward for or inducement to doing any act in relation to the latter's business;

iii. offering any advantage to a government or public servant as a reward for or inducement to performing any act in his/her official capacity, or while having business dealings with the government department or public body he/she belongs to;

iv. our directors and staff soliciting or accepting advantages from persons having business dealings with them (e.g. suppliers and contractors); and

v. the offering of advantages to the directors/staff of other companies having business dealings with our Group.

The policy also sets out the approach of dealing with any potential conflicts of interest, the requirements of a company-wide anti-bribery-and-corruption training and disciplinary actions to be taken in situation of violation of the policy and/or relevant laws and regulations, including termination of employment/service and bringing forward to legal proceedings.

We have also put in place a whistle-blowing system which is overseen by the audit committee of our Board, served as a deterrence and monitoring over fraud, misconduct, malpractices and non-compliance.

***Corporate governance measures***

We will comply with the Corporate Governance Code. We have established three board committees, namely the audit committee, the nomination committee and the remuneration committee, with respective terms of reference in compliance with the Corporate Governance Code. In particular, one of the primary duties of our audit committee is to review the effectiveness of our internal audit activities, internal controls and risk management systems. For further details of the three board committees, please refer to the section headed "Directors and senior management — Board committees" in this prospectus.

In addition, we will implement corporate governance measures to ensure the performance of the non-competition undertakings of our Controlling Shareholders. Our Directors will review our corporate governance measures and our compliance with the Corporate Governance Code every financial year.

***Risk management relating to compliance with the Listing Rules after Listing***

In order to ensure continuous compliance with the Listing Rules after Listing, our Directors attended training sessions conducted by our Hong Kong legal advisers, Chiu & Partners, on the on-going obligations and duties of a director of a company whose shares are listed on the Stock Exchange. We have also appointed Kingsway Capital Limited as our compliance adviser to advise us on compliance issue.

After Listing, our executive Directors will be responsible for overseeing our compliance issues. When considered necessary and appropriate, we will also seek professional advice and assistance from independent professional advisers with regards to matters relating to our legal compliance.

## INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Share Offer and Capitalisation Issue, Zhixin Investment BVI will hold approximately 48.7575% of the issued share capital of our Company, where Zhixin Investment BVI is wholly owned by Mr. Ye. As Zhixin Investment BVI and Mr. Ye directly or indirectly are entitled to exercise or control the exercise of 30% or more of the voting power at our Company's general meeting, each of Zhixin Investment BVI and Mr. Ye is regarded as our Controlling Shareholder under the Listing Rules.

As at the Latest Practicable Date, neither Zhixin Investment BVI nor Mr. Ye controls or conducts any business which competes, or is likely to compete, either directly or indirectly, with our business.

### Management, operational, administrative and financial independence of our Group

Our Directors consider that our Group is capable of carrying on its business independently of our Controlling Shareholders and their respective close associates based on the following particulars:

#### *Management independence*

Our Board comprises five executive Directors and three independent non-executive Directors. Mr. Ye, the chairman of the Board and an executive Director, is one of our Controlling Shareholders.

Each of our Directors is aware of his/her fiduciary duties as a Director which require, among other things, that he/she acts for the benefit of and in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum.

Apart from our Directors, we have our senior management team to carry out the business decisions of our Group independently. Our Directors are satisfied that our senior management team is able to perform their roles in our Company independently and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders after the Share Offer.

#### *Operational, administrative and financial independence*

Our Group has our own independent administrative and corporate governance structure comprising separate individual departments, each with specific areas of responsibilities, including financial and accounting management, business development. During the Track Record Period, our Group was operationally and administratively independent of our

Controlling Shareholders and their associates as we have our own operational personnel and administrative personnel. Our Board believes that we have been operating independently from our Controlling Shareholders and their associates and will continue to do so after Listing.

Our Group makes business decisions independently and have sufficient capital, equipment and employees to operate our business independently from our Controlling Shareholders. We do not rely on our Controlling Shareholders for access to suppliers and customers, as we manage our sourcing independently to whom we have independent access. Our Directors currently do not expect there will be other transactions between our Group and our Controlling Shareholders following Listing.

During the Track Record Period, certain bank borrowings were guaranteed by personal guarantee of Mr. Ye, who is one of our Controlling Shareholders. For further details of the guarantees, please refer to paragraph headed "Borrowings" under the section headed "Financial information" and Note 26 to the Accountant's Report in Appendix I to this prospectus. Our Directors confirm that all the guarantees provided by Mr. Ye will be released upon Listing.

As at 31 January 2021, a balance of approximately RMB31.7 million in aggregate was due to Mr. Ye and Mr. Huang. The balance represented (i) outstanding balances of loans and interest from Mr. Ye and Mr. Huang; and (ii) listing expenses paid by Mr. Ye on behalf of our Group. All outstanding balance of amounts due to related parties will be capitalised to other reserves upon Listing.

Our Directors confirmed that, save as disclosed above and in the section headed "Financial information" and the Accountant's Report in this prospectus, our Controlling Shareholders have not provided any guarantees, loans or pledges in favour of our Group during the Track Record Period and up to the Latest Practicable Date.

Save as the above, our source of funding is independent from our Controlling Shareholders and neither our Controlling Shareholders nor its respective associates had financed our operations during the Track Record Period. Our Directors also believe that we are able to obtain financing independently from our Controlling Shareholders. During the Track Record Period and up to the Latest Practicable Date, we had our own finance department and independent accounting systems.

Based on the above, our Directors believe that our Group's business operation does not rely on our Controlling Shareholders and our Group is capable of operating independently without financial reliance on our Controlling Shareholders.

## DIRECTORS

Our Board currently consists of eight Directors, including five executive Directors and three independent non-executive Directors. The table below sets out certain information in respect of the members of our Board:

| Name | Age | Date of joining our Group | Date of appointment as Director | Position | Roles and responsibilities | Relationship with other Director(s) and our senior management |
|---|---|---|---|---|---|---|
| Mr. Ye Zhijie (葉志杰) | 59 | April 2007 | 14 November 2018 | Chairman and executive Director | Responsible for our Group's strategic planning and supervision of implementation of our Group's policies | Father of Mr. Ye Dan; father-in-law of Mr. Qiu Limiao |
| Mr. Huang Wengui (黃文桂) | 54 | May 2017 | 14 November 2018 | Executive Director and chief executive officer | Responsible for our Group's strategic planning and supervision of implementation of our Group's policies | Father of Mr. Huang Kaining |
| Mr. Qiu Limiao (邱禮苗) | 35 | December 2013 | 2 March 2020 | Executive Director | Responsible for assisting in our Group's strategic planning and supervision of implementation of our Group's policies | Son-in-law of Mr. Ye; brother-in-law of Mr. Ye Dan |
| Mr. Ye Dan (葉丹) | 31 | December 2013 | 2 March 2020 | Executive Director | Responsible for assisting in our Group's strategic planning and supervision of implementation of our Group's policies | Son of Mr. Ye; brother-in-law of Mr. Qiu Limiao |
| Mr. Huang Kaining (黃楷寧) (formerly known as Huang Kai (黃凱)) | 31 | January 2019 | 2 March 2020 | Executive Director | Responsible for assisting in our Group's strategic planning and supervision of implementation of our Group's policies | Son of Mr. Huang |
| Ms. Wong Tuen Sau (王端秀女士) | 53 | 4 March 2021 | 4 March 2021 | Independent non-executive Director | Supervising and providing independent opinion and judgement to our Board | None |
| Mr. Cai Huinong (蔡慧農) (formerly known as Cai Huinong (蔡惠農)) | 63 | 4 March 2021 | 4 March 2021 | Independent non-executive Director | Supervising and providing independent opinion and judgement to our Board | None |
| Mr. Huang Youling (黃有齡) | 74 | 4 March 2021 | 4 March 2021 | Independent non-executive Director | Supervising and providing independent opinion and judgement to our Board | None |

**Executive Directors**

**Mr. Ye Zhijie (葉志杰)**, aged 59, is the founder of our Group. Mr. Ye is an executive Director and the chairman of our Board, and is currently responsible for our Group's strategic planning and supervision of implementation of our Group's policies. Mr. Ye is also the sole director of each of Zhixin Enterprises BVI, Zhixin HK, and Zhixin Construction Technology, a director of Pakhim Chen HK and the chairman of the board of directors of Zhixin Construction Material. Since Mr. Ye founded our Group, he was repeatedly awarded as an Excellent Entrepreneur in the China Concrete Industry* (中國混凝土行業優秀企業家) by the China Construction Industry Association Concrete Branch* (中國建築業協會混凝土分會) in the year 2008–2009, 2010–2011, 2014–2015 and 2016–2017. Mr. Ye graduated from Xiamen Jimei Guankou Secondary School* (廈門市集美區灌口中學) in July 1978.

Mr. Ye has over 13 years of experience in the ready-mixed concrete industry, and over 7 years of experience in the construction industry before engaging in the ready-mixed concrete industry. Prior to founding our Group in 2007, Mr. Ye served as deputy general manager of Xiamen Jichang Construction Engineering Co., Ltd.* (廈門吉昌建築工程有限公司), a company principally engaged in building construction, between November 1999 and April 2007 and was mainly responsible for assisting the general manager in comprehensive management work.

Immediately following completion of the Capitalisation Issue and the Share Offer, Mr. Ye will be interested in 364,706,100 Shares, representing 48.7575% of the issued share capital of our Company within the meaning of Part XV of the SFO, all of which will be held by Zhixin Investment BVI, which was wholly owned by Mr. Ye.

**Mr. Huang Wengui (黃文桂)**, aged 54, joined our Group in May 2017 as a supervisor of Zhixin Logistics. He was later appointed as a director and the general manager of Zhixin Logistics in November 2017, the supervisor of Zhixin Construction Technology in December 2017, and the vice chairman of the board of directors of Zhixin Construction Material in January 2019. Mr. Huang is an executive Director and the chief executive officer of our Group, and he is mainly responsible for our Group's strategic planning and supervision of implementation of our Group's policies. Mr. Huang graduated from Fujian Longyan Yongding Fushi Secondary School* (福建省龍岩市永定縣撫市中學) in July 1984.

Mr. Huang has over 15 years of management experience in the construction and construction material industry. Prior to joining our Group, he served as a sales manager of Xiamen Heqiang Construction Materials Co., Ltd.* (廈門市禾強建材有限公司), a company principally engaged in manufacturing and sale of cement, between October 2005 and September 2007 and was mainly responsible for daily sales operation. Mr. Huang served in Guishun Logistics, a company principally engaged in goods transportation and wholesale of construction materials, as director from June 2007 to March 2016, where he was mainly responsible for general management and supervision of logistics business. Since June 2008, Mr. Huang has served as a director and the general manager of Yaohe Trading, a company principally engaged in wholesale of construction materials, where he has been mainly responsible for sale of construction materials including cement.

Immediately following completion of the Capitalisation Issue and the Share Offer, Mr. Huang will be interested in 121,568,700 Shares, representing 16.2525% of the issued share capital of our Company, within the meaning of Part XV of the SFO, all of which will be held by Yaohe BVI, which was wholly owned by Mr. Huang.

**Mr. Qiu Limiao (邱禮苗)**, aged 35, joined our Group in December 2013 as the deputy general manager of Zhixin Construction Material. He is mainly responsible for assisting in our Group's strategic planning and supervision of implementation of our Group's policies. Mr. Qiu is a son-in-law of Mr. Ye and brother-in-law of Mr. Ye Dan, each an executive Director. Mr. Qiu completed an administrative management programme at the Nanchang Normal University (formerly known as Jiangxi Institute of Education* (江西教育學院)) in February 2012. He obtained a bachelor's degree in administrative management (through online learning) from Nankai University (南開大學) in July 2014. He completed a general manager training programme at the School of Economics and Management, Tsinghua University (清華大學) in August 2014. Prior to joining our Group, Mr. Qiu served as an inspector in Shishi Tobacco Monopoly Bureau* (石獅市煙草專賣局) from December 2008 to June 2013 and was mainly responsible for tobacco case investigation.

**Mr. Ye Dan (葉丹)**, aged 31, joined our Group in December 2013 as the assistant to general manager of Zhixin Construction Material and was appointed as a director of Zhixin Construction Material in January 2019. He is mainly responsible for assisting in our Group's strategic planning and supervision of implementation of our Group's policies. He is a son of Mr. Ye and brother-in-law of Mr. Qiu Limiao, each an executive Director. He obtained a diploma in financial accounting from Central Radio & Television University* (中央廣播電視大學) in July 2011. Prior to joining our Group, Mr. Ye served as an engineering specialist (工程項目專員) in Xiamen Jiguan Development Co. Ltd.* (廈門集灌開發有限公司), a company principally engaged in civil engineering management, from August 2011 to June 2013 and was mainly responsible for engineering management.

**Mr. Huang Kaining (黃楷寧)** (formerly known as Huang Kai (黃凱)), aged 31, joined our Group in January 2019 as a supervisor of Zhixin Construction Material. He is mainly responsible for assisting in our Group's strategic planning and supervision of implementation of our Group's policies. He is a son of Mr. Huang, an executive Director. He completed a business management (logistics management) programme at Jimei University in June 2011. He completed the executive development programme (高級經理研修班) organised by Executive Development Center* (高級經理培訓中心) of the School of Management, Xiamen University, in July 2016.

Prior to joining our Group, Mr. Huang served as a logistics and distribution supervisor of Guishun Logistics, a company which was principally engaged in goods transportation and wholesale of construction materials, between October 2011 and January 2013, and was mainly responsible for planning of logistics system and operation. He served as the sales manager of Yaohe Trading, a company principally engaged in wholesale of construction materials, from February 2013 to September 2018, and was mainly responsible for sales planning and operation.

**Independent non-executive Directors**

**Ms. Wong Tuen Sau (王端秀)**, aged 53, was appointed as an independent non-executive Director on 4 March 2021. Ms. Wong obtained a bachelor's degree in business administration in accounting from Hong Kong Baptist University (formerly known as Hong Kong Baptist College) in January 1992 and a master's degree in finance from The Chinese University of Hong Kong in December 2007. Ms. Wong has been a member of the Hong Kong Institute of Certified Public Accountants since February 1995.

Ms. Wong has over 29 years of experience in accounting and compliance sector. From August 1991 to August 1996, Ms. Wong worked at KPMG (formerly known as KPMG Peat Marwick) and her last position was assistant manager. From November 1997 to November 2009, Ms. Wong worked at Hong Kong Exchanges and Clearing Limited (formerly known as The Stock Exchange of Hong Kong Limited) and her last position was a manager in the risk management division. From July 2010 to February 2011, Ms. Wong worked as a vice president of compliance section at Sun Hung Kai Securities Limited. From April 2013 to September 2015, Ms. Wong worked as a compliance manager of Orient Securities Limited.

Since May 2016, Ms. Wong has been the company secretary of XiangXing International Holding Limited, the shares of which were listed on GEM of the Stock Exchange since July 2017 (stock code: 8157) and was subsequently transferred to the Main Board of the Stock Exchange in September 2019 (stock code: 1732), where she is primarily responsible for company secretarial, legal, regulatory and other compliance matters of the company.

**Mr. Cai Huinong (蔡慧農)** (formerly known as Cai Huinong (蔡惠農)), aged 63, was appointed as an independent non-executive Director on 4 March 2021. Mr. Cai obtained a bachelor's degree in microbiology from Xiamen University in July 1982. He obtained a master's degree in industrial fermentation from Jiangnan University (formerly known as Wuxi Institute of Light Industry* (無錫輕工業學院)) in July 1987.

Mr. Cai has over 30 years of experience in the education industry. Mr. Cai served in Jimei University from July 1987 to November 2017, where he started as a teacher and was promoted as associate professor and professor in July 1997 and August 2004, respectively, and was mainly responsible for teaching and faculty and department administration. During the same period, Mr. Cai was also appointed as deputy director and director of the Department of Food Engineering (食品工程系), Jimei University from June 1997 to June 1999, and from June 1999 to March 2001, respectively. He was appointed as the dean of Faculty of Biological Engineering* (生物工程學院), Jimei University from March 2001 to January 2011. He was appointed as the secretary of party committee of the Faculty of Biological Engineering, Jimei University from January 2011 to December 2014.

**Mr. Huang Youling (黃有齡)**, aged 74, was appointed as an independent non-executive Director on 4 March 2021. Mr. Huang obtained a bachelor's degree in chemistry and chemical engineering majoring in basic organic synthesis from Fuzhou University (福州大學) in August 1970. He has been a qualified senior engineer specialised in construction materials accredited by the Ministry of Communications of the PRC since December 1992 and a qualified senior test and inspection engineer accredited by the Ministry of Communications of the PRC since May 2001.

Mr. Huang has over 50 years of experience in construction industry. He was an employee of CCCC Third Harbor Engineering Co., Ltd. Xiamen Branch* (中交第三航務工程局有限公司廈門分公司), a state owned enterprise of the PRC principally engaged in construction of infrastructure, including roads, bridges, railway between August 1970 and June 2006. During his tenure, he served various positions, including the deputy chief engineer, the head of laboratory and chief engineer of concrete supply stations and precast concrete components factories. After he retired from CCCC Third Harbor Engineering Co., Ltd. Xiamen Branch, he has joined Xiamen Construction Materials Association* (廈門市建築材料行業協會) since November 2006 and served various positions including deputy general secretary and senior technical consultant.

Save as disclosed above and in the section headed "Substantial Shareholders" in this prospectus, each of our Directors confirms with respect to himself/herself that: (i) he/she has not held any directorships in the last three years in any public companies, the securities of which are listed on any securities market in Hong Kong or overseas; (ii) he/she does not have any relationship with any other Directors, senior management or substantial or controlling shareholders of our Company; (iii) he/she does not hold any positions in our Company or other members of our Group; (iv) he/she does not have any interests in our Shares within the meaning of Part XV of the SFO; (v) there is no other information that should be disclosed for him/her pursuant to the requirements under Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules; and (vi) there are no other matters that need to be brought to the attention of holders of securities of our Company.

## SENIOR MANAGEMENT

The table below sets out certain information in respect of the members of our senior management:

| Name | Age | Date of joining our Group | Date of appointment as senior management | Current position | Roles and responsibilities | Relationship with other Director(s) and our senior management |
|---|---|---|---|---|---|---|
| Mr. Ding Fulin (丁福林) | 46 | October 2008 | 1 January 2019 | Chief operating officer | Responsible for the overall operation and management of our Group | None |
| Mr. You Zhongpeng (尤仲鵬) | 55 | August 2011 | 10 March 2019 | Chief engineer | Responsible for our Group's technology and quality control | None |
| Mr. Zhong Dezhu (鍾德注) | 48 | December 2013 | 9 December 2013 | Joint company secretary and financial manager | Responsible for our Group's financial accounting and audit, and corporate secretarial matters | None |
| Mr. Zhu Fenyong (朱奮勇) | 51 | May 2017 | 10 May 2017 | Chief financial officer | Responsible for comprehensive financial management of our Group | None |

**Mr. Ding Fulin (丁福林)**, aged 46, joined our Group in October 2008. He currently serves as the chief operating officer of our Group and is mainly responsible for the overall operation and management of Zhixin Construction Material. He served as sales department manager of Zhixin Construction Material and was mainly responsible for procurement of raw materials and sale of products from October 2008 to October 2010. He was promoted as deputy general manager of Zhixin Construction Material in October 2010 and was mainly responsible for communication and coordination between the sales department and various departments. He was later promoted as general manager of Zhixin Construction Material in January 2019 and was mainly responsible for comprehensive company management including production, procurement and sales. He was appointed as deputy general manager of Zhixin Logistics in 1 January 2013. Mr. Ding obtained his high diploma in civil engineering majoring in industrial and civil construction (工業與民用建築) from Nanchang University (南昌大學) in July 1996 and a bachelor's degree in social work and management (through self-learning) from Xiamen University (廈門大學) in December 2014.

Mr. Ding has over 13 years of experience in construction material industry. Prior to joining our Group, Mr. Ding served as the supply and marketing department manager (供銷部經理) of Kangda (Xiamen) Construction Material Co., Ltd.* (康達(廈門)建材有限公司), a company principally engaged in production of commodity concrete and sale of construction material, from November 2007 to September 2008 and was mainly responsible for daily operational management and products marketing.

**Mr. You Zhongpeng (尤仲鵬)**, aged 55, joined our Group in August 2011 as the chief engineer of Zhixin Construction Material. He has been appointed as the chief engineer of our Group since March 2019 and responsible for our Group's technology and quality control. Mr. You obtained a bachelor's degree in construction material engineering majoring in concrete materials and products from Tongji University (同濟大學) in July 1986. He obtained the qualification as senior engineer from Xiamen Personnel Bureau* (廈門市人事局) in December 2004.

Mr. You has over 24 years of experience in the concrete industry. Prior to joining our Group, he worked in Xiamen Huaxin Concrete Engineering Co., Ltd.* (廈門華信混凝土工程開發有限公司), a company which was principally engaged in manufacturing and processing of commercial concrete, first as a laboratory director from January 1996 to December 2002 and mainly responsible for the daily management of laboratory, and later as the technical director and the director of general office from January 2003 to December 2004 and mainly responsible for the daily management of the quality control system and technical personnel training. He served as a deputy technology director of Kangda (Xiamen) Construction Material Co., Ltd.* (康達(廈門)建材有限公司), a company principally engaged in production of commodity concrete and sale of construction material, from January 2005 to July 2005 and was mainly responsible for products quality control. He served as deputy technology director and a manager representative of Xiamen Santai Concrete Engineering Co., Ltd.* (廈門三泰混凝土工程有限公司), a company principally engaged in wholesale and retail of concrete, cement, sand and stone, from September 2005 to July 2011, and was mainly responsible for technology and quality management.

**Mr. Zhong Dezhu (鍾德注)**, aged 48, joined our Group in December 2013 as the financial manager of our Group and was later appointed as one of the joint company secretaries of the Company in May 2019. He is responsible for our Group's financial accounting and audit, and corporate secretarial matters. Mr. Zhong graduated from Fujian Qiaoxing Light Industry School* (福建省僑興輕工學校) with a diploma degree in industrial corporate financial accounting (工業企業財會) in July 1991. He obtained the qualification of accounting (middle level) (會計(中級)) from Xiamen Civil Service Bureau* (廈門市公務員局) in November 2011.

Mr. Zhong has approximately 18 years of experience in accounting and finance. Prior to joining our Group, he served as the finance section chief (財務課長) in Xiamen Kaijia Industry and Trade Co., Ltd.* (廈門凱嘉工貿有限公司), a company which was principally engaged in manufacturing and sale of metal products, plastic products, rubber products, electronic products, construction materials and electroplated electrical components, from September 2002 to February 2013 and was mainly responsible for general management of finance department.

**Mr. Zhu Fenyong (朱奮勇)**, aged 51, joined our Group in May 2017 as the chief financial officer of our Group and is responsible for comprehensive financial management of our Group. He completed a supply and marketing financial accounting programme at Fujian Sanming Supply and Marketing School* (福建省三明市供銷學校) in July 1988. He completed a higher education programme in accounting (through self-learning) at Xiamen University (廈門大學) in April 1996. He was qualified as an accountant by MOF in December 1996. He obtained the directorate secretary qualification from the Shanghai Stock Exchange in July 2017.

Mr. Zhu has over 32 years of experience in accounting and finance. Prior to joining our Group, Mr. Zhu worked in Fujian Sangang Group Co., Ltd.* (福建省三鋼(集團)有限責任公司), a company principally engaged in steel manufacturing, from July 1988 to June 2006 and he last served as an accountant mainly responsible for accounting matters. During the period from June 2006 to September 2015, he worked in the subsidiaries of San'an Optoelectronics Co., Ltd. (三安光電股份有限公司), a company principally engaged in researching, producing and selling of semiconductors, the shares of which are listed on the Shanghai Stock Exchange (stock code: 600703), and he served in various positions including audit manager, marketing management manager and liaison manager. Mr. Zhu served as the chief financial officer of Xiamen Guangliang Industrial Co., Ltd.* (廈門光亮實業有限公司), a company principally engaged in timber processing and manufacturing of furniture, from October 2015 to April 2017 and was mainly responsible for financial management.

Save as disclosed above in this prospectus, each member of our senior management confirms with respect to himself that he has not held any directorship in the last three years in any public companies, the securities of which are listed on any securities market in Hong Kong or overseas.

## JOINT COMPANY SECRETARIES

**Mr. Yuen Chi Wai (袁志偉),** *FCPA*, aged 45, joined our Group in May 2019 as a joint company secretary of the Company and is primarily responsible for corporate secretarial matters. Mr. Yuen obtained his bachelor of commerce in accounting and finance degree from The University of New South Wales in April 1998. He was admitted of a fellow of the Hong Kong Institute of Certified Public Accountants in March 2013 and a fellow of CPA Australia in July 2014.

Mr. Yuen is experienced in auditing, corporate internal control, as well as financial and risk management. He used to work in Charles Mar Fan & Co. from February 1998 to April 2000, Arthur Andersen & Co. from May 2000 to June 2002 and PricewaterhouseCoopers from July 2002 to December 2009 as an auditor. Mr. Yuen worked in Bolina Holding Co., Ltd. (航標控股有限公司) ("**Bolina**"), the shares of which were listed on the Main Board of the Stock Exchange (stock code: 1190), as the chief financial officer and company secretary from May 2011 to May 2015 and as the Assistant President from May 2015 to October 2015. Bolina was in liquidation as at the Latest Practicable Date and the trading in the shares of Bolina has been suspended since September 2018 and was delisted on 10 March 2021. Mr. Yuen has been an independent non-executive director of Central China Securities Co., Ltd. (中原証券股份有限公司) since June 2014, the shares of which are listed on the Stock Exchange (stock code: 1375) and listed on the Shanghai Stock Exchange (stock code: 601375). Mr. Yuen has been the Managing Director of Venture Executive Services Limited since August 2014, which is principally engaged in provision of company secretarial and other corporate services to various listed and unlisted companies.

**Mr. Zhong Dezhu (鍾德注)**, aged 48, was appointed as one of the joint company secretaries of the Company in May 2019. For the biography of Mr. Zhong, please refer to the paragraph headed "Senior management" in this section.

## BOARD COMMITTEES

We have established the following three committees: an audit committee, a remuneration committee and a nomination committee. The committees operate in accordance with their terms of reference established by our Board.

### Audit committee

We have established an audit committee on 4 March 2021 with written terms of reference in compliance with Rule 3.21 of the Listing Rules.

Our audit committee has three members, namely Ms. Wong Tuen Sau, Mr. Cai Huinong and Mr. Huang Youling, all of whom are our independent non-executive Directors. The chairman of our audit committee is Ms. Wong Tuen Sau.

The primary responsibilities of our audit committee include, among others, (i) providing an independent view of the effectiveness of the financial reporting process, internal control, compliance and risk management systems of our Group; (ii) overseeing the audit process and performing other duties and responsibilities as assigned by our Board; (iii) developing and reviewing our policies and practices on corporate governance, compliance with legal and regulatory requirements and requirements under the Listing Rules; and (iv) developing, reviewing and monitoring the code of conduct applicable to our employees and Directors.

### Remuneration committee

We have established a remuneration committee on 4 March 2021 with written terms of reference in compliance with Rule 3.25 of the Listing Rules.

Our remuneration committee has three members, namely Mr. Huang Youling, Ms. Wong Tuen Sau and Mr. Cai Huinong, all are our independent non-executive Directors. The chairman of our remuneration committee is Mr. Huang Youling.

The primary responsibilities of our remuneration committee include, among others, (i) making recommendations to the Board on our policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) reviewing and approving the management's remuneration proposals with reference to our Board's corporate goals and objectives; and (iii) making recommendations to our Board on the remuneration packages of Directors and senior management.

### Nomination committee

We have established a nomination committee on 4 March 2021 with written terms of reference in compliance with the code provisions of the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Listing Rules.

Our nomination committee has three members, namely Mr. Cai Huinong, Ms. Wong Tuen Sau and Mr. Huang Youling, all of whom are our independent non-executive Directors. The chairman of our nomination committee is Mr. Cai Huinong.

The primary responsibility of our nomination committee is to make recommendations to our Board regarding candidates to fill vacancies on our Board and/or in senior management.

**Corporate governance functions**

The terms of reference of our Board include, among others, (i) developing and reviewing our Company's policies and practices on corporate governance and making recommendations to our Board; (ii) reviewing and monitoring the training and continuous professional development of Directors and senior management; (iii) reviewing and monitoring our Company's policies and practices on compliance with legal and regulatory requirements; (iv) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors; and (v) reviewing our Company's disclosure in the corporate governance report and compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules.

## BOARD DIVERSITY POLICY

We have adopted the board diversity policy (the "**Board Diversity Policy**") with a view to achieving a sustainable and balanced development. Our Board comprises seven male Directors and one female Director, aged between 31 and 74 as at the Latest Practicable Date, and were from different backgrounds including the construction and construction material industry, accounting and compliance sector and the academia. Our Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. Selection of candidates of our Directors will be based on a range of diversity perspectives, including but not limited to gender, age, cultural, race, educational background, professional experience, qualifications, independence, skills and knowledge. We aim to achieve a balanced composition of our Board by ensuring appropriate balance of diversity in various aspects, including gender diversity, so as to enable our Board to discharge its duties and responsibilities effectively. The ultimate decision will be based on merit and contribution that the selected candidates will bring to our Board.

In recognition of the importance of board diversity, we will continue to promote diversity of our Company at all levels, including at the Board and senior management level, to enhance the effectiveness of our corporate governance. We will develop a board diversity matrix to demonstrate and monitor the level of board diversity by various dimensions and elements. We will review the matrix from time to time in interval of no less than annually as to consider the needs to further enhancing the board diversity, including gender diversity and, when necessary, propose a phase-in period for recruiting a fit-and-proper director candidate. We will continue to provide diversified career development opportunities to our staff and engage different training resources for our staff in order to develop future candidates for Director and senior management. Our Board will use its best endeavours to appoint female director(s) to our Board after Listing (keeping in mind the importance of management continuity and the timeline for retirement and reappointment of Directors under the

Articles) and our nomination committee will use its best endeavours and on suitable basis to, within one year after Listing, identify and recommend multiple suitable female candidates to our Board for its consideration on appointment of a Director. We intend to continue to identify a pipeline of potential female Board candidates internally and aim to achieve a Board composition of at least 30% being female members within five years from Listing.

Our nomination committee is responsible for the implementation of the Board Diversity Policy and compliance with relevant codes governing board diversity under the Corporate Governance Code as set forth in Appendix 14 to the Listing Rules. Our nomination committee will review the Board Diversity Policy and our diversity profile (including gender balance) from time to time to ensure its continued effectiveness. We will also disclose in our corporate governance report about the implementation of the Board Diversity Policy including gender diversity, related measurable objectives and progress of achieving such objectives, on an annual basis. After Listing, the effective implementation of the Board Diversity Policy will also depend on our Shareholders' judgement on the suitability of individual candidates and their views on the scale of gender diversity of our Board. As such, we will provide our Shareholders with detailed information of each candidate for appointment or re-election to the Board through announcements and circulars published prior to general meetings of our Company. Subject to the approval of our Shareholders at general meeting, our Company will admit a fit-and-proper director candidate to our Board.

## COMPLIANCE ADVISER

Our Company has appointed Kingsway Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. According to Rule 3A.23 of the Listing Rules, the compliance adviser will advise our Company in the following circumstances:

(i) before the publication of any regulatory announcement, circular or financial report;

(ii) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;

(iii) where our Company proposes to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or where its business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and

(iv) where the Stock Exchange makes an inquiry regarding unusual movements in the price or trading volume of our Shares.

The term of the appointment shall commence on the Listing Date and end on the date when our Company distributes its annual report in relation to its financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

## COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The aggregate amount of remuneration paid by us to our Directors, including salaries, allowances and contributions to retirement benefit scheme, was approximately RMB264,000, RMB428,000, RMB736,000 and RMB900,000 for each of the three years ended 31 December 2019 and the ten months ended 31 October 2020, respectively.

During the Track Record Period, the five individuals whose emoluments were the highest in our Group included nil, one, one and three Directors, respectively. The aggregate amount of emoluments payable to the five highest paid individuals (excluding the Directors), including salaries, allowances and contributions to retirement benefit scheme, during the three years ended 31 December 2019 and the ten months ended 31 October 2020 was approximately RMB708,000, RMB690,000, RMB1,108,000 and RMB817,000, respectively.

We have not paid any remuneration to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office during the Track Record Period. None of our Directors has waived any remuneration during the same period.

Save as disclosed above, no other payments have been made or are payable by any of the members of our Group during the Track Record Period. Under the arrangements currently in force, we estimate that we will pay an aggregate amount of approximately RMB2.3 million to our Directors as remuneration in respect of the year ending 31 December 2021 (excluding any discretionary bonuses).

## SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware of, as at the Latest Practicable Date and immediately following completion of the Capitalisation Issue and the Share Offer, the following persons will have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to our Company and the Stock Exchange (as the case may be) under provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be, directly or indirectly, interested in 10% or more of the issued voting shares of any member of our Group:

| | | As at the Latest Practicable Date | | Immediately following completion of the Capitalisation Issue and the Share Offer | |
|---|---|---|---|---|---|
| **Name of substantial shareholder** | **Capacity** | **Number of Shares(1)** | **Approximate percentage of shareholding (%)** | **Number of Shares(1)** | **Approximate percentage of shareholding (%)** |
| Zhixin Investment BVI | Beneficial owner | 650,100 (L) | 65.01 | 364,706,100 (L) | 48.7575 |
| Mr. Ye | Interest in controlled corporation | 650,100 (L)(2) | 65.01 | 364,706,100 (L)(2) | 48.7575 |
| Ms. Hong Wei | Interest of spouse | 650,100 (L)(3) | 65.01 | 364,706,100 (L)(3) | 48.7575 |
| Yaohe BVI | Beneficial owner | 216,700 (L) | 21.67 | 121,568,700 (L) | 16.2525 |
| Mr. Huang | Interest in controlled corporation | 216,700 (L)(4) | 21.67 | 121,568,700 (L)(4) | 16.2525 |
| Ms. Lin Lingling | Interest of spouse | 216,700 (L)(5) | 21.67 | 121,568,700 (L)(5) | 16.2525 |
| Pakhim Chen BVI | Beneficial owner | 133,200 (L) | 13.32 | 74,725,200 (L) | 9.99 |
| Ms. Chen | Interest in controlled corporation | 133,200 (L)(6) | 13.32 | 74,725,200 (L)(6) | 9.99 |
| Mr. Chen Qishi | Interest of spouse | 133,200 (L)(7) | 13.32 | 74,725,200 (L)(7) | 9.99 |

*Notes:*

1. The Letter "L" denotes long position in our Shares.

2. As at the Latest Practicable Date, Zhixin Investment BVI was wholly owned by Mr. Ye.

3. Ms. Hong Wei is the spouse of Mr. Ye. By virtue of the SFO, Ms. Hong Wei is deemed to be interested in all the Shares held by Mr. Ye.

4. As at the Latest Practicable Date, Yaohe BVI was wholly owned by Mr. Huang.

5. Ms. Lin Lingling is the spouse of Mr. Huang. By virtue of the SFO, Ms. Lin Lingling is deemed to be interested in all the Shares held by Mr. Huang.

6. As at the Latest Practicable Date, Pakhim Chen BVI was wholly owned by Ms. Chen.

7. Mr. Chen Qishi is the spouse of Ms. Chen. By virtue of the SFO, Mr. Chen Qishi is deemed to be interested in all the Shares held by Ms. Chen.

Save as disclosed herein and in the paragraph headed "Interests and short positions of our Directors in the shares, underlying shares or debentures of our Company and our associated corporations following the Share Offer" in Appendix VI to this prospectus, our Directors are not aware of any persons who will, as at the Latest Practicable Date and immediately upon Listing, have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to our Company and the Stock Exchange (as the case may be) under provisions of Divisions 2 and 3 of Part XV of the SFO, or will be directly or indirectly interested in 10% or more of the issued voting shares of any member of our Group.

## THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements (each a "**Cornerstone Investment Agreement**", and collectively the "**Cornerstone Investment Agreements**") with Mr. Wang Miao (王苗先生) ("**Mr. Wang**") and Tenancy Co., Limited ("**Tenancy Co**") (the "**Cornerstone Investors**", and each a "**Cornerstone Investor**"), pursuant to which the Cornerstone Investors have agreed to subscribe for or purchase 16,832,000 and 31,976,000 Shares at the Offer Price at the consideration of approximately HK$25,248,000 and HK$47,964,000 respectively (the "**Cornerstone Placing**").

The following table sets forth details of the Cornerstone Placing and approximate corresponding percentage of the total number of Offer Shares and percentage of the total issued share capital of our Company upon Listing:

| | Based on the Offer Price of HK$1.50 | | | |
|---|---|---|---|---|
| **Cornerstone Investor** | **Investment amount** | **Number of Offer Shares to be subscribed for** | **Approximate percentage of the total number of Offer Shares** | **Approximate percentage of the total issued share capital of our Company immediately following completion of the Capitalisation Issue and the Share Offer** |
| Mr. Wang | HK$25,248,000 | 16,832,000 | 9.00% | 2.25% |
| Tenancy Co | HK$47,964,000 | 31,976,000 | 17.10% | 4.27% |
| **Total** | **HK$73,212,000** | **48,808,000** | **26.1%** | **6.52%** |

To the best knowledge of our Directors, each of the Cornerstone Investors is an Independent Third Party, independent from our Company, our connected persons (as defined in the Listing Rules) and their respective associates and independent of each other. The Cornerstone Investors will subscribe for the Offer Shares pursuant to, and as part of, the Placing.

The Cornerstone Placing forms part of the Placing. The Offer Shares to be subscribed for by the Cornerstone Investors will rank equally in all respects with the other fully paid Shares then in issue and to be listed on the Stock Exchange upon completion of the Share Offer and will be counted towards the public float of our Company. The Cornerstone Investors will not subscribe for any Offer Shares under the Share Offer other than pursuant to the Cornerstone Investment Agreements. Immediately following completion of the Share Offer, none of the Cornerstone Investors will have any board representation in our Company, nor will any of the Cornerstone Investors become a substantial shareholder of our Company. No special rights have been granted to the Cornerstone Investors as part of the Cornerstone Placing.

To the best knowledge of our Company, (i) there is no deferred settlement in payment and/or deferred delivery of the Shares to be subscribed by the Cornerstone Investors; (ii) there are no side agreements or arrangements between our Group and each of the Cornerstone Investors for the purpose of the Cornerstone Placing; (iii) we became acquainted with each of the Cornerstone Investors either through business networking or social gathering and, in particular, Mr. Wang has served as the chairman of the board since 2013 and the legal representative since 2018 of Fujian Yongding Minfu Constructure Materials Co., Ltd., the largest supplier of our Group for each of the three years ended 31 December 2019 and ten months ended 31 October 2020; (iv) each of the Cornerstone Investors expects to finance his/its respective cornerstone investment with his/its own financial resources; (v) none of the Cornerstone Investors are accustomed to take instructions from our Company and our subsidiaries, Directors, chief executive of our Company, Controlling Shareholders, substantial shareholders or existing Shareholders or any of our subsidiaries or their respective close associates; and (vi) none of the subscription of the Offer Shares by the Cornerstone Investors are financed by our Company and our subsidiaries, Directors, chief executive, Controlling Shareholders, substantial shareholders, or existing Shareholders or any of our subsidiaries or their respective close associates.

The number of Offer Shares to be subscribed by the Cornerstone Investors will not be affected by reallocation of the Offer Shares between the Placing and the Public Offer in the event of over-subscription under the Public Offer as described in the section headed "Structure of the Share Offer" in this prospectus. The investment amount for the Offer Shares to be subscribed by the Cornerstone Investors under the Cornerstone Placing shall be settled by 12:00 noon (Hong Kong time) on the trading day immediately prior to the Listing Date. Delivery of the Offer Shares subscribed by the Cornerstone Investors is expected to take place on the Listing Date subject to due payment being made.

The information about the Cornerstone Investors set forth below has been provided by the Cornerstone Investors in connection with the Cornerstone Placing:

**Mr. Wang**

Mr. Wang is a Chinese citizen and has extensive experience in real estate development and cement building materials industry in the PRC. He has invested and managed a number of companies in the real estate development and construction materials industry in the PRC. Since 2007, he has served as the vice chairman of Fujian Yongding Xingxin Cement Co., Ltd.* (福建省永定興鑫水泥有限公司). In 2011, he invested in Fujian Jianrong Finance Guarantee Co., Ltd.* (福建建融融資擔保有限公司) and is one of its directors as at the Latest Practicable Date. In 2011, he invested in Longyan Kaisheng Real Estate Development Co., Ltd.* (龍岩凱盛房地產開發置業有限公司) and has served as its chairman of the board since 2015. Mr. Wang has served as the chairman of the board and the legal representative of Fujian Yongding Minfu Construction Materials Co., Ltd.* (福建省永定閩福建材有限公司) since 2013 and 2018 respectively. Since 2018, he has served as the manager and executive director of Longyan Juran Home Market Management Co., Ltd.* (龍岩居然之家市場管理有限公司).

**Tenancy Co**

Tenancy Co is a company incorporated in Hong Kong with limited liability. Its principal business activities include investment holding, machinery leasing and the sales and maintenance of electronic equipment and accessories. Tenancy Co is wholly owned by Sany Group Company Limited* (三一集團有限公司) ("**Sany Group**"), where Mr. Liang Wengen (梁穩根) is interested in approximately 56.7% of its total equity interest as at the Latest Practicable Date. The Sany Group is one of the leading companies in the PRC primarily engaged in the manufacturing and sale of construction and mining equipment, oil drilling machinery, and renewable wind energy systems in the PRC.

**CONDITIONS PRECEDENT**

The subscription obligation of each Cornerstone Investor under the respective Cornerstone Investment Agreement is subject to, among other things, the following conditions precedent:

(a) the Public Offer Underwriting Agreement and the Placing Underwriting Agreement being entered into and having become effective and unconditional and not having been terminated (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in these underwriting agreements;

(b) the Listing Committee having granted the listing of, and permission to deal in, the Shares and that such approval or permission not having been revoked prior to the commencement of dealings in the Shares;

(c) no relevant laws or regulations shall have been enacted or promulgated by any governmental authority which prohibits the consummation of the transactions contemplated in the Public Offer, the Placing or in the Cornerstone Investment Agreement, and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions; and

(d) the respective representations, warranties, undertaking and confirmations of the Cornerstone Investor under the Cornerstone Investment Agreement are accurate and true in all respects and not misleading and that there is no material breach of the Cornerstone Investment Agreement on the part of the Cornerstone Investor.

## RESTRICTIONS ON DISPOSAL OF SHARES BY THE CORNERSTONE INVESTORS

The Cornerstone Investors have agreed that without prior written consent of the Company and the relevant Joint Bookrunner, he/it will not, whether directly or indirectly, at any time during the period of six months following the Listing Date (the "**Lock-up Period**"), dispose of any of the Shares he/it has purchased pursuant to the Cornerstone Investment Agreement, save for transfers to any of his/its wholly-owned subsidiaries who which will be bound by the same obligations of the Cornerstone Investors, including the Lock-up Period restriction.

The authorised and issued share capital of our Company as of the date of this prospectus and immediately after completion of the Share Offer and the Capitalisation Issue will be as follows:

| | | HK$ |
|---|---|---|
| *Authorised* | | |
| 3,000,000,000 | Shares | 30,000,000 |

| | | HK$ |
|---|---|---|
| *Issued and to be issued, fully paid or credited as fully paid:* | | |
| 1,000,000 | Shares in issue as at the date of this prospectus | 10,000 |
| 560,000,000 | Shares to be issued under the Capitalisation Issue | 5,600,000 |
| 187,000,000 | Shares to be issued under the Share Offer | 1,870,000 |
| 748,000,000 | Shares in issue immediately upon Listing | 7,480,000 |

## ASSUMPTIONS

The above tables assume that the Share Offer becomes unconditional and the issue of Shares pursuant thereto is made as described therein.

The above tables, however, take no account of any Shares which may be issued and allotted or repurchased by our Company under the general mandates for the issue and allotment or repurchase of Shares granted to our Directors as referred to below.

The minimum level of public float to be maintained by our Company after Listing is 25% of the issued capital of our Company.

## RANKING

The Offer Shares will rank *pari passu* in all respects with all other existing Shares in issue as mentioned in this prospectus, and in particular, will be entitled to all dividends and other distributions hereafter declared, paid or made on our Shares after the date of this prospectus save for entitlements under the Capitalisation Issue.

## CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Pursuant to the Cayman Companies Act and the terms of our Articles, our Company may from time to time by ordinary resolution of our Shareholders (i) increase our capital, (ii) consolidate and divide our capital into Shares of larger amount, (iii) divided our Shares into several classes, (iv) subdivide our Shares into Shares of smaller amount, and (v) cancel any Shares which have not been taken. In addition, our Company may subject to the Cayman Companies Act reduce our share capital or capital redemption reserve by our Shareholders passing a special resolution. For further details, please refer to the paragraph headed "Articles of Association — Alterations of capital" in Appendix V to this prospectus.

Pursuant to the Cayman Companies Act and the terms of our Articles, all or any of the special rights attached to our Shares or class of Shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal of issued Shares of that class or with the sanction of a special resolution passed at a general meeting of the holders of the Shares of that class. For further details, please refer to the paragraph headed "Articles of Association — Variation of rights of existing shares or classes of shares" in Appendix V to this prospectus.

Other than the circumstances above, certain corporate actions may require the approval of our Shareholders, which would be obtained in a general meeting. For further details, please refer to the paragraph headed "Articles of Association" in Appendix V to this prospectus.

## GENERAL MANDATE TO ISSUE SHARES

Subject to the Share Offer becoming unconditional, our Directors have been granted a general unconditional mandate to issue, allot and deal with Shares with a total number not more than the sum of:

i. 20% of the total number of Shares in issue immediately following completion of the Share Offer and Capitalisation Issue; and

ii. the total number of Shares repurchased by our Company (if any) pursuant to the repurchase mandate (as referred to below).

The issue and allotment of Shares under a rights issue or pursuant to the exercise of any subscription rights, warrants which may be issued by our Company from time to time, scrip dividend scheme or similar arrangement providing for the issue and allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles, do not generally require the approval of shareholders of our Company in general meeting and the aggregate number of Shares which our Directors are authorised to allot and issue pursuant to this mandate will not be reduced by the issue and allotment of such Shares.

This mandate will expire at the earliest of:

— the conclusion of our next annual general meeting;

— the expiration of the period within which our next annual general meeting is required by the Articles or any applicable laws to be held; and

— the date on which such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting.

For further details of this general mandate, please refer to the paragraph headed "Further information about our Group — 3. Resolutions of our Shareholders" in Appendix VI to this prospectus.

## GENERAL MANDATE TO REPURCHASE SHARES

Conditional on the Share Offer becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total number of not more than 10% of the total number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue. This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed "Other information — 6. Repurchase by our Company of our own securities" in Appendix VI to this prospectus.

This mandate will expire at the earliest of:

— the conclusion of our next annual general meeting;

— the expiration of the period within which our next annual general meeting is required by the Articles or any applicable laws to be held; and

— the date on which such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting,

For further details of this general mandate, please refer to the paragraph headed "Further information about our Group — 3. Resolutions of our Shareholders" in Appendix VI to this prospectus.

*You should read the following discussion and analysis of our Group's business, results of operations and financial conditions for the Track Record Period in conjunction with the consolidated financial information and the accompanying notes thereto set forth in the Accountant's Report in Appendix I to this prospectus.*

*The following discussion and analysis contain certain forward-looking statements and information that involve substantial risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk factors" of this prospectus.*

## OVERVIEW

We are a leading manufacturer and supplier of concrete-based building materials in Xiamen, Fujian Province of the PRC. Our principal products can be broadly categorised into two types, namely, (i) ready-mixed concrete and (ii) PC components. During the Track Record Period and up to the Latest Practicable Date, all of our Group's products were sold in the PRC with primary focus in Fujian Province. According to the Frost & Sullivan Report, our Group was the largest manufacturer in terms of production volume for PC components in Fujian Province and in Xiamen, respectively and the largest manufacturer in terms of production volume for ready-mixed concrete in Xiamen, in 2019.

Currently, our business operations are primarily based in Xiamen, where two of our wholly-owned production plants, namely the RMC Plant and the PC Plant, and a leased production workshop, namely the Jimei Workshop, are located. Our current aggregate annual production capacity for ready-mixed concrete and PC components is approximately 1,439,000 $m^3$ and 119,800 $m^3$, respectively. For the Track Record Period, approximately 99.9%, 98.2%, 88.9% and 77.4% of our revenue were derived from construction projects in Xiamen, respectively. Given transportation limitations and costs being important factors in making purchase decision for concrete-related products, the proximity of our production plants to customers and our truck fleet capabilities provide our Group with competitive advantage in terms of delivery time and logistics costs as compared to suppliers from further areas within Fujian Province.

Our customers are generally construction companies in Fujian Province. During the Track Record Period, our ready-mixed concrete and PC components were primarily sold on project basis. However, depending on our production capacity, we may occasionally accept small-scale ad hoc purchase orders for our standard ready-mixed concrete products.

For the three years ended 31 December 2019, our Group recorded revenue of approximately RMB399.5 million, RMB511.3 million and RMB590.8 million, respectively, and profit for the year of approximately RMB12.2 million, RMB27.4 million and RMB41.8 million, respectively. Our gross profit was approximately RMB39.7 million, RMB76.5 million and RMB114.4 million, respectively, representing a year-on-year growth of approximately 92.8% and 49.5%, respectively. For the three years ended 31 December 2019, our gross profit margin was approximately 9.9%, 15.0% and 19.4%, respectively, and our net profit margin was approximately 3.1%, 5.4% and 7.1%, respectively.

For the ten months ended 31 October 2019 and 2020, our Group recorded revenue of approximately RMB437.1 million and RMB602.2 million, respectively, and profit for the periods of approximately RMB30.5 million and RMB43.0 million, respectively. Our gross profit was approximately RMB85.9 million and RMB119.0 million, respectively, representing a period-on-period growth of approximately 38.6%, respectively. Our gross profit margin was approximately 19.6% and 19.8% respectively, and our net profit margin was approximately 7.0% and 7.1%, respectively.

## BASIS OF PRESENTATION

Immediately prior to and after the Reorganisation, the principal business of our Group was operated by Zhixin Construction Material, Zhixin Logistics and Zhixin Construction Technology. Pursuant to the Reorganisation, Zhixin Construction Material and its subsidiaries were transferred to and held by the subsidiaries newly set up by our Company. Our Company and our newly set up subsidiaries had not been involved in any other business prior to the Reorganisation and do not meet the definition of a business. The Reorganisation is merely a reorganisation of the principal business of our Group with no change in management of such business and the ultimate controlling shareholders of the principal business of our Group.

Accordingly, our Group resulting from the Reorganisation is regarded as a continuation of the principal business of our Group and, for the purpose of the Accountant's Report set out in Appendix I to this prospectus, the historical financial information has been prepared and presented as a continuation of the consolidated financial statements of Zhixin Construction Material, Zhixin Logistics and Zhixin Construction Technology, with the assets and liabilities of our Group recognised and measured at the carrying amounts of the principal business of our Group for all periods presented.

The historical financial information has been prepared as if the current group structure had been in existence throughout the periods presented, or since the date when the combining companies first came under the collective control of the controlling shareholder, whichever is a shorter period.

## KEY FACTORS AFFECTING THE RESULTS OF OPERATIONS AND FINANCIAL POSITION

Our Group's financial condition and results of operations have been, and will continue to be, affected by a number of factors, including those set out below.

### General economic conditions and regulatory policies related to construction industry in the PRC and Fujian Province

During the Track Record Period, our revenue was derived from our sales to customers in the PRC, particularly in Fujian Province. The demand for our products significantly depends on the level of construction activities in the PRC, which largely correlates with the general economic conditions and regulatory policies related to the construction industry in the PRC. Any changes in the economic conditions and national, provincial or local policies related to construction industry in China and Fujian Province may have a material impact on the level of construction activities, as well as the land supply, project financing, fiscal budget and taxation, thereby affect the demand of our products. If the demand of our products decreases, our Group's financial condition and results of operations may be materially and adversely affected.

### Construction progress

Our revenue is affected by the construction progress of our customers. During the Track Record Period, our revenue was recognised upon the delivery and acceptance of our products by customers. The demand for our ready-mixed concrete and PC components products may fluctuate (i) according to different stage of the construction projects; and (ii) subject to many factors that are beyond our control, such as weather conditions, liquidity of our customers and other force majeure events. Hence, our revenue may fluctuate accordingly.

### Our ability to secure new projects

Our products are generally sold on a project basis. For the three years ended 31 December 2019 and the ten months ended 31 October 2020, we completed in aggregate 362 and 60 projects for our ready-mixed concrete and PC components products respectively. For the three years ended 31 December 2019 and the ten months ended 31 October 2020, excluding ad hoc sales, we derived (i) approximately RMB375.2 million, RMB443.1 million, RMB441.1 million and RMB403.9 million of revenue from ready-mixed concrete contracts; and (ii) approximately RMB5.6 million, RMB58.2 million, RMB144.0 million and RMB194.2 million of revenue from the PC components contracts, respectively. There is no guarantee that we will be able to secure new projects with existing or new customers in the future. If we are unable to obtain recurring business from our existing customers or develop relationships with new customers, it could have a negative impact on our Group's financial position and performance.

### Pricing of our projects

Our pricing directly affects our revenue, gross profit margin and other results of operations. We determine our tender price or negotiate our contract price on a case-by-case basis by adopting a cost-plus pricing model and referencing to Guidance Price issued by the local government. There is no assurance that the actual costs would not exceed our estimation during the performance of our projects. Various factors, such as accidents, unexpected fluctuation in the price of raw materials and other force majeure events, could potentially affect the accuracy of our estimation. If the actual costs are higher than the estimated costs on which our pricing is based, or we cannot completely pass on the increased costs to our customers on a timely basis, our gross profit margin and results of operations may be adversely affected.

### Fluctuation in the cost of raw materials

Our raw material cost represents a sizeable portion of our cost of sales. For the three years ended 31 December 2019 and the ten months ended 31 October 2019 and 2020, the cost of raw materials represented approximately 80.9%, 80.7%, 79.3%, 77.5% and 74.8% of the total cost of production, respectively. The principal raw materials that we used in the production of our products were cement and aggregates. The prices of these materials are susceptible to significant price fluctuations due to supply and demand trends in the markets, environmental and regulatory requirements, price controls and other unforeseen circumstances. Although those factors are beyond our control, we seek to manage our raw material cost by maintaining long-term relationships with key suppliers and continuing the optimisation of our supplier portfolio.

The fluctuation in raw material cost could directly and significantly impact our cost of sales, which in turn could affect our gross profit margin and results of operations. For the sensitivity analysis of the impact of hypothetical changes in the cost of major raw materials on our Group's profit before tax during the Track Record Period, please refer to the subsection headed "Discussion on major items of the consolidated statements of comprehensive income — Sensitivity analysis — Cost of raw materials" in this section.

### Product mix

Our results of operations are affected by our product mix. During the Track Record Period, we supplied two principal product categories, namely ready-mixed concrete and PC components, which were of different gross profit margins. Any change in the structure of revenue contribution from our product mix or change in gross profit margin of the products may have a corresponding impact on our overall gross profit margin. For further details regarding the change in our gross profit margin during the Track Record Period, please refer to the subsection headed "Discussion on major items of the consolidated statements of comprehensive income — Gross profit and gross profit margin" in this section.

### Seasonality

We normally record lower sales during the period from January to March due to Chinese New Year, when the construction activities are less active than other months of the year. Additionally, certain climatic conditions, such as heavy or prolonged rainfall, also negatively affect market demand of our products because of the level of activity in the construction industry is relatively low under such conditions. We expect our operating results will continue to be affected by such seasonality trend in the future. Please refer to the paragraph headed "Risk factors — Risks relating to our business and industry — The demand for our concrete products is bounded by seasonality, in particular, climatic seasonality, hence the weather conditions may impinge on the process of construction activities" for details.

## CRITICAL ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES

The audited historical financial information of our Group has been prepared in conformity with HKFRS. The accounting policies, estimates and assumptions that our Group applies in its preparation of historical financial information may have significant impacts on the reported financial condition and results of operation of our Group. These assumptions and estimates are often based on subjective judgements which are uncertain. Actual results may vary as facts, circumstances and condition change or as a result of different assumptions.

All effective standards, amendments to standards and interpretations, including HKFRS 9 and HKFRS 15, which are mandatory for the financial year beginning on 1 January 2018, and HKFRS 16, which is mandatory for the financial year beginning on 1 January 2019, are consistently applied to our Group for the Track Record Period.

### Adoption of HKFRS 9, HKFRS 15 and HKFRS 16

Our historical financial information has been prepared based on the underlying financial statements, in which HKFRS 9 "Financial instruments" ("HKFRS 9"), HKFRS 15 "Revenue from contracts with customers" ("HKFRS 15") and HKFRS16 "Leases" ("HKFRS 16") have been adopted and applied consistently since the beginning of, and throughout, the Track Record Period.

Given that the Track Record Period spans from 1 January 2017 to 31 October 2020, by which time HKFRS 9, HKFRS 15 and HKFRS 16 would be mandatorily applied, we have adopted HKFRS 9, HKFRS 15 and HKFRS 16 in lieu of HKAS 39 "Financial Instruments: Recognition and Measurement" ("HKAS 39"), HKAS 18 "Revenue" ("HKAS 18") and HKAS 17 "Leases" ("HKAS 17") in the preparation of our financial statements, such that our historical financial information prepared under HKFRS 9, HKFRS 15 and HKFRS 16 is comparable on a period-to-period basis.

We have carried out internal assessments based on the principles set out in HKAS 39, HKAS 18 and HKAS 17, and set out below certain estimated key impacts on our financial position and performance if HKAS 39, HKAS 18 and HKAS 17 were adopted instead:

*Adoption of new impairment model — HKFRS 9*

HKFRS 9 requires the recognition of impairment provisions of financial assets measured at amortised cost based on expected credit losses model while it is based on as-incurred model under HKAS 39. We have assessed that the adoption of these two different models would not result in significant difference on bad debt provision and the adoption of HKFRS 9 did not have any significant impact on our Group's financial position and performance as compared with HKAS 39.

*Revenue recognition — HKFRS 15*

Under HKAS 18, revenue from the sale of goods shall be recognised when the entity has transferred to the buyer the significant risks and rewards of ownership of the goods. Under HKFRS 15, revenue from sale of goods is recognised at the point of time when control of the goods has been transferred to the customers. Under both HKAS 18 and HKFRS 15, these sales transactions are recognised as revenue when the goods are delivered to the customers. We estimate the sales return, which is netted off against revenue recognised during the period, based on accumulated experience and the terms in the sales contracts with the customers.

With adoption of HKFRS 15, the revenue from sales of goods is recognised upon the controls of goods transferred at a point in time depending on the terms of our contracts, in which it does not have significant changes over the revenues recognition at the time the significant risk and rewards of goods transferred to the purchasers under HKAS 18. Our Group assessed that adoption of HKFRS 15 would not result in significant impact on our Group's financial position and performance as compared with HKAS 18.

*Presentation of contract liabilities — HKFRS 15*

The adoption of HKFRS 15 resulted in reclassification of advanced payment from customers for goods that have not yet been transferred to the customers. Contract liabilities amounting to approximately RMB2.3 million, RMB6.1 million, RMB12.4 million and RMB1.5 million as of 31 December 2017, 2018 and 2019 and 31 October 2020 respectively, would have been presented as advances from customers if HKAS 18 has been applied throughout the Track Record Period.

Our Directors considered the adoption of HKFRS 15 did not have significant impact on our financial position and performance during the Track Record Period as compared with HKAS 18, except for the reclassification in relation to advances from customers to contract liabilities.

*Leases — HKFRS 16*

Under HKAS 17, operating lease commitments are disclosed in a note to the financial statements and are not recognised in statement of financial position. Under HKFRS 16, all leases (except for those with lease term of less than 12 months or of low value) must be recognised in the form of assets (being the right-of-use assets in our financial statements) and financial liabilities (being the lease liabilities in our financial statements).

There is no significant impact on financial position arising from the adoption of HKFRS 16, except for (i) increase in total assets and total liabilities by approximately RMB18.7 million and RMB18.1 million as at 31 December 2019, representing approximately 2.8% and 3.2% of our Group's total assets and total liabilities, respectively, and increase in total assets and total liabilities by approximately RMB18.9 million and RMB18.0 million as at 31 October 2020 representing approximately 2.3% and 2.7% of our Group's total assets and total liabilities, respectively as result of recognition of right-of-use assets (other than land use rights) and relevant lease liabilities under HKFRS 16; and (ii) reclassification of land use rights as right-of-use assets under HKFRS 16, amounting to approximately RMB23.6 million, RMB23.0 million, RMB22.4 million and RMB21.8 million as at 31 December 2017, 2018 and 2019 and 31 October 2020, respectively, which represented approximately 4.2%, 4.2%, 3.3% and 2.7% of our Group's total assets.

Below is a summary of the critical accounting policies adopted by our Group for the preparation of financial statements. For full details of our Group's accounting policies and estimates, please refer to Note 2 and Note 4 to the Accountant's Report set out in Appendix I to this prospectus respectively.

**Revenue recognition**

Our Group is engaged in manufacturing and sale of ready-mixed concrete and PC components products.

Revenue from sales of ready-mixed concrete and PC components products are recognised when control of the products has been transferred to the customers, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or our Group has objective evidence that all criteria for acceptance have been satisfied.

Advances from customers that are related to sales of goods not yet delivered are recorded as contract liability when cash received from the customers before the transfer of goods control.

Revenue from sales of products is based on the price specified in the sales contracts and is shown net of VAT and after eliminating sales within our Group. No element of financing is deemed present as the sales are made with a credit term. A receivable is recognised when the control of products is transferred as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

**Property, plant and equipment**

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to our Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values of 5% over their estimated useful lives as follows:

| | |
|---|---|
| Buildings | 20–40 years |
| Machineries | 3–15 years |
| Concrete mixer trucks | 5–10 years |
| Office equipment and vehicles | 3–10 years |

**Trade receivables**

Trade receivables are amounts due from customers for products sold or services rendered in the ordinary course of business. If collection of trade receivables is expected in one year or less (or in the normal operating cycle of business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are initially recognised at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. Our Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

For impairment on trade receivables with no significant financing component, our Group applies simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of the trade receivables with similar risk characteristics and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

**Trade and other payables**

Trade payables represent liabilities for products and services provided to our Group prior to the end of the reporting period which are unpaid. Trade and other payables are presented as current liabilities if payment is due within 12 months. If not, they are presented as non-current liabilities. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

## RESULTS OF OPERATIONS

The following sets forth a summary of our results of operations during the Track Record Period as extracted from the Accountant's Report set out in Appendix I to this prospectus:

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| **Revenue** | 399,519 | 511,267 | 590,797 | 437,105 | 602,155 |
| Cost of sales | (359,853) | (434,775) | (476,420) | (351,245) | (483,167) |
| **Gross profit** | 39,666 | 76,492 | 114,377 | 85,860 | 118,988 |
| Other income | 2,985 | 4,061 | 3,693 | 3,054 | 4,158 |
| Other (losses)/gains — net | (189) | 464 | (1,572) | (1,500) | (444) |
| Selling expenses | (7,306) | (11,432) | (13,699) | (9,844) | (20,142) |
| Administrative expenses | (17,711) | (23,655) | (28,188) | (22,182) | (24,376) |
| Net impairment losses on financial assets | (35) | (1,588) | (1,431) | (1,114) | (2,030) |
| Listing expenses | — | — | (6,512) | (5,220) | (5,662) |
| **Operating profit** | 17,410 | 44,342 | 66,668 | 49,054 | 70,492 |
| Finance income | 349 | 319 | 105 | 88 | 54 |
| Finance costs | (2,142) | (7,277) | (8,836) | (6,819) | (11,171) |
| Finance costs — net | (1,793) | (6,958) | (8,731) | (6,731) | (11,117) |
| **Profit before income tax** | 15,617 | 37,384 | 57,937 | 42,323 | 59,375 |
| Income tax expense | (3,378) | (10,015) | (16,115) | (11,866) | (16,402) |
| **Profit and total comprehensive income for the year/period** | 12,239 | 27,369 | 41,822 | 30,457 | 42,973 |
| **Profit attributable to:** | | | | | |
| Owners of our Company | 16,087 | 27,369 | 41,822 | 30,457 | 42,973 |
| Non-controlling interests | (3,848) | — | — | — | — |
| | 12,239 | 27,369 | 41,822 | 30,457 | 42,973 |
| **Earnings per share for profit attributable to owners of our Company** | | | | | |
| Basic and diluted earnings per share (RMB) | 16.09 | 27.37 | 41.82 | 30.46 | 42.97 |

## NON-HKFRS FINANCIAL MEASURES[1]

The following table sets forth the adjusted profit and adjusted net profit margin in each respective year/period during the Track Record Period:

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Profit for the year/period | 12,239 | 27,369 | 41,822 | 30,457 | 42,973 |
| Add: Listing expenses | — | — | 6,512 | 5,220 | 5,662 |
| Adjusted profit for the year/period *(unaudited)*[2] | 12,239 | 27,369 | 48,334 | 35,677 | 48,635 |
| Adjusted net profit margin *(unaudited)*[3] | 3.1% | 5.4% | 8.2% | 8.2% | 8.1% |

*Notes:*

(1) To supplement our consolidated financial statements which are presented in accordance with HKFRS, we also presented adjusted profit and adjusted net profit margin as non-HKFRS financial measures which are not required by, or presented in accordance with, HKFRS. We believe that the presentation of non-HKFRS financial measures when shown in conjunction with the corresponding HKFRS financial measures provides useful information to potential investors and management in understanding and evaluating our operating performance from period to period by eliminating potential impact of non-recurring item that does not affect our ongoing operating performance.

(2) We calculated the adjusted profit for the year/period by adding back the Listing expenses to the profit for the year/period as presented in accordance with HKFRS.

(3) We calculated the adjusted net profit margin by dividing adjusted net profit for the year/period by revenue as at the relevant year/period end and multiplied by 100%.

The use of the non-HKFRS financial measures has limitations as an analytical tool, and investors are reminded that they should not be considered in isolation from, or as a substitute for, an analysis of our financial results or other operating performance measures calculated in accordance with HKFRS. In addition, the non-HKFRS financial measures may not be calculated in the same manner by all companies and therefore may not be comparable to similarly named measures used by other companies.

## DISCUSSION ON MAJOR ITEMS OF THE CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The following is a brief discussion on the principal income statement, including revenue, cost of sales, gross profit and gross profit margin, other income, selling expenses, administrative expenses, finance costs — net and income tax expense during the Track Record Period.

### Revenue

During the Track Record Period, our revenue was principally derived from sale of (i) ready-mixed concrete and (ii) PC component products. For the three years ended 31 December 2019, our revenue increased by approximately RMB111.7 million or approximately 28.0% from approximately RMB399.5 million for the year ended 31 December 2017 to approximately RMB511.3 million for the year ended 31 December 2018, and further increased by approximately RMB79.5 million or approximately 15.6% to approximately RMB590.8 million for the year ended 31 December 2019. For the ten months ended 31 October 2020, our revenue amounted to approximately RMB602.2 million, representing an increase of approximately RMB165.1 million or 37.8% from approximately RMB437.1 million for the ten months ended 31 October 2019.

The increase in revenue for the year ended 31 December 2018 was attributable to the increase in revenue from the sale of ready-mixed concrete and PC components by approximately RMB59.2 million and RMB52.6 million, respectively.

The increase in revenue for the year ended 31 December 2019 was mainly attributable to the increase in revenue from the sale of PC components by approximately RMB85.8 million, which was partially offset by the decrease in revenue from the sale of ready-mixed concrete by approximately RMB6.2 million.

The increase in revenue for the ten months ended 31 October 2020 was primarily attributable to the increase in revenue from the sale of ready-mixed concrete and PC components by approximately RMB87.7 million and RMB77.4 million, respectively.

### (i) *Revenue by products*

The following table sets forth our Group's revenue contribution by product categories during the Track Record Period:

| | Year ended 31 December | | | | | | Ten months ended 31 October | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2018 | | 2019 | | 2019 | | 2020 | |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 (Unaudited) | % | RMB'000 | % |
| **Ready-mixed concrete** | | | | | | | | | | |
| — Low grade | 190,711 | 47.7 | 164,441 | 32.2 | 237,845 | 40.2 | 160,215 | 36.6 | 190,885 | 31.6 |
| — Standard grade | 151,939 | 38.0 | 179,079 | 35.0 | 133,205 | 22.5 | 97,414 | 22.3 | 141,991 | 23.6 |
| — High grade | 43,779 | 11.0 | 97,868 | 19.1 | 52,414 | 8.9 | 45,722 | 10.5 | 37,903 | 6.3 |
| — CTB | 7,453 | 1.9 | 11,684 | 2.3 | 23,368 | 4.0 | 16,855 | 3.9 | 37,109 | 6.2 |
| Subtotal | 393,882 | 98.6 | 453,072 | 88.6 | 446,832 | 75.6 | 320,206 | 73.3 | 407,888 | 67.7 |
| **PC components** | | | | | | | | | | |
| — Tunnel segments | — | — | 31,303 | 6.1 | 43,583 | 7.4 | 35,789 | 8.2 | 1,230 | 0.2 |
| — Other construction components | 5,637 | 1.4 | 26,892 | 5.3 | 100,382 | 17.0 | 81,110 | 18.5 | 193,037 | 32.1 |
| Subtotal | 5,637 | 1.4 | 58,195 | 11.4 | 143,965 | 24.4 | 116,899 | 26.7 | 194,267 | 32.3 |
| **Total** | 399,519 | 100.0 | 511,267 | 100.0 | 590,797 | 100.0 | 437,105 | 100.0 | 602,155 | 100.0 |

### (ii) *Sales volume and average selling price*

The following table sets forth the breakdown of sales volume and average selling price of our Group's products by product categories during the Track Record Period:

| | Year ended 31 December | | | | | | Ten months ended 31 October | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2018 | | 2019 | | 2019 | | 2020 | |
| | Total sales volume | Average selling price *(Note)* | Total sales volume | Average selling price *(Note)* | Total sales volume | Average selling price *(Note)* | Total sales volume | Average selling price *(Note)* | Total sales volume | Average selling price *(Note)* |
| | ($m^3$) | RMB/$m^3$ | ($m^3$) | RMB/$m^3$ | ($m^3$) | RMB/$m^3$ | ($m^3$) | RMB/$m^3$ (Unaudited) | ($m^3$) | RMB/$m^3$ |
| **Ready-mixed concrete** | | | | | | | | | | |
| — Low grade | 562,894 | 338.8 | 431,324 | 381.2 | 552,818 | 430.2 | 386,086 | 415.0 | 423,891 | 450.3 |
| — Standard grade | 393,856 | 385.8 | 416,841 | 429.6 | 281,393 | 473.4 | 210,998 | 461.7 | 283,165 | 501.4 |
| — High grade | 93,430 | 468.6 | 187,888 | 520.9 | 94,274 | 556.0 | 83,236 | 549.3 | 64,475 | 587.9 |
| — CTB | 33,769 | 220.7 | 50,256 | 232.5 | 97,249 | 240.3 | 70,424 | 239.3 | 156,089 | 237.7 |
| Subtotal | 1,083,949 | 363.4 | 1,086,309 | 417.1 | 1,025,734 | 435.6 | 750,744 | 426.5 | 927,620 | 439.7 |
| **PC components** | | | | | | | | | | |
| — Tunnel segments | — | — | 25,918 | 1,207.7 | 36,106 | 1,207.1 | 29,650 | 1,207.1 | 1,028 | 1,196.8 |
| — Other construction components | 2,433 | 2,317.5 | 17,072 | 1,575.2 | 42,481 | 2,363.0 | 33,937 | 2,390.0 | 73,570 | 2,623.9 |
| Subtotal | 2,433 | 2,317.5 | 42,990 | 1,353.7 | 78,587 | 1,831.9 | 63,587 | 1,838.4 | 74,598 | 2,604.2 |
| **Total** | 1,086,382 | 367.8 | 1,129,299 | 452.7 | 1,104,321 | 535.0 | 814,331 | 536.8 | 1,002,218 | 600.8 |

*Note:* Average selling prices represent the revenue for the year/period divided by the total sales volume for the year/period.

**Ready-mixed concrete**

During the Track Record Period, revenue derived from sale of ready-mixed concrete accounted for approximately 98.6%, 88.6%, 75.6%, 73.3% and 67.7% of our total revenue for the three years ended 31 December 2019 and the ten months ended 31 October 2019 and 2020, respectively.

Our revenue derived from sales of ready-mixed concrete increased from approximately RMB393.9 million for the year ended 31 December 2017 to approximately RMB453.1 million for the year ended 31 December 2018. Such increase was primarily due to (i) the overall increase in average selling price of our ready-mixed concrete products from approximately RMB363.4 per $m^3$ for the year ended 31 December 2017 to approximately RMB417.1 per $m^3$ for the year ended 31 December 2018 as a result of the increase in price of raw materials, mainly price of cement; and (ii) the increase in sales volume of standard and high grade ready-mixed concrete mainly due to the increased demand from certain rail transit projects requiring ready-mixed concrete of high compressive strength, which was partially offset by the decrease in sales volume of low grade ready-mixed concrete.

Our revenue derived from sales of ready-mixed concrete decreased from approximately RMB453.1 million for the year ended 31 December 2018 to approximately RMB446.8 million for the year ended 31 December 2019, which was mainly due to the overall decrease in sales volume of ready-mixed concrete primarily attributable to (i) the significant increase in average monthly rainfall in Xiamen from approximately 49.3 millimetres for the year ended 31 December 2018 to approximately 147.7 millimetres for the year ended 31 December 2019, which reduced the level of construction activities due to prolonged adverse weather condition; and (ii) our on-going projects were at different construction stages which affected the grade strength (in particular standard and high grade) of ready-mixed concrete required by our customers and the overall demand of our ready-mixed concrete.

Our revenue derived from sales of ready-mixed concrete increased from approximately RMB320.2 million for the ten months ended 31 October 2019 to approximately RMB407.9 million for the ten months ended 31 October 2020, which was primarily due to (i) the overall increase in sales volume of ready-mixed concrete, in particular CTB due to the increase in demand from projects performing road works and low and standard grade ready-mixed concrete due to different construction stages of our on-going projects which affected the demand of the grade strength of our ready-mixed concrete; and (ii) the overall increase in average selling price of our ready-mixed concrete products from approximately RMB426.5 per $m^3$ for the ten months ended 31 October 2019 to approximately RMB439.7 per $m^3$ for the ten months ended 31 October 2020 mainly attributable to our ability to negotiate favourable pricing terms with our customers, which is in line with the industry pricing trend in Xiamen. Please refer to the subsection headed "Gross profit and gross profit margin — Ready-mixed concrete" in this section for more details. Such increase was partially offset by the decrease in sales volume of high grade ready-mixed concrete mainly due to the decrease in demand from rail transit projects requiring ready-mixed concrete of high compressive strength.

**PC components**

In the wake of advancement and maturity of prefabricated construction techniques and leveraging on our expertise and extensive experience in the commercial concrete industry, our Group successfully expanded into the PC components industry with our PC Plant commencing its commercial operation gradually in the second half of 2017. Sale of PC components has taken off since, and experienced significant growth during the Track Record Period, accounting for approximately 1.4%, 11.4%, 24.4%, 26.7% and 32.3% of our total revenue for the three years ended 31 December 2019 and the ten months ended 31 October 2019 and 2020, respectively.

Our revenue derived from sale of PC components grew from approximately RMB5.6 million for the year ended 31 December 2017 to approximately RMB58.2 million for the year ended 31 December 2018. Such growth was mainly due to the increase in sales volume of PC components from approximately 2,433 $m^3$ for the year ended 31 December 2017 to approximately 42,990 $m^3$ for the year ended 31 December 2018, which was partially offset by the decrease in average selling price of other construction components from approximately RMB2,317.5 per $m^3$ for the year ended 31 December 2017 to approximately RMB1,575.2 per $m^3$ for the year ended 31 December 2018. The increase in sales volume of PC components was primarily attributable to our Group's success in winning new PC components projects, in particular rail transit projects to provide tunnel segments, floor slabs and square piles, which in aggregate contributed approximately RMB39.4 million to our total revenue for the year ended 31 December 2018. The decrease in average selling price of other construction components was mainly due to the change in our product mix by selling approximately 89 $m^3$ and 12,455 $m^3$ of square piles, representing approximately 3.7% and 73.0% of other construction components in terms of sales volume, for the two years ended 31 December 2018, respectively. Our square piles were on average priced relatively lower per $m^3$ as its production process is less complex. For further details on the price range of other construction components, please refer to the section headed "Business — Our products — (ii) PC components — Other construction components".

Our revenue derived from sale of PC components increased from approximately RMB58.2 million for the year ended 31 December 2018 to approximately RMB144.0 million for the year ended 31 December 2019, which was mainly due to the (i) increase in average selling price of other construction components from approximately RMB1,575.2 per $m^3$ for the year ended 31 December 2018 to approximately RMB2,363.0 per $m^3$ for the year ended 31 December 2019 as a result of an increase in sale of floor slabs and utility tunnel segments which were on average priced relatively higher per $m^3$; and (ii) increase in sales volume of PC components from approximately 42,990 $m^3$ for the year ended 31 December 2018 to approximately 78,587 $m^3$ for the year ended 31 December 2019 as we had secured 28 new PC components projects during the year ended 31 December 2019.

Our revenue derived from sale of PC components increased from approximately RMB116.9 million for the ten months ended 31 October 2019 to approximately RMB194.3 million for the ten months ended 31 October 2020, which was attributable to the combined effects of (i) increase in revenue from sale of other construction components by approximately RMB111.9 million; and (ii) decrease in revenue from sale of tunnel segments by approximately RMB34.6 million. The increase in revenue from sale of other construction components was mainly due to the (i) increase in average selling price of other construction components from approximately RMB2,390.0 per $m^3$ for the ten months ended 31 October 2019 to approximately RMB2,623.9 per $m^3$ for the ten months ended 31 October 2020 as a result of an increase in sale of floor slabs and utility tunnel segments which were on average priced relatively higher per $m^3$; and (ii) increase in sales volume of other construction components from approximately 33,937 $m^3$ for the ten months ended 31 October 2019 to approximately 73,570 $m^3$ for the ten months ended 31 October 2020 as our tunnel segments production lines had been modified to produce other construction components since January 2020 due to our tunnel segment projects on hand were close to their completion and the increase in demand for our other construction component products, given we had secured 34 new PC components projects of other construction components during the ten months ended 31 October 2020. The decrease in revenue from sale of tunnel segments was mainly due to the decrease in sales volume of tunnel segments from approximately 29,650 $m^3$ for the ten months ended 31 October 2019 to approximately 1,028 $m^3$ for the ten months ended 31 October 2020 as our tunnel segment projects on hand were close to their completion.

**Cost of sales**

Our Group's cost of sales primarily consists of (i) raw material cost; (ii) direct labour cost; (iii) outsourcing cost; (iv) transportation cost; and (v) depreciation and amortisation.

The following table sets forth the breakdown of our Group's cost of sales by nature during the Track Record Period:

| | Year ended 31 December | | | | | | Ten months ended 31 October | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2018 | | 2019 | | 2019 | | 2020 | |
| | RMB'000 | % to total cost of production | RMB'000 | % to total cost of production | RMB'000 | % to total cost of production | RMB'000 (Unaudited) | % to total cost of production | RMB'000 | % to total cost of production |
| Raw material cost | | | | | | | | | | |
| — aggregates | 139,046 | 38.1 | 144,718 | 33.3 | 169,192 | 34.7 | 121,673 | 34.0 | 166,161 | 33.2 |
| — cement | 102,594 | 28.1 | 137,615 | 31.6 | 121,669 | 25.0 | 87,284 | 24.4 | 106,561 | 21.3 |
| — rebars(1) | 2,253 | 0.6 | 7,985 | 1.8 | 31,878 | 6.5 | 20,128 | 5.6 | 40,088 | 8.0 |
| — admixtures | 15,300 | 4.2 | 19,885 | 4.6 | 14,527 | 3.0 | 11,980 | 3.3 | 11,929 | 2.4 |
| — PFA | 14,641 | 4.0 | 14,810 | 3.4 | 13,732 | 2.8 | 9,953 | 2.8 | 12,853 | 2.6 |
| — mineral powder | 12,283 | 3.4 | 14,881 | 3.4 | 14,588 | 3.0 | 10,220 | 2.9 | 12,336 | 2.4 |
| — others(2) | 9,230 | 2.5 | 11,111 | 2.6 | 21,019 | 4.3 | 16,240 | 4.5 | 24,919 | 4.9 |
| **Subtotal** | 295,347 | 80.9 | 351,005 | 80.7 | 386,605 | 79.3 | 277,478 | 77.5 | 374,847 | 74.8 |
| Direct labour cost | 30,966 | 8.5 | 38,045 | 8.7 | 39,029 | 8.0 | 32,383 | 9.1 | 38,394 | 7.7 |
| Outsourcing cost | 1,461 | 0.4 | 6,015 | 1.4 | 14,482 | 3.0 | 10,900 | 3.0 | 40,249 | 8.0 |
| Depreciation and amortisation | 10,650 | 2.9 | 12,614 | 2.9 | 15,280 | 3.1 | 12,609 | 3.5 | 14,950 | 3.0 |
| Transportation cost | 12,685 | 3.5 | 15,458 | 3.6 | 12,103 | 2.5 | 8,947 | 2.5 | 9,648 | 1.9 |
| Utility charge | 2,704 | 0.7 | 3,914 | 0.9 | 5,949 | 1.2 | 4,867 | 1.4 | 5,053 | 1.0 |
| Repair and maintenance | 2,736 | 0.7 | 1,164 | 1.9 | 1,924 | 0.4 | 1,294 | 0.4 | 2,365 | 0.5 |
| Others | 8,663 | 2.4 | 6,926 | 1.5 | 12,152 | 2.5 | 9,241 | 2.6 | 15,684 | 3.1 |
| **Total cost of production** | 365,212 | 100.0 | 435,141 | 100.0 | 487,524 | 100.0 | 357,719 | 100.0 | 501,190 | 100.0 |
| Changes in inventories of finished goods and work-in-progress(3) | (5,359) | | (366) | | (11,104) | | (6,474) | | (18,023) | |
| **Total** | 359,853 | | 434,775 | | 476,420 | | 351,245 | | 483,167 | |

*Notes:*

1. The cost of rebars refers to the rebars used for the manufacturing of other construction components only as the rebars used for manufacturing tunnel segments were provided by our customers.

2. Other costs primarily consisted of embedded components, stone powder and moulds.

3. Changes in inventories of finished goods and work-in-progress mainly represent unallocated cost of production. The negative amounts in changes in inventories of finished goods and work-in-progress reflect that our production exceeds sales.

***Raw material cost***

Raw material cost is the largest component in our Group's cost structure. The raw materials used in our Group's production primarily include aggregates and cement. Raw material cost accounted for approximately RMB295.3 million, RMB351.0 million, RMB386.6 million, RMB277.5 million and RMB374.8 million, which represented approximately 80.9%, 80.7%, 79.3%, 77.5% and 74.8% of our total cost of production for the three years ended 31 December 2019 and the ten months ended 31 October 2019 and 2020 respectively.

Our raw material cost increased by approximately RMB55.7 million or 18.8% for the year ended 31 December 2018 as compared to the year ended 31 December 2017, which was mainly attributable to the increase in cost of cement by approximately RMB35.0 million. The increase in cost of cement was primarily due to (i) the increase in average cost of cement from approximately RMB349.5 per tonne for the year ended 31 December 2017 to approximately RMB424.2 per tonne for the year ended 31 December 2018; and (ii) the increase in production volume of standard and high grade ready-mixed concrete which require a higher proportion of cement in its production than low grade ready-mixed concrete.

Our raw material cost increased by approximately RMB35.6 million or 10.1% for the year ended 31 December 2019 as compared to the year ended 31 December 2018, which was mainly attributable to (i) increase in cost of rebar by approximately RMB23.9 million due to the increase in sales volume of other construction components; and (ii) increase in cost of aggregates by approximately RMB24.5 million primarily due to the increase in average cost of aggregates from approximately RMB67.3 per tonne for the year ended 31 December 2018 to approximately RMB88.2 per tonne for the year ended 31 December 2019. Such increase was partially offset by the decrease in cost of cement by approximately RMB15.9 million for the year ended 31 December 2019, the decrease was primarily due to the decrease in the volume of cement used in our production as a result of the decreased demand of our standard and high grade ready-mixed concrete, which normally uses more cement than low grade ready-mixed concrete and CTB in its mixture.

Our raw material cost increased by approximately RMB97.4 million or 35.1% for the ten months ended 31 October 2020 as compared to the ten months ended 31 October 2019, which was mainly attributable to (i) increase in cost of rebar by approximately RMB20.0 million due to the increase in sales volume of other construction components since the rebar used for manufacturing tunnel segments were provided by our customers before the production line was modified to produce other construction components since January 2020; and (ii) increase in cost of aggregates and cement by approximately RMB44.5 million and RMB19.3 million respectively, primarily due to the (i) overall increase in sales volume of ready-mixed concrete and PC components; and (ii) increase in average cost of aggregates and cement from approximately RMB78.2 per tonne and RMB391.8 per tonne for the ten months ended 31 October 2019 to approximately RMB91.0 per tonne and RMB398.8 per tonne for the ten months ended 31 October 2020, respectively.

For details regarding the market price trends of raw materials, please refer to the paragraph "Industry overview — Price trends in Fujian Province — Raw materials".

***Direct labour cost***

Our direct labour cost represents employee salary and benefit expenses for our production staff employed by our Group, including the staff in the department of quality control, laboratory, design, technical, procurement, construction, installation and production. For the three years ended 31 December 2019 and the ten months ended 31 October 2019 and 2020, our direct labour cost for the production of (i) ready-mixed concrete amounted to approximately RMB25.3 million, RMB25.5 million, RMB20.8 million, RMB17.5 million and RMB19.4 million; and (ii) PC components amounted to approximately RMB5.6 million, RMB12.4 million, RMB18.0 million, RMB14.9 million and RMB19.0 million, respectively. The increase in direct labour cost of approximately RMB7.1 million or 22.9% for the year ended 31 December 2018, approximately RMB1.0 million or 2.6% for the year ended 31 December 2019 and approximately RMB6.0 million or 18.6% for the ten months ended 31 October 2020 was mainly attributable to the increase in our monthly average headcount of our production staff from (i) 413 for the year ended 31 December 2017 to 466 for the year ended 31 December 2018, and further to 482 for the year ended 31 December 2019; and (ii) 483 for the ten months ended 31 October 2019 to 507 for the ten months ended 31 October 2020 to support our Group's expansion into the PC components market as our production volume increases. During the Track Record Period, our Group engaged employment agents to supplement labour resources for our PC component production lines. For details, please refer to the section headed "Business — Procurement — Employment agents". As a result, despite our increase in production volume for the year ended 31 December 2019 and the ten months ended 31 October 2020 as compared to the year ended 31 December 2018 and the ten months ended 31 October 2019, respectively, the percentage to total cost of production of direct labour decreased from approximately 8.7% for the year ended 31 December 2018 to approximately 8.0% for the year ended 31 December 2019 and from approximately 9.1% for the ten months ended 31 October 2019 to approximately 7.7% for the ten months ended 31 October 2020, whereas the percentage to total cost of production of outsourcing cost increased from approximately 1.4% for the year ended 31 December 2018 to approximately 3.0% for the year ended 31 December 2019 and from approximately 3.0% for the ten months ended 31 October 2019 to approximately 8.0% for the ten months ended 31 October 2020 as our Group increased reliance on outsourced workers for our PC component production to ensure stable supply of skilful labour and minimise the risks of labour shortage.

***Outsourcing cost***

Our outsourcing cost mainly represents fees paid to employment agents to supplement labour resources for our PC component production lines and our assembly services for underground utility tunnel projects. Our outsourcing cost in relation to (i) production of PC components is generally calculated based on a fixed price per unit of PC component produced (by type) or rebar processed; and (ii) assembly services is calculated based on a fixed price per unit installed, and our outsourcing cost may vary depending on the types of projects our Group is engaged in at the relevant year/period, given the labour requirements may differ between product types. For details, please refer to the section headed "Business — Procurement — Employment agents".

For the three years ended 31 December 2019 and the ten months ended 31 October 2019 and 2020, our outsourcing cost amounted to approximately RMB1.5 million, RMB6.0 million, RMB14.5 million, RMB10.9 million and RMB40.2 million, which represented approximately 0.4%, 1.4%, 3.0%, 3.0% and 8.0% of our total cost of production, respectively.

The increase in outsourcing cost of approximately RMB4.6 million or 311.7% for the year ended 31 December 2018 was mainly attributable to the increase in production volume with involvement of outsourced factory workers from 1,687.2 $m^3$ for the year ended 31 December 2017 to approximately 31,236.1 $m^3$ for the year ended 31 December 2018 mainly to supplement our production of tunnel segments.

The increase in outsourcing cost of approximately RMB8.5 million or 140.8% for the year ended 31 December 2019 was mainly attributable to (i) the increase in production volume with involvement of outsourced factory workers from 31,236.1 $m^3$ for the year ended 31 December 2018 to approximately 56,963.4 $m^3$ for the year ended 31 December 2019 mainly to supplement our production of tunnel segments and certain other construction components; and (ii) engagement of Employment Agent G to perform on-site assembly works for an underground utility tunnel project. Please refer to the section headed "Business — Employment agents" for further details.

The increase in outsourcing cost of approximately RMB29.3 million or 269.3% for the ten months ended 31 October 2020 as compared to the ten months ended 31 October 2019 was mainly attributable to the (i) increase in production volume with involvement of outsourced factory workers from approximately 41,974.3 $m^3$ for the ten months ended 31 October 2019 to approximately 76,738.9 $m^3$ for the ten months ended 31 October 2020 mainly to supplement our production of other construction components; (ii) increase in production of floor slabs and utility tunnel segments from approximately 5,117.4 $m^3$ for the ten months ended 31 October 2019 to approximately 52,382.0 $m^3$ for the ten months ended 31 October 2020, which were on average charged relatively higher per $m^3$ due to the additional amount of manual labor involved in the production process; and (iii) increase in demand for on-site assembly works from three of our underground utility tunnel projects, which led to the increase in relevant outsourcing cost of approximately RMB9.7 million from approximately RMB1.0 million for the ten months ended 31 October 2019 to approximately RMB10.7 million for the ten months ended 31 October 2020.

### Gross profit and gross profit margin

The following table sets forth the gross profit and gross profit margin during the Track Record Period:

| | Year ended 31 December | | | | | | Ten months ended 31 October | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2018 | | 2019 | | 2019 | | 2020 | |
| | Gross profit | Gross profit margin | Gross profit | Gross profit margin | Gross profit | Gross profit margin | Gross profit | Gross profit margin | Gross profit | Gross profit margin |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 (Unaudited) | % | RMB'000 | % |
| **Ready-mixed concrete** | | | | | | | | | | |
| — Low grade | 11,523 | 6.0 | 15,441 | 9.4 | 31,884 | 13.4 | 21,484 | 13.4 | 21,619 | 11.3 |
| — Standard grade | 22,025 | 14.5 | 28,535 | 15.9 | 23,312 | 17.5 | 18,098 | 18.6 | 26,898 | 18.9 |
| — High grade | 11,430 | 26.1 | 26,100 | 26.7 | 14,684 | 28.0 | 12,435 | 27.2 | 10,287 | 27.1 |
| — CTB | 441 | 5.9 | 1,250 | 10.7 | 2,975 | 12.7 | 1,980 | 11.7 | 4,336 | 11.7 |
| Subtotal | 45,419 | 11.5 | 71,326 | 15.7 | 72,855 | 16.3 | 53,997 | 16.9 | 63,140 | 15.5 |
| **PC components** | | | | | | | | | | |
| — Tunnel segments | — | — | 10,865 | 34.7 | 13,851 | 31.8 | 12,185 | 34.0 | 426 | 34.6 |
| — Other construction components | (5,753) | (102.0) | (5,699) | (21.2) | 27,671 | 27.6 | 19,678 | 24.3 | 55,422 | 28.7 |
| Subtotal | (5,753) | (102.0) | 5,166 | 8.9 | 41,522 | 28.8 | 31,863 | 27.3 | 55,848 | 28.7 |
| **Total** | 39,666 | 9.9 | 76,492 | 15.0 | 114,377 | 19.4 | 85,860 | 19.6 | 118,988 | 19.8 |

Our Group's overall gross profit increased by approximately RMB36.8 million or approximately 92.8% from approximately RMB39.7 million for the year ended 31 December 2017 to approximately RMB76.5 million for the year ended 31 December 2018 as a result of the overall increase in gross profit margin and revenue growth for reasons mentioned above. For the year ended 31 December 2019, our Group's overall gross profit was approximately RMB114.4 million, representing an increase of approximately RMB37.9 million or 49.5% from approximately RMB76.5 million for the year ended 31 December 2018. Such increase was mainly attributable to the increase in gross profit of PC components by approximately RMB36.4 million. For the ten months ended 31 October 2020, our Group's overall gross profit was approximately RMB119.0 million, representing an increase of approximately RMB33.1 million or 38.6% from approximately RMB85.9 million for the ten months ended 31 October 2019. Such increase was mainly due to the increase in gross profit of PC components by approximately RMB24.0 million and overall revenue growth for reasons mentioned above.

Our Group's overall gross profit margin increased from approximately 9.9% for the year ended 31 December 2017 to approximately 15.0% for the year ended 31 December 2018. The increase was largely driven by (i) the increased gross profit margin of our ready-mixed concrete products for reasons mentioned below; and (ii) our PC component products began to show profitability as our production scale picked up since our commencement of commercial operation gradually in the second half of 2017. For the year ended 31 December 2019, our Group's overall gross profit margin increased to approximately 19.4% from approximately 15.0% for the year ended 31 December 2018. Such increase was primarily contributed by the overall improvement of gross profit margin of PC components as our production efficiency improved from the growth of our production scale of PC components products. Our Group's overall gross profit margin remained stable at approximately 19.6% and 19.8% for the ten months ended 31 October 2019 and 2020, which was attributable to the combined effects of (i) increased gross profit margin of our other construction components products as our production efficiency improved from the growth of our production scale of other construction components products; and (ii) decreased gross profit margin of our ready-mixed concrete products for reasons mentioned below.

***Ready-mixed concrete***

The gross profit of our Group's ready-mixed concrete increased from approximately RMB45.4 million for the year ended 31 December 2017 to approximately RMB71.3 million for the year ended 31 December 2018. Such increase was primarily attributed to the (i) foregoing reason for our revenue growth for ready-mixed concrete; and (ii) increase in gross profit margin from approximately 11.5% for the year ended 31 December 2017 to approximately 15.7% for the year ended 31 December 2018.

The gross profit of our Group's ready-mixed concrete increased from approximately RMB71.3 million for the year ended 31 December 2018 to approximately RMB72.9 million for the year ended 31 December 2019. The increase was primarily due to the increase in gross profit margin from approximately 15.7% for the year ended 31 December 2018 to approximately 16.3% for the year ended 31 December 2019 and the effect was partially offset by the decrease in revenue from our ready-mixed concrete due to the same reason mentioned above.

The gross profit of our Group's ready-mixed concrete increased from approximately RMB54.0 million for the ten months ended 31 October 2019 to approximately RMB63.1 million for the ten months ended 31 October 2020. Such increase was primarily attributable to the foregoing reason for our revenue growth for ready-mixed concrete and the effect was partially offset by the decrease in gross profit margin from approximately 16.9% for the ten months ended 31 October 2019 to approximately 15.5% for the ten months ended 31 October 2020.

Despite the increase in raw material cost during the Track Record Period, our gross profit margin of ready-mixed concrete grew from approximately 11.5% for the year ended 31 December 2017 to approximately 15.7% for the year ended 31 December 2018 and further to approximately 16.3% for the year ended 31 December 2019. Such growth was primarily due to (i) our Group's ability to transfer fluctuation of cost of production to our customers; (ii) negotiate better pricing terms for our ready-mixed concrete projects; and (iii) change in product grade mix (i.e. higher the grade strength generally yields higher gross profit margin). Our gross profit margin of ready-mixed decreased from approximately 16.9% for the ten months ended 31 October 2019 to approximately 15.5% for the ten months ended 31 October 2020, the decrease was mainly attributable to the change in product grade mix for the ten months ended 31 October 2020, as the sales volume of high grade ready-mixed concrete decreased from approximately 83,236 $m^3$ for the ten months ended 31 October 2019 to approximately 64,475 $m^3$ for the ten months ended 31 October 2020, which was partially offset by the increase in sales volume of low grade ready-mixed concrete and CTB, which in aggregate, increased from approximately 456,510 $m^3$ for the ten months ended 31 October 2019 to approximately 579,980 $m^3$ for the ten months ended 31 October 2020, which was due to the increase in demand from projects performing road works.

Pursuant to our master sales contracts, the selling price of our ready-mixed concrete will be determined with reference to the prevailing Guidance Price as set out in the Xiamen Construction Engineering Information, with a fixed mark down (typically within 13%). Such Guidance Price is normally updated on a weekly basis and is based on, among others, the prevailing cost of production such as raw material prices. Under such terms, our Group was less prone to adverse effect from the increase in raw material cost and was able to timely and effectively transfer fluctuation of cost of production to its customers, reliably maintaining our gross profit margin during the Track Record Period.

The overall improvement in our gross profit margin for the three years ended 31 December 2019 was mainly attributable to our ability to negotiate favourable pricing terms (i.e. the level of mark down from the Guidance Price) with our customers. Our Group normally determines the level of mark down based on factors such as (i) prevailing market price; (ii) specification and volume of products required; (iii) customer relationship; (iv) complexity of the project; and (v) our Group's production capacity and resources at a relevant time.

The following table sets forth our Group's revenue contribution and the weighted average percentage of mark down from the Guidance Price of ready-mixed concrete by grade and by its respective level of spread below the Guidance Price as stipulated in their respective master sales contracts (except for CTB[(1)]) during the Track Record Period:

| | Year ended 31 December | | | | | | Ten months ended 31 October | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2018 | | 2019 | | 2019 | | 2020 | |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 (Unaudited) | % | RMB'000 | % |
| **Low grade** | | | | | | | | | | |
| — 5% or below | 32,103 | 16.8 | 55,335 | 33.7 | 186,632 | 78.5 | 114,444 | 71.4 | 180,653 | 94.6 |
| — Between 6% to 10% | 61,467 | 32.2 | 61,914 | 37.7 | 34,218 | 14.4 | 30,616 | 19.1 | 6,267 | 3.3 |
| — 11% or above | 97,141 | 51.0 | 47,192 | 28.6 | 16,995 | 7.1 | 15,155 | 9.5 | 3,965 | 2.1 |
| **Total** | 190,711 | 100.0 | 164,441 | 100.0 | 237,845 | 100.0 | 160,215 | 100.0 | 190,885 | 100.0 |
| **Weighted average % of mark down from the Guidance Price[(2)]** | | 9.8 | | 8.0 | | 5.5 | | 5.8 | | 4.8 |
| **Standard grade** | | | | | | | | | | |
| — 5% or below | 15,606 | 10.3 | 45,833 | 25.6 | 84,622 | 63.5 | 59,942 | 61.6 | 117,420 | 82.7 |
| — Between 6% to 10% | 62,587 | 41.2 | 88,431 | 49.4 | 17,822 | 13.4 | 17,269 | 17.7 | 12,881 | 9.1 |
| — 11% or above | 73,746 | 48.5 | 44,816 | 25.0 | 30,761 | 23.1 | 20,203 | 20.7 | 11,690 | 8.2 |
| **Total** | 151,939 | 100.0 | 179,080 | 100.0 | 133,205 | 100.0 | 97,414 | 100.0 | 141,991 | 100.0 |
| **Weighted average % of mark down from the Guidance Price[(2)]** | | 10.0 | | 8.3 | | 6.9 | | 6.9 | | 5.7 |
| **High grade** | | | | | | | | | | |
| — 5% or below | 530 | 1.2 | 5,270 | 5.4 | 9,610 | 18.3 | 4,925 | 10.8 | 12,671 | 33.4 |
| — Between 6% to 10% | 4,923 | 11.2 | 13,539 | 13.8 | 479 | 0.9 | 470 | 1.0 | — | — |
| — 11% or above | 38,326 | 87.6 | 79,059 | 80.8 | 42,325 | 80.8 | 40,327 | 88.2 | 25,232 | 66.6 |
| **Total** | 43,779 | 100.0 | 97,868 | 100.0 | 52,414 | 100.0 | 45,722 | 100.0 | 37,903 | 100.0 |
| **Weighted average % of mark down from the Guidance Price[(2)]** | | 11.8 | | 11.2 | | 10.6 | | 11.1 | | 9.6 |

*Notes:*

1. Our CTB are sold at a fixed unit price as stipulated in the respective master sales contracts.

2. Weighted average percentage below the Guidance Price is calculated by multiplying the percentage of revenue generated from each percentage level of spread below the Guidance Price by the respective percentage level.

The decrease in weighted average percentage of mark down from the Guidance Price of our ready-mixed concrete was mainly attributable to the overall ready-mixed concrete market in Xiamen had been pricing their products closer to the Guidance Price during the Track Record Period, according to Xiamen Construction Material Association ("廈門市建築材料行業協會"), the average unit price of successful bids for open tender of ready-mixed concrete projects during each of the three years ended 31 December 2019 and ten months ended 31 October 2019 and 2020, was approximately 10.7%, 8.6%, 5.5%, 6.3% and 5.1% below the Guidance Price respectively.

We believe this was driven by the rapid development of the construction industry and progress of urbanisation in Xiamen, and according to Frost and Sullivan Report, the competitive landscape of the ready-mixed concrete market in Xiamen is relatively mild. Our Group, being the largest ready-mixed concrete supplier in terms of production volume, was able to negotiate favourable pricing terms with our customers given the positive market sentiment.

Furthermore, during the year ended 31 December 2019, Xiamen received approximately 3.9 times the amount of monthly average rainfall during the first three quarters of 2019 compared to the same period in 2018, construction activities were affected during that period and customers had to catch up on construction progress in the fourth quarter of 2019 as rainfall reduced. Our Group was offered better pricing terms for two of our commercial projects (which primarily require low grade ready-mixed concrete), given the tight production schedules required by our customers.

***PC components***

For the year ended 31 December 2017, our Group recorded a negative gross profit of approximately RMB5.8 million and a negative gross profit margin of approximately 102.0% for our PC components, given our PC component operation only began its commercial production gradually in the second half of 2017. The gross profit and gross profit margin of our Group's PC components increased to approximately RMB5.2 million and approximately 8.9% for the year ended 31 December 2018. The increase was mainly attributed to the increase in new contracts awarded for our PC component operation during 2018, in particular rail transit projects which increased the demand for our tunnel segments. Although the gross profit and gross profit margin of our other construction components improved, they remained negative as our PC component operation was still in its early ramp-up period, our PC component production scale had not yet reached the level for profitability.

The gross profit and gross profit margin of our Group's PC components grew to approximately RMB41.5 million and approximately 28.8% for the year ended 31 December 2019. The increase was largely driven by the increase in gross profit and gross profit margin of our other construction components, which was mainly attributable to (i) the increased production scale of our other construction components production lines; and (ii) our Group's success in securing 28 new PC components projects during the year ended 31 December 2019.

For the ten months ended 31 October 2020, the gross profit and gross profit margin of our Group's PC components increased to approximately RMB55.8 million and approximately 28.7% from approximately RMB31.9 million and approximately 27.3% for the ten months ended 31 October 2019, respectively. The increase was mainly due to the increase in gross profit and gross profit margin of our other construction components, which was mainly attributable to the (i) foregoing reason for our revenue growth of other construction components; and (ii) increased production scale of our other construction components production lines. Such increase was partially offset by the decrease in gross profit of our tunnel segments as our tunnel segments projects on hand were close to their completion.

## Sensitivity analysis

### *Gross profit*

For the three years ended 31 December 2019 and the ten months ended 31 October 2019 and 2020, gross profit amounted to approximately RMB39.7 million, RMB76.5 million, RMB114.4 million, RMB85.9 million and RMB119.0 million, respectively. Fluctuation in the gross profit could affect our operating profits. The following sensitivity analysis illustrates the impact of hypothetical fluctuations in our gross profit on net profit for the year, assuming an enterprise income tax rate of 25% and holding all other variables constant. Fluctuations are assumed to be 10%, 20% and 40% during each of the three years ended 31 December 2019 and the ten months ended 31 October 2019 and 2020.

| | Year ended 31 December | | | | | | Ten months ended 31 October | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2018 | | 2019 | | 2019 | | 2020 | |
| Hypothetical fluctuations in gross profit | Net profit | Change in net profit | Net profit | Change in net profit | Net profit | Change in net profit | Net profit | Change in net profit | Net profit | Change in net profit |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| +40% | 24,139 | 97.2 | 50,317 | 83.8 | 76,135 | 82.0 | 56,215 | 84.6 | 78,669 | 83.1 |
| +20% | 18.189 | 48.6 | 38,843 | 41.9 | 58,979 | 41.0 | 43,336 | 42.3 | 60,821 | 41.5 |
| +10% | 15,214 | 24.3 | 33,106 | 21.0 | 50,400 | 20.5 | 36,897 | 21.1 | 51,897 | 20.8 |
| 0% | 12,239 | — | 27,369 | — | 41,822 | — | 30,457 | — | 42,973 | — |
| –10% | 9,264 | (24.3) | 21,632 | (21.0) | 33,244 | (20.5) | 24,018 | (21.1) | 34,049 | (20.8) |
| –20% | 6,289 | (48.6) | 15,895 | (41.9) | 24,665 | (41.0) | 17,578 | (42.3) | 25,125 | (41.5) |
| –40% | 339 | (97.2) | 4,421 | (83.8) | 7,509 | (82.0) | 4,699 | (84.6) | 7,277 | (83.1) |

### *Cost of raw materials*

A sensitivity analysis on the price fluctuations in average cost of cement and aggregates during the Track Record Period sets forth below illustrates the hypothetical effects on our net profit based on the respective historical year-on-year/period-on-period fluctuations of our average cost of cement and aggregates during the Track Record Period with all other variables remaining constant.

| | Impact on net profit | | | | |
|---|---|---|---|---|---|
| | for the year ended 31 December | | | for the ten months ended 31 October | |
| Hypothetical fluctuations in average cost of cement(Note) | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Increase/(decrease) by: | | | | | |
| +23% | (17,697) | (23,580) | (20,988) | (15,056) | (18,382) |
| +15% | (11,542) | (15,378) | (13,688) | (9,819) | (11,988) |
| +8% | (6,156) | (8,202) | (7,300) | (5,237) | (6,394) |
| +1% | (769) | (1,025) | (913) | (655) | (799) |
| –1% | 769 | 1,025 | 913 | 655 | 799 |
| –8% | 6,156 | 8,202 | 7,300 | 5,237 | 6,394 |
| –15% | 11,542 | 15,378 | 13,688 | 9,819 | 11,988 |
| –23% | 17,697 | 23,580 | 20,988 | 15,056 | 18,382 |

*Note:* 23% and 1% represent the high and low ends of the fluctuation range of increase of cement price during the Track Record Period, respectively, calculated by comparing the average unit price of cement during the year/period with that of the last corresponding year/period.

| | Impact on net profit | | | | |
|---|---|---|---|---|---|
| | for the year ended 31 December | | | for the ten months ended 31 October | |
| Hypothetical fluctuations in average cost of aggregates(Note) | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Increase/(decrease) by: | | | | | |
| +26% | (27,114) | (28,351) | (32,992) | (23,726) | (32,401) |
| +17% | (17,728) | (18,537) | (21,572) | (15,513) | (21,186) |
| +9% | (9,386) | (9,814) | (11,420) | (8,213) | (11,216) |
| +1% | (1,043) | (1,090) | (1,269) | (913) | (1,246) |
| –1% | 1,043 | 1,090 | 1,269 | 913 | 1,246 |
| –9% | 9,386 | 9,814 | 11,420 | 8,213 | 11,216 |
| –17% | 17,728 | 18,537 | 21,572 | 15,513 | 21,186 |
| –26% | 27,114 | 28,351 | 32,992 | 23,726 | 32,401 |

*Note:* 26% and 1% represent the high and low ends of the fluctuation range of increase of aggregates price during the Track Record Period, respectively, calculated by comparing the average unit price of aggregates during the year/period with that of the last corresponding year/period.

***Breakeven analysis***

Assuming that all other variables remain constant during the Track Record Period, the following table sets forth the breakeven amount of revenue required for us to meet the fixed cost (excluding non-recurring Listing expenses) for the periods indicated:

| | Year ended 31 December | | | Ten months ended 31 October |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 |
| Revenue required to breakeven (RMB'000) | 292,904 | 309,945 | 298,073 | 308,595 |
| Maximum percentage of decrease in our revenue that we remain profitable without regard to the change in price of raw materials (%) | 26.7 | 39.4 | 49.5 | 48.8 |

**Other income**

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Government grants | | | | | |
| Received and recognised during the year/period | 771 | 2,232 | 1,102 | 791 | 1,999 |
| Recognised from deferred income | 124 | 148 | 168 | 139 | 163 |
| | 895 | 2,380 | 1,270 | 930 | 2,162 |
| Rental income | 1,700 | 1,595 | 1,661 | 1,384 | 1,541 |
| Sundry income | 390 | 86 | 762 | 740 | 455 |
| **Total** | 2,985 | 4,061 | 3,693 | 3,054 | 4,158 |

Our Group's other income consists primarily of rental income from our investment properties and non-recurring government grants. Government grants recognised during the Track Record Period were related to subsidies received from various local government authorities in Fujian Province in connection with their support to eligible enterprises. Our other income increased by approximately RMB1.1 million or 36.0% from approximately RMB3.0 million for the year ended 31 December 2017 to approximately RMB4.1 million for the year ended 31 December 2018. The increase was mainly due to the increase in grants received from various local governments including a subsidy for green construction enterprises of approximately RMB0.5 million, an award to enterprises with increased production and efficiency of approximately RMB0.3 million, an award to enterprises with integrated information technology and industrialisation of approximately RMB0.2 million and a financial discount of approximately RMB0.6 million.

Our other income decreased by approximately RMB0.4 million or 9.1% from RMB4.1 million for the year ended 31 December 2018 to approximately RMB3.7 million for the year ended 31 December 2019. The decrease was mainly due to the decrease in government grants of approximately RMB1.1 million as the government grants received during the year ended 31 December 2018 were mainly one-off incentive. Such decrease was partially offset by the increase in sundry income of approximately RMB0.7 million, which consisted mainly of income from the sale of scrap rebars.

Our other income increased by approximately RMB1.1 million or 36.1% from RMB3.1 million for the ten months ended 31 October 2019 to approximately RMB4.2 million for the ten months ended 31 October 2020, mainly due to the increase in government grants of approximately RMB1.2 million, including refund of handling charges of approximately RMB0.4 million for withholding and remitting tax, awards to enterprises with increased production and efficiency of approximately RMB0.3 million, and an award to green construction enterprises of approximately RMB0.3 million.

**Selling expenses**

The following table sets forth our Group's selling expenses by nature during the Track Record Period:

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2019** | **2020** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000 (Unaudited)** | **RMB'000** |
| Transportation costs | 4,864 | 7,896 | 10,315 | 7,112 | 17,701 |
| Staff costs | 1,382 | 1,964 | 1,722 | 1,416 | 1,604 |
| Entertainment expenses | 648 | 1,001 | 1,311 | 1,180 | 740 |
| Depreciation and amortisation | 174 | 65 | 37 | 31 | 28 |
| Others | 238 | 506 | 314 | 105 | 69 |
| **Total** | 7,306 | 11,432 | 13,699 | 9,844 | 20,142 |

Our Group's selling expenses primarily consist of transportation costs for delivery of products to our customers, employee salary and benefit expenses for our sales and marketing staff, and other expenses incurred from our selling activities. For the three years ended 31 December 2019 and the ten months ended 31 October 2019 and 2020, our selling expenses amounted to approximately RMB7.3 million, RMB11.4 million, RMB13.7 million, RMB9.8 million and RMB20.1 million, representing approximately 1.8%, 2.2%, 2.3%, 2.3% and 3.3% of our total revenue, respectively.

Our Group's selling expenses increased by approximately RMB4.1 million from approximately RMB7.3 million for the year ended 31 December 2017 to approximately RMB11.4 million for the year ended 31 December 2018. The increase was mainly due to the increase in (i) transportation costs of approximately RMB3.0 million, which was attributable to the increase in our sales volume of PC components; (ii) staff costs of approximately RMB0.6 million, which was attributable to the increase in performance bonus paid to our sales and marketing staff. Performance bonus is linked to the sales and marketing team performance in solicitation of sales and the bonus will be paid to our staff when the respective sales had been settled by our customers.

Our Group's selling expenses increased by approximately RMB2.3 million from approximately RMB11.4 million for the year ended 31 December 2018 to approximately RMB13.7 million for the year ended 31 December 2019. The increase was mainly attributable to the increase in transportation costs of approximately RMB2.4 million, which was primarily due to the increase in our sales volume of PC components and partially offset by the decrease in our sales volume of ready-mixed concrete.

Our Group's selling expenses increased by approximately RMB10.3 million from approximately RMB9.8 million for the ten months ended 31 October 2019 to approximately RMB20.1 million for the ten months ended 31 October 2020. The increase was mainly due to the increase in transportation costs of approximately RMB10.6 million, which was primarily due to the increase in sales of (i) PC components to projects outside of Xiamen (for the ten months ended 31 October 2019, approximately 41.7% of the revenue derived from PC component projects was located outside of Xiamen and for the ten months ended 31 October 2020, approximately 69.9% of the revenue derived from PC component projects was located outside of Xiamen); and (ii) CTB to projects in relation to the construction of the Xiamen Xiangan Airport in the Xiangan District of Xiamen, which is relatively distant from our RMC Plant.

**Administrative expenses**

The following table sets forth our administrative expenses by nature during the Track Record Period:

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Staff costs | 9,543 | 13,403 | 13,847 | 10,539 | 12,217 |
| Depreciation and amortisation | 1,836 | 3,256 | 3,321 | 2,826 | 2,700 |
| Other taxes and surcharges | 1,079 | 1,212 | 1,109 | 627 | 758 |
| Utility charge | 406 | 534 | 597 | 504 | 568 |
| Repair and maintenance costs | 164 | 76 | 49 | 36 | 96 |
| Insurance | 110 | 125 | 26 | 26 | 65 |
| Audit fee | 61 | 76 | 107 | 107 | 64 |
| Others*(Note)* | 4,512 | 4,973 | 9,132 | 7,517 | 7,908 |
| **Total** | 17,711 | 23,655 | 28,188 | 22,182 | 24,376 |

*Note:* Other administrative expenses primarily include consultancy fee, entertainment expenses, bank charges, legal and professional fee, motor vehicles expenses and membership fee.

Our Group's administrative expenses primarily consist of staff costs, depreciation and amortisation and other tax and surcharges. For the three years ended 31 December 2019 and the ten months ended 31 October 2019 and 2020, our administrative expenses amounted to approximately RMB17.7 million, RMB23.7 million, RMB28.2 million, RMB22.2 million and RMB24.4 million, representing approximately 4.4%, 4.6%, 4.8%, 5.1% and 4.0% of our total revenue, respectively.

Our Group's administrative expenses increased by approximately RMB5.9 million from approximately RMB17.7 million for the year ended 31 December 2017 to approximately RMB23.7 million for the year ended 31 December 2018. The increase was mainly due to the (i) increase in staff costs of approximately RMB3.9 million; and (ii) increase in depreciation and amortisation of approximately RMB1.4 million.

The increase in staff costs for the year ended 31 December 2018 was attributable to (i) the increase in average monthly headcount of our administrative staff from approximately 106 for the year ended 31 December 2017 to 114 for the year ended 31 December 2018 to handle our increased administrative activities from our business expansion; (ii) overall salary increment of our administrative staff; and (iii) recruitment of higher skilled staff with relatively higher salary to manage our PC component business.

The increase in depreciation and amortisation for the year ended 31 December 2018 was primarily attributable to the office premises and equipment relating to our PC components operation which had its first full year depreciation for the year ended 31 December 2018.

Our Group's administrative expenses increased by approximately RMB4.5 million from approximately RMB23.7 million for the year ended 31 December 2018 to approximately RMB28.2 million for the year ended 31 December 2019. The increase was mainly due to the increase in other expenses of approximately RMB4.2 million, which was primarily due to the increase in consultancy fee of approximately RMB2.4 million and entertainment expenses of approximately RMB1.4 million. The increase in consultancy fee of approximately RMB2.4 million was mainly attributable to (i) management consulting services provided by an Independent Third Party, a limited liability company established in the PRC and principally engaged in provision of consultancy services, amounted to approximately RMB0.8 million; (ii) company secretarial services provided by Mr. Yuen Chi Wai, one of the joint company secretaries of our Company appointed in 2019, amounted to approximately RMB0.6 million, paid through a limited liability company incorporated in Hong Kong which is indirectly wholly-owned by Mr. Yuen Chi Wai and principally engaged in provision of company secretarial services, for services included but not limited to, provision of general company secretarial services to our Group's offshore companies, administration of the Reorganisation of our Group's offshore companies, provision of advice to our Board on corporate governance matters, ensuring timely and appropriate information flow to our Board and reviewing the suitability of proposed independent non-executive Directors; (iii) information technology consultancy services regarding the installation of system software, database and information integration provided by eight independent services providers totalling approximately RMB0.5 million; and (iv) consultancy services related to application of certifications provided by three independent services providers totalling approximately RMB0.3 million. The significant increase in demand for various consultancy services for the year ended 31 December 2019 was attributable to our Group's preparation for (i) our application for accreditation by the MOHURD, as a National Prefabricated Construction Industrial Base (國家裝配式建築產業基地), which was submitted in November 2019 and accredited in September 2020, the criteria of which, among others, requires our Group to be supported by an advanced enterprise management and product quality control system and management standardisation; (ii) improve our information technology management systems to achieve informatisation and industrialisation integration as promoted by the PRC Government and as part of our business strategy; (iii) the due diligence review prior to the Listing; and (iv) our compliance to the Listing Rules regarding corporate governance and environmental, social and corporate governance reporting.

Our Directors confirmed that the consultancy fees incurred by our Group during the Track Record Period were reasonable and comparable to those charged by other independent third party service providers and our Directors were not aware of any instance where the consultancy fees were paid to third parties through the relevant services providers.

Our Group's administrative expenses increased by approximately RMB2.2 million from approximately RMB22.2 million for the ten months ended 31 October 2019 to approximately RMB24.4 million for the ten months ended 31 October 2020. The increase was mainly due to the increase in staff costs of approximately RMB1.7 million, which was primarily due to the (i) overall salary increment of our administrative staff; and (ii) increase in performance bonus paid to them, which is linked to our production volume.

**Finance costs — net**

The following table sets forth our finance income and finance costs during the Track Record Period:

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| **Finance income** | | | | | |
| Interest income on bank deposits | 349 | 319 | 105 | 88 | 54 |
| **Finance costs** | | | | | |
| Interest charges on bank borrowings | (3,437) | (5,777) | (7,090) | (5,510) | (9,274) |
| Interest charges on leases | (12) | (234) | (717) | (472) | (828) |
| Interest charges on loan from related parties | — | — | — | — | (550) |
| Interest charges on loan from a third party | (701) | (701) | (701) | (584) | — |
| Other financing costs(Note) | (1,266) | (966) | (328) | (253) | (519) |
| | (5,416) | (7,678) | (8,836) | (6,819) | (11,171) |
| Amounts capitalised in qualifying assets | 3,274 | 401 | — | — | — |
| **Finance costs — net** | (1,793) | (6,958) | (8,731) | (6,731) | (11,117) |

*Note:* Other financing costs primarily consist of finance charges on financial guarantees provided by the Independent Third Party credit guarantee corporations and finance charges on bills discounted.

Our finance income consists of interest income generated from bank deposits, while our finance costs primarily consist of interest expenses incurred from borrowings net of capitalised interest relating to qualifying assets. For the three years ended 31 December 2019 and the ten months ended 31 October 2019 and 2020, our finance costs — net amounted to approximately RMB1.8 million, RMB7.0 million, RMB8.7 million, RMB6.7 million and RMB11.1 million, respectively.

Our Group's finance costs — net increased by approximately RMB5.2 million from approximately RMB1.8 million for the year ended 31 December 2017 to approximately RMB7.0 million for the year ended 31 December 2018 primarily due to (i) the additional bank borrowings of RMB30.0 million drawn in the fourth quarter of 2017 and the majority of its interest being charged in 2018; and (ii) the decrease in capitalised interest relating to qualifying assets of approximately RMB2.9 million for the year ended 31 December 2018.

Our Group's finance costs — net increased by approximately RMB1.8 million from approximately RMB7.0 million for the year ended 31 December 2018 to approximately RMB8.7 million for the year ended 31 December 2019 due to (i) the additional bank borrowings of RMB25.0 million drawn during the year ended 31 December 2019; and (ii) the increase in interest charges on leases by approximately RMB0.5 million as we leased our Jimei Workshop since June 2019.

Our Group's finance costs — net increased by approximately RMB4.4 million from approximately RMB6.7 million for the ten months ended 31 October 2019 to approximately RMB11.1 million for the ten months ended 31 October 2020 primarily due to (i) the additional bank borrowings of RMB43.7 million drawn during the ten months ended 31 October 2020; and (ii) three entrusted loans with total principals amounting to approximately RMB68.8 million from an Independent Third Party through a licensed commercial bank in the PRC obtained during the fourth quarter of 2019.

**Taxation**

***Cayman Islands***

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability and accordingly, is exempted from the Cayman Islands income tax.

***BVI***

Our Group has a subsidiary incorporated in the BVI, and under the laws of BVI, our Group is not subject to any taxation in the BVI on our BVI or non-BVI income.

***Hong Kong***

We did not provide for any Hong Kong profit tax as we did not have any assessable profit arising in Hong Kong during the Track Record Period.

***PRC***

Pursuant to the Enterprise Income Tax Law of the PRC, the tax rate was unified at 25% of taxable income for all PRC companies effective from 1 January 2008 and a withholding income tax rates of 10% is levied on the immediate holding company outside the PRC when its PRC subsidiary declares dividends out of profits earned after 1 January 2008. A lower withholding tax rate of 5% may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding company and simultaneously certain conditions are satisfied.

### Income tax expense

For the three years ended 31 December 2019 and the ten months ended 31 October 2019 and 2020, our Group's effective tax rate, which is calculated based on income tax expense divided by profit before income tax as at the relevant year/period end and multiplied by 100%, was approximately 21.6%, 26.8%, 27.8%, 28.0% and 27.6% respectively.

Our income tax expense represents current PRC corporate income tax and movements in deferred income tax assets. Our Group recorded income tax expenses of approximately RMB3.4 million, RMB10.0 million, RMB16.1 million, RMB11.9 million and RMB16.4 million for the three years ended 31 December 2019 and the ten months ended 31 October 2019 and 2020 respectively.

Our Directors have confirmed that our Group has made all required tax filing and has settled all outstanding tax liabilities with relevant tax authorities in the PRC. They have also confirmed that our Group is not subject to any dispute or potential dispute with tax authorities in the PRC.

### Profit and total comprehensive income for the year/period

Due to the factors of the foregoing, our profit and total comprehensive income for the year increased from approximately RMB12.2 million for the year ended 31 December 2017 to approximately RMB27.4 million for the year ended 31 December 2018, and further increased to approximately RMB41.8 million for the year ended 31 December 2019. For the ten months ended 31 October 2020, our profit and total comprehensive income for the period amounted to approximately RMB43.0 million, representing an increase of approximately RMB12.5 million or 41.1% from approximately RMB30.5 million for the ten months ended 31 October 2019.

## LIQUIDITY AND CAPITAL RESOURCES

### Financial resources

We finance our operations primarily through cash generated from operating activities and borrowings. As at 31 December 2017, 2018 and 2019 and 31 October 2020, we had cash and cash equivalents of approximately RMB46.3 million, RMB3.8 million, RMB16.1 million and RMB2.5 million, respectively, which consisted of cash at banks and cash on hand.

Our Group's primary uses of cash include payments for purchases from suppliers, various operating expenses and capital expenditure including purchase of property, plant and equipment. During the Track Record Period, there had been no material change in our Group's fundamental drivers of financial resources.

### Cash flows

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

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Net cash generated from operating activities before working capital changes | 32,188 | 62,213 | 88,882 | 67,219 | 90,751 |
| Changes in working capital | (62,037) | (38,363) | (73,663) | (117,230) | (106,777) |
| Income tax paid | (3,702) | (4,430) | (18,220) | (18,220) | (10,681) |
| Net cash (used in)/generated from operating activities | (33,551) | 19,420 | (3,001) | (68,231) | (26,707) |
| Net cash used in investing activities | (19,228) | (1,576) | (4,313) | (2,331) | (14,113) |
| Net cash generated from/(used in) financing activities | 83,759 | (60,327) | 19,651 | 70,566 | 27,143 |
| Net increase/(decrease) in cash and cash equivalents | 30,980 | (42,483) | 12,337 | 4 | (13,677) |
| Cash and cash equivalents at beginning of the year/period | 15,310 | 46,290 | 3,807 | 3,807 | 16,144 |
| Cash and cash equivalents at end of the year/period | 46,290 | 3,807 | 16,144 | 3,811 | 2,467 |

### Net cash (used in)/generated from operating activities

For the year ended 31 December 2017, our Group recorded net cash used in operating activities of approximately RMB33.6 million, which was primarily attributable to (i) decrease in trade and bills payables of approximately RMB64.6 million; and (ii) increase in trade receivables of approximately RMB9.9 million; and partially offset by the operating cash inflow before working capital changes of approximately RMB32.2 million.

We recorded net cash used in operating activities for the year ended 31 December 2017 primarily due to our Group's PC component operation was running at a negative gross profit of approximately RMB5.8 million as our PC component operation commenced its commercial production in the second half of 2017 and was still in its early ramp-up period, our PC component production scale had not yet reached the level to cover the respective fixed and overhead costs of operation.

For the year ended 31 December 2018, our Group had net cash generated from operating activities of approximately RMB19.4 million, which was primarily attributable to (i) our operating cash flow before working capital changes of approximately RMB62.2 million; and (ii) release of restricted cash of approximately RMB23.0 million; and partially offset by (i) increase in trade receivables of approximately RMB58.6 million due to increase in sales of our products; and (ii) decrease in trade and bills payables of approximately RMB11.0 million due to settlement made to our suppliers as our customers settled their trade receivables faster.

For the year ended 31 December 2019, our Group recorded net cash used in operating activities of approximately RMB3.0 million, which was primarily attributable to (i) increase in trade receivables of approximately RMB112.7 million due to the increase in sales of our PC components; and (ii) income tax paid of approximately RMB18.2 million; and partially offset by (i) the operating profit before working capital changes of approximately RMB88.9 million; and (ii) increase in trade and bills payables of approximately RMB37.9 million due to the increase in purchases of raw materials as a result of the increase in production volume of PC components.

For the ten months ended 31 October 2019, we recorded net cash used in operating activities of approximately RMB68.2 million, which was primarily attributable to (i) increase in trade receivables of approximately RMB57.1 million mainly due to increase in sales of our PC components; (ii) decrease in amounts due to related parties of approximately RMB48.1 million due to settlement of dividend payable to Mr. Ye and Mr. Huang; and (iii) income tax paid of approximately RMB18.2 million; which were partially offset by the operating profit before working capital changes of approximately RMB67.2 million.

For the ten months ended 31 October 2020, we recorded net cash used in operating activities of approximately RMB26.7 million, which was primarily attributable to (i) increase in trade receivables of approximately RMB122.5 million mainly due to increase in sales of our products and our slower collection of trade receivables from February to May 2020 as a result of the COVID-19 outbreak; (ii) increase in inventories of approximately RMB23.8 million as a higher inventory level of finished goods was maintained for our PC components projects; and (iii) decrease in contract liabilities of approximately RMB10.8 million, which were partially offset by (i) the operating profit before working capital changes of approximately RMB90.8 million; and (ii) increase in trade and bills payable of approximately RMB41.3 million as we adjusted our payment schedules to suppliers depending on the status of settlement of our trade receivables and our liquidity position.

The net cash used in operating activities for the year ended 31 December 2019 and ten months ended 31 October 2020 was partly due to the amount and timing of receipts from our customers as well as the amount and timing of payments to our suppliers, and along with the significant growth in our sales and business operation. For the year ended 31 December 2019 and ten months ended 31 October 2020, the number of our average trade receivables turnover days was approximately 223.3 days and 242.6 days, while the number of our average trade payables turnover days was approximately 205.0 days and 193.9 days, respectively. In view of the potential mismatch between the time of receipt of payments from our customers and payments to our suppliers, our Group financed the required working capital with associated cash flow generated from financing activities via uses of borrowings and adopted a number of measures. For details of our liquidity management, please refer to the paragraph headed "Liquidity management" in this subsection.

**Net cash used in investing activities**

For the year ended 31 December 2017, our net cash used in investing activities was approximately RMB19.2 million, which was mainly attributable to the purchase of property, plant and equipment of approximately RMB44.3 million mainly for construction of our PC Plant; and partially offset by the repayments of loans from related parties and Independent Third Parties of approximately RMB8.1 million and RMB16.9 million, respectively.

For the year ended 31 December 2018, our net cash used in investing activities was approximately RMB1.6 million, which was primarily due to the purchase of property, plant and equipment of approximately RMB15.8 million mainly for our PC Plant; and partially offset by the repayments of loans from Independent Third Parties of approximately RMB15.6 million.

For the year ended 31 December 2019, our net cash used in investing activities was approximately RMB4.3 million, which was mainly due to the purchases of property, plant and equipment of approximately RMB22.1 million mainly for our Jimei Workshop for production of PC components; and partially offset by the repayments of loans from related parties and Independent Third Parties of approximately RMB13.9 million and RMB2.0 million, respectively.

For the ten months ended 31 October 2020, our net cash used in investing activities was approximately RMB14.1 million, which was primarily due to the purchases of property, plant and equipment of approximately RMB14.8 million mainly for replacing some of our concrete mixer trucks and supporting the production of PC components.

**Net cash generated from/(used in) financing activities**

For the year ended 31 December 2017, our net cash generated from financing activities was approximately RMB83.8 million, which was mainly due to (i) the proceeds from bank borrowings of approximately RMB94.5 million; (ii) loans received from related parties of approximately RMB36.6 million; and partially offset by (i) the repayment of bank borrowings of approximately RMB35.5 million; and (ii) acquisition of non-controlling interests of approximately RMB9.4 million.

For the year ended 31 December 2018, our net cash used in financing activities was approximately RMB60.3 million, which was mainly due to (i) repayment of bank borrowings of approximately RMB94.5 million; (ii) repayment of loans to related parties of approximately RMB54.1 million; and (iii) interest paid of approximately RMB6.5 million; and partially offset by the proceeds from bank borrowings of approximately RMB97.0 million.

For the year ended 31 December 2019, our net cash generated from financing activities was approximately RMB19.7 million, which was primarily attributable to the proceeds from bank borrowings of approximately RMB264.8 million, which was partially offset by (i) repayment of bank borrowings of approximately RMB175.0 million; (ii) payment of dividend of approximately RMB47.2 million and RMB15.7 million to Mr. Ye and Mr. Huang respectively, for dividend declared during the year ended 31 December 2018; and (iii) payment of interest of approximately RMB8.1 million.

For the ten months ended 31 October 2020, our net cash generated from financing activities was approximately RMB27.1 million, which was primarily due to the proceeds from bank borrowings of approximately RMB53.7 million, which was partially offset by payment of interest of approximately RMB9.0 million.

**Liquidity management**

*Mismatch between the time of receipt of payments from our customers and payments to our suppliers*

To remain competitive in the market, building material manufacturers such as our Group generally needs to retain high level of working capital to guarantee smooth business operation and support the growth in demand, as we are exposed to similar liquidity risks to construction companies in relation to the mismatch between the time of receipt of payments from our customers and payments to our suppliers for raw materials. In addition to material costs, to commence a new project, we are generally required to incur significant upfront costs, such as salary of our direct labours and outsourcing fees, in early stage of the project before such costs can be received from our customers. Besides, the credit terms granted to customers are generally within 40 days, with certain of our Group's receivables required to be held back from the progress payment as retention monies for up to 6 months after the completion of defect liability periods granted to our customers which normally last for 3 to 24 months, while the credit period granted by our suppliers generally ranges within 25 to 90 days. As such, our Group experienced fluctuation in our cash (used in)/ generated from operating activities during the Track Record Period. For detailed analysis of our cash (used in)/generated from operating activities, please refer to the paragraph headed "Net cash (used in)/generated from operating activities" of this subsection. During the Track Record Period, the effect from liquidity mismatch increased as our trades receivables and inventories balances grew in line with our Group's revenue, which resulted in increased gearing ratio from approximately 83.5% as at 31 December 2017 to approximately 161.6% as at 31 December 2018 and to 208.0% as at 31 December 2019, as we relied on borrowings to relieve cash flow pressure amid our operations. For detailed analysis of our gearing ratio, please refer to the subsection headed "Key financial ratio — gearing ratio" in this section.

*Significant capital investment in the PC component business*

According to the Frost & Sullivan Report, the industry our Group operates in is capital-intensive. In order for our Group to capture the anticipated long-term opportunities in the PC component market, our Group utilised the existing cash resources we had and began our capital investments into the production of PC component for prefabricated constructions. Up to 31 October 2020, we have invested totalling approximately RMB162.7 million in land use right and property, plant and equipment in Zhixin Construction Technology, for the PC components segment, since 2014. As such, our Group recorded net current liabilities of approximately RMB79.5 million, RMB141.9 million and RMB6.9 million as at 31 December 2017, 31 December 2018 and 31 October 2020 respectively, given the aforesaid investment in land use rights and property, plant and equipment were represented as non-current asset in their net book values.

*Segment losses accumulated from early operation of our PC component business and declaration of dividend for the year ended 31 December 2018*

Our Group recorded accumulated losses of approximately RMB40.5 million and RMB1.3 million as at 31 December 2018 and 31 December 2019. The accumulated losses were primarily attributable to (i) dividend of approximately RMB82.8 million declared by Zhixin Construction Material to its then shareholders (i.e. Mr. Ye and Mr. Huang) for the year ended 31 December 2018; and (ii) losses accumulated from the early stage of our PC component operation through Zhixin Construction Technology since our acquisition in September 2014.

The dividend of Zhixin Construction Material for the year ended 31 December 2018 was declared after considering (i) the retained profits available for distribution from its past performance; (ii) our Group's improvement in cash generated from operating activities for the year ended 31 December 2018; and (iii) our PC Plant was put into commercial operation gradually in the second half of 2017 and has shown segment gross profit for the year ended 31 December 2018. However, after re-assessment of our liquidity position for the year ended 31 December 2019, we reached an agreement with Mr. Ye and Mr. Huang to convert the outstanding dividend balance of approximately RMB19.9 million into three years loans with an interest at 2.5% per annum which will be due for repayment by our Group to Mr. Ye and Mr. Huang by 31 December 2022 to ease off our short-term cash flow pressure.

*Indebtedness and capital commitment as at 31 January 2021*

As at 31 January 2021, the latest practicable date for the purpose of the indebtedness statement of our Group, we had (i) bank borrowings of approximately RMB149.1 million repayable within one year; (ii) three entrusted loans from an Independent Third Party of approximately RMB68.8 million repayable between one and two years; (iii) bank borrowings of approximately RMB29.4 million repayable between one and three years; (iv) amount due to related parties of approximately RMB31.7 million, representing the outstanding balances of loans and interest from Mr. Ye and Mr. Huang of approximately RMB26.9 million and Listing expenses paid by Mr. Ye on behalf of our Group of approximately RMB4.8 million; and (v) capital commitment of approximately RMB33.0 million, representing the share capital to be paid up for Zhixin Construction Technology.

*Liquidity management policies and measures*

In order to manage our liquidity position in view of the aforesaid cash flow mismatches and upfront costs and retention monies associated with undertaking projects for our business operation, capital investment for PC component business expansion and accumulated segment losses from its early operation, dividend declared for past performances, deteriorating gearing ratio and indebtedness position, our Group has implemented the following policies and measures to strengthen our liquidity management going forward:

(i) we have adopted the following measures in dealing with the mismatch between the time of receipt of payments from our customers and payments to our suppliers:

a. our sales team will negotiate the commercial aspect of the contract with specific emphasis on payment terms, amount of retention monies to be withheld by customers and amount of advance payments from customers;

b. our procurement team will negotiate the commercial aspect of the contract with specific emphasis on payment terms with our suppliers allowing our Group to have longer settlement period;

c. we will assess the status of settlement of our trade receivables and our liquidity position and adjust our payment schedules to suppliers accordingly;

d. our finance department will prepare an analysis of the forecast amount and timing of cash inflows and outflows in relation to our overall business operations so as to ensure the sufficiency of our financial resources;

e. for trade receivables past due, material overdue payments are monitored continuously and evaluated on a case-by-case basis with appropriate follow-up actions based upon the customer's normal payment processing procedures, our relationship with the customer, its history of making payments, its financial position as well as the general economic environment. Follow-up actions to recover overdue trade receivables include (i) active communications with the customers' appropriate personnel such as the relevant department responsible for processing payments; (ii) cessation of processing any further purchase orders from such customer until settlement of the overdue balance; (iii) conducting review on the recoverable amount of each individual trade receivable balance at the end of each reporting period to ensure adequate provision of impairment losses for irrecoverable amounts; and (iv) seeking legal advices when necessary; and

f. if, based on our regular monitoring by our finance department, there is any expected shortage of internal financial resources, we may (i) refrain from undertaking new projects; (ii) hasten the collection of our trade receivables; (iii) delay our non-urgent payments; and/or (iv) consider different financing alternatives, including but not limited to drawing on unutilised banking facilities and/or obtaining adequate banking facilities from banks and other financial institutions;

(ii) we principally relied on working capital and short-term bank borrowings to tighten the gap between the time of receipt of payments from our customers and payments to our suppliers, and during the Track Record Period, we had not experienced any problems in repaying our bank borrowings when they fell due, and we are not aware of any difficulties in renewing our bank borrowings upon maturity when necessary based on:

a. our satisfactory credit records, the sustainable growth in our turnovers and positive net profit margin, our relationship with our principal bankers, sound credit profiles of our major customers and all of our bank borrowings are either secured by certain assets of our Group or guaranteed with counter-indemnities;

b. if our Group does not possess sufficient working capital to repay our bank borrowings, we will resort to short-term bridging loans provided by licensed financial institutions, typically taken out for a period of approximately 15 business days to pay off matured bank loans, while pending for refinancing arrangement; and

c. our Group had no difficulties obtaining bridging loans during the Track Record Period. Moreover, we, as a Xiamen Municipal High and New Technology Enterprise, do not expect to have any difficulties in obtaining bridging loans in the future pursuant to the "Measures on Managing Emergency Loan Repayment Services for Xiamen Enterprise" (《廈門市企業應急還貸服務管理辦法》 promulgated by the Xiamen Municipal Financial Regulatory Bureau (廈門市地方金融監督管理局) and Xiamen Municipal Finance Bureau (廈門市財政局) on 27 November 2019 and revised on 2 March 2020 and 6 May 2020, under which high-tech, high-growth or high-value-added enterprises of Xiamen are encouraged to actively apply for such bridging loans.

(iii) despite short-term loans could bridge the gap of cash flow mismatch by way of cash inflow from financing activities to allow us to continuously undertake the growing numbers of projects, they could potentially further enlarge our cash flow used in operating activities at the same time. Our Directors are of the view that, our Group may face high gearing ratio and liquidity risk in our future operation as our business expands unless our Group obtains equity financing instead of debt financing through the Listing;

(iv) we will capitalise all outstanding balance of amounts due to related parties immediately prior to the Listing, including the aforesaid loans and interest due to Mr. Ye and Mr. Huang, to other reserves upon Listing;

(v) our three entrusted loans of approximately RMB25.9 million, RMB26.4 million and RMB16.6 million will mature on 22 October 2022, 28 October 2022 and 27 December 2022 respectively, if our Group does not possess sufficient working capital to repay our entrusted loans, our Group will make use of the unutilised banking facilities as detailed in the subsection headed "Indebtedness" in this section;

(vi) based on our backlog as at 31 October 2020, we expect the profitability of both our ready-mixed concrete and PC component operations will continue to grow and generate profits to our Group;

(vii) our Company does not have a dividend policy or any pre-determined dividend distribution ratio. To lower the impact of any future payments of dividend on our liquidity, future declaration of dividend will be subject to the recommendation by the Board at its discretion in accordance with our Articles of Association and will depend on a number of factors such as financial condition and operating results, working capital requirements and anticipated cash needs. Please refer to the subsection headed "Dividend" in this section for further details; and

(viii) as advised by the PRC Legal Advisers, the unpaid registered capital of Zhixin Construction Technology will not be due until 31 October 2060, which is in compliance with the articles of association of Zhixin Construction Technology and the applicable laws of the PRC, our Group will carefully monitor and evaluate our long-term liquidity position and decide on the appropriate timing and source of funding to fulfil our capital commitment to Zhixin Construction Technology before 31 October 2060.

**Working capital sufficiency**

Our Directors confirm that, taking into account the financial resources available to our Group, including our internal resources, our existing cash and bank balances, the available banking facilities and the estimated net proceeds of the Share Offer, in the absence of unforeseen circumstances, the working capital available to our Group is sufficient for our Group's present requirements and for at least the next 12 months from the date of this prospectus.

## NET CURRENT (LIABILITIES)/ASSETS

The following table sets forth our current assets and current liabilities as at the dates indicated.

| | As at 31 December | | | As at 31 October | As at 31 January |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) |
| **Current assets** | | | | | |
| Inventories | 17,818 | 20,531 | 27,825 | 51,593 | 51,157 |
| Trade receivables | 227,778 | 282,796 | 400,446 | 523,178 | 477,986 |
| Prepayments, deposits and other receivables | 29,567 | 14,090 | 15,382 | 17,872 | 21,079 |
| Amount due from a related party | 12,533 | 13,940 | — | — | — |
| Restricted bank balance | 32,000 | 9,001 | 4,710 | 3,210 | 4,710 |
| Cash and cash equivalents | 46,290 | 3,807 | 16,144 | 2,467 | 12,246 |
| | 365,986 | 344,165 | 464,507 | 598,320 | 537,178 |
| **Current liabilities** | | | | | |
| Trade and bills payables | 259,610 | 248,562 | 286,494 | 327,832 | 246,336 |
| Other payables and accruals | 24,446 | 34,209 | 31,435 | 35,896 | 30,930 |
| Amounts due to related parties | 54,178 | 82,895 | — | 4,920 | 4,789 |
| Current income tax liabilities | 5,924 | 12,236 | 4,149 | 10,416 | 655 |
| Borrowings | 98,500 | 101,000 | 122,000 | 217,872 | 149,080 |
| Contract liabilities | 2,316 | 6,116 | 12,360 | 1,547 | 1,140 |
| Lease liabilities | 497 | 1,009 | 5,695 | 6,707 | 6,430 |
| | 445,471 | 486,027 | 462,133 | 605,190 | 439,360 |
| **Net current (liabilities)/assets** | (79,485) | (141,862) | 2,374 | (6,870) | 97,818 |

As at 31 December 2017 and 31 December 2018, our Group recorded net current liabilities of approximately RMB79.5 million and RMB141.9 million respectively. Our net current liabilities position was primarily a result of our Group's strategic decision to expand our business into the PC component manufacturing industry in 2014. According to the Frost & Sullivan Report, the concrete industry is a capital-intensive industry. In order for our Group to capture the anticipated long-term opportunities in the PC component market, our Group utilised the existing cash resources we had and began our capital investments into the production of PC component for prefabricated constructions. Up to 31 October 2020, we have invested totalling approximately RMB162.7 million in land use right and property, plant and equipment in Zhixin Construction Technology, for the PC components segment, since 2014. Such investment in land use rights and property, plant and equipment were represented as non-current asset in their net book values.

Our net current liabilities increased to approximately RMB141.9 million as at 31 December 2018. Such increase was primarily attributable to (i) capital expenditure payment of approximately RMB15.8 million; and (ii) declaration of dividends of approximately RMB82.8 million.

Our Group recorded an improvement in our liquidity position with net current assets of approximately RMB2.4 million as at 31 December 2019. Such improvement was mainly attributable to (i) increase in trade receivables of approximately RMB117.7 million; (ii) decrease in amounts due to related parties of approximately RMB82.9 million due to the decrease in dividend payable to Mr. Ye and Mr. Huang of approximately RMB62.9 million and reclassification of the balances to non-current liabilities as the related parties confirmed that the amounts would be repayable by 31 December 2022. The improvement was partially offset by (i) increase in trade and bills payables of approximately RMB37.9 million; and (ii) increase in borrowings of approximately RMB21.0 million.

As at 31 October 2020, our Group recorded net current liabilities of approximately RMB6.9 million. Our net current liabilities position was primarily attributable to (i) increase in current borrowings of approximately RMB95.9 million mainly due to reclassification of entrusted loans of approximately RMB52.2 million from non-current borrowings since they are repayable in October 2021 (the aforesaid entrusted loans has been extended as at the Latest Practicable Date and will be due for repayment in October 2022); and (ii) increase in trade and bills payables of approximately RMB41.3 million, which was partially offset by (i) increase in trade receivables of approximately RMB122.7 million; and (ii) increase in inventories of approximately RMB23.8 million.

Based on our unaudited financial statements as at 31 January 2021, our Group recorded net current assets of approximately RMB97.8 million. The improvement in our liquidity position was mainly attributable to (i) decrease in trade and bills payables of approximately RMB81.5 million; and (ii) decrease in borrowings of approximately RMB68.8 million mainly due to reclassification of entrusted loans of approximately RMB52.2 million to non-current borrowings as our Group was able to extend the loans as mentioned above, which was partially offset by decrease in trade receivables of approximately RMB45.2 million.

## DISCUSSION ON MAJOR ITEMS OF THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **ASSETS AND LIABILITIES** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 116,630 | 139,763 | 140,431 | 140,913 |
| Right-of-use assets | 24,447 | 25,509 | 41,057 | 40,733 |
| Investment properties | 8,306 | 7,942 | 10,554 | 10,129 |
| Intangible assets | 7 | 239 | 213 | 192 |
| Trade receivables | 18,660 | 22,266 | 17,343 | 17,136 |
| Prepayment for non-current assets | 23,416 | 3,800 | — | — |
| Deferred income tax assets | 6,790 | 7,517 | 1,535 | 2,081 |
| | 198,256 | 207,036 | 211,133 | 211,184 |
| **Current assets** | | | | |
| Inventories | 17,818 | 20,531 | 27,825 | 51,593 |
| Trade receivables | 227,778 | 282,796 | 400,446 | 523,178 |
| Prepayments, deposits and other receivables | 29,567 | 14,090 | 15,382 | 17,872 |
| Amount due from a related party | 12,533 | 13,940 | — | — |
| Restricted bank balance | 32,000 | 9,001 | 4,710 | 3,210 |
| Cash and cash equivalents | 46,290 | 3,807 | 16,144 | 2,467 |
| | 365,986 | 344,165 | 464,507 | 598,320 |
| **Current liabilities** | | | | |
| Trade and bills payables | 259,610 | 248,562 | 286,494 | 327,832 |
| Other payables and accruals | 24,446 | 34,209 | 31,435 | 35,896 |
| Amounts due to related parties | 54,178 | 82,895 | — | 4,920 |
| Current income tax liabilities | 5,924 | 12,236 | 4,149 | 10,416 |
| Borrowings | 98,500 | 101,000 | 122,000 | 217,872 |
| Contract liabilities | 2,316 | 6,116 | 12,360 | 1,547 |
| Lease liabilities | 497 | 1,009 | 5,695 | 6,707 |
| | 445,471 | 486,027 | 462,133 | 605,190 |
| **Net current (liabilities)/assets** | (79,485) | (141,862) | 2,374 | (6,870) |
| **Total asset less current liabilities** | 118,771 | 65,174 | 213,507 | 204,314 |

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Non-current liabilities** | | | | |
| Borrowings | — | — | 68,790 | 16,590 |
| Lease liabilities | — | 1,241 | 12,406 | 11,333 |
| Amounts due to related parties | — | — | 26,283 | 26,963 |
| Deferred income | 825 | 1,418 | 1,682 | 2,109 |
| | 825 | 2,659 | 109,161 | 56,995 |
| **Net assets** | 117,946 | 62,515 | 104,346 | 147,319 |
| **EQUITY** | | | | |
| **Equity attributed to owners of the Company** | | | | |
| Share capital | — | — | 9 | 9 |
| Other reserves | 100,000 | 103,012 | 105,642 | 105,642 |
| Retained earnings/(Accumulated losses) | 17,946 | (40,497) | (1,305) | 41,668 |
| **Total equity** | 117,946 | 62,515 | 104,346 | 147,319 |

**Property, plant and equipment**

Our property, plant and equipment mainly comprise (i) buildings; (ii) machineries; (iii) office equipment; (iv) concrete mixer trucks and motor vehicles; and (v) construction in progress, which amounted to approximately RMB116.6 million, RMB139.8 million, RMB140.4 million and RMB140.9 million as at 31 December 2017, 31 December 2018, 31 December 2019 and 31 October 2020, respectively. The increase of approximately RMB23.2 million as at 31 December 2018 was mainly attributable to (i) additions of machineries amounting to approximately RMB30.7 million for our additional PC components production lines, which commenced operation during 2018; and (ii) partially offset by the depreciation charge amounting to approximately RMB14.0 million. The increase of approximately RMB0.6 million as at 31 December 2019 was mainly due to (i) additions of construction in progress amounting to approximately RMB11.9 million for establishing our Jimei Workshop for production of PC components; (ii) additions of machineries amounting to approximately RMB5.8 million mainly to support the production of PC components; and (iii) partially offset by the depreciation charge amounting to approximately RMB14.5 million. The increase of approximately RMB0.5 million as at 31 October 2020 was mainly due to (i) additions of concrete mixer trucks amounting to approximately RMB5.0 million to replace mixer trucks that had been utilised beyond their useful lives; (ii) additions of construction in progress amounting to approximately RMB4.1 million mainly for establishing a leased storage site; (iii) additions of machineries amounting to approximately RMB3.6 million primarily for supporting the production of PC components in our PC Plant and Jimei Workshop; and (iv) partially offset by the depreciation charge amounting to approximately RMB12.5 million.

**Inventories**

As of 31 December 2017, 31 December 2018, 31 December 2019 and 31 October 2020, our inventories amounted to approximately RMB17.8 million, RMB20.5 million, RMB27.8 million and RMB51.6 million, accounting for approximately 4.9%, 6.0%, 6.0% and 8.6% of our total current assets, respectively. We usually maintain a low level of inventories towards the end of the year as construction activities are not active during the period from January to March due to Chinese New Year. Moreover, we are generally able to receive raw materials from our suppliers within 24 hours from order placement to fulfil our production schedule.

Our Group's inventories consist of raw materials, work-in-progress and finished goods. Our raw materials mainly include cement, aggregates, admixtures, PFA, mineral powder and rebars. Work-in-progress refers to PC components which are under production process. Finished goods represent our PC components which are ready to be sold. The inventories are stated at the lower of cost and net realisable value. We closely monitor and keep our inventories at an optimal level so as to fulfil our contractual obligations regarding our production schedule, maintain profitability and reduce financial exposure and risk. The following table sets forth the breakdown of our inventories as at the dates indicated:

| | As at 31 December | | | As at |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **31 October 2020** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| Raw materials | 14,128 | 15,585 | 11,761 | 17,250 |
| Work-in-progress | 271 | — | 810 | 1,281 |
| Finished goods | 5,088 | 5,725 | 16,019 | 33,571 |
| Less: provision for inventory | (1,669) | (779) | (765) | (509) |
| | 17,818 | 20,531 | 27,825 | 51,593 |

Our Group's inventories increased by approximately RMB2.7 million, or 15.2% from approximately RMB17.8 million as at 31 December 2017 to approximately RMB20.5 million as at 31 December 2018. The change in our inventories level was mainly attributable to the increase in (i) raw materials of approximately RMB1.5 million for the increase in production activities for our PC component operations; and (ii) finished goods of approximately RMB0.6 million due to the increase in sales of PC components.

Our Group's inventories increased by approximately RMB7.3 million, or 35.5% from approximately RMB20.5 million as at 31 December 2018 to approximately RMB27.8 million as at 31 December 2019. The change in our inventories level was mainly attributable to the increase in work-in-progress and finished goods of approximately RMB0.8 million and RMB10.3 million, respectively, as a result of increase in number of on-going PC components projects from 17 projects as at 31 December 2018 to 21 projects as at 31 December 2019. Such increase was partially offset by the decrease in raw materials of approximately RMB3.8 million mainly due to the decrease in production volume of our ready-mixed concrete.

Our Group's inventories increased by approximately RMB23.8 million, or 85.4% from approximately RMB27.8 million as at 31 December 2019 to approximately RMB51.6 million as at 31 October 2020. The change in our inventories level was mainly attributable to the increase in finished goods of approximately RMB17.6 million as a result of increase in backlog of PC components in terms of contract volume from approximately 45,826 $m^3$ as at 31 December 2019 to approximately 121,195 $m^3$ as at 31 October 2020.

The following table sets forth our Group's inventory turnover days for the periods indicated:

| | Year ended 31 December | | | As at |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **31 October 2020** |
| | **days** | **days** | **days** | **days** |
| Inventory turnover days *(note)* | 20.8 | 16.1 | 18.5 | 25.1 |

*Note:* Inventory turnover days is calculated based on the average of beginning and ending inventory balance for the year/period divided by cost of sales for the year/period, and multiplying by the number of days in the year/period.

The inventory turnover days decreased by approximately 4.7 days from approximately 20.8 days for the year ended 31 December 2017 to approximately 16.1 days for the year ended 31 December 2018. The improvement in inventory turnover days was mainly attributable to our ability to manage our inventory level to mitigate the effects of price fluctuation of raw materials.

The inventory turnover days increased by approximately 2.4 days from approximately 16.1 days for the year ended 31 December 2018 to approximately 18.5 days for the year ended 31 December 2019, as a higher inventory level of finished goods was maintained to satisfy the demand of our PC components customers.

The inventory turnover days increased by approximately 6.6 days from approximately 18.5 days for the year ended 31 December 2019 to approximately 25.1 days for the ten months ended 31 October 2020. Such increase in inventory turnover days was mainly attributable to (i) the increase in inventory balance of finished goods from approximately RMB16.0 million as at 31 December 2019 to approximately RMB33.6 million as at 31 October 2020 as a result of increase in backlog of PC components as described above; and (ii) our Group usually maintains a low level of inventories towards the end of the year as construction activities are not active during the period from January to March due to Chinese New Year, therefore our interim inventory turnover days as at 31 October are generally longer as compared to inventory turnover days as at 31 December.

Up to 31 January 2021, approximately RMB47.2 million or 90.5% of our Group's inventories as at 31 October 2020 had been subsequently utilised.

**Trade receivables**

The following table sets forth the breakdown of our trade receivables from SOEs and non-SOEs as at the dates indicated:

| | As at 31 December | | | As at |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 31 October 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Trade receivables — current** | | | | |
| Trade receivables from | | | | |
| — SOE | 168,135 | 203,429 | 298,916 | 376,190 |
| — non-SOE | 61,924 | 83,207 | 106,744 | 154,147 |
| | 230,059 | 286,636 | 405,660 | 530,337 |
| Less: provision for impairment | (2,281) | (3,840) | (5,214) | (7,159) |
| | 227,778 | 282,796 | 400,446 | 523,178 |
| **Trade receivables — non-current** | | | | |
| Retention receivables from | | | | |
| — SOE | 18,771 | 22,305 | 15,535 | 14,552 |
| — non-SOE | — | 101 | 2,005 | 2,866 |
| | 18,771 | 22,406 | 17,540 | 17,418 |
| Less: provision for impairment | (111) | (140) | (197) | (282) |
| | 18,660 | 22,266 | 17,343 | 17,136 |
| Total trade receivables, net | 246,438 | 305,062 | 417,789 | 540,314 |

Our Group's trade receivables mainly refer to outstanding amounts due from our customers for the sales of our ready-mixed concrete and PC components. The current portion primarily represents receivables from our customers which are expected to be collected in one year or less from each reporting period, which amounted to approximately RMB227.8 million, RMB282.8 million and RMB400.4 million as at 31 December 2017, 31 December 2018 and 31 December 2019, respectively, representing an increase of approximately 24.2% and 41.6% as at 31 December 2018 and 31 December 2019. Such increase was mainly due to (i) the increase in revenue generated during the fourth quarter from approximately RMB115.6 million during the fourth quarter of 2017 to approximately RMB161.0 million during the fourth quarter of 2018, and further to approximately RMB217.9 million during the fourth quarter of 2019; (ii) the fluctuation of the amount settled by different customers to us as at respective reporting dates due to different credit periods granted by us as well as different settlement practices of different customers; and (iii) the increase in trade receivables from our SOE customers, who generally have longer settlement periods, from approximately RMB168.1 million as at 31 December 2017 to approximately RMB203.4 million as at 31 December 2018, and further to approximately RMB298.9 million as at 31 December 2019.

The current portion of our trade receivables increased by approximately RMB122.7 million or 30.6% from approximately RMB400.4 million as at 31 December 2019 to approximately RMB523.2 million as at 31 October 2020. Such increase was mainly attributable to (i) our slower collection of trade receivables from February to May 2020 as a result of the COVID-19 outbreak; (ii) approximately RMB238.8 million of revenue was generated from August to October 2020 and certain amount of which were not yet due for settlement; and (iii) the increase in trade receivables from our SOE customers, who generally have longer settlement periods, of approximately RMB77.3 million.

The non-current portion of our trade receivables primarily represents retention receivables from our customers, which are retention money withheld by our customers to secure our due performance during the defect liability period. Our customers may retain 5%–20% of the total progress payment amount as retention money. Generally, the retention money will be released within six months upon expiration of the defect liability period, normally ranging from 3 months to 24 months from the date of the practicable completion of the construction project. Nonetheless, the timing of release varies from project to project in accordance with the agreed terms with each customer. Therefore, the balance of retention receivables as at the end of each reporting period depends on the (i) respective project stage of our customers' projects; (ii) settlement of final accounts; and (iii) expiry of the defect liability period.

Our retention receivables amounted to approximately RMB18.7 million, RMB22.3 million, RMB17.3 million and RMB17.1 million as at 31 December 2017, 31 December 2018, 31 December 2019 and 31 October 2020, respectively. The increase of approximately RMB3.6 million or 19.4% as at 31 December 2018 was in line with the increase in our revenue from projects. The decrease of approximately RMB4.9 million or 22.1% as at 31 December 2019 was mainly due to the decrease in retention receivables from our ready-mixed concrete projects of approximately RMB9.9 million as the retention money had reached the settlement stage and released by our customers. Such decrease was partially offset by the increase in retention receivables from our PC components projects of approximately RMB5.0 million, which was in line with the increase in our revenue from our PC components projects. The decrease of approximately RMB0.2 million or 1.2% as at 31 October 2020 was mainly attributable to the release of retention money of approximately RMB4.0 million from our ready-mixed concrete projects, which was partially offset by the increase in retention receivables from our PC components projects of approximately RMB3.8 million due to increased revenue from our PC components projects.

The following table sets forth the aging analysis of our trade receivables and retention receivables, based on invoice date, as at the dates indicated:

| | As at 31 December | | | As at |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 31 October 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Within 1 year | 206,971 | 234,285 | 373,339 | 449,541 |
| 1 year to 2 years | 39,885 | 59,675 | 41,106 | 88,641 |
| 2 years to 3 years | 496 | 14,810 | 7,229 | 6,391 |
| Over 3 years | 1,478 | 272 | 1,526 | 3,182 |
| | 248,830 | 309,042 | 423,200 | 547,755 |

Our Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of lifetime expected loss provision for all trade receivables and requires expected lifetime losses to be recognised from initial recognition of the receivables. We consider the shared credit risk characteristics and days past due to measure the expected credit losses. As at 31 December 2017, 31 December 2018, 31 December 2019 and 31 October 2020, our provision for impairment of trade receivables amounted to approximately RMB2.4 million, RMB4.0 million, RMB5.4 million and RMB7.4 million, representing approximately 1.0%, 1.3%, 1.3% and 1.4% of gross trade receivables, respectively. For details provision for impairment of trade receivables, please refer to Note 3.1(b)(ii) to the Accountant's Report set out in Appendix I to this prospectus.

As at 31 December 2017, 2018 and 2019 and 31 October 2020, our trade receivables with an aggregate carrying amount of nil, nil, nil and approximately RMB7.2 million respectively were subject to factoring arrangements as set out in Note 21 to the Accountant's Report in Appendix I to this prospectus.

The following table sets out our turnover days of trade receivables for the Track Record Period:

| | Year ended 31 December | | | As at |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 31 October 2020 |
| | days | days | days | days |
| Trade receivables turnover days *(Note)* | 220.6 | 196.9 | 223.3 | 242.6 |

*Note:* Trade receivables turnover days is calculated based on the average of beginning and ending trade receivables balance for the year/period divided by the sales for the year/period, and multiplying by the number of days in the year/period.

For the three years ended 31 December 2019 and the ten months ended 31 October 2020, our trade receivables turnover days were approximately 220.6 days, 196.9 days, 223.3 days and 242.6 days respectively. Such fluctuation was mainly attributable to the fluctuation of the amounts settled by different customers to us as at the respective reporting dates due to different credit periods granted by us as well as different settlement practices of different customers. We generally require our customers to settle payment within 40 days from the date of issue of the payment certificate by the customer or the invoice date (as the case may be). Our customers may retain 5%–20% of the total progress payment amount as retention money. Generally, the retention money will be released within six months upon expiration of the defect liability period, normally ranging from 3 months to 24 months from the date of the practicable completion of the construction project. For the three years ended 31 December 2019 and the ten months ended 31 October 2020, the long period of turnover days of trade receivables was primarily due to the significant balance of trade receivables as at 31 December 2017, 31 December 2018, 31 December 2019 and 31 October 2020 mainly because (i) we recorded the highest amount of sales in the last quarter for each of the three years ended 31 December 2019 and ten months ended 31 October 2020 and certain amounts of trade receivables had not reached the settlement stage; and (ii) our SOE customers generally have longer settlement periods as they generally have onerous internal fiscal budget and settlement procedures. Our Directors confirm that there had been no material payment defaults in our trade receivables from SOE customers during the Track Record Period. In addition, for the ten months ended 31 October 2020, our trade receivables turnover days increased to approximately 242.6 days from approximately 223.3 days for the year ended 31 December 2019 was mainly attributable to (i) our Group's products experienced high demand during the fourth quarter of 2019 due to the effect of seasonality and from the ramp up of sales from our PC component operations, which led to a relatively large amount of trade receivables recorded as at 31 December 2019 being carried forward to 2020; (ii) a slower collection of trade receivables from February to May 2020 due to the COVID-19 outbreak; and (iii) the increase in sales from the second quarter of 2020 as the construction activities sped up to catch up delayed construction progress amid COVID-19.

In order to collect overdue trade receivables, our finance team monitors overdue payments closely and prepares a monthly ageing report showing the customers' overdue amounts. Our sales and marketing team will evaluate on a case-by-case basis and carry out appropriate follow-up actions to collect the overdue trade receivables. We aim at collecting our overdue trade receivables through friendly negotiation in order to maintain long term business relationship with customers. However, if the outstanding trade receivables are not paid after further liaison, on a case-by-case basis, we may take legal actions against our customers to recover the balances if necessary. In addition, the remuneration system of our sales and marketing staff is linked to the settlement of trade debtors to motivate the performance of our staff in respect of collecting trade receivables.

Our Group had been actively communicating with our customers to recover overdue trade receivables as at 31 December 2019. Up to the Latest Practicable Date, approximately RMB370.5 million or 87.5% of our Group's gross trade receivables as at 31 December 2019 had been subsequently settled. The following table sets forth the subsequent settlement up to the Latest Practicable Date for gross trade receivables outstanding from SOEs and non-SOEs as at 31 December 2019:

| | As at 31 December 2019 | | |
|---|---|---|---|
| | Trade receivables | | |
| | from SOE | from non-SOE | Total |
| Outstanding balance of gross trade receivables (RMB'000) | 314,451 | 108,749 | 423,200 |
| Subsequent settlement up to the Latest Practicable Date (RMB'000) | 268,563 | 101,903 | 370,466 |
| Percentage of the subsequent settlement in the outstanding balance (%) | 85.4 | 93.7 | 87.5 |

As at the Latest Practicable Date, approximately RMB6.8 million or 6.3% of the balance from non-SOE customers as at 31 December 2019 remained unsettled. As part of our Group's normal internal procedure, we had taken legal actions against four projects of our non-SOE customers by issuing demand letters in relation to unsettled trade receivables balances of approximately RMB3.0 million, representing approximately 44.1% of the unsettled balances due from non-SOE customers as at the Latest Practicable Date. In view of the progressive settlement and sincere communication with the other non-SOE customers, no further legal action was taken by our Group as at the Latest Practicable Date. Our Directors confirm that, the relevant legal actions against non-SOE customers, which are normal follow-up actions and procedures to collect receivable balances, did not arise from disputes between our Group and the relevant customers. Impairment provision of approximately RMB52,910 was made as at 31 October 2020 regarding the trade receivables balances of the aforesaid projects. We will review their settlement status from time to time and may cease to process further purchase orders from them, if any, until settlement of their overdue balance.

As at the Latest Practicable Date, approximately RMB45.9 million or 14.6% of the balance from SOE customers as at 31 December 2019 (the "**SOE Debtors**") remained unsettled. Our Group had been actively communicating with the SOE Debtors to recover overdue balances, but to the best of our Directors' knowledge and belief, taking legal actions against SOE will seriously hinder our chances to undertake projects from SOE customers in the future, and therefore we have yet to take any legal actions against the SOE Debtors. However, in light of (i) the sound creditability of the SOE Debtors; (ii) progressive repayments made by the SOE Debtors from 1 January 2020 up to the Latest Practicable Date; (iii) the SOE Debtors has no history of default; (iv) some of the SOE Debtors have on-going projects with our Group as at the Latest Practicable Date; (v) the relationship of the SOE Debtors with our Group; (vi) provision for impairment for trade receivable has been made as set out in Note 3.1(b)(ii) to the Accountant's Report in Appendix I to this prospectus; and (vii) pursuant to the "Regulations on Securing Payment to Small and Medium Enterprises" (《保障中小企業款項支付條例》), promulgated by State Council on 5 July 2020 and effective on 1 September 2020, state organs and public institutions who purchase goods or services from small and medium enterprises shall make payments within 30 days from the date of delivery of the goods or services, if otherwise stipulated in the contract, the settlement period shall not exceed 60 days, our Directors believe our Group will be able to recover the unsettled balance in due course and the management will continue evaluate on a case-by-case basis and carry out appropriate and timely follow-up actions to collect the overdue balances.

Up to the Latest Practicable Date, approximately RMB386.3 million or 70.5% of our Group's trade receivables as at 31 October 2020 had been subsequently settled. The following table sets forth the subsequent settlement up to the Latest Practicable Date for gross trade receivables outstanding from SOEs and non-SOEs as at 31 October 2020:

| | **As at 31 October 2020** | | |
|---|---|---|---|
| | **Trade receivables** | | |
| | **from SOE** | **from non-SOE** | **Total** |
| Outstanding balance of gross trade receivables (RMB'000) | 390,743 | 157,012 | 547,755 |
| Subsequent settlement up to the Latest Practicable Date (RMB'000) | 274,910 | 111,401 | 386,311 |
| Unsettled balances as at the Latest Practicable Date (RMB'000) ("**Unsettled Balances**") | 115,833 | 45,611 | 161,444 |
| Percentage of the subsequent settlement in the outstanding balance (%) | 70.4 | 71.0 | 70.5 |

Our Group adopts various payment methods in our sales contracts including, among others, progress payment. In particular, 70%–100% of the progress payment amount (actual sales orders completed) for the previous month shall be settled on a monthly basis, 5%–20% of the total progress payment amount shall be settled upon practical completion of the construction project and the balance of 5%–20% of the total progress payment amount will be retained by our customers as retention money and will be paid to us within six months upon expiration of the defect liability period. The following table sets forth the breakdown of the Unsettled Balances due from SOEs and non-SOEs by nature as at the Latest Practicable Date:

| | As at the Latest Practicable Date | | |
|---|---|---|---|
| | Unsettled Balances | | |
| | from SOE | from non-SOE | Total |
| | RMB'000 | RMB'000 | RMB'000 |
| Unsettled Balances which were past due | 39,840 | 22,022 | 61,862 |
| Unsettled Balances which were not yet due | | | |
| — Amount to be settled upon practical completion of the relative construction project | 62,694 | 21,054 | 83,748 |
| — Retention monies | 13,299 | 2,535 | 15,834 |
| | 115,833 | 45,611 | 161,444 |

Up to the Latest Practicable Date, approximately RMB83.7 million and RMB15.8 million of the Unsettled Balances which were to be settled upon practical completion of the construction project and withheld by our customers as retention money respectively. The remaining balance of approximately RMB61.9 million were past due but not yet settled by our customers. For follow-up actions to be taken by our Group to recover overdue trade receivable, please refer to the subsection headed "Liquidity and capital resources — Liquidity management" in this section.

**Prepayments, deposits and other receivables**

Our Group's prepayments, deposits and other receivables mainly consist of (i) prepayments to suppliers for procuring raw materials; (ii) prepayments for operating expenses; and (iii) deposits receivable. The following table sets forth the breakdown of our prepayments, deposits and other receivables as at the dates indicated:

| | As at 31 December | | | As at |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 31 October 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Prepayments for raw materials and operating expenses | 7,596 | 6,620 | 8,006 | 5,909 |
| Refundable deposits receivable | 1,357 | 2,109 | 3,048 | 4,894 |
| Deductible VAT recoverable | 2,657 | 1,939 | — | 1,585 |
| Prepayments for Listing expenses | — | — | 2,046 | 3,592 |
| Other receivables | 17,957 | 3,422 | 2,282 | 1,892 |
| | 29,567 | 14,090 | 15,382 | 17,872 |

Our prepayments, deposits and other receivables decreased by approximately RMB15.5 million or 52.3% from approximately RMB29.6 million as at 31 December 2017 to approximately RMB14.1 million as at 31 December 2018, primarily attributable to the decrease in other receivables of approximately RMB14.5 million mainly due to the settlement of consideration amounted to approximately RMB15.6 million for the disposal of the entire equity interest in an investment company in which Zhixin Construction Material previously had 60% equity interest, to an Independent Third Party in 2016. The Independent Third Party is a former shareholder of Zhixin Construction Material.

Our prepayments, deposits and other receivables increased by approximately RMB1.3 million or 9.2% from approximately RMB14.1 million as at 31 December 2018 to approximately RMB15.4 million as at 31 December 2019, primarily attributable to the (i) increase in prepayments for Listing expenses of approximately RMB2.0 million; and (ii) increase in prepayments for raw materials and operating expenses of approximately RMB1.4 million mainly due to the increase in prepaid operating expenses in relation to labour outsourcing services and our leased storage site. Such increase was partially offset by the decrease in deductible VAT recoverable of approximately RMB1.9 million as a result of increase in sales of PC components.

Our prepayments, deposits and other receivables increased by approximately RMB2.5 million or 16.2% from approximately RMB15.4 million as at 31 December 2019 to approximately RMB17.9 million as at 31 October 2020, primarily attributable to the (i) increase in refundable deposits receivable of approximately RMB1.8 million including a tender deposit and rental deposits paid for newly leased storage sites; (ii) increase in deductible VAT recoverable of approximately RMB1.6 million; and (iii) increase in prepayments for Listing expenses of approximately RMB1.5

million. Such increase was partially offset by the decrease in prepayments for raw materials and operating expenses of approximately RMB2.1 million mainly due to the decrease in prepaid operating expenses in relation to labour outsourcing services.

**Trade and bills payables**

Our Group's trade and bills payables mainly refer to outstanding amounts due to our suppliers for the purchases of raw materials and provision of services.

Our trade and bills payables decreased from approximately RMB259.6 million as at 31 December 2017 to approximately RMB248.6 million as at 31 December 2018, representing a decrease of approximately RMB11.0 million or 4.3%. The decrease was in line with the improvement in trade receivables turnover days for the same period. As part of our cashflow management, we generally assess the status of settlement of our trade receivables from our customers and our liquidity position before making payments to our suppliers. As our customers settled their trade receivables faster, we were able to make relatively larger payments to our suppliers.

Our trade and bills payables increased from approximately RMB248.6 million as at 31 December 2018 to approximately RMB286.5 million as at 31 December 2019, representing an increase of approximately RMB37.9 million or 15.3%, as a result of increase in total purchases of raw materials by approximately RMB26.7 million or 7.3% from approximately RMB364.1 million for the year ended 31 December 2018 to approximately RMB390.8 million for the year ended 31 December 2019 to cope with our increased production scale of PC components.

Our trade and bills payables increased from approximately RMB286.5 million as at 31 December 2019 to approximately RMB327.8 million as at 31 October 2020, representing an increase of approximately RMB41.3 million or 14.4%. The increase was in line with the increase in trade receivables turnover days for the same period mainly due to the increase in sales of our products and slower collection of trade receivables from February to May 2020 as a result of the COVID-19 outbreak.

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

| | **As at 31 December** | | | **As at** |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **31 October 2020** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| Within 1 year | 258,497 | 247,758 | 285,915 | 327,048 |
| 1 year to 2 years | 1,113 | 253 | 579 | 784 |
| Over 2 years | — | 551 | — | — |
| | 259,610 | 248,562 | 286,494 | 327,832 |

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

| | Year ended 31 December | | | As at |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 31 October 2020 |
| | days | days | days | days |
| Trade and bills payables turnover days(Note) | 296.1 | 213.3 | 205.0 | 193.9 |

*Note:* Trade and bills payables turnover days is calculated based on the average of beginning and ending trade and bills payables balance for the year/period divided by the cost of sales for the year/period, and multiplying by the number of days in the year/period.

Our trade and bills payables turnover days decreased from approximately 296.1 days for the year ended 31 December 2017 to approximately 213.3 days for the year ended 31 December 2018. The decrease was in line with the improvement in trade receivables turnover days. Our trade and bills payables turnover days decreased from approximately 213.3 days for the year ended 31 December 2018 to approximately 205.0 days for the year ended 31 December 2019. The decrease was in line with the improvement in our liquidity position during 2019. Our trade and bills payables turnover days remained relatively stable at approximately 193.9 days for the ten months ended 31 October 2020. We will adjust our payment schedules to suppliers depending on the status of settlement of our trade receivables and our liquidity position, as part of our cashflow management.

Up to the Latest Practicable Date, approximately RMB255.7 million or 76.8% of our Group's trade and bills payables as at 31 October 2020 had been subsequently settled.

**Other payables and accruals**

Our Group's other payables and accruals mainly comprise payables for purchase of property, plant and equipment, employee benefits payables and accrual for operating expenses. The following table sets forth the breakdown of our other payables and accruals as at the dates indicated:

| | As at 31 December | | | As at |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 31 October 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Payables for purchase of property, plant and equipment | 6,512 | 11,153 | 6,283 | 4,765 |
| Employee benefits payables | 6,079 | 9,103 | 6,717 | 7,091 |
| Accrual for operating expenses | 6,513 | 9,196 | 7,418 | 16,371 |
| Interest payable | 392 | 239 | 670 | 947 |
| Other taxes payable excluding income tax liabilities | 3,658 | 3,297 | 6,791 | 3,173 |
| Payable for Listing expenses | — | — | 1,302 | 1,069 |
| Others | 1,292 | 1,221 | 2,254 | 2,480 |
| | 24,446 | 34,209 | 31,435 | 35,896 |

Our other payables and accruals increased by approximately RMB9.8 million or 39.9% from approximately RMB24.4 million as at 31 December 2017 to approximately RMB34.2 million as at 31 December 2018. The increase was mainly attributable to (i) increase in payables for purchase of property, plant and equipment of approximately RMB4.6 million due to the additions of property, plant and equipment mainly for our PC components production lines; (ii) increase in employee benefits payables of approximately RMB3.0 million as a result of the increase in our staff costs; and (iii) increase in accrual for operating expenses of approximately RMB2.6 million in relation to the labour outsourcing and product delivery services.

Our other payables and accruals decreased by approximately RMB2.8 million or 8.1% from approximately RMB34.2 million as at 31 December 2018 to approximately RMB31.4 million as at 31 December 2019. The decrease was primarily attributable to (i) decrease in payables for property, plant and equipment of approximately RMB4.9 million due to the settlement of payables after acceptance of the property, plant and equipment; (ii) decrease in employee benefits payables of approximately RMB2.4 million due to decrease in bonus payables, which was partially offset by the increase in other taxes payable of approximately RMB3.5 million due to increase in VAT payable as a result of increase in sales of PC components.

Our other payables and accruals increased by approximately RMB4.5 million or 14.2% from approximately RMB31.4 million as at 31 December 2019 to approximately RMB35.9 million as at 31 October 2020. The increase was primarily attributable to the increase in accrual for operating expenses of approximately RMB9.0 million primarily in relation to labour outsourcing services, which was partially offset by the (i) decrease in other taxes payable of approximately RMB3.6 million due to decrease in VAT payable; and (ii) decrease in payables for purchase of property, plant and equipment of approximately RMB1.5 million due to the settlement of payables after acceptance of the property, plant and equipment.

**Contract liabilities**

Our contract liabilities mainly represent non-refundable advance payments received from our customers for sales of ready-mixed concrete and PC components before the delivery of goods. As at 31 December 2017, 31 December 2018, 31 December 2019 and 31 October 2020, our contract liabilities amounted to approximately RMB2.3 million, RMB6.1 million, RMB12.4 million and RMB1.5 million, respectively. Such fluctuation over the Track Record Period was primarily attributable to the difference in payment terms of different projects. For details of contract liabilities, please refer to Note 5(c) to the Accountant's Report set out in Appendix I to this prospectus.

**Borrowings**

The following table sets forth the breakdown of our borrowings as at the dates indicated:

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Borrowings — current** | | | | |
| Bank borrowings | | | | |
| Secured | 36,000 | 70,000 | 104,000 | 147,672 |
| Unsecured | 58,500 | 27,000 | 18,000 | 18,000 |
| | 94,500 | 97,000 | 122,000 | 165,672 |
| Entrusted loans from an Independent Third Party | — | — | — | 52,200 |
| Loan from an Independent Third Party | 4,000 | 4,000 | — | — |
| | 98,500 | 101,000 | 122,000 | 217,872 |
| **Borrowings — non-current** | | | | |
| Entrusted loans from an Independent Third Party | — | — | 68,790 | 16,590 |
| | 98,500 | 101,000 | 190,790 | 234,462 |
| Carrying amount repayable: | | | | |
| Within one year or on demand | 98,500 | 101,000 | 122,000 | 217,872 |
| Between 1 and 2 years | — | — | 68,790 | 16,590 |
| | 98,500 | 101,000 | 190,790 | 234,462 |

Our borrowings mainly represent bank borrowings and entrusted loans from an Independent Third Party. As at 31 December 2017, 31 December 2018, 31 December 2019 and 31 October 2020, our total borrowings amounted to approximately RMB98.5 million, RMB101.0 million, RMB190.8 million and RMB234.5 million, respectively. Our total borrowings increased during the Track Record Period to cope with our increased working capital needs due to our business growth. All of our outstanding borrowings as at 31 October 2020 were denominated in RMB.

As at 31 December 2017, 31 December 2018, 31 December 2019 and 31 October 2020, our total bank borrowings amounted to approximately RMB94.5 million, RMB97.0 million, RMB122.0 million and RMB165.7 million, respectively. The weighted average effective interest rate on bank borrowings, which is calculated based on interest charges on bank borrowings divided by weighted average principal as at the relevant year/period end and multiplied by 100%, was approximately 6.6%, 6.0%, 5.6% and 5.1% for the three years ended 31 December 2019 and ten months ended 31 October 2020, respectively.

Our outstanding bank borrowings of approximately RMB158.5 million as at 31 October 2020 were secured by (i) certain land, property, plant and equipment of our Group; (ii) our investment properties; (iii) limited personal guarantees provided by Mr. Ye, Mr. Huang and his spouse, Ms. Lin Lingling; (iv) limited corporate guarantee provided by Zhixin Construction Material; and/or (v) limited corporate guarantee provided by a credit guarantee corporation, which is an Independent Third Party, established in the PRC principally engaged in the provision of financial guarantees. The Independent Third Party credit guarantee corporation is a direct and indirect wholly-owned subsidiary of Xiamen International Trade Group Corp., Ltd (廈門國貿集團股份有限公司), a SOE and the A shares of which are listed on the Shanghai Stock Exchange (stock code: 600755), an Independent Third Party supplier of our Group for the two years ended 31 December 2019 and the ten months ended 31 October 2020. In respect of the corporate guarantee provided by the Independent Third Party credit guarantee corporation, (i) certain property, plant and equipment of our Group; (ii) Mr. Ye and his spouse, Ms. Hong Wei; (iii) Mr. Huang; (iv) Zhixin Construction Material; (v) Zhixin Logistics; and/or (vi) Zhixin Construction Technology have provided counter-indemnities to the guarantor. In addition to the aforesaid counter-indemnities, our Group had made cash deposit with carrying amount of RMB0.8 million, RMB0.8 million, RMB1.3 million and RMB1.3 million as at 31 December 2017, 31 December 2018, 31 December 2019 and 31 October 2020, respectively, to the Independent Third Party credit guarantee corporation. For the three years ended 31 December 2019 and the ten months ended 31 October 2020, the fees charged by the Independent Third Party credit guarantee corporation for the corporate guarantee provided amounted to approximately RMB0.3 million, RMB0.4 million, RMB0.2 million and RMB0.4 million, respectively.

As at the Latest Practicable Date, the respective banks and Independent Third Party credit guarantee corporation have all given their consents that the aforesaid personal guarantees and counter-indemnities to the guarantors by Mr. Ye, Ms. Hong Wei, Mr. Huang and Ms. Lin Lingling will all be released and replaced by corporate guarantees provided by our Group upon Listing.

The remaining outstanding bank borrowings of approximately RMB7.2 million as at 31 October 2020 were secured by certain trade receivables. During the ten months ended 31 October 2020, our Group has transferred trade receivables with an aggregate carrying amount of approximately RMB7.2 million to the factors in exchange for cash and is prevented from selling or pledging the receivables. However, our Group has retained late payment and credit risk. As such, trade receivables which are factored are still on our Group's balance sheet and the amount repayable under the factoring agreement is presented as secured borrowings.

During the year ended 31 December 2019, our Group obtained three entrusted loans with total principals amounting to approximately RMB68.8 million from an Independent Third Party through a licensed commercial bank in the PRC for working capital purpose. The Independent Third Party is a company established in the PRC and principally engaged in construction waste management and civil engineering works with registered capital of RMB80.0 million, of which approximately RMB69.4 million has been paid up as of 23 December 2019. The Independent Third Party is wholly-owned by the Then Shuanghui Mineral Beneficial Owner, who is a friend of Mr. Ye. Between May 2013 and November 2018, pursuant to a written trust agreement, our Group (via Zhixin Construction Material) held 60% equity interest in Shuanghui Mineral on behalf of the Then Shuanghui Mineral Beneficial Owner. For details of the trust arrangement, please refer to the paragraph headed "Business — Procurement — Equity interest in certain suppliers held under trust arrangement by our Group during the Track Record Period". Our entrusted loans are unsecured, due for repayment in two years and bear interest at 5.0% per annum. As at 31 October 2020, approximately RMB52.2 million of the long-term entrusted loans were transferred to current borrowings since they are repayable in October 2021. As at the Latest Practicable Date, our Group has entered into agreements with the Independent Third Party and the bank to extend the three entrusted loans and they will be due for repayment in October and December 2022. For the year ended 31 December 2019 and the ten months ended 31 October 2020, the interest charged on entrusted loans amounted to approximately RMB0.5 million and RMB2.6 million, respectively. As advised by our PRC Legal Advisers, the borrowing arrangement in relation to the entrusted loans from the Independent Third Party is valid and legally binding in accordance with applicable PRC laws and regulations.

### Amounts due from/to related parties

| | As at 31 December | | | | | | | | | As at 31 October | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | | 2018 | | | 2019 | | | 2020 | | |
| | Current | Non-current | Total | Current | Non-current | Total | Current | Non-current | Total | Current | Non-current | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Trade in nature:** | | | | | | | | | | | | |
| Trade receivable from a related party | | | | | | | | | | | | |
| — Xiamen Jichang | — | — | — | — | — | — | 2,713 | — | 2,713 | — | — | — |
| Trade payables to related parties | | | | | | | | | | | | |
| — Yaohe Trading | 17,839 | — | 17,839 | 14,479 | — | 14,479 | 241 | — | 241 | — | — | — |
| — Lianhui Construction Material *(Note)* | 2,443 | — | 2,443 | — | — | — | N/A | N/A | N/A | N/A | N/A | N/A |
| — Guishun Logistics | 4 | — | 4 | 71 | — | 71 | 48 | — | 48 | — | — | — |
| | 20,286 | — | 20,286 | 14,550 | — | 14,550 | 289 | — | 289 | — | — | — |
| **Non-trade in nature:** | | | | | | | | | | | | |
| Amount due from a related party | | | | | | | | | | | | |
| — Mr. Ye | 12,533 | — | 12,533 | 13,940 | — | 13,940 | — | — | — | — | — | — |
| Amounts due to related parties | | | | | | | | | | | | |
| — Mr. Ye | — | — | — | 62,100 | — | 62,100 | — | 21,308 | 21,308 | 4,920 | 21,884 | 26,804 |
| — Mr. Huang | 26,600 | — | 26,600 | 20,700 | — | 20,700 | — | 4,975 | 4,975 | — | 5,079 | 5,079 |
| — Yaohe Trading | 26,978 | — | 26,978 | 95 | — | 95 | — | — | — | — | — | — |
| — Xiamen Jichang | 600 | — | 600 | — | — | — | — | — | — | — | — | — |
| | 54,178 | — | 54,178 | 82,895 | — | 82,895 | — | 26,283 | 26,283 | 4,920 | 26,963 | 31,883 |

*Note:* The amount due to Lianhui Construction Material as at 31 December 2019 and 31 October 2020 is not applicable since Lianhui Construction Material was no longer a related party of our Group.

Trade receivable from a related party represented the amount due from Xiamen Jichang for sales of ready-mixed concrete. Trade payables to related parties represented the amounts due to Yaohe Trading, Lianhui Construction Material and Guishun Logistics for purchase of raw materials and logistics services provided. Please refer to the paragraphs headed "Customers, sales and marketing — Discontinued connected transactions" and "Procurement — Discontinued connected transactions" in the section headed "Business" in this prospectus for further details in relation to the transactions between our related parties and us during the Track Record Period. The aforesaid balances were trade in nature and were settled according to the contract terms.

The amount due from a related party represented cash advanced to Mr. Ye. The amounts due to related parties mainly represented (i) dividend payable to Mr. Ye and Mr. Huang; (ii) outstanding balances of loans and interest from Mr. Ye and Mr. Huang; (iii) Listing expenses paid by Mr. Ye on behalf of our Group; and (iv) cash advanced by Yaohe Trading and Xiamen Jichang to our Group for working capital purpose. Except for the amounts due to Mr. Ye and Mr. Huang as at 31 December 2019 and 31 October 2020 totalling of approximately RMB26.3 million and RMB27.0 million respectively, all balances were non-trade in nature, unsecured, interest-free and repayable on demand.

As at 31 December 2019, a balance of approximately RMB21.3 million and RMB5.0 million was due to Mr. Ye and Mr. Huang, respectively. The balance due to Mr. Ye consisted of (i) dividend payable to Mr. Ye of approximately RMB14.9 million which was declared by Zhixin Construction Material for the year ended 31 December 2018; and (ii) Listing expenses paid by Mr. Ye on behalf of our Group of approximately RMB6.4 million. The balance due to Mr. Huang consisted of dividend payable to Mr. Huang of approximately RMB5.0 million which was declared by Zhixin Construction Material for the year ended 31 December 2018. The aforesaid balances were non-trade in nature and unsecured. Mr. Ye and Mr. Huang confirmed to change the aforesaid balances into three years loans to our Group which will be due for repayment by 31 December 2022 and bear interest at 2.5% per annum.

As at 31 October 2020, the amounts due to related parties represented (i) the outstanding balances of loans and interest from Mr. Ye and Mr. Huang of approximately RMB21.9 million and RMB5.1 million respectively; and (ii) Listing expenses paid by Mr. Ye on behalf of our Group of approximately RMB4.9 million.

All outstanding balance of amounts due to related parties will be capitalised to other reserves upon Listing.

## RELATED PARTY TRANSACTIONS

During the Track Record Period, our Group had entered into certain related party transactions, details of which are set out in Note 32 to the Accountant's Report in Appendix I to this prospectus. Our Directors confirm that these transactions were conducted on normal commercial terms and/or that such terms were no less favourable to our Group than terms available to Independent Third Parties and were fair and reasonable and in the interest of our Shareholders as a whole.

## KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios during the Track Record Period:

| | As at 31 December | | | As at |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 31 October 2020 |
| Current ratio[(1)] | 0.8 times | 0.7 times | 1.0 times | 1.0 times |
| Quick ratio[(2)] | 0.8 times | 0.7 times | 0.9 times | 0.9 times |
| Gearing ratio[(3)] | 83.5% | 161.6% | 208.0% | 177.5% |
| Debt to equity ratio[(4)] | 44.3% | 155.5% | 192.6% | 175.8% |

| | Year ended 31 December | | | Ten months ended |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 31 October 2020 |
| Return on equity[(5)] | 10.4% | 43.8% | 40.1% | 35.0% |
| Return on assets[(6)] | 2.2% | 5.0% | 6.2% | 6.4% |
| Net profit margin[(7)] | 3.1% | 5.4% | 7.1% | 7.1% |
| Interest coverage ratio[(8)] | 9.7 times | 6.4 times | 7.6 times | 6.3 times |

*Notes:*

1. Current ratio is calculated based on total current assets divided by total current liabilities as at the relevant year/period end.

2. Quick ratio represents current assets (net of inventories) divided by total current liabilities as at the relevant year/period end.

3. Gearing ratio is calculated based on total debt (being (i) total borrowings and (ii) interest-bearing loans from Mr. Ye and Mr. Huang) divided by total equity as at the relevant year/period end and multiplied by 100%.

4. Debt to equity ratio represents net debt (being total debt net of cash and cash equivalents) divided by total equity as at the relevant year/period end and multiplied by 100%.

5. Return on equity is calculated by profit/annualised profit for the year/period divided by the total shareholders' equity as at the relevant year/period end and multiplied by 100%.

6. Return on assets is calculated by profit/annualised profit for the year/period divided by the total assets as at the relevant year/period end and multiplied by 100%.

7. Net profit margin is calculated by dividing profit for the year/period by revenue as at the relevant year/period end and multiplied by 100%.

8. Interest coverage ratio is calculated by dividing operating profit for the year/period by net finance costs as at the relevant year/period end.

**Current ratio**

Our Group's current ratio remained stable at approximately 0.8 times, 0.7 times, 1.0 times and 1.0 times as at 31 December 2017, 31 December 2018, 31 December 2019 and 31 October 2020, respectively.

**Quick ratio**

As at 31 December 2017, 31 December 2018, 31 December 2019 and 31 October 2020, our Group's quick ratios were approximately 0.8 times, 0.7 times, 0.9 times and 0.9 times respectively. The trend in quick ratio was similar to that of the current ratio.

**Gearing ratio**

Our Group's gearing ratio increased from approximately 83.5% as at 31 December 2017 to approximately 161.6% as at 31 December 2018. Such increase was mainly due to (i) increase in our borrowings of approximately RMB2.5 million from approximately RMB98.5 million as at 31 December 2017 to approximately RMB101.0 million as at 31 December 2018; and (ii) the decrease of our total equity of approximately RMB55.4 million, as a result of the net effect of declaration of dividends amounted to approximately RMB82.8 million and accumulation of our profit of approximately RMB27.4 million for the year ended 31 December 2018.

Our Group's gearing ratio increased from approximately 161.6% as at 31 December 2018 to approximately 208.0% as at 31 December 2019 mainly due to (i) the increase in total borrowings of approximately RMB89.8 million to fund our working capital; and (ii) interest-bearing loans from Mr. Ye and Mr. Huang amounted to approximately RMB21.3 million and RMB5.0 million, respectively.

Our Group's gearing ratio decreased from approximately 208.0% as at 31 December 2019 to approximately 177.5% as at 31 October 2020 mainly due to the increase of our total equity of approximately RMB43.0 million as a result of accumulation of our profit for the ten months ended 31 October 2020.

**Debt to equity ratio**

Our Group's debt to equity ratio increased from approximately 44.3% as at 31 December 2017 to approximately 155.5% as at 31 December 2018, primarily attributable to (i) the increase of our net debt primarily due to the decrease in our cash and cash equivalents; and (ii) the same reasons for increase in gearing ratio mentioned above.

Our Group's debt to equity ratio increased from approximately 155.5% as at 31 December 2018 to approximately 192.6% as at 31 December 2019 and decreased to approximately 175.8% as at 31 October 2020, primarily attributable to the same reasons for the fluctuation in gearing ratio mentioned above.

**Return on equity**

Our Group's return on equity increased from approximately 10.4% for the year ended 31 December 2017 to approximately 43.8% for the year ended 31 December 2018. The increase in return on equity was mainly due to the combined effect of (i) increase of our net profit of approximately RMB15.1 million, which was mainly driven by the increase in gross profit of approximately RMB36.8 million; and (ii) decrease of our total equity as a result of dividend declared.

Our Group's return on equity decreased from approximately 43.8% for the year ended 31 December 2018 to approximately 40.1% for the year ended 31 December 2019 and further to approximately 35.0% for the ten months ended 31 October 2020, mainly attributable to our strengthened equity base as a result of accumulation of our net profit.

**Return on assets**

Our Group's return on assets increased from approximately 2.2% for the year ended 31 December 2017 to approximately 5.0% for the year ended 31 December 2018. The increase in return on assets was mainly attributable to the improvement in our Group's performance for the year ended 31 December 2018, while our total assets remained relatively stable.

Our Group's return on assets increased from approximately 5.0% for the year ended 31 December 2018 to approximately 6.2% for the year ended 31 December 2019, mainly attributable to the continuous increase in our profit driven by growth in our PC component business segment.

Our Group's return on assets remained stable at approximately 6.4% for the ten months ended 31 October 2020.

**Net profit margin**

Our Group's net profit margin increased from approximately 3.1% for the year ended 31 December 2017 to approximately 5.4% for the year ended 31 December 2018, and further increased to approximately 7.1% for the year ended 31 December 2019, which was mainly attributed to (i) the increase in gross profit margin from approximately 9.9% for the year ended 31 December 2017 to approximately 15.0% for the year ended 31 December 2018 for the same reasons as discussed in the paragraph headed "Gross profit and gross profit margin" in this section; and (ii) the increase in gross profit margin from approximately 15.0% for the year ended 31 December 2018 to approximately 19.4% for the year ended 31 December 2019 for the same reasons as discussed in the paragraph headed "Gross profit and gross profit margin" in this section. Such increase was partially offset by the recognition of Listing expenses of approximately RMB6.5 million during the year ended 31 December 2019.

Our Group's net profit margin remained stable at approximately 7.0% and 7.1% for the ten months ended 31 October 2019 and 2020, respectively.

### Interest coverage ratio

Our Group's interest coverage ratio decreased from approximately 9.7 times for the year ended 31 December 2017 to approximately 6.4 times for the year ended 31 December 2018. The decrease in interest coverage ratio was mainly due to the increase in finance costs resulting from increase in interest charges on bank borrowings and decrease in capitalised interest relating to qualifying assets for the year ended 31 December 2018.

Our Group's interest coverage ratio increased from approximately 6.4 times for the year ended 31 December 2018 to approximately 7.6 times for the year ended 31 December 2019, primarily due to the increase in operating profit for the year ended 31 December 2019.

Our Group's interest coverage ratio decreased from approximately 7.3 times for the ten months ended 31 October 2019 to approximately 6.3 times for the ten months ended 31 October 2020, mainly due to the increase in finance costs as a result of increased interest charges on bank borrowings.

## COMMITMENTS

### Capital commitments

Our capital commitments during the Track Record Period were primarily relating to (i) acquisition of property, plant and equipment; and (ii) share capital to be paid up for our subsidiary in the PRC. The table below sets forth our capital commitments as at the dates indicated:

| | As at 31 December | | | As at |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 31 October 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Contracted but not provided for: | | | | |
| — Property, plant and equipment | 13,651 | 803 | 246 | 225 |
| Share capital to be paid up for a PRC incorporated subsidiary | 76,250 | 36,575 | 32,975 | 32,975 |

**Operating lease commitments**

Our Group lease land for storage purpose under operating lease arrangements with a lease term of less than 12 months. The table below sets forth our commitments for future minimum lease payments under non-cancellable operating leases as at the dates indicated:

| | As at 31 December | | | As at |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 31 October 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Within one year | — | 102 | 2,698 | 1,916 |

## CAPITAL EXPENDITURES

Capital expenditures during the Track Record Period primarily related to the purchase of machineries, concrete mixer trucks, buildings, office equipment and vehicles. Capital expenditures for the three years ended 31 December 2019 and the ten months ended 31 October 2020 amounted to approximately RMB43.1 million, RMB37.3 million, RMB18.1 million and RMB13.4 million, respectively.

## OFF-BALANCE SHEET COMMITMENTS AND FINANCIAL INSTRUMENTS

Save for the capital and operating lease commitments disclosed above, we had not entered into any material off-balance sheet commitments and arrangements during the Track Record Period and up to the Latest Practicable Date.

## INDEBTEDNESS

As at 31 January 2021, the latest practicable date for the purpose of the indebtedness of our Group, our Group had outstanding indebtedness of RMB295.8 million which comprised borrowings, lease liabilities and amounts due to related parties. The following table sets forth our indebtedness as at the dates indicated:

| | As at 31 December | | | As at 31 October | As at 31 January |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) |
| **Current liabilities** | | | | | |
| Borrowings | 98,500 | 101,000 | 122,000 | 217,872 | 149,080 |
| Lease liabilities | 497 | 1,009 | 5,695 | 6,707 | 6,430 |
| Amounts due to related parties excluding dividends payables | 54,178 | 95 | — | 4,920 | 4,789 |
| Subtotal | 153,175 | 102,104 | 127,695 | 229,499 | 160,299 |
| **Non-current liabilities** | | | | | |
| Borrowings | — | — | 68,790 | 16,590 | 98,190 |
| Lease liabilities | — | 1,241 | 12,406 | 11,333 | 10,401 |
| Amounts due to related parties | — | — | 26,283 | 26,963 | 26,876 |
| Subtotal | — | 1,241 | 107,479 | 54,886 | 135,467 |
| **Total** | 153,175 | 103,345 | 235,174 | 284,385 | 295,766 |

As at 31 January 2021, our Group had RMB310.0 million available banking facilities, of which RMB129.5 million were unutilised and unrestricted. The banking facilities and certain outstanding borrowings of RMB169.5 million were secured by (i) certain land, property, plant and equipment of our Group; (ii) our investment properties; (iii) limited personal guarantees provided by Mr. Ye, Mr. Huang and his spouse, Ms. Lin Lingling; (iv) limited corporate guarantee provided by Zhixin Construction Material; and/or (v) limited corporate guarantee provided by a credit guarantee corporation, which is an Independent Third Party, established in the PRC principally engaged in the provision of financial guarantees. The Independent Third Party credit guarantee corporation is a direct and indirect wholly-owned subsidiary of Xiamen International Trade Group Corp., Ltd (廈門國貿集團股份有限公司), a SOE and the A shares of which are listed on the Shanghai Stock Exchange (stock code: 600755), an Independent Third Party supplier of our Group for the two years ended 31 December 2019 and the ten months ended 31 October 2020. In respect of the corporate guarantee provided by the Independent Third Party credit guarantee corporation, (i) certain property, plant and equipment of our Group; (ii) Mr. Ye and his spouse, Ms. Hong Wei; (iii)

Mr. Huang; (iv) Zhixin Construction Material; (v) Zhixin Logistics and/or (vi) Zhixin Construction Technology have provided counter-indemnities to the guarantor. In addition to the aforesaid counter-indemnities, our Group had made cash deposit with carrying amount of RMB0.5 million as at 31 January 2021 to the Independent Third Party credit guarantee corporation.

As at the Latest Practicable Date, the respective banks and Independent Third Party credit guarantee corporation have all given their consents that the aforesaid personal guarantees and counter-indemnities to the guarantors by Mr. Ye, Ms. Hong Wei, Mr. Huang and Ms. Lin Lingling will all be released and replaced by corporate guarantees provided by our Group upon Listing.

As at 31 January 2021, certain outstanding borrowings of approximately RMB9.0 million were secured by certain trade receivables with an aggregate carrying amount of approximately RMB9.0 million.

As at 31 January 2021, a balance of approximately RMB26.6 million and RMB5.1 million was due to Mr. Ye and Mr. Huang, respectively. The aforesaid balances were non-trade in nature and unsecured. All outstanding balance of amounts due to related parties will be capitalised to other reserves upon Listing.

As at 31 January 2021, there was no material restrictive covenant on any of our outstanding debt and there was no breach of any covenants during the Track Record Period and up to 31 January 2021.

Save as mentioned above, our Group did not have any debt securities issued or outstanding, or authorised or otherwise created but unissued, or any term loans whether guaranteed or secured as at 31 January 2021.

Save as aforesaid or as otherwise disclosed herein, we did not have outstanding at the close of business on 31 January 2021, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

Our Directors confirm that there has been no material change in the indebtedness and contingent liabilities of our Group since 31 January 2021.

## CONTINGENT LIABILITIES

As at 31 December 2017, 31 December 2018, 31 December 2019 and 31 October 2020, neither our Group nor our Company had any significant contingent liabilities.

## EVENTS AFTER REPORTING PERIOD

Please refer to the section headed "Summary — Recent development" in this prospectus and "Events after the balance sheet date" as set out in Note 36 to the Accountant's Report in Appendix I to this prospectus.

## DIVIDEND

There were no dividends paid or payable by our Company in respect of the Track Record Period. The dividends declared by Zhixin Construction Material to its then shareholders was nil, RMB82.8 million, nil and nil for the three years ended 31 December 2019 and the ten months ended 31 October 2020, respectively. According to the PRC Company Law, provided that 10% of the annual post-tax profits after covering any outstanding accumulated losses brought forward from previous years has been contributed into its statutory surplus reserve, a company could distribute its retained earnings as dividend. The company may elect not to contribute to the statutory surplus reserve if it reached 50% of the company's registered capital. Our Directors confirm that Zhixin Construction Material had no accumulated losses brought forward and had legally contributed 10% of its annual post-tax profits into its statutory surplus reserve upon the distribution of dividend at company level in 2018. Our Group's accumulated losses of approximately RMB40.5 million as at 31 December 2018 primarily represented accumulated losses of our primary subsidiary, namely Zhixin Construction Technology due to the losses accumulated from the early stage of our Group's PC component operation. Based on the above, despite of the accumulated losses at the group level, our PRC Legal Advisers are of the view that the distribution of dividend of Zhixin Construction Material in 2018 was in compliance with the applicable laws and regulations in the PRC.

For the aforesaid dividend declared during the year ended 31 December 2018, approximately RMB62.9 million had been settled as at 31 December 2019 by our internal resources and the balance of approximately RMB19.9 million had been changed into three years interest-bearing loans due to Mr. Ye and Mr. Huang, the Shareholders of our Group by 31 December 2022. All outstanding balance of amounts due to Mr. Ye and Mr. Huang will be capitalised to other reserves upon Listing.

Our Company does not have a dividend policy or any pre-determined dividend distribution ratio. The declaration of future dividends will be subject to the recommendation by the Board at its discretion in accordance with our Articles of Association and will depend on a number of factors, including market conditions, our strategic plans and prospects, business opportunities, financial condition and operating results, working capital requirements and anticipated cash needs, statutory and contractual restrictions on the payment of dividends by us and other factors that our Board considers relevant. In addition, the Controlling Shareholders will be able to influence our dividend policy. Cash dividends on Shares, if any, will be paid in Hong Kong dollars.

## LISTING EXPENSES

The Underwriters are expected to receive a commission of 3.5% of the aggregate price of the Offer Shares, which is payable by our Company. The total amount of Listing expenses, commissions together with SFC transaction levy and Stock Exchange trading fee in connection with the Share Offer is estimated to be approximately RMB35.6 million (which amounts to approximately 14.0% of the gross proceeds of approximately HK$280.5 million (equivalent to RMB255.0 million) from the Share Offer), of which approximately RMB15.4 million is expected to be capitalised upon the Listing. The remaining estimated Listing expenses amount to approximately RMB20.2 million, including (i) approximately RMB6.5 million and RMB5.7 million was recognised for the year ended 31 December 2019 and the ten months ended 31 October 2020 respectively; and (ii) approximately RMB8.0 million is expected to be recognised as expenses for the fourteen months ending 31 December 2021. The Listing expenses above are the current estimate for reference only and the final amount to be recognised to our consolidated statements of comprehensive income is subject to audit and the then changes in variables and assumptions.

## DISTRIBUTABLE RESERVES

Our Company was incorporated in the Cayman Islands on 14 November 2018 as an exempted company with limited liability under the Companies Act of the Cayman Islands. As no business activities has been carried out during the Track Record Period, our Company did not have any retained profits available for distribution to Shareholders as at 31 October 2020. With the approval of an ordinary resolution, our Company may declare and pay dividends out of any distributable reserves (including share premium) in accordance with the Companies Act.

## PROPERTY INTERESTS AND PROPERTY VALUATION REPORT

Grant Sherman Appraisal Limited, an independent property valuer, has valued the property interests of our Group as at 31 December 2020 and is of the opinion that the aggregate value of property interests of our Group as at such date was approximately RMB102.6 million. The full text of letter, summary of valuation and valuation report in connection with our property interests are set out in Appendix IV to this prospectus.

As required under Rule 5.07 of the Listing Rules, the statement below sets forth the reconciliation of the aggregate value of property interests of our Group as reflected in the consolidated financial statements as at 31 October 2020 as set out in Appendix I to this prospectus with the valuation of such property interests as at 31 December 2020 as set out in Appendix IV to this prospectus.

| | RMB'000 |
|---|---|
| **Net book value of the property interests of our Group as at 31 October 2020 (audited):** | |
| Building included in property, plant and equipment | 45,338 |
| Right-of-use assets | 21,844 |
| Investment properties | 10,129 |
| | 77,311 |
| Movements for the period from 31 October 2020 to 31 December 2020 | (422) |
| **Net book value of the property interests of our Group as at 31 December 2020 (unaudited)** | 76,889 |
| Net valuation surplus | 25,711 |
| **Market value of the relevant property interests of our Group as at 31 December 2020 as set forth in the property valuation report in Appendix IV to this prospectus** | 102,600 |

## QUANTITATIVE AND QUALITATIVE ANALYSIS OF FINANCIAL RISKS

Our Group is exposed to various types of financial risks in the ordinary course of its business, including market risk, credit risk and liquidity risk.

### Market risk

*Interest rate risk*

Our Group's interest rate risk arises primarily from borrowings. Borrowings obtained at variable rates expose our Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose our Group to fair value interest rate risk. For further details, please refer to Note 3.1(a) to the Accountant's Report set out in Appendix I to this prospectus.

### Credit risk

The credit risk of our Group mainly arises from cash and cash equivalents, restricted bank balance and trade and other receivables. Our Group's maximum exposure to credit risk is limited to the carrying amounts of the financial assets at the end of each reporting date. For further details, please refer to Note 3.1(b) to the Accountant's Report set out in Appendix I to this prospectus.

### Liquidity risk

Liquidity risk relates to the risk that our Group will not be able to meet our financial obligations as they become due. For further details, please refer to Note 3.1(c) to the Accountant's Report set out in Appendix I to this prospectus.

## DISCLOSURE REQUIRED UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

## DISCLOSURE REQUIRED UNDER RULE 13.49(1) OF THE LISTING RULES

We have included in Appendix III to this prospectus unaudited preliminary financial information for the year ended 31 December 2020, which is prepared in compliance with the content requirements as for preliminary results announcements under Rule 13.49 of the Listing Rules and has been agreed with the Reporting Accountant following their review under Practice Note 730 "Guidance for Auditors Regarding Preliminary Announcements of Annual Results" issued by the Hong Kong Institute of Certified Public Accountants.

Thus, the disclosure requirements under Rule 13.49(1) of the Listing Rules on publication of preliminary annual results announcement are not applicable to us since:

(a) the financial information of our Company for the year ended 31 December 2020, as required under Appendix 16 to the Listing Rules in relation to annual results announcements has been disclosed in this prospectus; and

(b) that there is no breach of our constitutional documents, laws and regulations of our place of incorporation or other regulatory requirements as a result of not publishing such annual results announcements.

As such, we shall publish an announcement no later than the time prescribed in Rule 13.49(1) that the relevant financial information of our Company for the year ended 31 December 2020 has been included in this prospectus.

## UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

For the unaudited pro forma statement of adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules for illustrating the effect of the Share Offer on the consolidated net tangible assets of our Group attributable to the owners of the Company as at 31 October 2020 as if the Share Offer were completed on 31 October 2020, please refer to Appendix II to this prospectus.

## NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, save for the estimated non-recurring Listing expenses, there has been no material adverse change in the financial or trading position or prospects of our Group since 31 October 2020 (being the date to which the latest consolidated financial statements of our Group were made up) and up to the date of this prospectus, and there is no event since 31 October 2020 and up to the date of this prospectus which would materially affect the information shown in the Accountant's Report set out in Appendix I to this prospectus.

## FUTURE PLANS

Please refer to the section headed "Business — Business strategies" in this prospectus for a detailed discussion of our future plans.

## IMPLEMENTATION PLAN

In order to achieve the aforementioned business strategies, we set forth below our implementation plans for each of the six-month periods from the Latest Practicable Date to 31 December 2023. As at the Latest Practicable Date, we had completed the Filing of Enterprise Investment Project* (企業投資項目備案) with the Development and Reform Bureau of Jimei District of Xiamen* (廈門市集美區發展和改革局) and we had filed our application for the Construction Engineering Planning Permit* (建設工程規劃許可證) with Jimei Branch of the Xiamen Municipal Natural Resources and Planning Bureau* (廈門市自然資源和規劃局集美分局). We had also engaged a contractor to prepare the construction design and drawing of plans for our expansion plan and completed our internal assessment procedures in selecting the machinery and equipment supplier for the new production lines. Our PRC Legal Advisers are of the view that, there is no material legal impediment in obtaining the approval and permit from the relevant regulatory authorities in regards to our expansion plan as long as we are in compliance with applicable laws, regulations and rules and submit all the necessary application documents to the relevant regulatory authorities. Investors should note that our implementation plans are formulated on the bases and assumptions referred to in the paragraph headed "Bases and assumptions" below. These bases and assumptions are inherently subject to many uncertainties and unpredictable factors, in particular, the risk factors as set out in the section headed "Risk factors" of this prospectus. Therefore, there is no assurance that our Group's business plans will materialise in accordance with the estimated time frame and that our Group's future plans will be accomplished at all. Based on our Group's business strategies, our Directors intend to carry out the follow implementation plans:

### For the Latest Practicable Date to 30 June 2021

| Business strategy | Implementation activities |
|---|---|
| Expand our PC component production capacity | • Confirm the construction plan and design and select construction contractor(s) |
| Enhance our information technology system | • Obtain quotations and engage professional consultant to lay out a detailed implementation plan |

**For the 1 July 2021 to 31 December 2021**

| Business strategy | Implementation activities |
|---|---|
| Expand our PC component production capacity | • Construction works begin |
| Enhance our information technology system | • Installation of computer servers and hardware<br>• Design, development and implementation of system software |
| Further improve our environmental protection system | • Obtain quotations and engage professional consultant to lay out a detailed implementation plan<br>• Commence implementation of environmental protection system |
| Acquire mixer and pump trucks | • Purchase one mixer truck |

**For the 1 January 2022 to 30 June 2022**

| Business strategy | Implementation activities |
|---|---|
| Expand our PC component production capacity | • Construction works continue |
| Enhance our information technology system | • Installation of computer hardware<br>• Implantation of system software<br>• System testing and debugging<br>• Staff training<br>• Enhanced information technology system goes live |
| Further improve our environmental protection system | • Implementation of environmental protection system continues |
| Acquire mixer and pump trucks | • Purchase two mixer trucks |

**For the 1 July 2022 to 31 December 2022**

| Business strategy | Implementation activities |
|---|---|
| Expand our PC component production capacity | • Completion of construction works<br>• Installation of new machineries and equipment<br>• Commencement of trial production<br>• Identify and lease suitable PC component storage site(s)<br>• Purchase raw materials for PC component production<br>• Purchase four flatbed trucks<br>• Recruit approximately 80 staff |
| Further improve our environmental protection system | • Complete implementation of environmental protection system<br>• System testing |
| Enhance our information technology system | • Staff training |
| Acquire mixer and pump trucks | • Purchase two mixer trucks and one pump truck |

**For the 1 January 2023 to 30 June 2023**

| Business strategy | Implementation activities |
|---|---|
| Expand our PC component production capacity | • Commence commercial production<br>• Purchase raw materials for PC component production<br>• Purchase seven flatbed trucks<br>• Recruit approximately 50 staff |
| Enhance our information technology system | • Post implementation monitoring and review |
| Acquire mixer and pump trucks | • Purchase one pump truck |

**For the 1 July 2023 to 31 December 2023**

| Business strategy | Implementation activities |
|---|---|
| Expand our PC component production capacity | • Monitor and review the operation of the PC component production facility with increasing production volume<br>• Purchase five flatbed trucks<br>• Recruit approximately 50 staff |

**For the 1 January 2024 to 30 June 2024**

| Business strategy | Implementation activities |
|---|---|
| Expand our PC component production capacity | • Monitor and review the operation of the PC component production facility with increasing production volume continues<br>• Purchase four flatbed trucks |

The follow table sets forth a detailed breakdown of the use of proceeds of the Share Offer for the aforesaid plans:

| | From the Latest Practicable Date to 30 June 2021 | For six months ending 31 December 2021 | For six months ending 30 June 2022 | For six months ending 31 December 2022 | For six months ending 30 June 2023 | For six months ending 31 December 2023 | For six months ending 30 June 2024 | Total amount to be funded by the net proceeds of the Share Offer | Total % of the net proceeds | Fund sources |
|---|---|---|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | | |
| (i) Expand our PC component production capacity | — | 7,216 | 43,294 | 66,338 | 44,904 | 16,112 | 3,600 | 181,464 | 82.7% | Fully funded from net proceeds of the Share Offer |
| (ii) Enhance our information technology system | — | 1,000 | 2,000 | 3,000 | 2,000 | — | — | 8,000 | 3.6% | Fully funded from net proceeds of the Share Offer |
| (iii) Further improve our environmental protection system | — | 1,000 | 4,000 | 2,000 | — | — | — | 7,000 | 3.2% | Fully funded from net proceeds of the Share Offer |
| (iv) Acquire mixer and concrete pump trucks | — | 450 | 582 | — | — | — | — | 1,032 | 0.5% | Approximately RMB1.0 million or 13.3% of the amount will be funded from net proceeds of the Share Offer and the remaining RMB6.7 million or 86.7% will be funded out of internal resources |
| (v) General working capital | 4,000 | 17,944 | — | — | — | — | — | 21,944 | 10.0% | |
| Total | 4,000 | 27,610 | 49,876 | 71,338 | 46,904 | 16,112 | 3,600 | 219,440 | 100% | |

## BASES AND ASSUMPTIONS

The business strategies set out by our Directors are based on the following bases and assumptions:

- there will be no material changes in the existing political, legal, fiscal, social or economic conditions in the PRC or in any other places in which any member of our Group operates or will operate;
- our Group will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which our future plans relate;
- there will be no material changes in the bases or rates of taxation in the PRC or in any other places in which any member of our Group operates or will operate;

- there will be no material changes in legislation or regulations whether in the PRC or elsewhere materially affecting the business carried on by our Group;

- there will be no significant change in our Group's business relationship with its existing strategic and business partners;

- there will be no significant changes in our Group's business relationship with its major customers;

- there will be no material changes in the funding required for each of the scheduled achievements as outlined under the paragraph headed "Implementation plan" in this section; and

- our Group will not be materially affected by the risk factors as set out in the section headed "Risk factors" of this prospectus.

## REASONS FOR LISTING

Our Directors concede that the Listing will be a great advantage to our Group in different aspects as discussed below:

### (i) To thrive our corporate profile and credibility

Our Directors consider that Hong Kong is an international financial centre and the capital market in Hong Kong is maturely established and highly recognised internationally. We believe that by way of Listing, we can elevate our corporate image and status, hence, the successful listing would enhance our credibility with our customers and suppliers, also, the listing platform would provide our Group an efficient and economic fund raising channel for our development and expansion. Our Directors further consider that the Listing will enhance our competitiveness in the market by attracting potential customers who incline to establish business relationship with companies having a robust internal control and corporate governance system, indeed, most of the well founded corporations prefer to work with companies which are operating under public transparency with market recognition and regulatory supervision, especially SOEs.

### (ii) Successful listing allows us to deploy our business strategies efficiently and prudently in a short time frame without negatively affecting our current operation and liquidity position and to pave way for future financing

According to the Frost & Sullivan Report, the concrete industry is a capital-intensive industry for which it is a crucial factor to concrete manufacturing enterprises to have sufficient capital strength for heavy up-front capital investment. During the operational process, working capital sufficiency is also critical for concrete manufacturing enterprises since the credit period for customers tends to be longer than those from their suppliers.

Since our decision to expand into the PC component market in 2014, we have invested a significant amount of our cash resources in acquiring additional machineries and production facilities.

As at 31 January 2021, being the latest practicable date for the purpose of the indebtedness statement, our cash and bank balances was approximately RMB12.2 million, and we had banking facilities of approximately RMB310.0 million, among which approximately RMB180.5 million had been utilised as working capital for our business operations, as such there are only RMB129.5 million unutilised bank facilities available to our Group. As we intend to deploy approximately RMB226.1 million for the implementation of our future plans, which is significantly more than our current cash on hand and banking facilities available to us.

In choosing equity financing over debt financing to finance our future plans, we have taken into account: (i) the speed and size of equity financing, being the net proceeds from Listing, as compared to debt financing which may require additional time for negotiation of terms and conditions; (ii) the acceptable financial risk associated with additional gearing our Group is willing to bear; (iii) the expected unfavourable terms of debt financing to our Company including possible higher interest rate and collateral requirement by the financial institutions given as at 31 October 2020, our Group had buildings and machineries, land use rights and investment properties with an aggregate net book value of approximately RMB73.8 million already been pledged to secure borrowings; and (iv) the fact that equity financing will not divert capital from our business for paying down the debt to the lenders regularly regardless of our business performance and that means that we shall have sufficient time to grow our business. In addition, the Listing also provides a solid financing platform for us to raise capital from the capital market in case of future business expansion and long-term development needs and goals.

**(iii) To heighten the liquidity of our Shares**

Our Directors consider that the Listing will heighten the liquidity of our Shares when compared to the limited liquidity of the shares that are privately held before the Listing. Furthermore, Listing will enlarge and diversify our shareholder base and potentially lead to more liquid market in our Shares.

## USE OF PROCEEDS

We estimate that the net proceeds from the Share Offer (after deduction of underwriting fees and estimated expenses payable by us in relation to the Share Offer, and assuming an Offer Price of HK$1.50 per Offer Share) are approximately HK$241.4 million (equivalent to RMB219.4 million).

Our Directors intend to apply the net proceeds from the Share Offer for the following purposes:

- approximately HK$199.6 million (equivalent to RMB181.5 million), representing approximately 82.7% of the net proceeds of the Share Offer, will be used to expand our PC component production capacity at our PC Plant, of which:

  — approximately HK$115.7 million (equivalent to RMB105.2 million), representing approximately 47.9% of the net proceeds of the Share Offer will be used to set up the PC component facility including a factory building, ancillary facilities and production lines. The following table sets out a breakdown of costs associated with the setup of production facilities and the planned allocation of the net proceeds, with reference to quotations of similar facilities:

| **Product facilities to be acquired** | **Amount allocated** |
|---|---|
| | **RMB million** |
| Factory and buildings | 16.8 |
| Fully-automatic carousel production lines | 24.2 |
| Stationary production line | 3.3 |
| Batching station | 6.7 |
| Fully-automatic rebar processing line | 15.0 |
| Mould production workshop | 6.1 |
| Cranes and forklifts | 27.1 |
| Office equipment | 2.3 |
| Other ancillary facilities | 3.7 |
| | 105.2 |

  — approximately HK$4.7 million (equivalent to RMB4.3 million), representing approximately 2.0% of the net proceeds of the Share Offer will be used to lease storage site(s) to support our enlarged production capacity;

  — approximately HK$45.4 million (equivalent to RMB41.3 million), representing approximately 18.8% of the net proceeds of the Share Offer will be used to purchase raw materials for the production of PC components at our new production lines;

  — approximately HK$19.8 million (equivalent to RMB18.0 million), representing approximately 8.2% of the net proceeds of the Share Offer will be used to acquire flatbed trucks; and

  — approximately HK$14.0 million (equivalent to RMB12.7 million), representing approximately 5.8% of the net proceeds of the Share Offer will be used to enhance and expand our workforce to support our business expansion;

- approximately HK$8.8 million (equivalent to RMB8.0 million), representing approximately 3.6% of the net proceeds of the Share Offer, will be used to enhance our information technology system by introducing an ERP system so that our business operations can be better maintained and monitored;

- approximately HK$7.7 million (equivalent to RMB7.0 million), representing approximately 3.2% of the net proceeds of the Share Offer, will be used to further improve our environmental protection system in response to the expected increase in waste discharge and pollutants emission arising from our expansion plans;

- approximately HK$8.5 million (equivalent to RMB7.7 million) will be used to acquire five mixer and two concrete pump trucks, of which approximately HK$1.1 million (equivalent to RMB1.0 million) will be funded by the net proceeds of the Share Offer (representing approximately 0.5% of the net proceed of the Share Offer) and the balance of approximately HK$7.4 million (equivalent to RMB6.7 million) will be funded by internal resources; and

- approximately HK$24.2 million (equivalent to RMB21.9 million), representing approximately 10.0% of the net proceeds of the Share Offer, will be used as our general working capital.

To the extent that our net proceeds are not sufficient to satisfy the working capital requirements for the purpose as set forth above, we intend to fund the shortfall through variety of means including cash generated from operations and bank financing.

To the extent that the net proceeds of the Share Offer are not immediately applied to the above purposes and to the extent permitted by applicable laws and regulations, we will only place the unused net proceeds into short-term demand deposits with authorised financial institutions and/or licensed banks in Hong Kong and/or China to avoid investment risks to the net proceeds.

## PUBLIC OFFER UNDERWRITERS

Kingsway Financial Services Group Limited

Seazen Resources Securities Limited

Zhongtai International Securities Limited

Haitong International Securities Company Limited

SPDB International Capital Limited

ZMF Asset Management Limited

## UNDERWRITING ARRANGEMENTS AND EXPENSES

### Public Offer

#### *Public Offer Underwriting Agreement*

Pursuant to the Public Offer Underwriting Agreement, our Company has agreed to initially offer the Public Offer Shares for subscription by members of the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to, among other conditions, the granting of the approval for the listing of, and permission to deal in, all our Shares in issue and to be issued as mentioned in this prospectus by the Stock Exchange and certain other conditions set out in the Public Offer Underwriting Agreement, the Public Offer Underwriters have severally, but not jointly or jointly and severally, agreed to subscribe or procure subscribers for their respective applicable proportions of the Public Offer Shares now being offered which have not been applied for under the Public Offer on the terms and conditions of this prospectus, the Application Forms and the Public Offer Underwriting Agreement. In addition, the Public Offer Underwriting Agreement is conditional on and subject to the Placing Underwriting Agreement having been executed, becoming, and continuing to be, unconditional and not having been terminated.

***Grounds for termination***

The obligations of the Public Offer Underwriters to subscribe or procure subscribers for the Public Offer Shares under the Public Offer Underwriting Agreement are subject to termination at any time prior to 8:00 a.m. on Listing Date if:

(a) there develops, occurs, exists or comes into force:

(i) any new law or regulation or any change or development involving a prospective change in existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting the Cayman Islands, BVI, Hong Kong, the PRC, or any of the jurisdictions in which our Group operates or has or is deemed by any applicable laws to have a presence (by whatever name called) or any other jurisdiction relevant to our Group (each a "**Relevant Jurisdiction**"); or

(ii) any change or development involving a prospective change or development, or any event or series of events likely to result in or representing a change or development, or prospective change or development, in local, national, regional or international financial, political, military, industrial, economic, currency market, fiscal or regulatory or market conditions or any monetary or trading settlement system (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets, forward markets, commodity markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a fluctuation of the Hong Kong dollars and/or the Renminbi against any foreign currencies) in or affecting any Relevant Jurisdiction; or

(iii) any event or series of events in the nature of force majeure (including, without limitation, acts of government, labour disputes, strikes, lock-outs, fire, explosion, flooding, snowstorms, civil commotion, riots, public disorder, acts of war, acts of terrorism (whether or not responsibility has been claimed), acts of God, accident or interruption in transportation and operations, outbreak of diseases or epidemics including, but not limited to, COVID-19, SARS, swine or avian flu, H5N1, H1N1, H1N7, H7N9 and such related/mutated forms, economic sanction, withdrawal of trading privileges, cancellation of trade treaties in whatever form) in or directly or indirectly affecting any Relevant Jurisdiction; or

(iv) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any Relevant Jurisdiction; or

(v) any moratorium, suspension or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Singapore Stock Exchange or the Tokyo Stock Exchange; or

(vi) any general moratorium on commercial banking activities in any Relevant Jurisdiction or any disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services, procedures or matters in any Relevant Jurisdiction; or

(vii) (A) any change or prospective change in exchange controls, currency exchange rates or foreign investment regulations, or (B) any change or prospective change in Taxation (as defined in the Public Offer Underwriting Agreement) in any Relevant Jurisdiction adversely affecting an investment in the Shares; or

(viii) the issue or requirement to issue by our Company of a supplemental or amendment to this prospectus, the Application Forms or other documents in connection with the offer and sale of the Shares pursuant to the Companies (WUMP) Ordinance or the Listing Rules in circumstances where the matter to be disclosed is, in the opinion of the Joint Bookrunners, adversely affect the marketing for or implementation of the Share Offer; or

(ix) any litigation or claim being threatened or instigated against our Company or any Director or any member of our Group; or

(x) any change in the development plan of our Company (as described in this prospectus); or

(xi) any loss or damage sustained by our Company (howsoever caused and whether or not the subject of any insurance or claim against any person); or

(xii) any Governmental Authority (as defined in the Public Offer Underwriting Agreement) in any Relevant Jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against our Company or any Director or any member of our Group; or

(xiii) any Director or senior management (as named in this prospectus) vacating his/her office, or any of them being charged with an indictable offence or prohibited by operation of laws or otherwise disqualified from taking part in the management of a company or the commencement by any Governmental Authority of any action against any Director or senior management (as named in this prospectus) in his/her capacity as such or an announcement by any Governmental Authority that it intends to take any such action; or

(xiv) any demand by creditors for repayment of indebtedness or any indebtedness becoming repayable before its stated maturity or a petition being presented for the winding-up or liquidation of our Company or any member of our Group making any composition or arrangement with its creditors or entering into a scheme of arrangement or any resolution being passed for the winding-up of our Company or any member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of our Company or any member of our Group or anything analogous thereto occurs in respect of our Company or any member of our Group; or

(xv) a prohibition on our Company for whatever reason from offering, allotting or selling the Shares pursuant to the terms of the Share Offer;

and which, in any such case individually or in the aggregate, in the sole opinion of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters):

(A) is or will be materially adverse to, or materially and prejudicially affects, the assets, liabilities, business, general affairs, management, shareholder's equity, profit, losses, results of operations, position or condition (financial or otherwise), or prospects of our Company or any member of our Group; or

(B) has or will have or may have a material adverse effect on the success of the Share Offer or the level of Offer Shares being applied for or accepted or subscribed for or purchased or the distribution of Offer Shares and/or has made or is likely to make or will make it impracticable or inadvisable or incapable for any material part of the Public Offer Underwriting Agreement, the Public Offer or the Share Offer to be performed or implemented as envisaged; or

(C) makes or will make or may make it impracticable or inadvisable or incapable to proceed with the Public Offer or the Share Offer or the delivery of the Offer Shares on the terms and in the manner contemplated by the Public Offer Documents (as defined below); or

(D) would have the effect of making a part of the Public Offer Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications or payments pursuant to the Share Offer or pursuant to the underwriting thereof; or

(b) there has come to the notice of the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers or any of the Public Offer Underwriters after the date of the Public Offer Underwriting Agreement:

(i) that any statement contained in this prospectus, the Application Forms, the Formal Notice (and, in each case, all amendments or supplements thereto) (collectively, the "**Public Offer Documents**"), the Post Hearing Information Pack and/or any notices, announcements, advertisements, communications issued or used by or on behalf of our Company in connection with the Public Offer (including any supplement or amendment thereto) was or has become untrue, incomplete, incorrect or misleading in any material respect or any forecasts, estimate, expressions of opinion, intention or expectation expressed in the Public Offer Documents, the Post Hearing Information Pack and/or any notices, announcements, advertisements, communications so issued or used are not fair and honest and made on reasonable grounds or, where appropriate, based on reasonable assumptions, when taken as a whole; or

(ii) any contravention by our Company or any Director of any law which in the sole opinion of the Joint Bookrunners (i) has or will have or may have a material adverse effect on the success of the Share Offer or the level of Offer Shares being applied for or accepted or subscribed for, or (ii) has made or is likely to make or will make it impracticable or inadvisable or incapable, for any material part of the Public Offer Underwriting Agreement or the Share Offer to be performed or implemented as envisaged, or to proceed with the Share Offer; or

(iii) non-compliance of this prospectus (or any other documents used in connection with the contemplated subscription of the Offer Shares) or any aspect of the Share Offer with the Listing Rules or any other applicable law; or

(iv) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of the prospectus, not having been disclosed in the prospectus, constitutes a material omission therefrom; or

(v) either (A) there has been a material breach of any of the warranties or provisions of the Public Offer Underwriting Agreement by our Company, our executive Directors or the Controlling Shareholders or (B) any of the warranties is (or would when repeated be) untrue, incorrect, incomplete or misleading in any material respect; or

(vi) any event, act or omission which gives or is likely to give rise to any liability of our Company, our executive Directors or the Controlling Shareholders pursuant to the indemnities given by our Company, our executive Directors or the Controlling Shareholders under the Public Offer Underwriting Agreement; or

(vii) any breach of any of the obligations of our Company, our executive Directors or the Controlling Shareholders under the Public Offer Underwriting Agreement or the Placing Underwriting Agreement; or

(viii) any experts as disclosed in the Public Offer Documents has withdrawn or subject to withdraw its consent to being named in any of the Public Offer Documents or to the issue of any of the Public Offer Documents; or

(ix) any material adverse change or material prospective adverse change or development involving a prospective material adverse change in the assets, business, general affairs, management, shareholder's equity, profits, losses, properties, results of operations, in the position or condition (financial or otherwise) or prospects of our Company or any member of our Group; or

(x) our Company has withdrawn this prospectus or the Share Offer,

then the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) may, in their sole and absolute discretion and upon giving notice in writing to our Company, terminate the Public Offer Underwriting Agreement with immediate effect.

***Lock-up Undertakings to the Public Offer Underwriters***

*Undertakings by our Company*

Our Company has undertaken with each of the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) that, and each of the Controlling Shareholders has further undertaken with each of the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) to procure that:

(a) except for the issue of the Shares pursuant to the Share Offer or as otherwise with the Joint Bookrunners' prior written consent and unless in compliance with the Listing Rules, our Company will not at any time during the period commencing on the date by reference to which disclosures of the shareholdings of the Controlling Shareholders are made in this prospectus and ending on the date which is six months from the Listing Date (the "**First Six-Month Period**"):

(i) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, make any short sale, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase, any of the share capital, debt capital or other securities of our Company or any interest therein (including but not limited to any warrants and securities convertible into or exercisable or exchangeable for or that represent the right to receive, or any warrants or other rights to purchase, any such share capital or securities or interest therein, as applicable); or;

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital, debt capital or other securities or interest therein as described in paragraph (i) above; or

(iii) enter into any transaction with the same economic effect as any transaction described in paragraph (i) or (ii) above; or

(iv) offer to or agree to or announce any intention to effect any transaction described in paragraph (i), (ii) or (iii) above,

whether any of the foregoing transactions described in paragraph (i), (ii) or (iii) above is to be settled by delivery of share capital or such other securities, in cash or otherwise; and

(b) in the event of our Company entering into or agreeing to enter into any of the foregoing transactions in respect of any Share or other securities of our Company or any interest therein by virtue of the aforesaid exceptions or during the six-month period commencing from the expiry of the First Six-Month Period (the "**Second Six-Month Period**"), it will take all reasonable steps to ensure that such action will not create a disorderly or false market in any of the Shares or other securities of our Company.

*Undertaking by the Controlling Shareholders*

Each of the Controlling Shareholders has jointly and severally undertaken to each of the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) that:

(a) it/he will not, and will procure that the relevant registered holder(s) and its/his associates and companies controlled by it/him and any nominee or trustee holding in trust for it/him will not, without the Joint Bookrunners' prior written consent and unless in compliance with the Listing Rules, at any time during the First Six-Month Period:

(i) offer, accept subscription for, sell, pledge, mortgage, charge, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, make any short sale, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the share capital, debt capital or other securities of our Company or any interest therein (including but not limited to any securities convertible into or exercisable or exchangeable for or that represent the right to receive any such share capital or securities or interest therein) beneficially owned by it/him as at the Listing Date;

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the share capital, debt capital or other securities of our Company or any interest therein as described in (i) above;

(iii) enter into any transaction with the same economic effect as any transaction referred to in paragraph (i) or (ii) above; or

(iv) offer to or agree to or announce any intention to effect any transaction referred to in paragraph (i), (ii) or (iii) above;

whether any of the foregoing transactions described in paragraph (i), (ii) or (iii) above is to be settled by delivery of share capital or such other securities, in cash or otherwise;

(b) it/he will not, and will procure that the relevant registered holder(s) and its/his associates and companies controlled by its/his and any nominee or trustee holding in trust for it/him will not, at any time during the Second Six-Month Period, enter into any of the foregoing transactions specified in paragraph (a)(i), (ii) or (iii) above or offer to or agree to or announce any intention to enter into any such transactions if, immediately following such transfer or disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it/he will cease to be a controlling shareholder (as such term is defined in the Listing Rules) of our Company or would together with the other Controlling Shareholders cease to be, or regarded as, controlling shareholders (as such term is defined in the Listing Rules) of our Company:

(i) until expiry of the Second Six-Month Period, in the event that it/he enters into any such transactions or offer agrees or contracts to or publicly announces an intention to enter into any of the transactions specified in paragraph (a)(i), (ii) or (iii) above by virtue of the aforesaid exceptions, it/he will take all reasonable steps to ensure that such action not create a disorderly or false market in the Shares or other securities of our Company; and

(ii) comply with the requirements of Rule 10.07(1) and Notes (1), (2) and (3) to Rule 10.07(2) of the Listing Rules, to procure that our Company will comply with the requirements under Note (3) of Rule 10.07(2) of the Listing Rules, and comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by it/him or by the registered holder controlled by it/him and its/his close associates and companies controlled by it/him of any Shares or other securities of our Company.

Each of the Controlling Shareholders has further jointly and severally undertaken to the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) that at any time after the date of the Public Offer Underwriting Agreement up to and including the date falling twelve (12) months from the Listing Date, it will:

(A) when it/he pledges or charges any Shares or other securities or interests in the securities of our Company in respect of which it/he is the beneficial owner, immediately inform our Company, the Sole Sponsor, the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) and the Stock Exchange in writing of any such pledges or charges together with the number of Shares or other securities of our Company and nature of interest so pledged or charged; and

(B) when it/he receives any indication, whether verbal or written, from any such pledgee or chargee that any of the pledged or charged Shares or securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company, the Sole Sponsor, the Joint Bookrunners (for themselves and on behalf of all the Public Offer Underwriters) and the Stock Exchange in writing of any such indication.

*Undertakings by our Company and the Controlling Shareholders*

Our Company has undertaken to the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters), and each of the Controlling Shareholders has jointly and severally undertaken to the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) that it/he will procure our Company to, inform the Stock Exchange as soon as our Company has been informed of the matters mentioned in paragraph (A) or (B) above, and to make a public disclosure of such matters as soon as possible thereafter in accordance with the Listing Rules.

**Undertakings to the Stock Exchange**

*Undertakings of no further issue of Shares pursuant to Rule 10.08 of the Listing Rules*

Pursuant to Rule 10.08 of the Listing Rules, our Company has undertaken to the Stock Exchange, except pursuant to the Share Offer, no further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) will be issued by us or form the subject of any agreement to such issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except in certain circumstances permitted by Rule 10.08 of the Listing Rules.

*Undertakings of non-disposal of Shares pursuant to Rule 10.07 of the Listing Rules*

Pursuant to Rule 10.07(1) of the Listing Rules, each of the Controlling Shareholders, jointly and severally, undertakes to each of our Company and the Stock Exchange that, except pursuant to the Share Offer, each of them will not and will procure that the relevant registered holder(s) will not:

(a) in the First Six-Month Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances (save as pursuant to a pledge or charge as security in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan) in respect of, any of the Shares in respect of which he/it is shown in this prospectus to be the beneficial owner(s); and

(b) in the Second Six-Month Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances (save as pursuant to a pledge or charge as security in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan) in respect of, any of the Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company.

Pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, each of the Controlling Shareholders further jointly and severally undertakes to each of our Company and the Stock Exchange that within the period commencing on the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, he/it will:

(a) when he/it pledges or charges any Shares beneficially owned by him/it in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform our Company in writing of such pledge or charge together with the number of Shares or securities so pledged or charged; and

(b) when he/it receives any indications, either verbal or written, from the pledgee or chargee of any Shares that any of the pledged or charged Shares will be disposed of, immediately inform our Company in writing of such indications.

Our Company shall inform the Stock Exchange as soon as we have been informed of any of the matters referred to above (if any) by the Controlling Shareholders and disclose such matters by way of an announcement which is published in accordance Rule 2.07C of the Listing Rules as soon as possible.

**Placing**

In connection with the Placing, it is expected that our Company will enter into the Placing Underwriting Agreement with, *inter alia*, the Placing Underwriters. Under the Placing Underwriting Agreement, the Placing Underwriters will, subject to certain conditions, severally agree to subscribe or purchase or procure subscribers or purchasers for the Placing Shares being offered pursuant to the Placing.

**Indemnity**

Our Company has agreed to indemnify the Public Offer Underwriters against certain losses which they may suffer, including losses arising from their performance of their obligations under the Public Offer Underwriting Agreement and any breach by us of the Public Offer Underwriting Agreement.

**Commissions and Expenses**

Under the terms and conditions of the Public Offer Underwriting Agreement, the Public Offer Underwriters will receive a gross commission of 2.5% of the aggregate Offer Price payable in respect of all of the Public Offer Shares (excluding any Placing Shares reallocated to the Public Offer and any Public Offer Shares reallocated to the Placing), out of which any sub-underwriting commission and selling concession will be paid. For unsubscribed Public Offer Shares reallocated to the Placing, we will pay an underwriting commission at the rate applicable to the Placing and such commission will be paid to the relevant Placing Underwriters (but not the Public Offer Underwriters). In respect of the Placing, we expect to pay a gross commission of 2.5% of the aggregate Offer Price payable in respect of all of the Placing Shares (including any Placing Shares reallocated to the Public Offer and any Public Offer Shares reallocated to the Placing), out of which any sub-underwriting commission and selling concession are expected to be paid.

The total amount of underwriting commission, listing fees, SFC transaction levy, Stock Exchange trading fee, legal and other professional fees together with printing and other expenses relating to the Share Offer, is payable and borne by us in connection with the Share Offer and is estimated to be approximately RMB35.6 million.

## SOLE SPONSOR'S AND UNDERWRITERS' INTERESTS IN OUR COMPANY

The Sole Sponsor will receive a sponsor fee. Moreover, the Sole Sponsor is entitled to a praecipium, which is of a nature as administration and documentation fee, of 1.0% of the aggregate Offer Price payable in respect of the Offer Shares. The Joint Bookrunners, the Joint Lead Managers and other Underwriters will receive an underwriting commission. Particulars of such underwriting commission and expenses are set out in the section headed "Underwriting — Underwriting Arrangements and Expenses — Commissions and Expenses" above.

Our Company has appointed Kingsway Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules for the period commencing on the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of our financial results for the first financial year commencing after the Listing Date, or until the agreement is terminated, whichever is earlier.

Save for their obligations under the Underwriting Agreements, none of the Underwriters is interested legally or beneficially in any shares of our Company nor has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in our Company nor any interest in the Share Offer.

## INDEPENDENCE OF THE SOLE SPONSOR

Kingsway Capital Limited satisfies the independence criteria applicable to sponsor as set out in Rule 3A.07 of the Listing Rules.

## MINIMUM PUBLIC FLOAT

The Directors will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Share Offer.

## THE SHARE OFFER

The Share Offer comprises the Placing and the Public Offer. A total of initially 187,000,000 Offer Shares will be made available under the Share Offer, of which 168,296,000 Placing Shares (subject to reallocation), representing approximately 90% of the Offer Shares, will initially be conditionally placed with selected professional, institutional and private investors under the Placing. The remaining 18,704,000 Public Offer Shares (subject to reallocation), representing approximately 10% of the Offer Shares, will initially be offered to members of the public in Hong Kong under the Public Offer. The Public Offer is open to all members of the public in Hong Kong as well as to institutional and professional investors. The Public Offer Underwriters have severally agreed to underwrite the Public Offer Shares under the terms of the Public Offer Underwriting Agreement. The Placing Underwriters will severally underwrite the Placing Shares pursuant to the terms of the Placing Underwriting Agreement. Further details of the underwriting are set out in the section headed "Underwriting" in this prospectus.

Investors may apply for the Offers Shares under the Public Offer or indicate an interest for Offer Shares under the Placing, but may not do both. The number of Offer Shares to be offered under the Public Offer and the Placing respectively may be subject to reallocation as described in the paragraphs headed "Pricing and allocation" in this section.

## PRICING AND ALLOCATION

### Offer Price

The Offer Price will be HK$1.50 per Offer Share unless otherwise announced not later than the morning of the last day for lodging applications under the Public Offer, as explained below.

### Reduction in Offer Price and/or number of Offer Shares

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Joint Bookrunners (for themselves and on behalf of the Underwriters) considers it appropriate and together with the consent of our Company, the number of Offer Shares and/or the Offer Price may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer.

In such a case, our Company will, as soon as practicable following the decision to make any such reduction, and in any event not later than the morning of the last day for lodging applications under the Public Offer:

(a) issue a supplemental prospectus, as the relevant laws or government authority or regulatory authorities may require as soon as practicable following the decision to make the change, updating investors of the change in the Offer Price together with an update of all financial and other information in connection with such change;

(b) extend the period under which the Share Offer was open for acceptance to allow potential investors sufficient time to consider their subscriptions or reconsider their existing subscriptions; and

(c) give potential investors who had applied for the Offer Shares the right to withdraw their applications given the change in circumstances.

In the absence of the publication of any such notice, the Offer Price shall be HK$1.50. If the number of Offer Shares and/or the Offer Price is reduced, applicants who have submitted an application under the Public Offer will be entitled to withdraw their applications unless positive confirmations from the applicants to proceed are received.

Before submitting applications for Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the Offer Price and/or number of Offer Shares may not be made until the day which is the last day for lodging applications under the Public Offer.

In the event of a reduction in the number of Offer Shares, the Joint Bookrunners may, at their discretion, reallocate the number of Offer Shares to be offered in the Public Offer and the Placing, provided that the number of Offer Shares comprised in the Public Offer shall not be less than 10.0% of the total number of Offer Shares available under the Share Offer. The Offer Shares to be offered in the Public Offer and the Offer Shares to be offered in the Placing may, in certain circumstances, be reallocated between these offerings solely in the discretion of the Joint Bookrunners but the number of Offer Shares to be offered in the Public Offer shall not in any event be less than 10.0% of the total number of Offer Shares available under the Share Offer.

If applications for the Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Public Offer, such applications can be subsequently withdrawn if the number of Offer Shares and/or the Offer Price is so reduced.

**Allocation**

The Shares to be offered in the Public Offer and the Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Bookrunners.

Allocation of the Offer Shares pursuant to the Placing will be determined by the Joint Bookrunners and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Shares after Listing. Such allocation may be made to professional, institutional and private investors and is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and the Shareholders as a whole.

Allocation of Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants. The allocation of Public Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

**Announcement of Basis of Allocations**

The level of indications of interest in the Placing and the basis of allocations of the Public Offer Shares are expected to be announced on Thursday, 25 March 2021 on the websites of our Company at **www.xiamenzhixin.com** and the Stock Exchange at **www.hkexnews.hk**.

Results of allocations in the Public Offer, including the Hong Kong identity card/passport/ Hong Kong business registration numbers of successful applicants (where applicable) and the number of Public Offer Shares successfully applied for under **WHITE** and **YELLOW** Application Forms, or by giving electronic application instructions to HKSCC via CCASS or to the designated **HK eIPO White Form** Service Provider through the **HK eIPO White Form** Service at **www.tricor.com.hk/ipo/result** (Alternatively: **www.hkeipo.hk/IPOResult**) or at "Allotment Result in the **IPO App**, will be made available through a variety of channels as described in the section headed "How to apply for the Public Offer Shares — 11. Publication of Results" in this prospectus.

**CONDITIONS OF THE SHARE OFFER**

Acceptance of all applications for the Offer Shares pursuant to the Public Offer will be conditional upon, among other things:

- the Stock Exchange granting the approval for the listing of, and permission to deal in, all our Shares in issue and to be issued as mentioned in this prospectus;

- the execution and delivery of the Placing Underwriting Agreement on or about 19 March 2021; and

- the obligations of the Underwriters under each of the Placing Underwriting Agreement and the Public Offer Underwriting Agreement becoming, and continuing to be, unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in such Underwriting Agreements (unless and to the extent such conditions are waived on or before such dates and times) and in any event not later than 30 days after the date of this prospectus.

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms. If the above conditions are not fulfilled or waived, prior to the dates and times specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Public Offer will be announced by our Company on the websites of our Company at **www.xiamenzhixin.com** and the Stock Exchange at **www.hkexnews.hk** on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed "How to apply for the Public Offer Shares — 13. Refund of Application Monies" in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares are expected to be issued on Thursday, 25 March 2021 but will only become valid certificates of title at 8:00 a.m. on Friday, 26 March 2021, provided that (i) the Share Offer has become unconditional in all respects and (ii) the right of termination as described in the section headed "Underwriting — Underwriting arrangements and expenses — Public Offer — Grounds for termination" in this prospectus has not been exercised.

## THE PUBLIC OFFER

### Number of Shares Initially Offered

Our Company is initially offering 18,704,000 new Shares at the Offer Price, representing approximately 10% of the 187,000,000 Offer Shares initially available under the Share Offer, for subscription by the public in Hong Kong. Subject to reallocation as mentioned below, the number of Shares offered under the Public Offer will represent approximately 10% of the total number of Shares in issue after completion of the Share Offer. The Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Completion of the Public Offer is subject to the conditions as set out in the paragraphs headed "Structure of the Share Offer — Conditions of the Share Offer" in this section.

### Allocation

For allocation purposes only, the Public Offer Shares initially being offered for subscription under the Public Offer (after taking into account any reallocation in the number of Offer Shares allocated between the Public Offer and the Placing) will be divided equally into two pools (subject to adjustment of odd lot size). Pool A will comprise 9,352,000 Public Offer Shares and Pool B will comprise 9,352,000 Public Offer Shares, both of which are available on an equitable basis to successful applicants. All valid applications that have been received for Public Offer Shares with a total amount (excluding brokerage fee, SFC transaction levy and Stock Exchange trading fee) of HK$5,000,000 or below will fall into Pool A and all valid applications that have been received for the Public Offer Shares with a total amount (excluding brokerage fee, SFC transaction levy and Stock Exchange trading fee) of over HK$5,000,000 and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If the Public Offer Shares in one pool (but not both pools) are undersubscribed, the surplus of the Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Public Offer Shares from either Pool A or Pool B but not from both pools and may only apply for Public Offer Shares in either Pool A or Pool B. In addition, multiple or suspected multiple applications within either pool or between pools will be rejected. No application will be accepted from applicants for more than 9,352,000 Public Offer Shares (being 50% of the initial number of Public Offer Shares).

**Reallocation**

The allocation of the Offer Shares between the Public Offer and the Placing is subject to reallocation at the discretion of the Joint Bookrunners, subject to the following:

(a) where the Placing Shares are fully subscribed or oversubscribed:

(i) if the Public Offer Shares are undersubscribed, the Joint Bookrunners has the authority to reallocate all or any unsubscribed Public Offer Shares to the Placing, in such proportions as the Joint Bookrunners deem appropriate;

(ii) if the number of Offer Shares validly applied for under the Public Offer is fully subscribed or oversubscribed by less than 15 times the number of the Offer Shares initially available for subscription under the Public Offer, then up to 18,704,000 Offer Shares may be reallocated to the Public Offer from the Placing, so that the total number of the Offer Shares available under the Public Offer will be increased to 37,408,000 Offer Shares, representing approximately 20% of the total number of the Offer Shares initially available under the Share Offer;

(iii) if the number of Offer Shares validly applied for under the Public Offer represents (A) 15 times or more but less than 50 times; (B) 50 times or more but less than 100 times; and (C) 100 times or more, of the number of Offer Shares initially available under the Public Offer, the Offer Shares will be reallocated to the Public Offer from the Placing so that the total number of Offer Shares available under the Public Offer will be increased to 56,112,000 Offer Shares (in the case of (A)), 74,816,000 Offer Shares (in the case of (B)) and 93,520,000 Offer Shares (in the case of (C)) representing approximately 30%, 40% and 50% of the Offer Shares initially available under the Share Offer, respectively;

(b) where the Placing Shares are undersubscribed:

(i) if the Public Offer Shares are also undersubscribed, the Share Offer will not proceed unless the Underwriters would subscribe for or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Share Offer on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements; and

(ii) if the Public Offer Shares are fully subscribed or oversubscribed (irrespective of the extent of over-subscription), then up to 18,704,000 Offer Shares may be reallocated to the Public Offer from the Placing, so that the total number of the Offer Shares available under the Public Offer will be increased to 37,408,000 Offer Shares, representing 20% of the total number of the Offer Shares initially available under the Share Offer.

In accordance with Guidance Letter HKEx-GL91-18 issued by the Stock Exchange, if such reallocation is done other than pursuant to Practice Note 18 of the Listing Rules, the maximum total number of Offer Shares that may be allocated to the Public Offer following such reallocation shall be not more than double the initial allocation to the Public Offer (i.e. 37,408,000 Offer Shares). In all cases of reallocation of Offer Shares from the Placing to the Public Offer, the additional Offer Shares reallocated to the Public Offer will be allocated between pool A and pool B in equal proportion and the number of Offer Shares allocated to the Placing will be correspondingly reduced.

**Applications**

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may require any investor who has been offered Placing Shares under the Placing, and who has made an application under the Public Offer, to provide sufficient information to the Joint Bookrunners so as to allow them to identify the relevant applications under the Public Offer and to ensure that it is excluded from any application for the Public Offer Shares under the Public Offer.

Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Placing Shares under the Placing, and such applicant's application is liable to be rejected if the said undertaking or confirmation is breached or untrue (as the case may be) or it has been or will be placed or allocated any Placing Shares under the Placing.

Applicants under the Public Offer are required to pay, on application, the Offer Price of HK$1.50 per Offer Share in addition to brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% payable on each Offer Share.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Public Offer.

## THE PLACING

### Number of Offer Shares Offered

Our Company is initially offering for subscription 168,296,000 Offer Shares for subscription at the Offer Price under the Placing, representing approximately 90% of the Offer Shares initially available under the Share Offer, subject to reallocation as mentioned in the section headed "Structure of the Share Offer — The Public Offer — Reallocation" above. The Placing is subject to the Public Offer being unconditional.

### Allocation

Pursuant to the Placing, the Placing Underwriters will conditionally place the Placing Shares with institutional, professional and private investors expected to have a sizeable demand for our Shares in Hong Kong. Allocation of Offer Shares pursuant to the Placing will be effected in accordance with the "book-building" process described in the paragraphs headed "Structure of the Share Offer — Pricing and allocation" in this section and based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell its Shares after Listing.

Such allocation is intended to result in a distribution of our Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and the Shareholders as a whole.

## SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the Shares to be admitted into CCASS. If the Stock Exchange grants the listing of, and permission to deal in, the Shares and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

## DEALING ARRANGEMENTS

Assuming that the Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, 26 March 2021, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, 26 March 2021. The Shares will be traded in board lots of 8,000 Shares each under the stock code 2187.

## 1. HOW TO APPLY

If you apply for Public Offer Shares, then you may not apply for or indicate an interest for the Placing Shares.

To apply for Public Offer Shares, you may:

(a) use a **WHITE** or **YELLOW** Application Form;

(b) apply online via the **HK eIPO White Form** Service at **www.hkeipo.hk** or the **IPO App**; or

(c) electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Bookrunners, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

## 2. WHO CAN APPLY

You can apply for Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

(a) are 18 years of age or older;

(b) have a Hong Kong address; and

(c) are outside the United States, and are not a United States person (as defined in Regulation S under the U.S. Securities Act).

If you apply online through the **HK eIPO White Form** Service Provider, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Bookrunners may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White From** services for the Public Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Public Offer Shares if you:

(a) are an existing beneficial owner of shares in our Company and/or any of our subsidiaries;

(b) are a director or chief executive of our Company and/or any of our subsidiaries;

(c) are close associate (as defined in the Listing Rules) of any of the above; or

(d) have been allocated or have applied for any Placing Shares or have otherwise participated in the Placing.

## 3. APPLYING FOR PUBLIC OFFER SHARES

### Which application channel to use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.hkeipo.hk** or the **IPO App**.

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

### Where to collect the Application Forms

You can collect a **WHITE** Application Form and a copy of this prospectus during normal business hours from 9:00 a.m. on Tuesday, 16 March 2021 until 12:00 noon on Friday, 19 March 2021 from:

(a) the following offices of the Public Offer Underwriters:

| | |
|---|---|
| **Kingsway Financial Services Group Limited** | 7/F, Tower 1, Lippo Centre<br>89 Queensway<br>Hong Kong |
| **Seazen Resources Securities Limited** | Unit 4503–07, 45/F, The Center<br>99 Queen's Road Central, Central<br>Hong Kong |
| **Zhongtai International Securities Limited** | 19/F, Li Po Chun Chambers<br>189 Des Voeux Road Central, Central<br>Hong Kong |

| | |
|---|---|
| **Haitong International Securities Company Limited** | 22/F, Li Po Chun Chambers<br>189 Des Voeux Road Central<br>Hong Kong |
| **SPDB International Capital Limited** | 33/F, SPD Bank Tower, One Hennessy<br>1 Hennessy Road<br>Hong Kong |
| **ZMF Asset Management Limited** | Unit 2502, 25/F, World Wide House<br>19 Des Voeux Road Central, Central<br>Hong Kong |

(b) any of the following branches of the receiving bank, Standard Chartered Bank (Hong Kong) Limited, in Hong Kong:

| District | Branch | Address |
|---|---|---|
| Hong Kong Island | Des Voeux Road Branch | Standard Chartered Bank Building<br>4–4A, Des Voeux Road Central<br>Central |
| | 188 Des Voeux Road Branch | Shop No. 7 on G/F<br>whole of 1/F–3/F Golden Centre<br>188 Des Voeux Road Central |
| | Wanchai Southorn Branch | Shop C2 on G/F and 1/F to 2/F<br>Lee Wing Building<br>No. 156–162 Hennessy Road<br>Wanchai |
| Kowloon | Kwun Tong Branch | G/F & 1/F One Pacific Centre<br>414 Kwun Tong Road<br>Kwun Tong |
| | Tsimshatsui Branch | Shop G30 & B117–23, G/F<br>Mira Place One<br>132 Nathan Road<br>Tsim Sha Tsui |
| New Territories | Tai Po Branch | G/F Shop No. 2<br>23–25 Kwong Fuk Road<br>Tai Po Market<br>Tai Po |

You can collect a **YELLOW** Application Form and a copy of this prospectus during normal business hours from 9:00 a.m. on Tuesday, 16 March 2021 until 12:00 noon on Friday, 19 March 2021 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

**Time for lodging Application Forms**

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Horsford Nominees Limited — Zhixin Group Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

| | | |
|---|---|---|
| Tuesday, 16 March 2021 | — | 10:00 a.m. to 5:00 p.m. |
| Wednesday, 17 March 2021 | — | 10:00 a.m. to 5:00 p.m. |
| Thursday, 18 March 2021 | — | 10:00 a.m. to 5:00 p.m. |
| Friday, 19 March 2021 | — | 10:00 a.m. to 12:00 noon |

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, 19 March 2021, the last application day or such later time as described in the paragraph headed "10. Effect of bad weather and/or Extreme Conditions on the opening of the application lists" in this section.

## 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** Service Provider, among other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person for whom you act:

(a) undertake to execute all relevant documents and instruct and authorise our Company and/or the Joint Bookrunners (or their agents or nominees), as agent of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by our Articles of Association;

(b) agree to comply with the Companies Act, the Companies Ordinance, the Companies (WUMP) Ordinance and our Articles of Association;

(c) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

(d) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(e) confirm that you are aware of the restrictions on the Share Offer in this prospectus;

(f) agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, and the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(g) undertake and confirm that you or the person(s) for whose benefit you have made will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing nor participated in the Placing;

(h) agree to disclose to our Company, the Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(i) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

(j) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(k) agree that your application will be governed by the laws of Hong Kong;

(l) represent, warrant and undertake that (i) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(m) warrant that the information you have provided is true and accurate;

(n) agree to accept the Public Offer Shares applied for, or any lesser number of such Shares allocated to you under the application;

(o) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the share certificate(s) and/or refund cheque(s) in person;

(p) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(q) understand that our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;

(r) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and

(s) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC; and (ii) you have due authority to sign the Application Form or give electronic application instructions on behalf of that other person as their agent.

**Additional instructions for YELLOW Application Form**

You may refer to the **YELLOW** Application Form for details.

## 5. APPLYING THROUGH HK EIPO WHITE FORM

**General**

Individuals who meet the criteria set out in the paragraph headed "2. Who can apply" in this section may apply through the **HK eIPO White Form** Service Provider for the Offer Shares to be allotted and registered in their own names through the designated website at **www.hkeipo.hk** or the **IPO App**.

Detailed instructions for application through the **HK eIPO White Form** Service Provider are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** Service.

**Time for submitting applications under the HK eIPO White Form**

You may submit your application to the **HK eIPO White Form** Service Provider at **www.hkeipo.hk** or the **IPO App** (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, 16 March 2021 until 11:30 a.m. on Friday, 19 March 2021 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 19 March 2021 or such later time under the paragraph headed "10. Effects of bad weather and/or Extreme Conditions on the opening of the application lists" in this section.

**No multiple applications**

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **HK eIPO White Form** Service Provider to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **HK eIPO White Form** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** Service Provider or by any other means, all of your applications are liable to be rejected.

**Section 40 of the Companies (WUMP) Ordinance**

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

## 6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

**General**

CCASS Participants may give electronic application instructions to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these electronic application instructions through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System **https://ip.ccass.com** (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input electronic application instructions for you if you go to Hong Kong Securities Clearing Company Limited Customer Service Center, of which the address is 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong, and complete an input request form.

You can also collect a copy of this prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Bookrunners and our Hong Kong Branch Share Registrar.

**Giving electronic application instructions to HKSCC via CCASS**

Where you have given electronic application instructions to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(a) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(b) HKSCC Nominees will do the following things on your behalf:

  (i) agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

  (ii) agree to accept the Public Offer Shares applied for or any lesser number of such Shares allocated;

  (iii) undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing;

(iv) (if the electronic application instructions are given for your benefit) declare that only one set of electronic application instructions has been given for your benefit;

(v) (if you are an agent for another person) declare that you have only given one set of electronic application instructions for the other person's benefit and are duly authorised to give those instructions as an agent;

(vi) confirm that you understand that our Company, our Directors and the Joint Bookrunners will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;

(vii) authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

(viii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

(ix) confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

(x) agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

(xi) agree to disclose your personal data to our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, the Hong Kong Branch Share Registrar, the receiving bank and/or their respective advisers and agents;

(xii) agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

(xiii) agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

(xiv) agree that once HKSCC Nominees' application is accepted, neither that application nor your electronic application instructions can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offer results;

(xv) agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving electronic application instructions to apply for Public Offer Shares;

(xvi) agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of our Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies (WUMP) Ordinance and our Articles of Association; and

(xvii) agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

**Effect of giving electronic application instructions to HKSCC via CCASS**

By giving electronic application instructions to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

(a) instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;

(b) instructed and authorised HKSCC to arrange payment of the Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application, refund of the application monies (including brokerage, SFC transaction levy and Stock Exchange trading fee but without interest) by crediting your designated bank account; and

(c) instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

**Minimum Purchase Amount and Permitted Numbers**

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions for a minimum of 8,000 Public Offer Shares. Instructions for more than 8,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

**Time for Inputting Electronic Application Instructions*(Note)***

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

| | | |
|---|---|---|
| Tuesday, 16 March 2021 | — | 9:00 a.m. to 8:30 p.m. |
| Wednesday, 17 March 2021 | — | 8:00 a.m. to 8:30 p.m. |
| Thursday, 18 March 2021 | — | 8:00 a.m. to 8:30 p.m. |
| Friday, 19 March 2021 | — | 8:00 a.m. to 12:00 noon |

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on Tuesday, 16 March 2021 until 12:00 noon on Friday, 19 March 2021 (24 hours daily, except on Friday, 19 March 2021, the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon on Friday, 19 March 2021, the last application day or such later time as described in the paragraph headed "10. Effect of bad weather and/or Extreme Conditions on the opening of the application lists" in this section.

*Note:* These times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

**No multiple applications**

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any electronic application instructions to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

**Section 40 of the Companies (WUMP) Ordinance**

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

**Personal data**

The section in the Application Form headed "Personal Data" applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving bank, the Joint Bookrunners, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

## 7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Public Offer Shares through the **HK eIPO White Form** is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/ CCASS Internet System for submission of electronic application instructions, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Center to complete an input request form for electronic application instructions before 12:00 noon on Friday, 19 March 2021.

## 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

(a) an account number; or

(b) some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or through **HK eIPO White Form**, is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and:

(a) the principal business of that company is dealing in securities; and

(b) you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

(a) control the composition of the board of directors of the company;

(b) control more than half of the voting power of the company; or

(c) hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

## 9. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** or **YELLOW** Application Forms have tables showing the exact amount payable for our Shares.

You must pay the Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee in full upon application for our Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** Service Provider in respect of a minimum of 8,000 Public Offer Shares. Each application or electronic application instruction in respect of more than 8,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.hkeipo.hk** or the **IPO App**.

If your application is successful, brokerage will be paid to the Exchange Participants, and SFC transaction levy and Stock Exchange trading fee will be paid to the Stock Exchange (in the case of SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

## 10. EFFECT OF BAD WEATHER AND/OR EXTREME CONDITIONS ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

(a) a tropical cyclone warning signal number 8 or above;

(b) a "black" rainstorm warning signal; or

(c) Extreme Conditions,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 19 March 2021. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings or Extreme Conditions in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, 19 March 2021 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force and/or Extreme Conditions in Hong Kong that may affect the dates mentioned in the section headed "Expected timetable", an announcement will be made in such event.

## 11. PUBLICATION OF RESULTS

Our Company expects to announce, the level of indication of interest in the Placing and the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Thursday, 25 March 2021 on our Company's website at **www.xiamenzhixin.com** and the website of the Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

(a) in the announcement to be posted on our Company's website at **www.xiamenzhixin.com** and the Stock Exchange's website at **www.hkexnews.hk** by no later than 8:00 a.m. on Thursday, 25 March 2021;

(b) from the designated results of allocations website at **www.tricor.com.hk/ipo/result** (Alternatively: **www.hkeipo.hk/IPOResult**) or "Allotment Result" function in the **IPO App** with a "search by ID/business registration number" function on a 24-hour basis from 8:00 a.m. on Thursday, 25 March 2021 to 12:00 midnight on Wednesday, 31 March 2021;

(c) by telephone enquiry line by calling +852 3691 8488 between 9:00 a.m. and 6:00 p.m. from Thursday, 25 March 2021 to Tuesday, 30 March 2021 (excluding Saturday and Sunday); and

(d) in the special allocation results booklets which will be available for inspection during opening hours from Thursday, 25 March 2021 to Monday, 29 March 2021 at all the receiving bank's designated branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. See the section headed "Structure of the Share Offer" in this prospectus for details.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

## 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

You should note the following situations in which the Public Offer Shares will not be allotted to you:

### (a) If your application is revoked:

By completing and submitting an Application Form or giving electronic application instructions to HKSCC or to the **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedures to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

**(b) If our Company or our agents exercise our discretion to reject your application:**

Our Company, the Joint Bookrunners, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**(c) If the allotment of Public Offer Shares is void:**

The allotment of Public Offer Shares will be void if the Stock Exchange does not grant permission to list our Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

**(d) If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;

- your electronic application instructions through the **HK eIPO White Form** Service Provider are not completed in accordance with the instructions, terms and conditions on the designated website;

- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;

- the Underwriting Agreements do not become unconditional or are terminated;

- our Company or the Joint Bookrunners believe that by accepting your application, we or they would violate applicable securities or other laws, rules or regulations; or

- your application is for more than 50% of the Public Offer Shares initially offered under the Public Offer.

## 13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the conditions of the Public Offer are not fulfilled in accordance with the conditions set out in the section headed "Structure of the Share Offer — Conditions of the Share Offer" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Stock Exchange trading fee, will be refunded, without interest, or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Thursday, 25 March 2021.

## 14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by electronic application instructions to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of our Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

(a) Share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and

(b) refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque(s), if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheque(s) and share certificates are expected to be posted on or around Thursday, 25 March 2021. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Friday, 26 March 2021 provided that the Share Offer has become unconditional and the right of termination described in the section headed "Underwriting" in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

**Personal collection**

**(a)** ***If you apply using a WHITE Application Form***

If you apply for 1,000,000 or more Public Offer Shares have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 25 March 2021 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Thursday, 25 March 2021, by ordinary post and at your own risk.

**(b)** ***If you apply using a YELLOW Application Form***

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above for collection of your refund cheque(s). If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Thursday, 25 March 2021, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Thursday, 25 March 2021, or in the event of a contingency, on any other date determined by HKSCC or HKSCC Nominees.

*If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*

For Public Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS Participant.

*If you are applying as a CCASS Investor Participant*

Our Company expects to publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in the paragraphs headed "11. Publication of Results" in this section. You should check the announcement published by our Company and report any discrepancies to HKSCC before Thursday, 25 March 2021 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

**(c)** ***If you apply through the HK eIPO White Form Service Provider***

If you apply for 1,000,000 Public Offer Shares or more and your application is wholly or partially successful, you may collect your share certificate(s) from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited, from 9:00 a.m. to 1:00 p.m. on Thursday, 25 March 2021, or such other date as notified by our Company in the newspapers at the date of despatch/collection of share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Thursday, 25 March 2021 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

**(d)** ***If you apply via electronic application instructions to HKSCC***

*Allocation of Public Offer Shares*

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit instructions are given will be treated as an applicant.

*Deposit of share certificates into CCASS and refund of application monies*

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, 25 March 2021, or, on any other date determined by HKSCC or HKSCC Nominees.

- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offer in the manner specified in the paragraphs headed "11. Publication of results" in this section on Thursday, 25 March 2021. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 25 March 2021 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 25 March 2021. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications (including brokerage, SFC transaction levy and Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, 25 March 2021.

## 15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our Shares and we comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling our Shares to be admitted into CCASS.

*The following is the text of a report set out on pages I-1 to I-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.*

pwc 羅兵咸永道

**ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF ZHIXIN GROUP HOLDING LIMITED 智欣集團控股有限公司 AND KINGSWAY CAPITAL LIMITED**

**Introduction**

We report on the historical financial information of Zhixin Group Holding Limited 智欣集團控股有限公司 (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages I-4 to I-83, which comprises the consolidated statements of financial position as at 31 December 2017, 2018 and 2019 and 31 October 2020, the company statements of financial position as at 31 December 2018 and 2019 and 31 October 2020, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2017, 2018 and 2019 and the ten months ended 31 October 2020 (the "**Track Record Period**") and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages I-4 to I-83 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 16 March 2021 (the "**Prospectus**") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

**Directors' responsibility for the Historical Financial Information**

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

**Reporting accountant's responsibility**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public

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Accountants ("**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as at 31 December 2018 and 2019 and 31 October 2020 and the consolidated financial position of the Group as at 31 December 2017, 2018 and 2019 and 31 October 2020, and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

**Review of stub period comparative financial information**

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the ten months ended 31 October 2019 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the presentation and preparation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

**Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

***Adjustments***

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on pages I-4 have been made.

***Dividends***

We refer to note 13 to the Historical Financial Information which states that no dividends have been paid by Zhixin Group Holding Limited in respect of the Track Record Period.

***No statutory financial statements for the Company***

No statutory financial statements have been prepared for the Company since its date of incorporation.

**PricewaterhouseCoopers**
*Certified Public Accountants*
Hong Kong
16 March 2021

## I HISTORICAL FINANCIAL INFORMATION OF THE GROUP

### Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("**Underlying Financial Statements**").

The Historical Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

## A. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|---|
| | | 2017 | 2018 | 2019 | 2019 | 2020 |
| | *Note* | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Revenue | 5 | 399,519 | 511,267 | 590,797 | 437,105 | 602,155 |
| Cost of sales | 5, 8 | (359,853) | (434,775) | (476,420) | (351,245) | (483,167) |
| **Gross profit** | | 39,666 | 76,492 | 114,377 | 85,860 | 118,988 |
| Other income | 6 | 2,985 | 4,061 | 3,693 | 3,054 | 4,158 |
| Other (losses)/gains — net | 7 | (189) | 464 | (1,572) | (1,500) | (444) |
| Selling expenses | 8 | (7,306) | (11,432) | (13,699) | (9,844) | (20,142) |
| Administrative expenses | 8 | (17,711) | (23,655) | (28,188) | (22,182) | (24,376) |
| Net impairment losses on financial assets | 3.1(b) | (35) | (1,588) | (1,431) | (1,114) | (2,030) |
| Listing expenses | 8 | — | — | (6,512) | (5,220) | (5,662) |
| **Operating profit** | | 17,410 | 44,342 | 66,668 | 49,054 | 70,492 |
| Finance income | 10 | 349 | 319 | 105 | 88 | 54 |
| Finance costs | 10 | (2,142) | (7,277) | (8,836) | (6,819) | (11,171) |
| **Finance costs — net** | 10 | (1,793) | (6,958) | (8,731) | (6,731) | (11,117) |
| **Profit before income tax** | | 15,617 | 37,384 | 57,937 | 42,323 | 59,375 |
| Income tax expense | 11 | (3,378) | (10,015) | (16,115) | (11,866) | (16,402) |
| **Profit and total comprehensive income for the year/period** | | 12,239 | 27,369 | 41,822 | 30,457 | 42,973 |
| Profit attributable to: | | | | | | |
| Owners of the Company | | 16,087 | 27,369 | 41,822 | 30,457 | 42,973 |
| Non-controlling interests | | (3,848) | — | — | — | — |
| | | 12,239 | 27,369 | 41,822 | 30,457 | 42,973 |
| **Earnings per share for profit attributable to owners of the Company** | | | | | | |
| Basic earnings per share (RMB) | 12 | 16.09 | 27.37 | 41.82 | 30.46 | 42.97 |
| Diluted earnings per share (RMB) | 12 | 16.09 | 27.37 | 41.82 | 30.46 | 42.97 |

## B. CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | | As at 31 December | | | As at 31 October |
|---|---|---|---|---|---|
| | | 2017 | 2018 | 2019 | 2020 |
| | *Note* | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | *14* | 116,630 | 139,763 | 140,431 | 140,913 |
| Right-of-use assets | *15* | 24,447 | 25,509 | 41,057 | 40,733 |
| Investment properties | *16* | 8,306 | 7,942 | 10,554 | 10,129 |
| Intangible assets | *17* | 7 | 239 | 213 | 192 |
| Trade receivables | *21* | 18,660 | 22,266 | 17,343 | 17,136 |
| Prepayment for non-current assets | *18* | 23,416 | 3,800 | — | — |
| Deferred income tax assets | *29* | 6,790 | 7,517 | 1,535 | 2,081 |
| | | 198,256 | 207,036 | 211,133 | 211,184 |
| **Current assets** | | | | | |
| Inventories | *20* | 17,818 | 20,531 | 27,825 | 51,593 |
| Trade receivables | *21* | 227,778 | 282,796 | 400,446 | 523,178 |
| Prepayments, deposits and other receivables | *21* | 29,567 | 14,090 | 15,382 | 17,872 |
| Amount due from a related party | *32(c)* | 12,533 | 13,940 | — | — |
| Restricted bank balance | *22* | 32,000 | 9,001 | 4,710 | 3,210 |
| Cash and bank balances | *22* | 46,290 | 3,807 | 16,144 | 2,467 |
| | | 365,986 | 344,165 | 464,507 | 598,320 |
| **Total assets** | | 564,242 | 551,201 | 675,640 | 809,504 |
| **EQUITY** | | | | | |
| **Equity attributable to owners of the Company** | | | | | |
| Share capital | *23* | — | — | 9 | 9 |
| Other reserves | *24* | 100,000 | 103,012 | 105,642 | 105,642 |
| Retained earnings/ (Accumulated losses) | | 17,946 | (40,497) | (1,305) | 41,668 |
| | | 117,946 | 62,515 | 104,346 | 147,319 |
| Non-controlling interests | | — | — | — | — |
| **Total equity** | | 117,946 | 62,515 | 104,346 | 147,319 |

| | | As at 31 December | | | As at 31 October |
|---|---|---|---|---|---|
| | | 2017 | 2018 | 2019 | 2020 |
| | *Note* | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **LIABILITIES** | | | | | |
| **Non-current liabilities** | | | | | |
| Borrowings | *26* | — | — | 68,790 | 16,590 |
| Lease liabilities | *27* | — | 1,241 | 12,406 | 11,333 |
| Amounts due to related parties | *32(c)* | — | — | 26,283 | 26,963 |
| Deferred income | *28* | 825 | 1,418 | 1,682 | 2,109 |
| | | 825 | 2,659 | 109,161 | 56,995 |
| **Current liabilities** | | | | | |
| Trade and bills payables | *25* | 259,610 | 248,562 | 286,494 | 327,832 |
| Other payables and accruals | *25* | 24,446 | 34,209 | 31,435 | 35,896 |
| Amounts due to related parties | *32(c)* | 54,178 | 82,895 | — | 4,920 |
| Current income tax liabilities | | 5,924 | 12,236 | 4,149 | 10,416 |
| Borrowings | *26* | 98,500 | 101,000 | 122,000 | 217,872 |
| Contract liabilities | *5(c)* | 2,316 | 6,116 | 12,360 | 1,547 |
| Lease liabilities | *27* | 497 | 1,009 | 5,695 | 6,707 |
| | | 445,471 | 486,027 | 462,133 | 605,190 |
| **Total liabilities** | | 446,296 | 488,686 | 571,294 | 662,185 |
| **Total equity and liabilities** | | 564,242 | 551,201 | 675,640 | 809,504 |
| **Net current (liabilities)/ assets** | | (79,485) | (141,862) | 2,374 | (6,870) |
| **Total assets less current liabilities** | | 118,771 | 65,174 | 213,507 | 204,314 |

## C. COMPANY STATEMENTS OF FINANCIAL POSITION

| | Note | As at 31 December 2018 RMB'000 | As at 31 December 2019 RMB'000 | As at 31 October 2020 RMB'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Interests in a subsidiary | *34* | — | 91,014 | 91,014 |
| **Current assets** | | | | |
| Other receivables and prepayments | *21* | — | 2,046 | 3,634 |
| Cash and bank balances | | — | 9 | 14 |
| **Total current assets** | | — | 2,055 | 3,648 |
| **Total assets** | | — | 93,069 | 94,662 |
| **EQUITY AND LIABILITIES** | | | | |
| Share capital | *23* | — | 9 | 9 |
| Capital reserve | *24* | — | 91,014 | 91,014 |
| Accumulated losses | | (36) | (4,586) | (9,507) |
| **Total (deficit)/equity** | | (36) | 86,437 | 81,516 |
| **LIABILITIES** | | | | |
| **Non-current liabilities** | | | | |
| Amount due to a related party | *32(c)* | — | 6,383 | 6,648 |
| **Current liabilities** | | | | |
| Amount due to a related party | *32(c)* | — | — | 4,920 |
| Other payables and accruals | *25* | 36 | 249 | 1,578 |
| **Total current liabilities** | | 36 | 249 | 6,498 |
| **Total liabilities** | | 36 | 6,632 | 13,146 |
| **Total equity and liabilities** | | — | 93,069 | 94,662 |

## D. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | | Equity attributable to owners of the Company | | | | | |
|---|---|---|---|---|---|---|---|
| | Note | Share capital RMB'000 | Other reserves RMB'000 | Retained earnings/ (Accumulated losses) RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| **As at 1 January 2017** | | — | 103,597 | 10,800 | 114,397 | 710 | 115,107 |
| **Comprehensive income** | | | | | | | |
| Profit for the year | | — | — | 16,087 | 16,087 | (3,848) | 12,239 |
| **Total comprehensive income** | | — | — | 16,087 | 16,087 | (3,848) | 12,239 |
| **Transactions with owners** | | | | | | | |
| Profit appropriation to statutory reserves | | — | 2,422 | (2,422) | — | — | — |
| Transactions with non-controlling interests | *24* | — | (6,019) | (6,519) | (12,538) | 3,138 | (9,400) |
| **Total transactions with owners** | | — | (3,597) | (8,941) | (12,538) | 3,138 | (9,400) |
| **As at 31 December 2017** | | — | 100,000 | 17,946 | 117,946 | — | 117,946 |
| **As at 1 January 2018** | | — | 100,000 | 17,946 | 117,946 | — | 117,946 |
| **Comprehensive income** | | | | | | | |
| Profit for the year | | — | — | 27,369 | 27,369 | — | 27,369 |
| **Total comprehensive income** | | — | — | 27,369 | 27,369 | — | 27,369 |
| **Transactions with owners** | | | | | | | |
| Profit appropriation to statutory reserves | | — | 3,012 | (3,012) | — | — | — |
| Dividends declared | *13* | — | — | (82,800) | (82,800) | — | (82,800) |
| **Total transactions with owners** | | — | 3,012 | (85,812) | (82,800) | — | (82,800) |
| **As at 31 December 2018** | | — | 103,012 | (40,497) | 62,515 | — | 62,515 |
| **As at 1 January 2019** | | — | 103,012 | (40,497) | 62,515 | — | 62,515 |
| **Comprehensive income** | | | | | | | |
| Profit for the year | | — | — | 41,822 | 41,822 | — | 41,822 |
| **Total comprehensive income** | | — | — | 41,822 | 41,822 | — | 41,822 |
| **Transactions with owners** | | | | | | | |
| Profit appropriation to statutory reserves | | — | 2,630 | (2,630) | — | — | — |
| Share allotment to Controlling Shareholders | *23* | 9 | — | — | 9 | — | 9 |
| Contribution from shareholders | *24* | — | 91,014 | — | 91,014 | — | 91,014 |
| Deemed distribution to shareholders | *24* | — | (91,014) | — | (91,014) | — | (91,014) |
| **Total transactions with owners** | | 9 | 2,630 | (2,630) | 9 | — | 9 |
| **As at 31 December 2019** | | 9 | 105,642 | (1,305) | 104,346 | — | 104,346 |

| | Note | Equity attributable to owners of the Company | | | | | |
|---|---|---|---|---|---|---|---|
| | | Share capital | Other reserves | Retained earnings/ (Accumulated losses) | Total | Non-controlling interests | Total equity |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **As at 1 January 2020** | | 9 | 105,642 | (1,305) | 104,346 | — | 104,346 |
| **Comprehensive income** | | | | | | | |
| Profit for the period | | — | — | 42,973 | 42,973 | — | 42,973 |
| **Total comprehensive income** | | — | — | 42,973 | 42,973 | — | 42,973 |
| **As at 31 October 2020** | | 9 | 105,642 | 41,668 | 147,319 | — | 147,319 |
| **(Unaudited)** | | | | | | | |
| **As at 1 January 2019** | | — | 103,012 | (40,497) | 62,515 | — | 62,515 |
| **Comprehensive income** | | | | | | | |
| Profit for the period | | — | — | 30,457 | 30,457 | — | 30,457 |
| **Total comprehensive income** | | — | — | 30,457 | 30,457 | — | 30,457 |
| **Transactions with owners** | | | | | | | |
| Share allotment to Controlling Shareholders | *23* | 9 | — | — | 9 | — | 9 |
| Contribution from shareholders | *24* | — | 91,014 | — | 91,014 | — | 91,014 |
| Deemed distribution to shareholders | *24* | — | (91,014) | — | (91,014) | — | (91,014) |
| **Total transactions with owners** | | 9 | — | — | 9 | — | 9 |
| **As at 31 October 2019** | | 9 | 103,012 | (10,040) | 92,981 | — | 92,981 |

## E. CONSOLIDATED STATEMENTS OF CASH FLOWS

| | | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|---|
| | | 2017 | 2018 | 2019 | 2019 | 2020 |
| | Note | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| **Cash flows from operating activities** | | | | | | |
| Cash (used in)/generated from operations | 30 | (29,849) | 23,850 | 15,219 | (50,011) | (16,026) |
| Income tax paid | | (3,702) | (4,430) | (18,220) | (18,220) | (10,681) |
| Net cash (used in)/generated from operating activities | | (33,551) | 19,420 | (3,001) | (68,231) | (26,707) |
| **Cash flows from investing activities** | | | | | | |
| Purchases of property, plant and equipment | | (44,283) | (15,835) | (22,141) | (18,655) | (14,765) |
| Proceeds from disposal of property, plant and equipment | | 1 | 583 | 1,553 | 1,549 | 62 |
| Purchases of investment properties | | — | — | (104) | (104) | — |
| Loans granted to related parties | | — | (5,463) | — | — | — |
| Loans repaid from related parties | | 8,105 | 4,056 | 13,940 | 12,440 | — |
| Purchases of intangible assets | | — | (258) | — | — | — |
| Assets-related government grants | | — | 741 | 432 | 432 | 590 |
| Loans granted to third parties | | — | (1,000) | — | — | — |
| Loans repaid from third parties | | 16,949 | 15,600 | 2,007 | 2,007 | — |
| Net cash used in investing activities | | (19,228) | (1,576) | (4,313) | (2,331) | (14,113) |
| **Cash flows from financing activities** | | | | | | |
| Proceeds from bank borrowings | | 94,500 | 97,000 | 264,790 | 136,200 | 53,672 |
| Repayments of bank borrowings | | (35,500) | (94,500) | (171,000) | (59,000) | (10,000) |
| Loans received from related parties | | 36,634 | — | 6,288 | 4,108 | — |
| Loans repaid to related parties | | — | (54,083) | — | — | — |
| Loans repaid to third party | | — | — | (4,000) | — | — |
| Principal elements of lease payments | | (509) | (1,314) | (3,410) | (3,633) | (5,409) |
| Interest paid | | (700) | (6,464) | (8,077) | (5,578) | (8,997) |
| Dividend paid to the shareholders | 13 | — | — | (62,900) | — | — |
| Other financing costs | | (1,266) | (966) | (328) | (253) | (519) |
| Share allotment | 23 | — | — | 9 | 9 | — |
| Contributions from shareholders | 1.2.3 | — | — | 91,014 | 91,014 | — |
| Deemed distributions to shareholders | 1.2.3 | — | — | (91,014) | (91,014) | — |
| Listing expenses | | — | — | (1,721) | (1,287) | (1,604) |
| Acquisition of non-controlling interests | | (9,400) | — | — | — | — |
| Net cash generated from/(used in) financing activities | | 83,759 | (60,327) | 19,651 | 70,566 | 27,143 |
| **Net increase/(decrease) in cash and cash equivalents** | | 30,980 | (42,483) | 12,337 | 4 | (13,677) |
| Cash and cash equivalents at beginning of year/period | | 15,310 | 46,290 | 3,807 | 3,807 | 16,144 |
| **Cash and cash equivalents at end of year/period** | 22 | 46,290 | 3,807 | 16,144 | 3,811 | 2,467 |

## II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

### 1 GENERAL INFORMATION OF THE GROUP, REORGANISATION AND BASIS OF PRESENTATION

#### 1. 1 General information

The Company was incorporated in the Cayman Islands on 14 November 2018 as an exempted company with limited liability under the Companies Act of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company and its subsidiaries (together, the "**Group**") are principally engaged in the manufacturing and sale of ready-mixed concrete and precast concrete components (the "**Listing Business**") in the People's Republic of China (the "**PRC**"). The Group's headquarters is in Xiamen city, Fujian province of the PRC.

The shareholders of the Company are Zhixin Investment Holding Limited, Yaohe Holding Limited and Pakhim Chen Capital Limited, which are beneficially owned by Mr. Ye Zhijie, Mr. Huang Wengui and Ms. Chen Manhong and holds 65.01%, 21.67% and 13.32% of the shares of the Company respectively. Zhixin Investment Holding Limited is the ultimate holding company of the Group and Mr. Ye Zhijie is the ultimate controlling shareholder of the Group.

#### 1.2 Reorganisation

Immediately prior to the Reorganisation (as defined below) and during the Track Record Period, the Listing Business was operated by Xiamen Zhixin Construction Material Group Co., Ltd. ("**Zhixin Construction Material**") and its two subsidiaries, Xiamen Zhixin Logistics Co., Ltd. ("**Zhixin Logistics**") and Xiamen Zhixin Construction Technology Co., Ltd. ("**Zhixin Construction Technology**"). The companies are collectively referred to as the Operating Subsidiaries. Immediately prior to the Reorganisation (as defined below), the Operating Subsidiaries were owned as to 75% by Mr. Ye Zhijie and 25% by Mr. Huang Wengui.

In preparation for the initial public offering ("**IPO**") and listing (the "**Listing**") of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited, a group reorganisation (the "**Reorganisation**") was undertaken pursuant to which the Operating Subsidiaries engaged in the Listing Business were transferred to the Company.

The Reorganisation mainly involved the followings:

1.2.1 *Incorporation of the Company*

On 14 November 2018, the Company was incorporated in the Cayman Islands with 1 subscriber share allotted and issued. On the same date, the subscriber share of the Company was transferred to Zhixin Investment Holding Limited and 74 shares and 25 shares of the Company were allotted and issued to Zhixin Investment Holding Limited and Yaohe Holding Limited, which are wholly owned by Mr. Ye Zhijie and Mr. Huang Wengui, respectively.

1.2.2 *Incorporation of intermediate holding companies by the Company*

On 20 November 2018, Zhixin Enterprises Limited was incorporated in the British Virgin Islands ("**BVI**") with 1 share allotted and issued to the Company. Since then, Zhixin Enterprises Limited became a direct wholly owned subsidiary of the Company.

On 13 December 2018, Zhixin Group (HK) Limited was incorporated in Hong Kong with 1 share allotted and issued to Zhixin Enterprises Limited. Since then, Zhixin Group (HK) Limited became an indirect wholly owned subsidiary of the Company.

1.2.3 *Transfer of the equity interest of Zhixin Construction Material to the Group*

(i) Transfer of 13.32% equity interest to a new shareholder

On 14 January 2019, Pakhim Chen (Hong Kong) Limited, a company incorporated in Hong Kong and ultimately controlled by Ms. Chen Manhong, acquired 9.99% and 3.33%, totalling 13.32% of the equity interests in Zhixin Construction Material from Mr. Ye Zhijie and Mr. Huang Wengui, respectively, at aggregate cash considerations of HK$16,260,000 (equivalent to RMB13,986,000). Zhixin Construction Material then became owned by Mr. Ye Zhijie, Mr. Huang Wengui and Ms. Chen Manhong as to 65.01%, 21.67% and 13.32%, respectively.

(ii) Transfer of 86.68% equity interest in Zhixin Construction Material to the Group

On 23 January 2019, Zhixin Group (HK) Limited acquired 65.01% and 21.67%, totalling 86.68% equity interests in Zhixin Construction Material from Mr. Ye Zhijie and Mr. Huang Wengui, respectively, at aggregate cash considerations of RMB91,014,000.

(iii) During March to April 2019, Mr. Ye Zhijie and Mr. Huang Wengui, through companies owned by them, made cash contributions totalling HK$107,000,000 (equivalent to RMB 91,014,000) to the Company. The cash contributions were subsequently used to settle the considerations payable to the two shareholders as mentioned in (ii) above.

1.2.4 *Allotment of shares of the Company and completion of the Reorganisation*

(i) On 12 August 2019, 6,426 shares and 2,142 shares, representing enlarged shares of 65.01% and 21.67% of the Company were allotted and issued to Zhixin Investment Holding Limited and Yaohe Holding Limited, which are wholly owned by Mr. Ye Zhijie and Mr. Huang Wengui, respectively.

(ii) On 12 August 2019, Zhixin Enterprises Limited, a subsidiary of the Company, acquired a 100% equity interest of Pakhim Chen (Hong Kong) Limited, which held 13.32% of the equity interest in Zhixin Construction Material since 14 January 2019 (note 1.2.3). In consideration, the Company issued and allotted 1,332 shares of the Company to Pakhim Chen Capital Limited, a company wholly owned by Ms. Chen Manhong.

Since then, the Company was ultimately owned by Mr. Ye Zhijie, Mr. Huang Wengui and Ms. Chen Manhong as to 65.01%, 21.67% and 13.32%, respectively.

Upon completion of the Reorganisation on 27 September 2019, the Company became the holding company of the companies now comprising the Group.

As at the date of this report, the Company has the following subsidiaries:

| Company name | Date of incorporation | Country/ Place of incorporation/ establishment | Registered/ Issued and paid-up capital | Effective interest held as at 31 December 2017 | 31 December 2018 | 31 December 2019 | 31 October 2020 | Date of this report | Principal activities | Note |
|---|---|---|---|---|---|---|---|---|---|---|
| Directly hold: | | | | | | | | | | |
| Zhixin Enterprises Limited | 20 November 2018 | BVI, limited liability company | HK$1 | NA | 100% | 100% | 100% | 100% | Investment holding | Note (i) |
| Indirectly hold: | | | | | | | | | | |
| Zhixin Group (HK) Limited | 13 December 2018 | Hong Kong, limited liability company | HK$1 | NA | 100% | 100% | 100% | 100% | Investment holding | Note (ii) |

| Company name | Date of incorporation | Country/ Place of incorporation/ establishment | Registered/ Issued and paid-up capital | Effective interest held as at 31 December 2017 | 2018 | 2019 | 31 October 2020 | Date of this report | Principal activities | Note |
|---|---|---|---|---|---|---|---|---|---|---|
| Pakhim Chen (Hong Kong) Limited | 3 October 2018 | Hong Kong, limited liability company | HK$100 | NA | NA | 100% | 100% | 100% | Investment holding | Note (ii) |
| Xiamen Zhixin Construction Material Group Co., Ltd.* 廈門智欣建材集團有限公司 | 19 April 2007 | PRC, private enterprise | RMB100,000,000 | 100% | 100% | 100% | 100% | 100% | Manufacturing, processing and sale of ready-mixed concrete | Note (iii) |
| Xiamen Zhixin Logistics Co., Ltd.* 廈門智欣物流有限公司 | 27 December 2012 | PRC, private enterprise | RMB5,000,000 | 100% | 100% | 100% | 100% | 100% | Logistics business | Note (iii) |
| Xiamen Zhixin Construction Technology Co., Ltd.* (previously known as "Xiamen Tangsong Robot Technology Co., Ltd.*") 廈門智欣建工科技有限公司 (前稱廈門唐松機器人科技有限公司) | 2 November 2010 | PRC, private enterprise | Registered capital RMB200,000,000 Paid in capital RMB167,025,000 | 100% | 100% | 100% | 100% | 100% | Manufacturing and sale of precast concrete components | Note (iii) |

*Note (i):* No audited statutory financial statements were prepared for this subsidiary as it was not required to issue audited financial statements under local statutory requirements.

*Note (ii):* The financial statements of Zhixin Group (HK) Limited for the period from 13 December 2018 (date of incorporation) to 31 December 2019 and Pakhim Chen (Hong Kong) Limited for the period from 3 October 2018 (date of incorporation) to 31 December 2019 were audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

*Note (iii):* The financial statements of Xiamen Zhixin Construction Material Group Co., Ltd., Xiamen Zhixin Logistics Co., Ltd., and Xiamen Zhixin Construction Technology Co., Ltd. for the years ended 31 December 2017, 2018 and 2019 were audited by Xiamen Hongzheng Accounting Firm Co., Ltd.* 廈門泓正會計師事務所有限公司, Certified Public Accountants in the PRC.

* The English names of the PRC companies and statutory auditor referred to in this note represent management's best efforts in translating the Chinese names of those companies as no English names have been registered or are available.

### 1.3 Basis of presentation

Immediately prior to and after the Reorganisation, the Listing Business was operated by the Operating Subsidiaries. Pursuant to the Reorganisation, the Operating Subsidiaries were transferred to and held by the subsidiaries newly set up by the Company. The Company and its newly set up subsidiaries had not been involved in any other business prior to the Reorganisation and do not meet the definition of a business. The Reorganisation is merely a reorganisation of the Listing Business with no change in management of such business and the ultimate controlling shareholders of the Listing Business. Accordingly, the Group resulting from the Reorganisation is regarded as a continuation of the Listing Business under the Operating Subsidiaries and, for the purpose of this report, the Historical Financial Information has been prepared and presented as a continuation of the consolidated financial statements of Zhixin Construction Material, with the assets and liabilities of the Group recognised and measured at the carrying amounts of the Listing Business for all the periods presented.

The Historical Financial Information has been prepared as if the current group structure had been in existence throughout the periods presented, or since the date when the combining companies first came under the control of the controlling shareholder, whichever is a shorter period.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to Track Record Period, unless otherwise stated. The Historical Financial Information is for the Group consisting of Zhixin Group Holding Limited and its subsidiaries.

### 2.1 Basis of preparation

The principal accounting policies applied in the preparation of the Historical Financial Information which are in accordance with the Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the HKICPA are set out below. The Historical Financial Information has been prepared on a historical cost basis.

The preparation of the Historical Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in note 4.

#### 2.1.1 *Going concern*

The Group had net current liabilities of RMB79,485,000, RMB141,862,000 and RMB6,870,000 as at 31 December 2017 and 2018 and 31 October 2020, and negative cash outflow from operations in certain year/periods during the Track Record Period.

Management closely monitors the Group's financial performance and liquidity position. A number of measures have been put in place by management to improve the financial position and alleviate the liquidity pressure. Subsequently to 31 October 2020, the Group had successfully renewed short term bank borrowings amounting to RMB120,500,000 upon expiry of the loan repayment term in November 2020, and extended the repayment date of the entrusted loans from third party amounting to RMB52,200,000 for another year to October 2022.

The Directors are of the opinion that, taking into account the Group's future operational performance and the expected future operating cash inflows; and the continuous availability of bank facilities, the Group will have sufficient financial resources to support its operations and to meet its financial obligations as and when they fall due in the coming twelve months from 31 October 2020. Accordingly, the Historical Financial information has been prepared on a going concern basis.

**2.1.2** ***New standards and interpretations not yet adopted***

All effective standards, amendments to standards and interpretations, including HKFRS 9 and HKFRS 15, which are mandatory for the financial year beginning on 1 January 2018, and HKFRS 16, which is mandatory for the financial year beginning on 1 January 2019, are consistently applied to the Group for the Track Record Period.

Certain new accounting standards and interpretations have been published that are not mandatory for the Track Record Period and have not been early adopted by the Group. These new standards and interpretations are:

| Standards and amendments | Effective for annual periods beginning on or after |
|---|---|
| HKFRS 10 (Amendment) and HKAS 28 (Amendment) 'Sale or contribution of assets between an investor and its associate or joint venture' | To be determined |
| HKFRS 16 (Amendment) 'COVID-19-Related rent concessions' | 1 June 2020 |
| HKFRS 9 (Amendment), HKAS 39 (Amendment), HKFRS 7 (Amendment), HKFRS 4 (Amendment) and HKFRS 16 (Amendment) 'interest rate reform — phase 2' | 1 January 2021 |
| HKAS 16 (Amendment) 'Property, plant and equipment — proceeds before intended use' | 1 January 2022 |
| HKAS 37 (Amendment) 'Onerous contracts — cost of fulfilling a contract' | 1 January 2022 |
| HKFRS 3 (Amendment) 'Reference to the conceptual Framework' | 1 January 2022 |
| Annual Improvements to HKFRS Standards 2018–2020 | 1 January 2022 |
| HKAS 1 (Amendment) 'Classification of liabilities as current or non-current' | 1 January 2023 |
| HKFRS 17 'Insurance contracts' | 1 January 2023 |
| AG 5 (revised) 'Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations' | 1 January 2022 |
| HK Int 5 (2020) 'Hong Kong Interpretation 5 (2020 Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause' | 1 January 2023 |

Management is currently assessing the effects of applying these new standards and amendments on the Group's consolidated financial information. None of these is expected to have a significant effect on the consolidated financial information of the Group. The Group does not expect to adopt these new standards and amendments until their effective dates.

**2.2 Principles of consolidation**

**(i)** ***Subsidiaries***

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (note 2.3).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

**(ii)** ***Changes in ownership interests in subsidiaries without change of control***

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in other reserves within equity attributable to owners of the Company.

**2.3 Business combinations**

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the following:

- fair values of the assets transferred
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition related costs are expensed as incurred.

The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

**2.4 Separate financial statements**

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

**2.5 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The chief operating decision maker of the Company assesses the financial performance and position of the Group, and makes strategic decisions. The chief operating decision maker of the Group consists of the executive directors and the chief financial officer.

**2.6 Foreign currency translation**

**(i)** ***Functional and presentation currency***

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("**the functional currency**"). Majority of the subsidiaries of the Group operate in the PRC and their functional currency is RMB. The Historical Financial Information is presented in RMB, which is the Company's functional and the Group's presentation currency.

**(ii)** ***Transactions and balances***

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income on a net basis within other (losses)/gains.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are recognised in other comprehensive income.

### 2.7 Investment properties

Investment properties, principally comprising buildings and land use right, are held for long-term rental yields and is not occupied by the Group. Investment properties is initially measured at cost, including related transaction costs and where applicable borrowing costs. Subsequently, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. The estimated useful lives are from 20 to 35 years.

### 2.8 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values of 5% over their estimated useful lives as follows:

| | |
|---|---|
| Buildings | 20–40 years |
| Machineries | 3–15 years |
| Concrete mixer trucks | 5–10 years |
| Office equipment and vehicles | 3–10 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.10).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

Construction-in-progress represents properties under construction and is stated at cost less accumulated impairment losses. This includes cost of construction and other direct costs. Construction-in-progress is not depreciated until such time as the assets are completed and are ready for operational use.

### 2.9 Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring the specific software into usage. The Group's intangible assets mainly comprise production management system software licences which are amortised using the straight-line method over an estimated useful life of 10 years. In determining the estimated useful lives, unlimited license period and actual economic lives are considered.

**2.10 Impairment of non-financial assets**

Other than goodwill and intangible assets that have an indefinite useful life, non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

**2.11 Financial assets**

**(i)** ***Classification***

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("**OCI**") or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("**FVOCI**").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

**(ii)** ***Recognition and derecognition***

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

**(iii)** ***Measurement***

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("**FVPL**"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

*Debt instruments*

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of comprehensive income.

**(iv)** ***Impairment***

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at a amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3 details how the Group determines whether there has been a significant increase in credit risk.

Expected credit losses are a probability-weighted estimation of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial assets.

The Group has the following types of assets that are subject to HKFRS 9's expected credit loss model:

- trade receivables
- other receivables
- cash and bank balance
- restricted bank balance

While cash and bank balances, restricted bank balance and other receivables are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

For trade receivables with no significant financing component, the Group applies simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of the trade receivables with similar risk characteristics and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

Impairment on cash and bank balances, restricted bank balance, note and other receivables are measured as lifetime expected credit losses if a significant increase in credit risk of a receivable has occurred since initial recognition.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the consolidated statements of comprehensive income.

### 2.12 Inventories

Raw materials, work-in-progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### 2.13 Trade receivables

Trade receivables are amounts due from customers for products sold or services rendered in the ordinary course of business. If collection of trade receivables is expected in one year or less (or in the normal operating cycle of business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are initially recognised at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See note 2.11 for a description of the Group's impairment policies.

### 2.14 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand and deposits held at call with financial institutions.

### 2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### 2.16 Trade and other payables

Trade payables represent liabilities for products and services provided to the Group prior to the end of the reporting period which are unpaid. Trade and other payables are presented as current liabilities if payment is due within 12 months. If not, they are presented as non-current liabilities. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

### 2.17 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

**2.18 Borrowing costs**

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

**2.19 Current and deferred income tax**

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

**(i)** ***Current income tax***

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

**(ii)** ***Deferred income tax***

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Historical Financial Information. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

**(iii)** ***Offsetting deferred income tax***

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### 2.20 Employee benefits

**(i) *Short-term obligations***

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated statement of financial position.

**(ii) *Pension obligations***

The Group only operates defined contribution pension plans. In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organized by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the governments.

The Group's contributions to the defined contribution retirement scheme are expensed as incurred.

**(iii) *Housing funds, medical insurances and other social insurances***

Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurances and other social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each year. Contributions to the housing funds, medical insurances and other social insurances are expensed as incurred.

### 2.21 Revenue recognition

The Group is engaged in manufacturing and sale of concrete and precast building component products.

Revenue from sales of concrete and precast building component products are recognised when control of the products has been transferred to the customers, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Advances from customers that are related to sales of goods not yet delivered are recorded as contract liability when cash are received from the customers before the transfer of goods control.

Revenue from sales of products is based on the price specified in the sales contracts and is shown net of value-added tax and after eliminating sales within the Group. No element of financing is deemed present as the sales are made with a credit term. A receivable is recognised when the control of products are transferred as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

### 2.22 Interest income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in the consolidated statement of comprehensive income as part of finance income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see note 10 below. Any other interest income is included in finance income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

### 2.23 Leases

The Group leases land and properties as lessee. Rental contracts of properties are typically made for fixed periods of 1 to 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date,
- amounts expected to be payable by the Group under residual value guarantees,
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The lease payments are discounted using the Group's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the consolidated statement of financial position based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

***Land use rights***

All land in the PRC is state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the rights to use certain land. The premiums paid for such rights are recorded as right-of-use assets, and are amortised over the lease periods of 30 years using the straight-line method.

**2.24 Dividend distribution**

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's Historical Financial Information in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

**2.25 Government grants**

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected useful lives of the related assets.

## 3 FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not use any derivative financial instruments to hedge certain risk exposures during the Track Record Period.

**(a) *Market risk***

(i) *Foreign exchange risk*

The Group mainly operates in mainland China and is exposed to foreign exchange risk arising from currency exposures with respect to HK dollars. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. The Group does not hedge against any fluctuation in foreign currency.

At 31 December 2017, 2018 and 2019 and 31 October 2020, if HK dollar had weakened/strengthened by 10% against the RMB with all other variables held constant, post-tax profit for the years/period would have been nil, RMB8,000, RMB531,000 and RMB904,000 higher/lower, respectively, mainly as a result of foreign exchange gains/losses on translation of HK dollar-denominated other receivables, other payables and accruals, cash and bank balances.

(ii) *Interest rate risk*

The Group's interest rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The Group does not hedge its cash flow and fair value interest rate risk.

During the years ended 31 December 2017, 2018 and 2019, and the ten months ended 31 October 2020, if interest rate on borrowings had been higher/lower by 100 basis points of current interest rate, with other variables held constant, post-tax profit for the years/period would have been approximately RMB258,000, RMB433,000, RMB532,000 and RMB696,000 lower/higher, respectively.

**(b) *Credit risk***

The Group is exposed to credit risk in relation to its cash and bank balance, restricted bank balance, trade receivables and other receivables. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

(i) *Credit risk of cash and bank balances, restricted bank balance*

To manage this risk arising from cash and bank balances, restricted bank balance, they are mainly placed with banks with high credit rating. There has been no recent history of default in relation to these financial institutions. The expected credit loss is close to zero.

(ii) *Credit risk of trade receivables*

The Group is engaged in manufacturing and sale of concrete and precast building component products. The Group's customers are mainly the construction companies for various types of construction projects including residential, commercial, industrial, municipal and infrastructure projects for the public and private sectors. The credit terms grant to customers are generally within 40 days from the date of issue of the payment certificate by the customer or the invoice date.

The Group applies the HKFRS 9 simplified approach to measure expected credit losses, which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and days past due.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customers' ability to meet its obligations;

- actual or expected significant changes in the operating results of customers;

- significant changes in the expected performance and behaviour of customers, including changes in the payment status.

Individually impaired trade receivable is related to customer who is experiencing unexpected economic difficulties. The Group expects that the entire amounts of the receivables will have difficulty to be recovered and has recognised impairment losses. As at 31 December 2018 and 2019, and 31 October 2020, trade receivable of approximately RMB2,188,000 has been fully provided for loss allowance for these individually assessed receivables.

The expected loss rates of the remaining trade receivables are based on the payment profiles of sales over a period of 36 months before the balance sheet date and the corresponding historical credit losses experienced within this period. The historical loss rates are further adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables, including but not limited to the impact of the COVID-19 pandemic on China's economic growth.

On that basis, the loss allowance as at 31 December 2017, 2018 and 2019 and 31 October 2020 was determined as follows for trade receivables, the expected credit losses below have incorporated forward-looking information.

| | Within 1 year | 1–2 years | 2–3 years | Over 3 years | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **At 31 December 2017** | | | | | |
| Gross carrying amount | 206,971 | 39,885 | 496 | 1,478 | 248,830 |
| Expected loss rate | 0.56% | 1.74% | 2.62% | 35.05% | |
| Total loss allowance | 1,167 | 694 | 13 | 518 | 2,392 |
| **At 31 December 2018** | | | | | |
| Gross carrying amount | 234,285 | 57,487 | 14,810 | 272 | 306,854 |
| Expected loss rate | 0.15% | 1.60% | 2.85% | 36.76% | |
| Loss allowance | 351 | 919 | 422 | 100 | 1,792 |
| Individually impaired receivables | — | 2,188 | — | — | 2,188 |
| Total loss allowance | 351 | 3,107 | 422 | 100 | 3,980 |
| **At 31 December 2019** | | | | | |
| Gross carrying amount | 373,339 | 41,106 | 5,041 | 1,526 | 421,012 |
| Expected loss rate | 0.48% | 1.13% | 5.45% | 46.00% | |
| Loss allowance | 1,781 | 465 | 275 | 702 | 3,223 |
| Individually impaired receivables | — | — | 2,188 | — | 2,188 |
| Total loss allowance | 1,781 | 465 | 2,463 | 702 | 5,411 |
| **At 31 October 2020** | | | | | |
| Gross carrying amount | 449,541 | 88,641 | 6,391 | 994 | 545,567 |
| Expected loss rate | 0.57% | 2.13% | 5.91% | 42.73% | |
| Loss allowance | 2,562 | 1,888 | 378 | 425 | 5,253 |
| Individually impaired receivables | — | — | — | 2,188 | 2,188 |
| Total loss allowance | 2,562 | 1,888 | 378 | 2,613 | 7,441 |

The Group assesses the credit quality of its customers by taking into account various factors such as their financial position, past experience and other factors including but not limited to the economic impact of the unprecedented COVID-19 pandemic on the customers' and the region in which they operate. Individual risk limits are set based on internal or external ratings in accordance with limits set by the management. The compliance with credit limits by customers is regularly monitored by the management.

(iii) *Credit risk of other receivables*

Other receivables mainly comprise deposits and other receivables. The Directors of the Company consider the probability of default upon initial recognition of asset and whether there has been significant increase in credit risk on an ongoing basis during the Track Record Period. To assess whether there is a significant increase in credit risk, the Group compares risk of a default occurring on the assets as at the reporting date with the risk of default as at the date of initial recognition. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial economic conditions that are expected to cause a significant change to the third party's ability to meet its obligation;

- actual or expected significant changes in the operating results of the third party;

- significant changes in the expected performance and behaviour of the third party, including changes in the payment status of the third party.

As at 31 December 2017, 2018 and 2019 and 31 October 2020, there was no significant increase in credit risk since initial recognition, the Group assessed that the expected credit losses for these receivables were not material.

**(c) *Liquidity risk***

Prudent liquidity risk management includes maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities and takes into account all available information on future business environment, including, among others, the economic impact of the unprecedented COVID-19 pandemic on the economies of the region in which the Group and its customers and suppliers operate. The Group manages its liquidity risk by controlling the level of inventories, closely monitoring the turnover days of trade receivables, monitoring its working capital requirements and maintaining credit facilities available. Management monitors rolling forecasts of the Group's bank facilities and cash and cash equivalents on the basis of expected cash flows.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **At 31 December 2017** | | | | |
| Borrowings, including interest payables | 102,159 | — | — | 102,159 |
| Lease liabilities | 521 | — | — | 521 |
| Trade and bills payables | 259,610 | — | — | 259,610 |
| Other payables and accruals | 14,709 | — | — | 14,709 |
| Amounts due to related parties | 54,178 | — | — | 54,178 |
| | 431,177 | — | — | 431,177 |
| **At 31 December 2018** | | | | |
| Borrowings, including interest payables | 103,848 | — | — | 103,848 |
| Lease liabilities | 1,167 | 1,167 | 141 | 2,475 |
| Trade and bills payables | 248,562 | — | — | 248,562 |
| Other payables and accruals | 21,809 | — | — | 21,809 |
| Amounts due to related parties | 82,895 | — | — | 82,895 |
| | 458,281 | 1,167 | 141 | 459,589 |
| **At 31 December 2019** | | | | |
| Borrowings, including interest payables | 131,600 | 71,777 | — | 203,377 |
| Lease liabilities | 6,584 | 4,484 | 9,066 | 20,134 |
| Trade and bills payables | 286,494 | — | — | 286,494 |
| Other payables and accruals | 17,927 | — | — | 17,927 |
| Amounts due to related parties | — | — | 28,254 | 28,254 |
| | 442,605 | 76,261 | 37,320 | 556,186 |
| **At 31 October 2020** | | | | |
| Borrowings, including interest payables | 222,726 | 16,719 | — | 239,445 |
| Lease liabilities | 7,509 | 6,311 | 5,700 | 19,520 |
| Trade and bills payables | 327,832 | — | — | 327,832 |
| Other payables and accruals | 25,632 | — | — | 25,632 |
| Amounts due to related parties | 4,920 | — | 27,343 | 32,263 |
| | 588,619 | 23,030 | 33,043 | 644,692 |

### 3.2 Capital management

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, lease liabilities and amounts due to related parties less cash and cash equivalents and restricted bank balance. Total capital is calculated as "equity" as shown in the consolidated statements of financial position plus net debt.

The gearing ratios as at 31 December 2017, 2018 and 2019 and 31 October 2020 were as follows:

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| Borrowings *(note 26)* | 98,500 | 101,000 | 190,790 | 234,462 |
| Lease liabilities *(note 27)* | 497 | 2,250 | 18,101 | 18,040 |
| Amounts due to related parties excluding dividend payable *(note 32(c))* | 54,178 | 95 | 26,283 | 31,883 |
| Total debt | 153,175 | 103,345 | 235,174 | 284,385 |
| Less: Cash and bank balances *(note 22)* | (46,290) | (3,807) | (16,144) | (2,467) |
| Restricted bank balance *(note 22)* | (32,000) | (9,001) | (4,710) | (3,210) |
| Net debt | 74,885 | 90,537 | 214,320 | 278,708 |
| Total equity | 117,946 | 62,515 | 104,346 | 147,319 |
| Total capital | 192,831 | 153,052 | 318,666 | 426,027 |
| **Gearing ratio** | 39% | 59% | 67% | 65% |

The increase in gearing ratio from 31 December 2017 to 31 December 2018 was resulted from the increase in borrowings and lease liabilities due to operation needs and the decrease in equity and cash and cash equivalents due to distribution of dividends to the shareholders in 2018.

The increase in gearing ratio from 31 December 2018 to 31 December 2019 was resulted from combined effect of increase in borrowings, amounts due to related parties and cash and cash equivalents.

### 3.3 Fair value estimation

As at 31 December 2017, 2018 and 2019 and 31 October 2020, the Group did not have any assets and liabilities that were measured at fair value other than the financial assets and liabilities which the carrying values are considered to approximate their fair values due to the short term maturity.

The fair value estimation of the investment property is categorised in level 3 hierarchy.

**4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of Historical Financial Information requires the use of accounting estimates, which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**(a) Estimated useful lives and residual values of property, plant and equipment**

The Group estimates useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly because of technical innovations and competitors action in response to industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technical obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives, and actual residual values. Periodic reviews could result in a change in useful lives and residual values and therefore, changes in depreciable expenses in the future periods.

**(b) Provision for impairment of trade receivables**

The Group's management determines the provision for impairment of trade receivables on a forward-looking basis and the expected lifetime losses are recognised from initial recognition of the assets. The provision matrix is determined based on the Group's historical observed default rates over the expected life of the trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. In making the judgement, management considers available reasonable and supportive forward-looking information such as actual or expected significant changes in the operating results of customers, actual or expected significant adverse changes in business and customers' financial position including, among others, the economic impact of the unprecedented COVID-19 pandemic on the customers' and the region in which they operate. At every reporting date, historical observed default rates are updated and changes in the forward-looking estimates are analysed by the Group's management, see note 21 below.

**(c) Provision for impairment of inventories**

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to changes in market conditions.

Management reassesses these estimations at the end of each reporting period to ensure inventory is shown at the lower of cost and net realisable value.

**(d) Impairment of non-financial assets**

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, including, among others, the economic impact of the unprecedented COVID-19 pandemic on the operations of the Group and the region in which it operates. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

**(e) Income taxes**

The Group is subject to income taxes in a few jurisdictions. Judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will affect the recognition of deferred income tax assets and taxation in the periods in which such estimate is changed. Deferred income tax assets and liabilities are determined using tax rates that are expected to apply when the related deferred income tax assets are realised or the deferred income tax liabilities are settled. The expected applicable tax rate is determined based on the enacted tax laws and regulations and the actual situation of the Group. The management of the Group will revise the expectation where the intending tax rate is different from the original expectation.

**5 SEGMENT INFORMATION**

The Company's executive directors are the Group's chief operating decision maker. The Group's chief operating decision maker examines the Group's performance from a product perspective and has identified two operating segments of its business as follows:

(i) Ready-mixed concrete, and

(ii) Precast concrete components.

The Group derived its revenue mainly from the transfer of goods at point in time during the Track Record Period.

(a) **Segment information of the Group**

| | Year ended 31 December 2017 | | |
|---|---|---|---|
| | Ready-mixed concrete | Precast concrete components | Total |
| | RMB'000 | RMB'000 | RMB'000 |
| Revenue | 393,882 | 5,637 | 399,519 |
| Cost of sales | (348,463) | (11,390) | (359,853) |
| Gross profit | 45,419 | (5,753) | 39,666 |
| Selling expenses | (6,514) | (792) | (7,306) |
| Administrative expenses | (11,552) | (5,597) | (17,149) |
| Segment results | 27,353 | (12,142) | 15,211 |

A reconciliation of results of reportable segments to profit for the year is as follows:

| | | | |
|---|---|---|---|
| Results of reportable segments | | | 15,211 |
| Unallocated costs and expenses | | | (597) |
| Other income | | | 2,985 |
| Other losses — net | | | (189) |
| Finance income | | | 349 |
| Finance costs | | | (2,142) |
| Profit before income tax | | | 15,617 |
| Income tax expense | | | (3,378) |
| Profit and total comprehensive income for the year | | | 12,239 |
| **Other items for the year ended 31 December 2017:** | | | |
| Additions to non-current assets (other than financial instruments and deferred income tax assets) | 8,969 | 35,760 | 44,729 |
| Depreciation | 9,961 | 2,691 | 12,652 |
| Amortisation | 8 | — | 8 |
| **As at 31 December 2017** | | | |
| Segment assets | 410,463 | 138,683 | 549,146 |
| Unallocated assets | | | 15,096 |
| Total assets | | | 564,242 |
| Segment liabilities | 277,905 | 9,789 | 287,694 |
| Unallocated liabilities | | | 158,602 |
| Total liabilities | | | 446,296 |

| | Year ended 31 December 2018 | | |
|---|---|---|---|
| | Ready-mixed concrete | Precast concrete components | Total |
| | RMB'000 | RMB'000 | RMB'000 |
| Revenue | 453,072 | 58,195 | 511,267 |
| Cost of sales | (381,746) | (53,029) | (434,775) |
| Gross profit | 71,326 | 5,166 | 76,492 |
| Selling expenses | (9,191) | (2,241) | (11,432) |
| Administrative expenses | (15,579) | (8,643) | (24,222) |
| Segment results | 46,556 | (5,718) | 40,838 |

A reconciliation of results of reportable segments to profit for the year is as follows:

| | |
|---|---|
| Results of reportable segments | 40,838 |
| Unallocated costs and expenses | (1,021) |
| Other income | 4,061 |
| Other gains — net | 464 |
| Finance income | 319 |
| Finance costs | (7,277) |
| Profit before income tax | 37,384 |
| Income tax expense | (10,015) |
| Profit and total comprehensive income for the year | 27,369 |

| | Ready-mixed concrete | Precast concrete components | Total |
|---|---|---|---|
| **Other items for the year ended 31 December 2018:** | | | |
| Additions to non-current assets (other than financial instruments and deferred income tax assets) | 4,298 | 16,202 | 20,500 |
| Depreciation | 7,621 | 8,287 | 15,908 |
| Amortisation | 26 | — | 26 |
| **As at 31 December 2018** | | | |
| Segment assets | 355,461 | 180,264 | 535,725 |
| Unallocated assets | | | 15,476 |
| Total assets | | | 551,201 |
| Segment liabilities | 250,778 | 41,676 | 292,454 |
| Unallocated liabilities | | | 196,232 |
| Total liabilities | | | 488,686 |

| | Year ended 31 December 2019 | | |
|---|---|---|---|
| | Ready-mixed concrete | Precast concrete components | Total |
| | RMB'000 | RMB'000 | RMB'000 |
| Revenue | 446,832 | 143,965 | 590,797 |
| Cost of sales | (373,977) | (102,443) | (476,420) |
| Gross profit | 72,855 | 41,522 | 114,377 |
| Selling expenses | (7,845) | (5,854) | (13,699) |
| Administrative expenses | (15,763) | (11,129) | (26,892) |
| Segment results | 49,247 | 24,539 | 73,786 |

A reconciliation of results of reportable segments to profit for the year is as follows:

| | | | |
|---|---|---|---|
| Results of reportable segments | | | 73,786 |
| Unallocated costs and expenses | | | (9,239) |
| Other income | | | 3,693 |
| Other losses — net | | | (1,572) |
| Finance income | | | 105 |
| Finance costs | | | (8,836) |
| Profit before income tax | | | 57,937 |
| Income tax expense | | | (16,115) |
| Profit and total comprehensive income for the year | | | 41,822 |
| **Other items for the year ended 31 December 2019:** | | | |
| Additions to non-current assets (other than financial instruments and deferred income tax assets) | 4,806 | 35,630 | 40,436 |
| Depreciation | 6,594 | 12,018 | 18,612 |
| Amortisation | 26 | — | 26 |
| **As at 31 December 2019** | | | |
| Segment assets | 391,512 | 269,932 | 661,444 |
| Unallocated assets | | | 14,196 |
| Total assets | | | 675,640 |
| Segment liabilities | 254,271 | 95,433 | 349,704 |
| Unallocated liabilities | | | 221,590 |
| Total liabilities | | | 571,294 |

| | Ten months ended 31 October 2020 | | |
|---|---|---|---|
| | Ready-mixed concrete | Precast concrete components | Total |
| | RMB'000 | RMB'000 | RMB'000 |
| Revenue | 407,888 | 194,267 | 602,155 |
| Cost of sales | (344,748) | (138,419) | (483,167) |
| Gross profit | 63,140 | 55,848 | 118,988 |
| Selling expenses | (8,391) | (11,751) | (20,142) |
| Administrative expenses | (13,224) | (10,486) | (23,710) |
| Segment results | 41,525 | 33,611 | 75,136 |

A reconciliation of results of reportable segments to profit for the period is as follows:

| | |
|---|---|
| Results of reportable segments | 75,136 |
| Unallocated costs and expenses | (8,358) |
| Other income | 4,158 |
| Other losses — net | (444) |
| Finance income | 54 |
| Finance costs | (11,171) |
| Profit before income tax | 59,375 |
| Income tax expense | (16,402) |
| Profit and total comprehensive income for the period | 42,973 |

| | | | |
|---|---|---|---|
| **Other items for the ten months ended 31 October 2020:** | | | |
| Additions to non-current assets (other than financial instruments and deferred income tax assets) | 5,944 | 11,823 | 17,767 |
| Depreciation | 4,622 | 13,036 | 17,658 |
| Amortisation | 21 | — | 21 |
| **As at 31 October 2020** | | | |
| Segment assets | 430,094 | 363,437 | 793,531 |
| Unallocated assets | | | 15,973 |
| Total assets | | | 809,504 |
| Segment liabilities | 274,944 | 125,791 | 400,735 |
| Unallocated liabilities | | | 261,450 |
| Total liabilities | | | 662,185 |

| | Ten months ended 31 October 2019 | | |
|---|---|---|---|
| | Ready-mixed concrete | Precast concrete components | Total |
| | RMB'000 | RMB'000 | RMB'000 |
| (Unaudited) | | | |
| Revenue | 320,206 | 116,899 | 437,105 |
| Cost of sales | (266,209) | (85,036) | (351,245) |
| Gross profit | 53,997 | 31,863 | 85,860 |
| Selling expenses | (5,606) | (4,238) | (9,844) |
| Administrative expenses | (12,454) | (9,171) | (21,625) |
| Segment results | 35,937 | 18,454 | 54,391 |

A reconciliation of results of reportable segments to profit for the period is as follows:

| | |
|---|---|
| Results of reportable segments | 54,391 |
| Unallocated costs and expenses | (6,891) |
| Other income | 3,054 |
| Other losses — net | (1,500) |
| Finance income | 88 |
| Finance costs | (6,819) |
| Profit before income tax | 42,323 |
| Income tax expense | (11,866) |
| Profit and total comprehensive income for the period | 30,457 |

| | Ready-mixed concrete | Precast concrete components | Total |
|---|---|---|---|
| **Other items for the ten months ended 31 October 2019:** | | | |
| Additions to non-current assets (other than financial instruments and deferred income tax assets) | 1,133 | 30,437 | 31,570 |
| Depreciation | 5,348 | 10,095 | 15,443 |
| Amortisation | 21 | — | 21 |
| **As at 31 October 2019** | | | |
| (Unaudited) | | | |
| Segment assets | 356,624 | 248,798 | 605,422 |
| Unallocated assets | | | 17,357 |
| Total assets | | | 622,779 |
| Segment liabilities | 227,716 | 84,905 | 312,621 |
| Unallocated liabilities | | | 217,177 |
| Total liabilities | | | 529,798 |

**(b) Information about major customers**

External customers that have contributed over 10% of total revenue of the Group for any of the years ended 31 December 2017, 2018 and 2019 and the ten months ended 31 October 2019 and 2020 were as follows:

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2019** | **2020** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000 (Unaudited)** | **RMB'000** |
| Company A | N/A | 69,545 | N/A | N/A | N/A |
| Company B | N/A | 58,181 | N/A | N/A | N/A |
| Company C | N/A | 55,542 | 61,255 | N/A | 93,124 |

No single customer, including Company A, B and C, individually contributed 10% or more to the Group's revenue for the year ended 31 December 2017 and ten months ended 31 October 2019. Company A and B individually did not contribute 10% or more to the Group's revenue for the year ended 31 December 2017 and 2019 and the ten months ended 31 October 2019 and 2020.

**(c) Contract liabilities**

The Group recognised the following revenue-related contract liabilities:

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| Contract liabilities | | | | |
| Ready-mixed concrete | 2,316 | 1,015 | 2,634 | 1,471 |
| Precast concrete components | — | 5,101 | 9,726 | 76 |
| | 2,316 | 6,116 | 12,360 | 1,547 |

The contract liabilities of the Group recognised are related to the non-refundable advance payment from customers of the Group. Such liabilities fluctuated as a result of the terms of different projects. A contract liability is the Group's obligation to a customer for which the Group has received consideration from the customer. A contract liability is recognised by the Group when the customer pays consideration but before the Group delivers goods to the customer.

**(i) *Revenue recognised in relation to contract liabilities***

The following table shows how much of the revenue, which was included in the contract liability balance at the beginning of the period, recognised during the Track Record Period relates to carried-forward contract liabilities.

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Ready-mixed concrete | 1,833 | 2,316 | 1,015 | 1,015 | 2,592 |
| Precast concrete components | — | — | 5,101 | 5,101 | 9,715 |
| | 1,833 | 2,316 | 6,116 | 6,116 | 12,307 |

**(ii) *Unsatisfied performance obligations***

The following table shows unsatisfied performance obligations as at 31 December 2017, 2018 and 2019 and 31 October 2020.

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Ready-mixed concrete | 173,045 | 205,993 | 367,854 | 414,552 |
| Precast concrete components | 6,486 | 115,401 | 185,202 | 401,562 |
| | 179,531 | 321,394 | 553,056 | 816,114 |

Management expects that 66% of the transaction price allocated to the unsatisfied contracts as at 31 October 2020 will be recognised as revenue before 31 October 2021, 24% will be recognised as revenue before 31 October 2022, 9% will be recognised as revenue before 31 October 2023, and the remaining 1% will be recognised as revenue after 31 October 2023.

## 6 OTHER INCOME

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2019** | **2020** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000 (Unaudited)** | **RMB'000** |
| Government grants | | | | | |
| — Received and recognised during the year/period | 771 | 2,232 | 1,102 | 791 | 1,999 |
| — Recognised from deferred income *(note 28)* | 124 | 148 | 168 | 139 | 163 |
| Rental income *(note 16)* | 1,700 | 1,595 | 1,661 | 1,384 | 1,541 |
| Others | 390 | 86 | 762 | 740 | 455 |
| | 2,985 | 4,061 | 3,693 | 3,054 | 4,158 |

Other income recognised during the Track Record Period mainly comprised rental income and incentives and subsidies received from government authorities by the Group's subsidiaries for the subsidiaries' contributions to environmental protection measures, contributions to local employment market, improvement in production efficiency and others.

## 7 OTHER (LOSSES)/GAINS — NET

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2019** | **2020** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000 (Unaudited)** | **RMB'000** |
| (Losses)/gains on disposal of property, plant and equipment | (189) | 464 | (1,443) | (1,436) | (314) |
| Net foreign exchange loss from operating activities | — | — | (129) | (64) | (130) |
| | (189) | 464 | (1,572) | (1,500) | (444) |

## 8 EXPENSES BY NATURE

The expenses charged to cost of sales, selling expenses, listing expenses and administrative expenses are analysed below:

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2019** | **2020** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000 (Unaudited)** | **RMB'000** |
| Raw materials and consumables used | 295,347 | 351,005 | 386,605 | 277,478 | 374,847 |
| Changes in inventories of finished goods and work in progress | (5,359) | (366) | (11,104) | (6,474) | (18,023) |
| Employee benefit expenses *(note 9)* | 41,891 | 53,412 | 54,598 | 44,339 | 52,216 |
| Outsourcing service expense | 1,489 | 6,029 | 14,689 | 10,900 | 40,306 |
| Transportation expenses | 17,549 | 23,354 | 22,418 | 16,059 | 27,349 |
| Depreciation of property, plant and equipment *(note 14)* | 11,505 | 14,043 | 14,477 | 12,218 | 12,534 |
| Depreciation of right-of-use assets *(note 15)* | 783 | 1,501 | 3,701 | 2,874 | 4,699 |
| Depreciation of investment properties *(note 16)* | 364 | 364 | 434 | 351 | 425 |
| Amortisation of intangible assets *(note 17)* | 8 | 26 | 26 | 21 | 21 |
| Repair and maintenance expense | 2,900 | 1,240 | 1,973 | 1,330 | 2,461 |
| Electricity and water expenses | 3,110 | 4,448 | 6,546 | 5,371 | 5,621 |
| Short-term lease rental expenses | — | 180 | 4,734 | 3,273 | 8,754 |
| Other taxes and levies | 2,322 | 2,731 | 2,927 | 1,682 | 2,930 |
| Insurance expense | 2,029 | 1,968 | 1,783 | 1,582 | 1,290 |
| Detection expense | 2,197 | 2,015 | 1,751 | 1,397 | 1,475 |
| Provision for impairment of inventories *(note 20)* | 1,669 | 642 | 765 | 202 | 345 |
| Listing expenses | — | — | 6,512 | 5,220 | 5,662 |
| Auditor's remuneration | 61 | 76 | 107 | 107 | 64 |
| Others | 7,005 | 7,194 | 11,877 | 10,561 | 10,371 |
| Total | 384,870 | 469,862 | 524,819 | 388,491 | 533,347 |

## 9 EMPLOYEE BENEFIT EXPENSES

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2019** | **2020** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000 (Unaudited)** | **RMB'000** |
| Salaries, wages and bonuses | 36,156 | 45,892 | 47,233 | 37,982 | 47,171 |
| Contributions to pension plan | 1,624 | 2,058 | 2,071 | 1,634 | 266 |
| Housing fund, medical insurance and other social insurance | 1,322 | 1,607 | 1,875 | 1,496 | 1,693 |
| Other benefits | 2,789 | 3,855 | 3,419 | 3,227 | 3,086 |
| Total employee benefit expenses | 41,891 | 53,412 | 54,598 | 44,339 | 52,216 |

The emolument paid or payable to the five highest paid individuals is as follows:

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | | | | (Unaudited) | |
| Directors | — | 1 | 1 | 1 | 3 |
| Non-directors | 5 | 4 | 4 | 4 | 2 |
| | 5 | 5 | 5 | 5 | 5 |

The five individuals whose emoluments were the highest in the Group include nil, one, one, one and three directors for the years ended 31 December 2017, 2018 and 2019 and the ten months ended 31 October 2019 and 2020, respectively, whose emoluments are disclosed in note 33. The emoluments paid to the remaining five, four, four, four and two individuals, respectively, during the Track Record Period were as follows:

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Salaries and bonus | 668 | 649 | 1,071 | 936 | 804 |
| Contributions to pension plan | 23 | 19 | 18 | 14 | 1 |
| Housing fund, medical insurance and other social insurance | 17 | 22 | 19 | 12 | 12 |
| | 708 | 690 | 1,108 | 962 | 817 |

The emoluments of the non-director highest paid employees fell within the following range:

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| Within HK$1,000,000 | 5 | 4 | 4 | 4 | 2 |

## 10 FINANCE COSTS — NET

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| **Finance income** | | | | | |
| — Interest income on bank deposits | 349 | 319 | 105 | 88 | 54 |
| **Finance costs** | | | | | |
| Interest Expense on | | | | | |
| — bank borrowings | (3,437) | (5,777) | (7,090) | (5,510) | (9,274) |
| — lease liabilities | (12) | (234) | (717) | (472) | (828) |
| — loan from related parties | — | — | — | — | (550) |
| — loan from a third party | (701) | (701) | (701) | (584) | — |
| | (4,150) | (6,712) | (8,508) | (6,566) | (10,652) |
| Less: Amounts capitalised in qualifying assets *(note 14)* | 3,274 | 401 | — | — | — |
| | (876) | (6,311) | (8,508) | (6,566) | (10,652) |
| Other financing costs | (1,266) | (966) | (328) | (253) | (519) |
| **Finance costs — net** | (1,793) | (6,958) | (8,731) | (6,731) | (11,117) |

## 11 INCOME TAX EXPENSE

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Current income tax | | | | | |
| — PRC income tax | 7,489 | 10,742 | 10,133 | 8,885 | 16,948 |
| Deferred income tax *(note 29)* | (4,111) | (727) | 5,982 | 2,981 | (546) |
| Income tax expense | 3,378 | 10,015 | 16,115 | 11,866 | 16,402 |

### (i) Cayman Islands profits tax

The Company is an exempted company incorporated in the Cayman Islands and is not liable for taxation in the Cayman Islands.

**(ii) BVI profits tax**

The Group's subsidiary incorporated in the BVI is exempted company and is not liable for taxation in the BVI.

**(iii) Hong Kong profits tax**

Hong Kong profits tax considered at the rate of 16.5% on the estimated assessable profits during the Track Record Period. The Group did not have assessable profits in Hong Kong during the Track Record Period.

**(iv) PRC corporate income tax ('CIT')**

Taxation on PRC income has been calculated on the estimated assessable profit for the year/period at the rates of taxation prevailing in the PRC in which the Group operates. The Company's subsidiaries incorporated in PRC are subject to CIT at the rate of 25% during the Track Record Period.

**(v) PRC withholding income tax**

According to the CIT Law, a 10% withholding tax on dividends received/receivable will be levied on the PRC companies' immediate holding companies established out of the PRC. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding companies and simultaneously certain conditions are satisfied.

During the Track Record Period, no PRC withholding income tax has been provided since the parent entities are able to control the timing of distributions from their subsidiaries and are not expected to distribute these profits in the near future.

As at 31 October 2020, deferred income tax liabilities of RMB5,890,000 have not been recognised for the withholding tax that would be payable on unremitted earnings of PRC subsidiaries of the Group amounting to RMB58,898,000. The Group does not have the intention to distribute the respective unremitted profits in the foreseeable future.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate applicable to profits of the consolidated entities is as follows:

| | **Year ended 31 December** | | | **Ten months ended 31 October** | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2019** | **2020** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000 (Unaudited)** | **RMB'000** |
| Profit before income tax | 15,617 | 37,384 | 57,937 | 42,323 | 59,375 |
| Tax calculated at the applicable statutory tax rates in the respective regions | 3,086 | 9,360 | 15,714 | 11,533 | 16,077 |
| Adjustment for tax effect of: | | | | | |
| — Expenses not deductible for tax purpose | 292 | 655 | 401 | 333 | 325 |
| Income tax expense | 3,378 | 10,015 | 16,115 | 11,866 | 16,402 |

For each of the years ended 31 December 2017, 2018 and 2019, and the ten months ended 31 October 2019 and 2020, the weighted average applicable statutory tax rate was 20%, 25%, 27%, 27% and 27% respectively.

For each of the years ended 31 December 2017, 2018 and 2019, and the ten months ended 31 October 2019 and 2020, the effective tax rate was 22%, 27%, 28%, 28% and 28%, respectively.

## 12 BASIC AND DILUTED EARNINGS PER SHARE

### (i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the respective year/period. The weighted average number of ordinary shares used for such purpose has been retrospectively adjusted for the effect of the issuance of 10,000 shares of the Company in connection with the Reorganisation completed on 27 September 2019 and sub-division of shares on 4 March 2021 where each ordinary share was sub-divided into 100 ordinary shares deemed to have been in issue since 1 January 2017.

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2019** | **2020** |
| | | | | **(Unaudited)** | |
| Profit attributable to owners of the Company (RMB'000) | 16,087 | 27,369 | 41,822 | 30,457 | 42,973 |
| Weighted average number of ordinary shares in issue | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| Basic earnings per share (RMB)* | 16.09 | 27.37 | 41.82 | 80.46 | 42.97 |

**Note:* The earnings per share presented above have not been taken into account the proposed capitalisation issue pursuant to the resolutions in writing of all shareholders passed on 4 March 2021 because the proposed capitalisation issue has not become effective as at the date of this report.

### (ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all potentially dilutive ordinary shares.

Diluted earnings per share presented is the same as the basic earnings per share as there was no potentially dilutive ordinary share outstanding as at 31 December 2017, 2018 and 2019 and 31 October 2020.

## 13 DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation. Dividends during the year ended 31 December 2018 represented dividends declared by Zhixin Construction Material, a subsidiary of the Company, to the shareholders at that time, being Mr. Ye Zhijie and Mr. Huang Wengui.

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Dividends declared | — | 82,800 | — | — | — |

Pursuant to the resolutions of the shareholders' meeting of Zhixin Construction Material held on 31 December 2018, dividends of RMB82,800,000 were declared and recognised as payables to Mr. Ye Zhijie and Mr. Huang Wengui, in the amount of RMB62,100,000 and RMB20,700,000, respectively. Dividends of RMB62,900,000 were paid to the two shareholders in December 2019. The rates for dividend and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this report.

## 14 PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Machineries | Concrete mixer trucks | Office equipment and vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Year ended 31 December 2017** | | | | | | |
| Opening net book amount | 1,112 | 15,781 | 16,271 | 3,600 | 48,436 | 85,200 |
| Additions | — | 11,217 | — | 2,417 | 29,491 | 43,125 |
| Transferred from construction in progress | 41,701 | 11,146 | — | 936 | (53,783) | — |
| Disposals | — | — | (190) | — | — | (190) |
| Depreciation charge *(note 8)* | (203) | (4,219) | (5,648) | (1,435) | — | (11,505) |
| **Closing net book amount** | 42,610 | 33,925 | 10,433 | 5,518 | 24,144 | 116,630 |
| **At 31 December 2017** | | | | | | |
| Cost | 43,272 | 59,382 | 39,598 | 14,004 | 24,144 | 180,400 |
| Accumulated depreciation | (662) | (25,457) | (29,165) | (8,486) | — | (63,770) |
| **Net book amount** | 42,610 | 33,925 | 10,433 | 5,518 | 24,144 | 116,630 |
| **Year ended 31 December 2018** | | | | | | |
| Opening net book amount | 42,610 | 33,925 | 10,433 | 5,518 | 24,144 | 116,630 |
| Additions | 922 | 30,668 | 2,090 | 1,410 | 2,205 | 37,295 |
| Transferred from construction in progress | 4,140 | 21,592 | — | 265 | (25,997) | — |
| Disposals | — | — | (119) | — | — | (119) |
| Depreciation charge *(note 8)* | (1,330) | (7,062) | (3,888) | (1,763) | — | (14,043) |
| **Closing net book amount** | 46,342 | 79,123 | 8,516 | 5,430 | 352 | 139,763 |
| **At 31 December 2018** | | | | | | |
| Cost | 48,334 | 111,642 | 40,237 | 15,679 | 352 | 216,244 |
| Accumulated depreciation | (1,992) | (32,519) | (31,721) | (10,249) | — | (76,481) |
| **Net book amount** | 46,342 | 79,123 | 8,516 | 5,430 | 352 | 139,763 |
| **Year ended 31 December 2019** | | | | | | |
| Opening net book amount | 46,342 | 79,123 | 8,516 | 5,430 | 352 | 139,763 |
| Additions | — | 5,849 | 98 | 250 | 11,944 | 18,141 |
| Transferred from construction in progress | 30 | 865 | — | — | (895) | — |
| Disposals | (170) | (550) | (1,755) | (521) | — | (2,996) |
| Depreciation charge *(note 8)* | (1,346) | (8,897) | (2,558) | (1,676) | — | (14,477) |
| **Closing net book amount** | 44,856 | 76,390 | 4,301 | 3,483 | 11,401 | 140,431 |
| **At 31 December 2019** | | | | | | |
| Cost | 48,189 | 117,433 | 29,331 | 13,867 | 11,401 | 220,221 |
| Accumulated depreciation | (3,333) | (41,043) | (25,030) | (10,384) | — | (79,790) |
| **Net book amount** | 44,856 | 76,390 | 4,301 | 3,483 | 11,401 | 140,431 |

| | Buildings | Machineries | Concrete mixer trucks | Office equipment and vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Period ended 31 October 2020** | | | | | | |
| Opening net book amount | 44,856 | 76,390 | 4,301 | 3,483 | 11,401 | 140,431 |
| Additions | — | 3,608 | 5,020 | 702 | 4,062 | 13,392 |
| Transferred from construction in progress | 1,634 | 9,961 | — | — | (11,595) | — |
| Disposals | — | (345) | (14) | (17) | — | (376) |
| Depreciation charge *(note 8)* | (1,152) | (8,555) | (1,597) | (1,230) | — | (12,534) |
| **Closing net book amount** | 45,338 | 81,059 | 7,710 | 2,938 | 3,868 | 140,913 |
| **At 31 October 2020** | | | | | | |
| Cost | 49,822 | 124,252 | 34,068 | 14,480 | 3,868 | 226,490 |
| Accumulated depreciation | (4,484) | (43,193) | (26,358) | (11,542) | — | (85,577) |
| **Net book amount** | 45,338 | 81,059 | 7,710 | 2,938 | 3,868 | 140,913 |

During the years ended 31 December 2017 and 2018, the Group capitalised borrowing costs amounting to RMB3,274,000 and RMB401,000 on qualifying assets, using the weighted average rate of the Group's general borrowings of 7.57% and 6.60%, respectively. No capitalisation of borrowing cost was made during the year ended 31 December 2019 and the ten months ended 31 October 2020.

During the Track Record Period, the amounts of depreciation expense charged to profit or loss were as follows:

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Depreciation of property, plant and equipment | | | | | |
| — Cost of sales | 10,079 | 11,576 | 12,083 | 10,154 | 10,673 |
| — Selling expenses | 12 | 23 | 37 | 31 | 28 |
| — Administrative expenses | 1,414 | 2,444 | 2,357 | 2,033 | 1,833 |
| | 11,505 | 14,043 | 14,477 | 12,218 | 12,534 |

As at 31 December 2017, 2018 and 2019 and 31 October 2020, buildings and machineries of the Group with a total net book value of RMB40,440,000, RMB42,823,000, RMB45,751,000 and RMB44,642,000, respectively, were pledged to secure borrowings of the Group (note 26).

## 15 RIGHT-OF-USE ASSETS

| | Land use rights | Lease of warehouse and factory premises | Vehicles | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Year ended 31 December 2017** | | | | |
| Opening net book amount | 24,224 | — | — | 24,224 |
| Additions | — | 1,006 | — | 1,006 |
| Depreciation *(note 8)* | (621) | (162) | — | (783) |
| **Closing net book amount** | 23,603 | 844 | — | 24,447 |
| **At 31 December 2017** | | | | |
| Cost | 26,344 | 1,006 | — | 27,350 |
| Accumulated depreciation | (2,741) | (162) | — | (2,903) |
| **Net book amount** | 23,603 | 844 | — | 24,447 |
| **Year ended 31 December 2018** | | | | |
| Opening net book amount | 23,603 | 844 | — | 24,447 |
| Additions | — | — | 2,563 | 2,563 |
| Depreciation *(note 8)* | (621) | (497) | (383) | (1,501) |
| **Closing net book amount** | 22,982 | 347 | 2,180 | 25,509 |
| **At 31 December 2018** | | | | |
| Cost | 26,344 | 1,006 | 2,563 | 29,913 |
| Accumulated depreciation | (3,362) | (659) | (383) | (4,404) |
| **Net book amount** | 22,982 | 347 | 2,180 | 25,509 |

| | Land use rights | Lease of warehouse and factory premises | Vehicles | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Year ended 31 December 2019** | | | | |
| Opening net book amount | 22,982 | 347 | 2,180 | 25,509 |
| Additions | — | 19,249 | — | 19,249 |
| Depreciation *(note 8)* | (621) | (2,593) | (487) | (3,701) |
| **Closing net book amount** | 22,361 | 17,003 | 1,693 | 41,057 |
| **At 31 December 2019** | | | | |
| Cost | 26,344 | 19,249 | 2,563 | 48,156 |
| Accumulated depreciation | (3,983) | (2,246) | (870) | (7,099) |
| **Net book amount** | 22,361 | 17,003 | 1,693 | 41,057 |
| **Period ended 31 October 2020** | | | | |
| Opening net book amount | 22,361 | 17,003 | 1,693 | 41,057 |
| Additions | — | 4,375 | — | 4,375 |
| Depreciation *(note 8)* | (517) | (3,776) | (406) | (4,699) |
| **Closing net book amount** | 21,844 | 17,602 | 1,287 | 40,733 |
| **At 31 October 2020** | | | | |
| Cost | 26,344 | 23,625 | 2,563 | 52,532 |
| Accumulated depreciation | (4,500) | (6,023) | (1,276) | (11,799) |
| **Net book amount** | 21,844 | 17,602 | 1,287 | 40,733 |

The land use rights represent the Group's interest in leasehold land that the Group has made prepayment for the lease of the land. These include the land lots for factory office premises and production plants at Jimei district of Xiamen city, Fujian province, the PRC, which are under leases of 30 years.

The Group leases certain warehouses under lease periods from September 2017 to August 2019, certain factory premises and factory production plants under lease periods from June 2019 to May 2024 and certain warehouses under lease periods from July 2020 to June 2023.

As at 31 December 2017, 2018 and 2019 and 31 October 2020, land use rights of the Group with a total net book value of RMB6,263,000, RMB22,982,000, RMB22,361,000 and RMB21,844,000, respectively, were pledged to secure borrowings of the Group (note 26).

The consolidated statements of comprehensive income and the consolidated statements of cash flows contain the following amounts relating to leases:

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| (i) Profit or loss: | | | | | |
| Depreciation of right-of-use assets, charged to cost of sales and administrative expenses | 783 | 1,501 | 3,701 | 2,874 | 4,699 |
| Interest expenses relating to lease liabilities, charged to finance cost | 12 | 234 | 717 | 472 | 828 |
| Rental expense relating to short-term leases, charged to cost of sales and administrative expenses | — | 180 | 4,734 | 3,021 | 8,754 |
| (ii) Cash flow: | | | | | |
| The cash outflow for leases presented as financing activities | 521 | 1,548 | 4,127 | 3,633 | 5,409 |
| The cash outflow for short-term leases presented as operating activities | — | 180 | 4,734 | 3,021 | 8,754 |
| | 521 | 1,728 | 8,861 | 6,654 | 14,163 |

## 16 INVESTMENT PROPERTIES

| | Year ended 31 December | | | Ten months ended 31 October |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| **Land and buildings, at cost** | | | | |
| Opening net book amount at 1 January | 8,670 | 8,306 | 7,942 | 10,554 |
| Additions | — | — | 3,046 | — |
| Depreciation charge *(note 8)* | (364) | (364) | (434) | (425) |
| Closing net book amount at 31 December/31 October | 8,306 | 7,942 | 10,554 | 10,129 |
| Closing net book amount: | | | | |
| Cost | 10,760 | 10,760 | 13,806 | 13,806 |
| Accumulated depreciation | (2,454) | (2,818) | (3,252) | (3,677) |
| | 8,306 | 7,942 | 10,554 | 10,129 |

The Group leases a factory building to a third party since the year ended 31 December 2017.

During the year ended 31 December 2019, the Group obtained the ownership of a commercial shop property from a customer as settlement of the trade receivables due from the customer. The Group planned to lease the property for rental purpose and therefore recorded it as addition to investment properties.

As at 31 December 2017, 2018 and 2019 and 31 October 2020, investment properties with a net book amount of RMB8,306,000, RMB7,942,000, RMB7,578,000 and RMB7,275,000, respectively, were pledged to secure borrowings of the Group (Note 26).

The Group's investment properties were stated at historical cost less subsequent accumulated depreciation and any accumulated impairment losses at the end of each reporting period.

The fair values of the factory building and commercial shop investment properties of the Group as at 31 December 2017, 2018 and 2019 and 31 October 2020 were determined by valuation based on income approach and market approach, respectively, by an independent property valuer. The total fair values of the investment properties of the Group amounted to RMB16,600,000, RMB16,200,000, RMB18,700,000 and RMB18,100,000 as at 31 December 2017, 2018 and 2019 and 31 October 2020, respectively. The fair value estimation of the investment property is categorised in level 3 hierarchy.

**Valuation techniques**

(i) Income approach takes into account the current rents of the property interests and the reversionary potentials of the tenancies, term yield and reversionary yield are then applied respectively to derive the market value of the property;

(ii) Market approach is based on comparing the subject asset with identical or similar assets for which price information is available, such as a comparison with market transactions in the same, or closely similar, type of asset within an appropriate time horizon.

There were no changes to the valuation techniques for each of the two investment properties during the Track Record Period.

**Information about fair value measurements of investment properties using significant unobservable inputs (level 3)**

***Factory building, income approach:***

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** |
| Fair value (RMB'000) | 16,600 | 16,200 | 15,600 | 15,100 |
| Unobservable inputs | | | | |
| — Term Yield | 6.0% per annum | 6.0% per annum | 6.0% per annum | 6.0% per annum |
| — Reversion Yield | 7.0% per annum | 7.0% per annum | 7.0% per annum | 7.0% per annum |
| — Annually Market Rent (RMB/square meter/annum) | 35–170 | 36–175 | 36–180 | 38–185 |

***Commercial shop, market approach:***

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** |
| Fair value (RMB'000) | N/A | N/A | 3,100 | 3,000 |
| Unobservable inputs | | | | |
| — Adopted Unit Rate | N/A | N/A | G/F: RMB22,000/ square meter 2/F: discount over G/F – 20% | G/F: RMB21,500/ square meter 2/F: discount over G/F – 20% |

During the Track Record Period, amounts recognised in profit or loss for investment properties were as follows:

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2019** | **2020** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000 (Unaudited)** | **RMB'000** |
| Rental income *(Note 6)* | 1,700 | 1,595 | 1,661 | 1,384 | 1,541 |
| Depreciation of investment properties *(Note 8)* | (364) | (364) | (434) | (351) | (425) |
| Direct operating expenses of properties that generated rental income | (83) | (89) | (91) | (75) | (82) |

## 17 INTANGIBLE ASSETS

| | Year ended 31 December | | | Ten months ended 31 October |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Software** | | | | |
| Opening net book amount at 1 January | 15 | 7 | 239 | 213 |
| Additions | — | 258 | — | — |
| Amortisation charge *(note 8)* | (8) | (26) | (26) | (21) |
| Closing net book amount at 31 December/31 October | 7 | 239 | 213 | 192 |
| Closing net book amount: | | | | |
| Cost | 80 | 338 | 338 | 338 |
| Accumulated amortisation | (73) | (99) | (125) | (146) |
| | 7 | 239 | 213 | 192 |

The Group's intangible assets consisted of (i) one production management system for operation purchased in 2008 at RMB80,000 which was still in use by the Group during the Track Record Period, and (ii) system enhancement of the production management system (for new functionalities of production management) purchased in 2018 at the cost of RMB258,000 and there is no limited license period for the production management system (including the system enhancement).

During the Track Record Period, the amounts of amortisation expense charged to profit or loss were as follows:

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Amortisation of intangible assets — Cost of sales *(note 8)* | 8 | 26 | 26 | 21 | 21 |

## 18 PREPAYMENT FOR NON-CURRENT ASSETS

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Prepayment for property, plant and equipment and investment properties | 23,416 | 3,800 | — | — |

The Group made prepayments for the purchase of property, plant and equipment and investment properties. The prepayments were transferred to the relevant assets when the assets were received.

**19 FINANCIAL INSTRUMENTS BY CATEGORY**

The Group holds the following financial instruments:

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **(i) Financial assets at amortised cost** | | | | |
| Cash and bank balances *(note 22)* | 46,290 | 3,807 | 16,144 | 2,467 |
| Restricted bank balance *(note 22)* | 32,000 | 9,001 | 4,710 | 3,210 |
| Trade receivables and other receivables and amount due from a related party excluding prepayments, prepayments for listing expenses, deductible value-added tax recoverable *(note 21)* | 278,285 | 324,533 | 423,119 | 547,100 |
| | 356,575 | 337,341 | 443,973 | 552,777 |
| **(ii) Financial liabilities at amortised cost** | | | | |
| Borrowings *(note 26)* | 98,500 | 101,000 | 190,790 | 234,462 |
| Lease liabilities *(note 27)* | 497 | 2,250 | 18,101 | 18,040 |
| Trade and bills payables, other payables and accruals and amounts due to related parties excluding non-financial liabilities *(note 25)* | 328,497 | 353,266 | 330,704 | 385,347 |
| | 427,494 | 456,516 | 539,595 | 637,849 |

**20 INVENTORIES**

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Raw materials | 14,128 | 15,585 | 11,761 | 17,250 |
| Work-in-progress | 271 | — | 810 | 1,281 |
| Finished goods | 5,088 | 5,725 | 16,019 | 33,571 |
| Less: provision for impairment of inventories | (1,669) | (779) | (765) | (509) |
| | 17,818 | 20,531 | 27,825 | 51,593 |

The provision for impairment of inventories as at 31 December 2017, 2018 and 2019 and 31 October 2020 reconciles to the opening balance for that provision as follows:

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| As at the beginning of year/period | — | 1,669 | 779 | 779 | 765 |
| Increase in provision recognised in profit or loss during the year/period | 1,669 | 642 | 765 | 202 | 345 |
| Write-off of provision upon sales of inventories | — | (1,532) | (779) | (779) | (601) |
| As at the end of year/period | 1,669 | 779 | 765 | 202 | 509 |

The costs of individual items of inventory were determined using weighted average costs at the end of each month.

During the years ended 31 December 2017, 2018 and 2019, and the ten months ended 31 October 2019 and 2020, the cost of inventories recognised as expense and included in "cost of sales" amounted to RMB290,075,000, RMB350,639,000, RMB375,501,000, RMB271,004,000 and RMB356,824,000 respectively.

## 21 TRADE RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

**The Group**

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| **Trade receivables (a)** | | | | |
| Current: | | | | |
| Trade receivables | 230,059 | 286,636 | 405,660 | 530,337 |
| Less: provision for impairment | (2,281) | (3,840) | (5,214) | (7,159) |
| | 227,778 | 282,796 | 400,446 | 523,178 |
| Non-current: | | | | |
| Retention receivables | 18,771 | 22,406 | 17,540 | 17,418 |
| Less: provision for impairment | (111) | (140) | (197) | (282) |
| | 18,660 | 22,266 | 17,343 | 17,136 |
| Total | 246,438 | 305,062 | 417,789 | 540,314 |
| **Prepayments, deposits and other receivables (b)** | | | | |
| Prepayments for raw materials and operating expenses | 7,596 | 6,620 | 8,006 | 5,909 |
| Refundable deposits receivable (i) | 1,357 | 2,109 | 3,048 | 4,894 |
| Deductible value-added tax ('VAT') recoverable | 2,657 | 1,939 | — | 1,585 |
| Prepayments for listing expenses | — | — | 2,046 | 3,592 |
| Other receivables (ii) | 17,957 | 3,422 | 2,282 | 1,892 |
| Total | 29,567 | 14,090 | 15,382 | 17,872 |
| Total | 276,005 | 319,152 | 433,171 | 558,186 |

**(a) Trade receivables**

The Group is engaged in manufacturing and sale of concrete and precast building component products. The Group's customers are mainly construction companies for various types of construction projects including residential, commercial, industrial, municipal and infrastructure projects for the public and private sectors. The credit terms grant to customers are generally within 40 days.

Certain of the Group's sales receivables are required to be held back the settlement for up to 6 months after the completion of defects liability periods grant to the customers which normally last for 3 months to 24 months. The Group is responsible for remedial works, which may arise form the defective works or materials used and the related costs are usually immaterial. In the consolidated statements of financial position, retention receivables are presented as non-current assets.

**(i) *Transferred receivables***

The carrying amounts of the trade receivables as at 31 October 2020 include receivables amounting to RMB7,172,000 which are subject to a factoring arrangement (2019: nil). Under this arrangement, the Group has transferred the relevant receivables to the factors (two banks in the PRC) in exchange for cash and is prevented from selling or pledging the receivables. However, the Group has retained late payment and credit risk. The Group therefore continues to recognise the transferred assets in their entirety in its balance sheet. The amount repayable under the factoring agreement is presented as secured borrowing (note 26(i)). The Group considers that the held to collect business model remains appropriate for these receivables and hence continues measuring them at amortised cost (note 26).

**(ii) *Ageing analysis of trade receivables***

The ageing analysis of the trade receivables on demand and retention receivables as at the balance sheet dates based on invoice date was as follows:

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| Within 1 year | 206,971 | 234,285 | 373,339 | 449,541 |
| 1 and 2 years | 39,885 | 59,675 | 41,106 | 88,641 |
| 2 and 3 years | 496 | 14,810 | 7,229 | 6,391 |
| Over 3 years | 1,478 | 272 | 1,526 | 3,182 |
| | 248,830 | 309,042 | 423,200 | 547,755 |

**(iii) *Impairment of trade receivables***

The Group applies the simplified approach to provide for expected credit loss which was a lifetime expected loss allowance for all trade receivables and retention receivables as prescribed by HKFRS 9. Details of the expected loss rates based on the payment profile of sales are set out in Note 3.1 b (ii).

The movements in provision for impairment of trade receivables were as follows:

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| As at 1 January | 2,357 | 2,392 | 3,980 | 3,980 | 5,411 |
| Loss allowance recognised in profit or loss during the year/period | 35 | 1,588 | 1,431 | 1,114 | 2,030 |
| As at 31 December/31 October | 2,392 | 3,980 | 5,411 | 5,094 | 7,441 |

**(b) Prepayments, deposits and other receivables**

(i) The refundable deposits receivable mainly represented rental deposits, project guarantee deposits and deposit to independent third party credit guarantee corporation for granting guarantee to the Group's borrowings.

(ii) Other receivables included an advance to a third party amounting to RMB16,607,000, RMB2,007,000, nil and nil as at 31 December 2017, 2018 and 2019 and 31 October 2020, respectively. The advance had been fully settled in January 2019. Such advance was unsecured, interest free and had no fixed term of repayment.

(iii) *Impairment of other financial assets at amortised cost*

Other financial assets at amortised cost include amounts due from third parties and other receivables.

All these financial assets are considered to have a low risk of default and each of the counterparties has a strong capacity to meet its contractual cash flow obligations in the near term, hence, the Group considers them to have low credit risk. Accordingly, the impairment provision recognised is limited to 12-month expected losses.

The Group has assessed that the expected credit losses for these financial assets are not material under the 12-month expected losses method. Thus, no loss allowance was recognised during the Track Record Period. The Group does not hold any collateral in relation to these receivables.

The carrying amounts of the Group's trade receivables, prepayments, deposits and other receivables approximated their fair values as at the balance sheet dates, and were denominated in the following currencies:

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| RMB | 276,005 | 319,152 | 431,125 | 554,552 |
| HK$ | — | — | 2,046 | 3,634 |
| | 276,005 | 319,152 | 433,171 | 558,186 |

**The Company**

| | As at 31 December | | As at 31 October |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| Prepayments for listing expenses | — | 2,046 | 3,592 |
| Prepayments for operating expenses | — | — | 42 |
| | — | 2,046 | 3,634 |

## 22 CASH AND BANK BALANCES

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| Cash and cash equivalents | | | | |
| — Cash on hand and at banks | 46,290 | 3,807 | 16,144 | 2,467 |
| Restricted bank balance | 32,000 | 9,001 | 4,710 | 3,210 |
| Total | 78,290 | 12,808 | 20,854 | 5,677 |

The restricted bank balance was deposits held at banks and pledged for issue of bills payable (note 25).

The cash and bank balances were denominated in the following currencies:

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| RMB | 78,290 | 12,791 | 20,845 | 5,621 |
| HK$ | — | 17 | 9 | 56 |
| | 78,290 | 12,808 | 20,854 | 5,677 |

## 23 SHARE CAPITAL

| | Number of ordinary shares | Share capital | Share capital |
|---|---|---|---|
| | | HK$ | RMB |
| **Authorised:** | | | |
| From 14 November 2018 (date of incorporation) to 31 October 2020 | | | |
| — Ordinary shares of HK$1.00 par value | 50,000 | 50,000 | 42,500 |
| **Issued:** | | | |
| At 14 November 2018 (date of incorporation) | 1 | 1 | 1 |
| Issue of shares to Mr. Ye Zhijie and Mr. Huang Wengui *(Note 1.2.1)* | 99 | 99 | 84 |
| At 31 December 2018 and 1 January 2019 | 100 | 100 | 85 |
| Issue of shares to: | | | |
| — Mr. Ye Zhijie and Mr. Huang Wengui *(Note 1.2.4(i))* | 8,568 | 8,568 | 7,283 |
| — Third party investor *(Note 1.2.4(ii))* | 1,332 | 1,332 | 1,132 |
| At 31 December 2019 and 31 October 2020 | 10,000 | 10,000 | 8,500 |

Details of the issuance of share capital of the Company are set out in Notes 1.2.1 and 1.2.4.

On 4 March 2021, each ordinary share of the Company was sub-divided into 100 shares of HK$0.01 each. Following the sub-division of ordinary shares, the number of issued shares of the Company was increased from 10,000 shares to 1,000,000 shares.

Pursuant to the resolutions passed by the shareholders' meeting on 4 March 2021, conditional on the listing, the authorised shares of the Company has been increased to 3,000,000,000 shares of HKD0.01 par value each. An aggregate of 560,000,000 ordinary shares will be issued and allotted to the shareholders whose names appear on the register of members of the Company as of the date of these resolutions and 187,000,000 shares will be issued upon Share Offer in relation to the listing on the condition of being approved for listing and permitted to deal.

## 24 OTHER RESERVES

**The Group**

| | Capital reserves | Statutory reserves | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| **At 1 January 2017** | 100,174 | 3,423 | 103,597 |
| Profit appropriation to statutory reserves (i) | — | 2,422 | 2,422 |
| Transactions with non-controlling interests (ii) | (174) | (5,845) | (6,019) |
| **At 31 December 2017 and 1 January 2018** | 100,000 | — | 100,000 |
| Profit appropriation to statutory reserves (i) | — | 3,012 | 3,012 |
| **At 31 December 2018 and 1 January 2019** | 100,000 | 3,012 | 103,012 |
| Profit appropriation to statutory reserves (i) | — | 2,630 | 2,630 |
| Contribution from shareholders (iii) | 91,014 | — | 91,014 |
| Deemed distribution to shareholders (iii) | (91,014) | — | (91,014) |
| **At 31 December 2019, 1 January 2020 and 31 October 2020** | 100,000 | 5,642 | 105,642 |
| **(Unaudited)** | | | |
| **At 1 January 2019** | 100,000 | 3,012 | 103,012 |
| Contribution from shareholders (iii) | 91,014 | — | 91,014 |
| Deemed distribution to shareholders (iii) | (91,014) | — | (91,014) |
| **At 31 October 2019** | 100,000 | 3,012 | 103,012 |

**The Company**

| | Capital reserve |
|---|---|
| | RMB'000 |
| **At 14 November 2018 (date of incorporation) and 31 December 2018** | — |
| Contribution from shareholders (iii) | 91,014 |
| **At 31 December 2019 and 31 October 2020** | 91,014 |

**(i) *Statutory reserves***

Pursuant to the Company Law of the PRC and the articles of association of PRC subsidiaries, the subsidiaries in the PRC are required to appropriate 10% of each year's net profit (after offsetting previous years' losses) to statutory surplus reserve until the fund aggregates to 50% of their registered capital; after the appropriation to statutory surplus reserve, the subsidiaries in the PRC can appropriate profit, subject to respective equity holders' approval, to discretionary surplus reserve.

The appropriation to statutory and discretionary surplus reserves must be made before distribution of dividends to equity holders. These reserves shall only be used to make up for previous years' losses, to expand production operations, or to increase the capital of the respective company. The entities in the PRC may transfer their respective statutory surplus reserves into paid-in capital, provided that the balance of the statutory surplus reserve after such transfer is not less than 25% of the registered capital before the transformation.

**(ii)** ***Transactions with non-controlling interests***

On 20 November 2017, Zhixin Construction Material, a subsidiary of the Group, acquired the 40% equity interest of Zhixin Logistics, a 60% owned subsidiary of the Group at that time, from Mr. Ye Zhijie, the controlling shareholder of the Group, at a consideration of RMB2,000,000. After the equity transfer, Zhixin Logistics became a wholly-owned subsidiary of the Group (Transaction 1).

On 1 December 2017, Mr. Huang Wengui transferred his 20% equity interest in Zhixin Construction Technology, a 80% owned subsidiary of the Group at that time, to Zhixin Construction Material at a consideration of RMB7,400,000. After the equity transfer, Zhixin Construction Technology became a wholly-owned subsidiary of the Group (Transaction 2).

Details of the aggregate purchase consideration and equity acquired were as follows:

| | Transaction 1 | Transaction 2 | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| Purchase considerations | 2,000 | 7,400 | 9,400 |
| Less: Non-controlling interests (negative) at acquisition dates | (6,188) | 3,050 | (3,138) |
| Net impact | 8,188 | 4,350 | 12,538 |
| Other reserves | 1,669 | 4,350 | 6,019 |
| Retained earnings | 6,519 | — | 6,519 |
| | 8,188 | 4,350 | 12,538 |

The Group's accounting policy treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in other reserves within equity attributable to owners of the Company. If this reserve is insufficient to offset, there would be a further adjustment debiting to retained earnings.

**(iii)** ***Capital reserves***

The capital reserve of the Group as at 31 December 2017 and 2018 represented the combined share capital of the subsidiaries of the Group prior to the completion of the Reorganisation for the Listing (note 1.2).

As mentioned in note 1.2.3 above, as part of the Reorganisation for the Listing, during March to April 2019, Mr. Ye Zhijie and Mr. Huang Wengui, through companies owned by them, made cash contributions totalling HK$107,000,000 (equivalent to RMB91,014,000) to the Company. The cash contributions were subsequently used to settle the considerations payable to the two shareholders for the acquisition of the equity interest in Zhixin Construction Material from the two shareholders. The cash contribution from and payment for considerations to the two shareholders were regarded as contributions from and deemed distributions to shareholders, respectively.

## 25 TRADE AND BILLS PAYABLES AND OTHER PAYABLES AND ACCRUALS

**The Group**

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| **Trade and bills payables** | | | | |
| Trade payables | | | | |
| — Related parties *(note 32(c))* | 20,286 | 14,550 | 289 | — |
| — Third parties | 175,324 | 204,012 | 270,505 | 317,132 |
| | 195,610 | 218,562 | 270,794 | 317,132 |
| Bills payable | 64,000 | 30,000 | 15,700 | 10,700 |
| Total trade and bills payables | 259,610 | 248,562 | 286,494 | 327,832 |
| **Other payables and accruals** | | | | |
| Payables for purchase of property, plant and equipment | 6,512 | 11,153 | 6,283 | 4,765 |
| Employee benefits payables | 6,079 | 9,103 | 6,717 | 7,091 |
| Accrual for operating expenses | 6,513 | 9,196 | 7,418 | 16,371 |
| Interest payable | 392 | 239 | 670 | 947 |
| Other taxes payable excluding income tax liabilities | 3,658 | 3,297 | 6,791 | 3,173 |
| Payable for listing expenses | — | — | 1,302 | 1,069 |
| Others | 1,292 | 1,221 | 2,254 | 2,480 |
| Total other payables and accruals | 24,446 | 34,209 | 31,435 | 35,896 |
| | 284,056 | 282,771 | 317,929 | 363,728 |

The ageing analysis of trade and bills payables as at 31 December 2017, 2018 and 2019 and 31 October 2020 based on invoice date was as follows:

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| Within 1 year | 258,497 | 247,758 | 285,915 | 327,048 |
| 1–2 years | 1,113 | 253 | 579 | 784 |
| Over 2 years | — | 551 | — | — |
| | 259,610 | 248,562 | 286,494 | 327,832 |

The carrying amounts of trade and bills payables and other payables and accruals approximated their fair values as at the balance sheet dates due to their short-term nature.

The carrying amounts of the Group's trade and bills payables and other payables and accruals were denominated in the following currencies.

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| RMB | 284,056 | 282,653 | 311,297 | 350,461 |
| HK$ | — | 118 | 6,632 | 13,267 |
| | 284,056 | 282,771 | 317,929 | 363,728 |

**The Company**

| | As at 31 December | | As at 31 October |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 |
| **Other payables and accruals** | | | |
| Amounts due to subsidiaries | — | 249 | 1,396 |
| Payable for listing expenses | — | — | 65 |
| Other payables | 36 | — | 117 |
| | 36 | 249 | 1,578 |

The above balances were unsecured, interest-free and repayable on demand.

## 26 BORROWINGS

| | As at 31 December | | | | | | | | | As at 31 October | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | | 2018 | | | 2019 | | | 2020 | | |
| | RMB'000 | | | RMB'000 | | | RMB'000 | | | RMB'000 | | |
| | Current | Non-current | Total | Current | Non-current | Total | Current | Non-current | Total | Current | Non-current | Total |
| Bank borrowings (i) | | | | | | | | | | | | |
| — Secured | 36,000 | — | 36,000 | 70,000 | — | 70,000 | 104,000 | — | 104,000 | 147,672 | — | 147,672 |
| — Unsecured | 58,500 | — | 58,500 | 27,000 | — | 27,000 | 18,000 | — | 18,000 | 18,000 | — | 18,000 |
| | 94,500 | — | 94,500 | 97,000 | — | 97,000 | 122,000 | — | 122,000 | 165,672 | — | 165,672 |
| Entrusted loans from a third party (ii) | | | | | | | | | | | | |
| — Unsecured | — | — | — | — | — | — | — | 68,790 | 68,790 | 52,200 | 16,590 | 68,790 |
| Loan from a third party (iii) | | | | | | | | | | | | |
| — Unsecured | 4,000 | — | 4,000 | 4,000 | — | 4,000 | — | — | — | — | — | — |
| Total borrowings | 98,500 | — | 98,500 | 101,000 | — | 101,000 | 122,000 | 68,790 | 190,790 | 217,872 | 16,590 | 234,462 |

**(i) Bank borrowings**

The bank borrowings of the Group were secured by the pledge of assets of the Group as set out below, and corporate guarantees provided by two subsidiaries of the Group, and guarantees from Mr. Ye Zhijie, Mr. Huang Wengui and his spouse and certain independent third parties in 2017 and one independent third party credit guarantee corporation in 2018 and 2019. All guarantees by Mr. Ye Zhijie, Mr. Huang Wengui and his spouse will be released and replaced by corporate guarantees provided by the Group upon Listing.

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| Assets of the Group pledged as securities: | | | | |
| — Property, plant and equipment *(note 14)* | 40,440 | 42,823 | 45,751 | 44,642 |
| — Right-of-use assets *(note 15)* | 6,263 | 22,982 | 22,361 | 21,844 |
| — Investment properties *(note 16)* | 8,306 | 7,942 | 7,578 | 7,275 |
| — Transferred receivables *(note 21)* | — | — | — | 7,172 |
| Total | 55,009 | 73,747 | 75,690 | 80,933 |

For the years ended 31 December 2017, 2018 and 2019 and the ten months ended 31 October 2020, the weighted average effective interest rates on bank borrowings were 6.58%, 5.96%, 5.64% and 5.12% respectively.

The carrying amounts of the Group's bank loans were denominated in RMB.

**(ii) Entrusted loans from a third party**

The Group obtained three two-year long-term loans totalling RMB68,790,000 from a third party through a bank in Xiamen, the PRC, for working capital purpose. The loans were unsecured, interest bearing at 5% per annum and will be due for repayment in October and December 2021. As at 31 October 2020, RMB52,200,000 of the long-term loans were reclassified to current borrowings since it will be repaid in October 2021. Subsequently on 7 December 2020, the Group agreed with the lender and extended the repayment date of the entrusted loans to October 2022.

**(iii) Loan from a third party**

The Group obtained an advance from a third party for short term working capital purpose amounting to RMB4,000,000 and RMB4,000,000 as at 31 December 2017 and 2018, respectively. Such loan was interest bearing at 17.53% per annum and was repayable within one year. The loan had been fully repaid during the year ended 31 December 2019.

**(iv) Repayment periods**

At 31 December 2017, 2018 and 2019 and 31 October 2020, the Group's borrowings were repayable as follows:

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Within 1 year | 98,500 | 101,000 | 122,000 | 217,872 |
| Between 1 and 2 years | — | — | 68,790 | 16,590 |
| | 98,500 | 101,000 | 190,790 | 234,462 |

**(v) Undrawn financing facilities**

The Group had the following undrawn financing facilities:

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Bank borrowings, at floating rates | | | | |
| — Expiring within 1 year | 65,000 | 30,000 | 50,000 | 144,010 |
| — Expiring between 1 and 2 years | — | 50,000 | 23,010 | — |
| | 65,000 | 80,000 | 73,010 | 144,010 |

**27 LEASE LIABILITIES**

| | As at 31 December | | | | | | | | | As at 31 October | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | | 2018 | | | 2019 | | | 2020 | | |
| | RMB'000 | | | RMB'000 | | | RMB'000 | | | RMB'000 | | |
| | Current | Non-current | Total | Current | Non-current | Total | Current | Non-current | Total | Current | Non-current | Total |
| Land and buildings for warehouses and factory | 497 | — | 497 | — | — | — | 4,593 | 12,266 | 16,859 | 6,377 | 11,333 | 17,710 |
| Vehicles | — | — | — | 1,009 | 1,241 | 2,250 | 1,102 | 140 | 1,242 | 330 | — | 330 |
| | 497 | — | 497 | 1,009 | 1,241 | 2,250 | 5,695 | 12,406 | 18,101 | 6,707 | 11,333 | 18,040 |

The Group leases land, buildings and vehicles for its operations and these liabilities were measured at the net present value of the lease payments during the lease terms that are not yet paid.

The effective interest rates ranged from 5.66% to 8.80% per annum as at 31 December 2017, 2018 and 2019 and 31 October 2020.

**28 DEFERRED INCOME**

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Deferred income on asset-related government grants | 825 | 1,418 | 1,682 | 2,109 |

The government grants were received from the local government as subsidies to the Group's purchase of property, plant and equipment. They were recognised in profit or loss on a straight-line basis over the expected useful lives of the related assets.

The movements of the above deferred income during the Track Record Period were as follows:

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| At beginning of year/period | 949 | 825 | 1,418 | 1,418 | 1,682 |
| Additions | — | 741 | 432 | 432 | 590 |
| Credited to profit or loss *(note 6)* | (124) | (148) | (168) | (139) | (163) |
| At end of year/period | 825 | 1,418 | 1,682 | 1,711 | 2,109 |

**29 DEFERRED INCOME TAX**

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Deferred income tax assets *(a)* | 8,202 | 9,379 | 7,267 | 7,720 |
| Deferred income tax liabilities *(b)* | (1,412) | (1,862) | (5,732) | (5,639) |
| | 6,790 | 7,517 | 1,535 | 2,081 |

**(a) Deferred income tax assets**

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| The balance comprises temporary differences attributable to: | | | | |
| Accrued employee benefits | 668 | 640 | 518 | 266 |
| Deferred income | 206 | 355 | 421 | 531 |
| Provision for impairment of inventories and loss allowance of trade receivables | 1,015 | 1,189 | 1,540 | 1,988 |
| Lease liabilities | 124 | 563 | 4,525 | 4,722 |
| Tax deductible losses | 6,189 | 6,632 | 263 | 213 |
| | 8,202 | 9,379 | 7,267 | 7,720 |

The movements in deferred income tax assets were as follows:

| | Accrued employee benefits | Deferred income | Provision for impairment and loss allowance | Lease liabilities | Tax deductible losses | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2017 | 640 | 237 | 588 | — | 1,683 | 3,148 |
| Credited/(charged) to profit or loss | 28 | (31) | 427 | 124 | 4,506 | 5,054 |
| At 31 December 2017 and 1 January 2018 | 668 | 206 | 1,015 | 124 | 6,189 | 8,202 |
| Credited/(charged) to profit or loss | (28) | 149 | 174 | 439 | 443 | 1,177 |
| At 31 December 2018 and 1 January 2019 | 640 | 355 | 1,189 | 563 | 6,632 | 9,379 |
| Credited/(charged) to profit or loss | (122) | 66 | 351 | 3,962 | (6,369) | (2,112) |
| At 31 December 2019 and 1 January 2020 | 518 | 421 | 1,540 | 4,525 | 263 | 7,267 |
| Credited/(charged) to profit or loss | (252) | 110 | 448 | 197 | (50) | 453 |
| At 31 October 2020 | 266 | 531 | 1,988 | 4,722 | 213 | 7,720 |
| (Unaudited) | | | | | | |
| At 31 December 2018 and 1 January 2019 | 640 | 355 | 1,189 | 563 | 6,632 | 9,379 |
| Credited/(charged) to profit or loss | (108) | 72 | 135 | 4,013 | (3,157) | 955 |
| At 31 October 2019 | 532 | 427 | 1,324 | 4,576 | 3,475 | 10,334 |

**(b) Deferred income tax liabilities**

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| The balance comprises temporary differences attributable to: | | | | |
| Property, plant and equipment — capitalisation of interest of construction in progress | 1,288 | 1,299 | 1,207 | 1,129 |
| Right-of-use assets | 124 | 563 | 4,525 | 4,510 |
| | 1,412 | 1,862 | 5,732 | 5,639 |

The movements in deferred income tax liabilities were as follows:

| | Capitalisation of interest relating to construction in progress | Right-of-use assets | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2017 | 469 | — | 469 |
| Charged to profit or loss | 819 | 124 | 943 |
| At 31 December 2017 and 1 January 2018 | 1,288 | 124 | 1,412 |
| Charged to profit or loss | 11 | 439 | 450 |
| At 31 December 2018 and 1 January 2019 | 1,299 | 563 | 1,862 |
| (Credited)/charged to profit or loss | (92) | 3,962 | 3,870 |
| At 31 December 2019 and 1 January 2020 | 1,207 | 4,525 | 5,732 |
| Credited to profit or loss | (78) | (15) | (93) |
| At 31 October 2020 | 1,129 | 4,510 | 5,639 |
| (Unaudited) | | | |
| At 31 December 2018 and 1 January 2019 | 1,299 | 563 | 1,862 |
| (Credited)/charged to profit or loss | (77) | 4,013 | 3,936 |
| At 31 October 2019 | 1,222 | 4,576 | 5,798 |

## 30 CASH FLOW INFORMATION

### (a) Reconciliation of profit before income tax to cash (used in)/generated from operations

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Profit before income tax | 15,617 | 37,384 | 57,937 | 42,323 | 59,375 |
| Adjustments for | | | | | |
| — Depreciation of property, plant and equipment *(note 14)* | 11,505 | 14,043 | 14,477 | 12,218 | 12,534 |
| — Depreciation of right-of-use asset *(note 15)* | 783 | 1,501 | 3,701 | 2,874 | 4,699 |
| — Depreciation of investment properties *(note 16)* | 364 | 364 | 434 | 351 | 425 |
| — Amortisation of intangible assets *(note 17)* | 8 | 26 | 26 | 21 | 21 |
| — Provision for impairment of inventories *(note 20)* | 1,669 | 642 | 765 | 202 | 345 |
| — Provision for impairment of receivables *(note 21)* | 35 | 1,588 | 1,431 | 1,114 | 2,030 |
| — Finance costs | 2,142 | 7,277 | 8,836 | 6,819 | 11,171 |
| — Amortisation of deferred income | (124) | (148) | (168) | (139) | (163) |
| — Losses/(gains) on disposal of property, plant and equipment | 189 | (464) | 1,443 | 1,436 | 314 |
| | 32,188 | 62,213 | 88,882 | 67,219 | 90,751 |
| Changes in working capital: | | | | | |
| — Restricted bank balance | (2,000) | 22,999 | 4,291 | 4,291 | 1,500 |
| — Inventories | 3,779 | (3,355) | (8,059) | (8,822) | (24,113) |
| — Trade receivables, prepayments, deposits and other receivables | (6,821) | (59,335) | (115,411) | (71,035) | (125,499) |
| — Contract liabilities | 2,221 | 3,800 | 6,244 | 6,172 | (10,813) |
| — Trade and bills payables, other payables and accruals | (59,216) | (2,472) | 39,272 | (47,836) | 52,148 |
| Net cash (used in)/generated from operations | (29,849) | 23,850 | 15,219 | (50,011) | (16,026) |

**(b) Proceeds from disposal of property, plant and equipment**

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Net book amount *(note 14)* | 190 | 119 | 2,996 | 2,985 | 376 |
| (Losses)/gains on disposal *(note 7)* | (189) | 464 | (1,443) | (1,436) | (314) |
| Proceeds from disposal of property, plant and equipment | 1 | 583 | 1,553 | 1,549 | 62 |

**(c) Reconciliation of liabilities arising from financing activities**

| | Borrowings and interest payable due within 1 year | Borrowings and interest payable due after 1 year | Lease liabilities due within 1 year | Lease liabilities due after 1 year | Amounts due to related parties excluding dividend payable | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Total debt as at 1 January 2017 | 39,716 | — | — | — | 17,544 | 57,260 |
| Cash flows — principal | 59,000 | — | (509) | — | 36,634 | 95,125 |
| Cash flows — interest | (688) | — | (12) | — | — | (700) |
| Increase of right-of-use assets | — | — | 1,006 | — | — | 1,006 |
| Other non-cash movements — interest expenses | 864 | — | 12 | — | — | 876 |
| Total debt as at 31 December 2017 and 1 January 2018 | 98,892 | — | 497 | — | 54,178 | 153,567 |
| Cash flows — principal | 2,500 | — | (1,314) | — | (54,083) | (52,897) |
| Cash flows — interest | (6,230) | — | (234) | — | — | (6,464) |
| Increase of right-of-use assets | — | — | 817 | 2,250 | — | 3,067 |
| Other non-cash movements — interest expenses | 6,077 | — | 234 | — | — | 6,311 |
| Reclassification | — | — | 1,009 | (1,009) | — | — |
| Total debt as at 31 December 2018 and 1 January 2019 | 101,239 | — | 1,009 | 1,241 | 95 | 103,584 |
| Cash flows — principal | 21,000 | 68,790 | (3,410) | — | 6,288 | 92,668 |
| Cash flows — interest | (7,360) | — | (717) | — | — | (8,077) |
| Increase of right-of-use assets | — | — | 2,374 | 16,887 | — | 19,261 |
| Other non-cash movements — interest expenses | 7,314 | 477 | 717 | — | — | 8,508 |
| Other non-cash movements — reclassification from dividend payable *(note 32(c))* | — | — | — | — | 19,900 | 19,900 |
| Reclassification | — | — | 5,722 | (5,722) | — | — |
| Total debt as at 31 December 2019 and 1 January 2020 | 122,193 | 69,267 | 5,695 | 12,406 | 26,283 | 235,844 |
| Cash flows — principal | 43,672 | — | (5,409) | — | — | 38,263 |
| Cash flows — interest | (6,588) | (2,409) | (828) | — | — | (9,825) |
| Increase of right-of-use assets | — | — | — | 5,348 | — | 5,348 |
| Other non-cash movements — listing expenses paid by shareholder *(note 30(d))* | — | — | — | — | 4,920 | 4,920 |
| Other non-cash movements — interest expenses | 6,642 | 2,632 | 828 | — | 680 | 10,782 |
| Reclassification | 52,200 | (52,200) | 6,421 | (6,421) | — | — |
| Total debt as at 31 October 2020 | 218,119 | 17,290 | 6,707 | 11,333 | 31,883 | 285,332 |
| (Unaudited) | | | | | | |
| Total debt as at 1 January 2019 | 101,239 | — | 1,009 | 1,241 | 95 | 103,584 |
| Cash flows — principal | 25,000 | 52,200 | (3,633) | — | — | 73,567 |
| Cash flows — interest | (5,662) | — | (472) | — | — | (6,134) |
| Increase of right-of-use assets | — | — | — | 19,687 | — | 19,687 |
| Other non-cash movements — listing expenses paid by shareholder *(note 30(d))* | — | — | — | — | 4,108 | 4,108 |
| Other non-cash movements — interest expenses | 6,136 | 42 | 472 | — | — | 6,650 |
| Other non-cash movements — reclassification from dividend payable *(note 32(c))* | — | — | — | — | 30,600 | 30,600 |
| Reclassification | — | — | 7,433 | (7,433) | — | — |
| Total debt as at 31 October 2019 | 126,713 | 52,242 | 4,809 | 13,495 | 34,803 | 232,062 |

### (d) Significant non-cash transactions

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Listing expenses paid by shareholder | — | — | — | 4,108 | 4,920 |

## 31 COMMITMENTS

### (a) Capital commitments

Significant capital expenditure commitments are set out below:

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Contracted but not provided for: | | | | |
| — Property, plant and equipment | 13,651 | 803 | 246 | 225 |
| Share capital of a PRC incorporated subsidiary to be paid up | 76,250 | 36,575 | 32,975 | 32,975 |

### (b) Non-cancellable short-term operating leases

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Warehouses | | | | |
| — Less than 1 year | — | 102 | 2,698 | 1,916 |

## 32 RELATED PARTY TRANSACTIONS

### (a) Names and relationship with related parties

The following individuals/entities are related parties of the Group that had balances and/or transactions with the Group as at/during the years ended 31 December 2017, 2018 and 2019 and the ten months ended 31 October 2019 and 2020.

| Name of related parties | Relationship |
|---|---|
| Mr. Ye Zhijie | Controlling shareholder and Chairman |
| Mr. Huang Wengui | Substantial shareholder and Executive director |
| Xiamen Jichang Construction Engineering Co., Ltd. ("Ji Chang") | A Company controlled by brother of Mr. Ye Zhijie |
| Xiamen Yaohe Trading Co., Ltd. ("Yao He") | A Company controlled by Mr. Huang Wengui |
| Xiamen Lianhui Construction Material Limited ("Lian Hui") | A Company controlled by Mr. Huang Wengui until 4 September 2018 |
| Xiamen Guishun Logistics Limited ("Gui Shun") | A Company controlled by Mr. Huang Wengui |
| Ms. Du Lifang | Close family member of Mr. Ye Zhijie |

*Note:* The entities shown above do not have official English names and their Chinese names have been translated into English, for reference only, by the Directors on a best effort basis.

**(b) Transactions with related parties**

Save as disclosed in elsewhere in this report, during the years ended 31 December 2017, 2018 and 2019, and the ten months ended 31 October 2019 and 2020, the Group had the following transactions with related parties:

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2019** | **2020** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000 (Unaudited)** | **RMB'000** |
| Related party transactions that will not continue after the Listing: | | | | | |
| (i) Sales of goods to a related party | | | | | |
| — Ji Chang | 42 | — | 4,803 | 4,754 | — |
| (ii) Purchases of raw materials and logistics services from related parties | | | | | |
| — Yao He | 17,474 | 23,647 | — | — | — |
| — Lian Hui | 2,875 | 132 | — | — | — |
| — Ms. Du Lifang | 500 | 1,753 | — | — | — |
| — Gui Shun | 310 | 326 | 77 | — | — |
| | 21,159 | 25,858 | 77 | — | — |
| (iii) Listing expenses paid by shareholder | | | | | |
| — Mr. Ye Zhijie | — | — | — | — | 4,920 |
| (iv) Interest expense on loan from related parties | | | | | |
| — Mr. Ye Zhijie | — | — | — | — | 447 |
| — Mr. Huang Wengui | — | — | — | — | 103 |
| | — | — | — | — | 550 |

The above transactions were conducted according to the agreed terms between relevant related parties and the Group and in the ordinary course of business.

**(c) Balances with related parties**

***The Group***

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| ***Trade in nature:*** | | | | |
| (i) *Trade receivable from a related party* | | | | |
| — Ji Chang | — | — | 2,713 | — |
| (ii) *Trade payable to related parties* | | | | |
| — Yao He | 17,839 | 14,479 | 241 | — |
| — Lian Hui | 2,443 | N/A | N/A | N/A |
| — Gui Shun | 4 | 71 | 48 | — |
| | 20,286 | 14,550 | 289 | — |

The above balances were trade in nature and were settled according to the contract terms.

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| ***Non-trade in nature:*** | | | | |
| (i) *Amount due from a related party* | | | | |
| — Mr. Ye Zhijie | 12,533 | 13,940 | — | — |
| (ii) *Amounts due to related parties* | | | | |
| — Mr. Ye Zhijie | | | | |
| Dividend payable | — | 62,100 | — | — |
| Three-year loan | — | — | 21,308 | 21,884 |
| Listing expenses paid by shareholder | — | — | — | 4,920 |
| — Mr. Huang Wengui | | | | |
| Dividend payable | — | 20,700 | — | — |
| Other payables | 26,600 | — | — | — |
| Three-year loan | — | — | 4,975 | 5,079 |
| — Yao He | 26,978 | 95 | — | — |
| — Ji Chang | 600 | — | — | — |
| Total | 54,178 | 82,895 | 26,283 | 31,883 |
| Less: non-current portion | — | — | (26,283) | (26,963) |
| Current portion | 54,178 | 82,895 | — | 4,920 |

The above balances with related parties were non-trade in nature, unsecured, interest-free and repayable on demand, except that the amounts due to Mr. Ye Zhijie and Mr. Huang Wengui as at 31 December 2019 and 31 October 2020 totalling RMB26,283,000 and RMB26,963,000, respectively, were three years loans to the Group which will be due for repayment by 31 December 2022 and bears interest at 2.50% per annum.

The carrying amounts of the amounts due from/to related parties approximated their fair values as at the balance sheet dates and were denominated in RMB.

All outstanding balance of amounts due to related parties will be capitalised to other reserves upon Listing.

***The Company***

Save as disclosed in note 25, the Company had the following balance with a related party:

| | As at 31 December | | As at 31 October |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| (i) *Amount due to a related party* | | | |
| — Mr. Ye Zhijie | | | |
| Three-year loan | — | 6,383 | 6,648 |
| Listing expenses paid by shareholder | — | — | 4,920 |
| Total | — | 6,383 | 11,568 |

The above balances due to Mr. Ye Zhijie were non-trade in nature, unsecured, interest-free and repayable on demand, except that the amount due to Mr. Ye Zhijie as at 31 December 2019 and 31 October 2020 totalling RMB6,383,000 and RMB6,648,000, respectively, were three years loan to the Company which will be due for repayment by 31 December 2022 and bears interest at 2.50% per annum.

**(d) Key management compensation**

Key management includes Chairman, Executive Directors and senior management of the Group.

The compensation paid or payable to the key management during the years ended 31 December 2017, 2018 and 2019, and the ten months ended 31 October 2019 and 2020 including those paid to the executive directors which has been disclosed in note 33, are shown as below.

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2019** | **2020** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000 (Unaudited)** | **RMB'000** |
| Salaries and bonus | 531 | 822 | 1,826 | 952 | 1,536 |
| Contribution to pension plan | 66 | 98 | 132 | 45 | 10 |
| | 597 | 920 | 1,958 | 997 | 1,546 |

## 33 BENEFITS AND INTERESTS OF DIRECTORS

### (a) Directors' emoluments

Remuneration of every director during the years ended 31 December 2017, 2018 and 2019, and the ten months ended 31 October 2019 and 2020 was as follows:

| Name of Directors | Fees | Salaries | Discretionary bonus | Contribution to pension plan | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Year ended 31 December 2017** | | | | | |
| *Chairman:* | | | | | |
| Mr. Ye Zhijie | — | 61 | — | 11 | 72 |
| *Executive directors:* | | | | | |
| Mr. Huang Wengui | — | 36 | — | 9 | 45 |
| Mr. Qiu Limiao | — | 68 | — | 9 | 77 |
| Mr. Ye Dan | — | 63 | — | 7 | 70 |
| | — | 228 | — | 36 | 264 |
| **Year ended 31 December 2018** | | | | | |
| *Chairman:* | | | | | |
| Mr. Ye Zhijie | — | 61 | — | 12 | 73 |
| *Executive directors:* | | | | | |
| Mr. Huang Wengui | — | 61 | — | 15 | 76 |
| Mr. Qiu Limiao | — | 99 | — | 8 | 107 |
| Mr. Ye Dan | — | 162 | — | 10 | 172 |
| | — | 383 | — | 45 | 428 |
| **Year ended 31 December 2019** | | | | | |
| *Chairman:* | | | | | |
| Mr. Ye Zhijie | — | 137 | — | 13 | 150 |
| *Executive directors:* | | | | | |
| Mr. Huang Wengui | — | 112 | — | 11 | 123 |
| Mr. Qiu Limiao | — | 155 | — | 13 | 168 |
| Mr. Ye Dan | — | 188 | — | 21 | 209 |
| Mr. Huang Kaining | — | 71 | — | 15 | 86 |
| | — | 663 | — | 73 | 736 |

| Name of Directors | Fees | Salaries | Discretionary bonus | Contribution to pension plan | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Ten months ended 31 October 2020** | | | | | |
| *Chairman:* | | | | | |
| Mr. Ye Zhijie | — | 286 | — | 1 | 287 |
| *Executive directors:* | | | | | |
| Mr. Huang Wengui | — | 191 | — | 1 | 192 |
| Mr. Qiu Limiao | — | 128 | — | 1 | 129 |
| Mr. Ye Dan | — | 194 | — | 2 | 196 |
| Mr. Huang Kaining | — | 95 | — | 1 | 96 |
| | — | 894 | — | 6 | 900 |
| **Ten months ended 31 October 2019 (Unaudited)** | | | | | |
| *Chairman:* | | | | | |
| Mr. Ye Zhijie | — | 77 | — | 11 | 88 |
| *Executive directors:* | | | | | |
| Mr. Huang Wengui | — | 72 | — | 9 | 81 |
| Mr. Qiu Limiao | — | 128 | — | 11 | 139 |
| Mr. Ye Dan | — | 155 | — | 18 | 173 |
| Mr. Huang Kaining | — | 51 | — | 13 | 64 |
| | — | 483 | — | 62 | 545 |

(i) Mr. Ye Zhijie and Mr. Huang Wengui were appointed as the executive directors of the Company on 14 November 2018. Mr. Qiu Limiao, Mr. Ye Dan and Mr. Huang Kaining were appointed as the executive directors of the Company on 2 March 2020. The remuneration shown above represented remuneration received and receivable from the Group by these executive directors in their capacity as employees or/and directors of the companies now comprising the Group.

(ii) Ms. Wong Tuen Sau, Mr. Cai Huinong and Mr. Huang Youling were appointed as the Company's independent non-executive directors on 4 March 2021. During the years ended 31 December 2017, 2018 and 2019, and the ten months ended 31 October 2019 and 2020, the independent non-executive directors have not yet been appointed and did not receive directors' remuneration in the capacity of independent non-executive directors.

(iii) No emoluments have been paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office or no directors waived or agreed to waive any emoluments during the years ended 31 December 2017, 2018 and 2019, and the ten months ended 31 October 2019 and 2020.

**(b) Directors' retirement and termination benefits**

There were no retirement and termination benefits paid to any director during the years ended 31 December 2017, 2018 and 2019, and the ten months ended 31 October 2019 and 2020.

**(c) Consideration provided to third parties for making available directors' services**

During the years ended 31 December 2017, 2018 and 2019, and the ten months ended 31 October 2019 and 2020, no consideration to third parties for making available director's services.

**(d) Information about loans, quasi-loans and other dealings in favour of directors**

Save as disclosed in note 32, there were no loans, quasi-loans and other dealings entered into between the Group and the directors and in favour of the directors as at 31 December 2017, 2018 and 2019 and 31 October 2020, or at any time during the years ended 31 December 2017, 2018 and 2019, and ten months ended 31 October 2019 and 2020.

**(e) Directors' material interests in transactions, arrangements or contracts**

Other than those disclosed in note 32, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted as at 31 December 2017, 2018 and 2019 and 31 October 2020 or at any time during the years ended 31 December 2017, 2018 and 2019, the ten months ended 31 October 2019 and 2020.

## 34 INTERESTS IN A SUBSIDIARY — THE COMPANY

| | As at 31 December | | As at 31 October |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 |
| Investment in a subsidiary — at cost | — | — | — |
| Long term receivable from the subsidiary | — | 91,014 | 91,014 |
| | — | 91,014 | 91,014 |

The amount of investment in a subsidiary represented the aggregate net asset value of the Operating Subsidiaries acquired pursuant to the Reorganisation (note 1.2.2).

The list of subsidiaries of the Company is set out in note 1.2.

## 35 CONTINGENCIES

As at 31 December 2017, 2018 and 2019 and 31 October 2020, there were no significant contingencies for the Group and the Company.

## 36 EVENTS AFTER THE BALANCE SHEET DATE

Save as disclosed elsewhere in the report, the Group has the following subsequent events after the balance sheet date:

(i) On 4 March 2021, each ordinary share of the Company was sub-divided into 100 shares of HK$0.01 each. Following the sub-division of ordinary shares, the number of issued shares of the Company was increased from 10,000 shares to 1,000,000 shares.

(ii) Pursuant to the resolutions passed by the shareholders' meeting on 4 March 2021, and conditional upon the Listing, the authorised shares of the Company has been increased to 3,000,000,000 shares of HKD0.01 par value each. An aggregate of 560,000,000 ordinary shares will be issued and allotted to the shareholders whose names appear on the register of members of the Company as of the date of these resolutions and 187,000,000 shares will be issued upon Share Offer in relation to the listing on the condition of being approved for listing and permitted to deal.

## III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 October 2020 and up to the date of this report. Saved as disclosed in this report in note 13, no dividend or distribution has been declared or, made by the Company or any of the subsidiaries now comprising the Group in respect of any period subsequent to 31 October 2020.

*The following information does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, the reporting accountant of the Company, as set forth in Appendix I to this prospectus, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section entitled "Financial Information" in this prospectus and the "Accountant's Report" set forth in Appendix I to this prospectus.*

## A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Share Offer on the net tangible assets of the Group attributable to the owners of the Company as of 31 October 2020 as if the Share Offer had taken place on 31 October 2020.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at 31 October 2020 or at any future dates following the Share Offer.

| | Audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 October 2020 | Estimated net proceeds from the Share Offer | Unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of the Company as at 31 October 2020 | Unaudited pro forma adjusted consolidated net tangible assets per Share | |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB | HK$ |
| | *(Note 1)* | *(Note 2)* | | *(Note 3)* | *(Note 4)* |
| Based on the Offer Price of HK$1.50 per Offer Share | 147,127 | 231,614 | 378,741 | 0.51 | 0.56 |

*Notes:*

(1) The audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 October 2020 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group as at 31 October 2020 of approximately RMB147,319,000, after deducting the Group's intangible assets of approximately RMB192,000 as at 31 October 2020.

(2) The estimated net proceeds from the Share Offer are based on 187,000,000 Offer Shares and the indicative Offer Price of HK$1.50 per Offer Share, after deduction of the underwriting fees and other related expenses (excluding listing expense of approximately RMB6,512,000 and RMB5,662,000 which have been accounted for in the consolidated statements of comprehensive income for the year ended 31 December 2019 and the ten months ended 31 October 2020), respectively.

(3) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 748,000,000 Shares were in issue assuming that the Share Offer and the Capitalisation Issue have been completed on 31 October 2020 without taking into account of Shares which may be issued and allotted or repurchased by the Company under the general mandates for the issue and allotment or repurchase of Shares granted to the Directors as described in the section headed "Share Capital" in this prospectus.

(4) For the purpose of the unaudited pro forma statement of adjusted net tangible assets, the translation of Renminbi amounts into Hong Kong dollars was at rate of RMB1 to HK$1.10. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that date.

(5) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to 31 October 2020.

## B. REPORT FROM THE REPORTING ACCOUNTANT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

*The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.*

pwc 羅兵咸永道

## INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Zhixin Group Holding Limited 智欣集團控股有限公司

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Zhixin Group Holding Limited 智欣集團控股有限公司 (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 31 October 2020, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-2 of the Company's prospectus dated 16 March 2021, in connection with the proposed public offer and placing of the shares of the Company (the "Share Offer"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed Share Offer on the Group's financial position as at 31 October 2020 as if the proposed Share Offer had taken place at 31 October 2020. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial information for the period ended 31 October 2020, on which an accountant's report has been published.

**Directors' Responsibility for the Unaudited Pro Forma Financial Information**

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

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Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountant's Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed Share Offer at 31 October 2020 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**PricewaterhouseCoopers**
*Certified Public Accountants*
Hong Kong, 16 March 2021

*The following is the preliminary financial information of our Group as at and for the year ended 31 December 2020 (the "**2020 Preliminary Financial Information**"), together with comparative financial information as at and for the year ended 31 December 2019 and a management's discussion and analysis of our Group's financial condition and results of operations between the two periods. The preliminary financial information has been prepared based on the unaudited consolidated financial statements of the Group prepared in accordance with HKFRSs. The 2020 Preliminary Financial Information was not audited. Investors should bear in mind that the 2020 Preliminary Financial Information in this appendix may be subject to adjustments.*

## A. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | | Year ended 31 December | |
|---|---|---|---|
| | | **2019** | **2020** |
| | *Note* | **RMB'000** | **RMB'000 (Unaudited)** |
| Revenue | *3* | 590,797 | 784,902 |
| Cost of sales | *3, 6* | (476,420) | (632,397) |
| **Gross profit** | | 114,377 | 152,505 |
| Other income | *4* | 3,693 | 4,945 |
| Other (losses)/gains — net | *5* | (1,572) | 171 |
| Selling expenses | *6* | (13,699) | (22,033) |
| Administrative expenses | *6* | (28,188) | (30,242) |
| Net impairment losses on financial assets | | (1,431) | 239 |
| Listing expenses | *6* | (6,512) | (6,379) |
| **Operating profit** | | 66,668 | 99,206 |
| Finance income | | 105 | 82 |
| Finance costs | | (8,836) | (13,667) |
| **Finance costs — net** | | (8,731) | (13,585) |
| **Profit before income tax** | | 57,937 | 85,621 |
| Income tax expense | *7* | (16,115) | (22,998) |
| **Profit and total comprehensive income for the year, all attributable to owners of the Company** | | 41,822 | 62,623 |
| **Earnings per share for profit attributable to owners of the Company** | | | |
| Basic earnings per share (RMB) | *8* | 41.82 | 62.62 |
| Diluted earnings per share (RMB) | *8* | 41.82 | 62.62 |

## B. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | As at 31 December 2019 RMB'000 | As at 31 December 2020 RMB'000 (Unaudited) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | 140,431 | 144,111 |
| Right-of-use assets | | 41,057 | 39,663 |
| Investment properties | | 10,554 | 10,045 |
| Intangible assets | | 213 | 187 |
| Trade receivables | *9* | 17,343 | 17,886 |
| Deferred income tax assets | | 1,535 | 1,583 |
| | | 211,133 | 213,475 |
| **Current assets** | | | |
| Inventories | | 27,825 | 50,432 |
| Trade receivables | *9* | 400,446 | 493,454 |
| Prepayments, deposits and other receivables | | 15,382 | 15,767 |
| Restricted bank balance | | 4,710 | 4,710 |
| Cash and bank balances | | 16,144 | 30,485 |
| | | 464,507 | 594,848 |
| **Total assets** | | 675,640 | 808,323 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | | 9 | 9 |
| Other reserves | | 105,642 | 112,371 |
| (Accumulated losses)/Retained earnings | | (1,305) | 54,589 |
| | | 104,346 | 166,969 |
| **Total equity** | | 104,346 | 166,969 |

## B. CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

| | | As at 31 December | |
|---|---|---|---|
| | | 2019 | 2020 |
| | *Note* | RMB'000 | RMB'000 (Unaudited) |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | *11* | 68,790 | 68,790 |
| Lease liabilities | | 12,406 | 10,351 |
| Amounts due to related parties | | 26,283 | 26,876 |
| Deferred income | | 1,682 | 2,402 |
| | | 109,161 | 108,419 |
| **Current liabilities** | | | |
| Trade and bills payables | *10* | 286,494 | 286,010 |
| Other payables and accruals | *10* | 31,435 | 58,673 |
| Amounts due to related parties | | — | 4,789 |
| Current income tax liabilities | | 4,149 | 16,514 |
| Borrowings | *11* | 122,000 | 159,500 |
| Contract liabilities | | 12,360 | 643 |
| Lease liabilities | | 5,695 | 6,806 |
| | | 462,133 | 532,935 |
| **Total liabilities** | | 571,294 | 641,354 |
| **Total equity and liabilities** | | 675,640 | 808,323 |
| **Net current assets** | | 2,374 | 61,913 |
| **Total assets less current liabilities** | | 213,507 | 275,388 |

## NOTES TO THE 2020 PRELIMINARY FINANCIAL INFORMATION

### 1 BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The 2020 Preliminary Financial Information of our Group has been prepared in accordance with the Hong Kong Financial Reporting Standards ("**HKFRSs**") and the applicable disclosure required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**"). The accounting policies used in the preparation of the 2020 Preliminary Financial Information are consistent with those used in Accountant's Report as set out in Note 2 in "Appendix I — Accountant's Report".

The 2020 Preliminary Financial Information has been prepared under the historical cost convention. The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. For details on the areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the 2020 Preliminary Financial Information, please see Note 4 in "Appendix I — Accountant's Report".

### 2 IMPACT OF ISSUED BUT NOT EFFECTIVE HKFRSs

The following new standards and amendments to existing standards have been issued but are not yet effective and have not been early adopted by the Group.

| **Standards and amendments** | **Effective for annual periods beginning on or after** |
|---|---|
| HKFRS 10 (Amendment) and HKAS 28 (Amendment) "Sale or contribution of assets between an investor and its associate or joint venture" | To be determined |
| HKFRS 9 (Amendment), HKAS 39 (Amendment), HKFRS 7 (Amendment), HKFRS 4 (Amendment) and HKFRS 16 (Amendment) "interest rate reform — phase 2" | 1 January 2021 |
| HKAS 16 (Amendment) "Property, plant and equipment — proceeds before intended use" | 1 January 2022 |
| HKAS 37 (Amendment) "Onerous contracts — cost of fulfilling a contract" | 1 January 2022 |
| HKFRS 3 (Amendment) "Reference to the conceptual Framework" | 1 January 2022 |
| Annual Improvements to HKFRS Standards 2018–2020 | 1 January 2022 |
| HKAS 1 (Amendment) "Classification of liabilities as current or non-current" | 1 January 2023 |
| HKFRS 17 "Insurance contracts" | 1 January 2023 |
| AG 5 (revised) 'Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations' | 1 January 2022 |
| HK Int 5 (2020) 'Hong Kong Interpretation 5 (2020) Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause' | 1 January 2023 |

Management is currently assessing the effects of applying these new standards and amendments on the Group's consolidated financial information. None of these is expected to have a significant effect on the consolidated financial information of the Group. The Group does not expect to adopt these new standards and amendments until their effective dates.

### 3 SEGMENT INFORMATION

The Company's executive directors are the Group's chief operating decision maker. The Group's chief operating decision maker examines the Group's performance from a product perspective and has identified two operating segments of its business as follows:

(i) Ready-mixed concrete, and

(ii) Pre-cast components.

The Group derived its revenue mainly from the transfer of goods at point in time during the years ended 31 December 2019 and 2020.

| | Year ended 31 December 2019 | | |
|---|---|---|---|
| | Ready-mixed concrete | Pre-cast components | Total |
| | RMB'000 | RMB'000 | RMB'000 |
| Revenue | 446,832 | 143,965 | 590,797 |
| Cost of sales | (373,977) | (102,443) | (476,420) |
| Gross profit | 72,855 | 41,522 | 114,377 |
| Selling expenses | (7,845) | (5,854) | (13,699) |
| Administrative expenses | (15,763) | (11,129) | (26,892) |
| Segment results | 49,247 | 24,539 | 73,786 |

A reconciliation of results of reportable segments to profit for the year is as follows:

| | |
|---|---|
| Results of reportable segments | 73,786 |
| Unallocated costs and expenses | (9,239) |
| Other income | 3,693 |
| Other losses- net | (1,572) |
| Finance income | 105 |
| Finance costs | (8,836) |
| Profit before income tax | 57,937 |
| Income tax expense | (16,115) |
| Profit and total comprehensive income for the year | 41,822 |

| | Ready-mixed concrete | Pre-cast components | Total |
|---|---|---|---|
| **Other items for the year ended 31 December 2019:** | | | |
| Additions to non-current assets (other than financial instruments and deferred income tax assets) | 4,806 | 35,630 | 40,436 |
| Depreciation | 6,594 | 12,018 | 18,612 |
| Amortisation | 26 | — | 26 |
| **As at 31 December 2019** | | | |
| Segment assets | 391,512 | 269,932 | 661,444 |
| Unallocated assets | | | 14,196 |
| Total assets | | | 675,640 |
| Segment liabilities | 254,271 | 95,433 | 349,704 |
| Unallocated liabilities | | | 221,590 |
| Total liabilities | | | 571,294 |

| | Year ended 31 December 2020 | | |
|---|---|---|---|
| | Ready-mixed concrete | Pre-cast components | Total |
| | RMB'000 | RMB'000 | RMB'000 |
| **(Unaudited)** | | | |
| Revenue | 537,441 | 247,461 | 784,902 |
| Cost of sales | (453,231) | (179,166) | (632,397) |
| Gross profit | 84,210 | 68,295 | 152,505 |
| Selling expenses | (5,391) | (16,642) | (22,033) |
| Administrative expenses | (13,416) | (12,738) | (26,154) |
| Segment results | 65,403 | 38,915 | 104,318 |

A reconciliation of results of reportable segments to profit for the year is as follows:

| | |
|---|---|
| Results of reportable segments | 104,318 |
| Unallocated costs and expenses | (10,228) |
| Other income | 4,945 |
| Other gains- net | 171 |
| Finance income | 82 |
| Finance costs | (13,667) |
| Profit before income tax | 85,621 |
| Income tax expense | (22,998) |
| Profit and total comprehensive income for the year | 62,623 |

| | Ready-mixed concrete | Pre-cast components | Total |
|---|---|---|---|
| **Other items for the year ended 31 December 2020:** | | | |
| **(Unaudited)** | | | |
| Additions to non-current assets (other than financial instruments and deferred income tax assets) | 11,356 | 13,079 | 24,435 |
| Depreciation | 5,688 | 15,776 | 21,464 |
| Amortisation | 26 | — | 26 |
| **As at 31 December 2020** | | | |
| **(Unaudited)** | | | |
| Segment assets | 404,787 | 387,980 | 792,767 |
| Unallocated assets | | | 15,556 |
| Total assets | | | 808,323 |
| Segment liabilities | 221,298 | 143,570 | 364,868 |
| Unallocated liabilities | | | 276,486 |
| Total liabilities | | | 641,354 |

## 4 OTHER INCOME

| | Year ended 31 December | |
|---|---|---|
| | 2019 | 2020 |
| | RMB'000 | RMB'000 (Unaudited) |
| Government grants | | |
| — Received and recognised during the year | 1,102 | 2,388 |
| — Recognised from deferred income | 168 | 230 |
| Rental income | 1,661 | 1,852 |
| Others | 762 | 475 |
| | 3,693 | 4,945 |

## 5 OTHER (LOSSES)/GAINS — NET

| | Year ended 31 December | |
|---|---|---|
| | 2019 | 2020 |
| | RMB'000 | RMB'000 (Unaudited) |
| Losses on disposal of property, plant and equipment | (1,443) | (27) |
| Net foreign exchange (losses)/gains from operating activities | (129) | 198 |
| | (1,572) | 171 |

## 6 EXPENSES BY NATURE

The expenses charged to cost of sales, selling expenses, listing expenses and administrative expenses are analysed below:

| | Year ended 31 December | |
|---|---|---|
| | 2019 | 2020 |
| | RMB'000 | RMB'000 (Unaudited) |
| Raw materials and consumables used | 386,605 | 483,077 |
| Changes in inventories of finished goods and work in progress | (11,104) | (21,822) |
| Employee benefit expenses | 54,598 | 64,571 |
| Outsourcing service expense | 14,689 | 52,096 |
| Transportation expenses | 22,418 | 39,488 |
| Depreciation of property, plant and equipment | 14,477 | 15,186 |
| Depreciation of right-of-use assets | 3,701 | 5,769 |
| Depreciation of investment properties | 434 | 509 |
| Amortisation of intangible assets | 26 | 26 |
| Repair and maintenance expense | 1,973 | 3,360 |
| Electricity and water expenses | 6,546 | 7,511 |
| Short-term leases rental expenses | 4,734 | 11,225 |
| Other taxes and levies | 2,927 | 4,829 |
| Insurance expense | 1,783 | 1,573 |
| Detection expense | 1,751 | 1,987 |
| Provision for impairment of inventories | 765 | 1,371 |
| Listing expenses | 6,512 | 6,379 |
| Auditors' remuneration | 107 | 64 |
| Others | 11,877 | 13,852 |
| Total | 524,819 | 691,051 |

## 7 INCOME TAX EXPENSE

| | Year ended 31 December | |
|---|---|---|
| | 2019 | 2020 |
| | RMB'000 | RMB'000 (Unaudited) |
| Current income tax | | |
| — PRC income tax | 10,133 | 23,046 |
| Deferred income tax | 5,982 | (48) |
| Income tax expense | 16,115 | 22,998 |

### (i) Cayman Islands profits tax

The Company is an exempted company incorporated in the Cayman Islands and is not liable for taxation in the Cayman Islands.

**(ii) BVI profits tax**

The Group's subsidiary incorporated in the BVI is exempted company and is not liable for taxation in the BVI.

**(iii) Hong Kong profits tax**

Hong Kong profits tax considered at the rate of 16.5% on the estimated assessable profits. The Group did not have assessable profits in Hong Kong during the years ended 31 December 2019 and 2020.

**(iv) PRC corporate income tax ("CIT")**

Taxation on PRC income has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the PRC in which the Group operates. The Company's subsidiaries incorporated in PRC are subject to CIT at the rate of 25% during the years ended 31 December 2019 and 2020.

**(v) PRC withholding income tax**

According to the CIT Law, a 10% withholding tax on dividends received/receivable will be levied on the PRC companies' immediate holding companies established out of the PRC. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding companies and simultaneously certain conditions are satisfied. During the years ended 31 December 2019 and 2020, no PRC withholding income tax has been provided since the parent entities are able to control the timing of distributions from their subsidiaries and are not expected to distribute these profits in the near future.

As at 31 December 2020, deferred income tax liabilities of RMB7,172,000 (2019: RMB5,890,000) have not been recognised for the withholding tax that would be payable on unremitted earnings of PRC subsidiaries of the Group amounting to RMB71,716,000 (2019: RMB58,898,000). The Group does not have the intention to distribute the respective unremitted profits in the foreseeable future.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate applicable to profits of the consolidated entities is as follows:

| | Year ended 31 December | |
|---|---|---|
| | 2019 | 2020 |
| | RMB'000 | RMB'000 (Unaudited) |
| Profit before income tax | 57,937 | 85,621 |
| Tax calculated at the applicable statutory tax rates in the respective regions | 15,714 | 22,617 |
| Adjustment for tax effect of: | | |
| — Expenses not deductible for tax purpose | 401 | 381 |
| Income tax expense | 16,115 | 22,998 |

## 8 BASIC AND DILUTED EARNINGS PER SHARE

### (i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the respective year. The weighted average number of ordinary shares used for such purpose has been retrospectively adjusted for the effect of the issuance of 10,000 shares of the Company in connection with the Reorganisation completed on 27 September 2019 and sub-division of shares on 4 March 2021 where each ordinary share was sub-divided into 100 ordinary shares deemed to have been in issue since 1 January 2017.

| | Year ended 31 December | |
|---|---|---|
| | **2019** | **2020** |
| | | **(Unaudited)** |
| Profit attributable to owners of the Company (RMB'000) | 41,822 | 62,623 |
| Weighted average number of ordinary shares in issue | 1,000,000 | 1,000,000 |
| Basic earnings per share (RMB)* | 41.82 | 62.62 |

**Note:* The earnings per share presented above have not taken into account the potential capitalisation issue. On 4 March 2021, the Company's directors conditionally resolved to approve the capitalisation issue of 560,000,000 shares to the existing shareholders of the Company upon the Listing. The Company's basic and diluted earnings per share will be RMB0.08 per share and RMB0.11 per share for the years ended 31 December 2019 and 2020, respectively, assuming the completion of such capitalisation issue, which has not become effective as at the date of this prospectus, be taken place since 1 January 2019.

### (ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all potentially dilutive ordinary shares.

Diluted earnings per share presented is the same as the basic earnings per share as there was no potentially dilutive ordinary share outstanding as at 31 December 2019 and 2020.

## 9 TRADE RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | As at 31 December | |
|---|---|---|
| | 2019 | 2020 |
| | RMB'000 | RMB'000 (Unaudited) |
| **Trade receivables (a)** | | |
| Current: | | |
| Trade receivables | 405,660 | 498,438 |
| Less: provision for impairment | (5,214) | (4,984) |
| | 400,446 | 493,454 |
| Non-current: | | |
| Retention receivables | 17,540 | 18,074 |
| Less: provision for impairment | (197) | (188) |
| | 17,343 | 17,886 |
| Total | 417,789 | 511,340 |
| **Prepayments, deposits and other receivables** | | |
| Prepayments for raw materials and operating expenses | 8,006 | 6,621 |
| Refundable deposits receivable | 3,048 | 3,783 |
| Prepayments for listing expenses | 2,046 | 3,831 |
| Other receivables | 2,282 | 1,532 |
| Total | 15,382 | 15,767 |
| Total | 433,171 | 527,107 |

### (a) Trade receivables

The Group is engaged in manufacturing and sale of concrete and precast building component products. The Group's customers are mainly construction companies for various types of construction projects including residential, commercial, industrial, municipal and infrastructure projects for the public and private sectors. The credit terms grant to customers are generally within 40 days.

Certain of the Group's sales receivables are required to be held back the settlement for up to 6 months after the completion of defects liability periods grant to the customers which normally last for 3 months to 24 months. The Group is responsible for remedial works, which may arise from the defective works or materials used and the related costs are usually immaterial. In the consolidated statements of financial position, retention receivables are presented as non-current assets.

#### (i) *Transferred receivables*

The carrying amounts of the trade receivables include receivables which are subject to a factoring arrangement. Under this arrangement, the Group has transferred the relevant receivables to the factor in exchange for cash and is prevented from selling or pledging the receivables. However, the Group has retained late payment and credit risk. The Group therefore continues to recognise the transferred assets in their entirety in its consolidated statement of financial position. The amount repayable under the factoring agreement is presented as secured borrowing. The Group considers that the held to collect business model remains appropriate for these receivables and hence continues measuring them at amortised cost.

The relevant carrying amounts were as follows:

| | As at 31 December | |
|---|---|---|
| | 2019 | 2020 |
| | RMB'000 | RMB'000 (Unaudited) |
| Transferred receivables associated with secured borrowing *(note 11)* | — | 1,000 |

**(ii)** ***Ageing analysis of trade receivables***

The ageing analysis of the trade receivables on demand and retention receivables as at the balance sheet dates based on invoice date was as follows:

| | As at 31 December | |
|---|---|---|
| | 2019 | 2020 |
| | RMB'000 | RMB'000 (Unaudited) |
| Within 1 year | 373,339 | 422,912 |
| 1 and 2 years | 41,106 | 81,685 |
| 2 and 3 years | 7,229 | 9,012 |
| Over 3 years | 1,526 | 2,903 |
| | 423,200 | 516,512 |

**(iii)** ***Impairment of trade receivables***

The Group applies the simplified approach to provide for expected credit loss, which was a lifetime expected loss allowance for all trade receivables and retention receivables as prescribed by HKFRS 9.

The movements in provision for impairment of trade receivables were as follows:

| | Year ended 31 December | |
|---|---|---|
| | 2019 | 2020 |
| | RMB'000 | RMB'000 (Unaudited) |
| As at 1 January | 3,980 | 5,411 |
| Loss allowance recognised in profit or loss during the year | 1,431 | (239) |
| As at 31 December | 5,411 | 5,172 |

## 10 TRADE AND BILLS PAYABLES AND OTHER PAYABLES AND ACCRUALS

| | As at 31 December | |
|---|---|---|
| | **2019** | **2020** |
| | **RMB'000** | **RMB'000 (Unaudited)** |
| **Trade and bills payables** | | |
| Trade payables | | |
| — Related parties | 289 | — |
| — Third parties | 270,505 | 270,310 |
| | 270,794 | 270,310 |
| Bills payable | 15,700 | 15,700 |
| Total trade and bills payables | 286,494 | 286,010 |
| **Other payables and accruals** | | |
| Payables for purchase of property, plant and equipment | 6,283 | 9,224 |
| Employee benefits payables | 6,717 | 6,227 |
| Accrual for operating expenses | 7,418 | 19,996 |
| Interest payable | 670 | 690 |
| Other taxes payable excluding income tax liabilities | 6,791 | 18,106 |
| Payable for listing expenses | 1,302 | 2,019 |
| Others | 2,254 | 2,411 |
| Total other payables and accruals | 31,435 | 58,673 |
| | 317,929 | 344,683 |

The ageing analysis of trade and bills payables as at 31 December 2019 and 2020 based on invoice date was as follows:

| | As at 31 December | |
|---|---|---|
| | **2019** | **2020** |
| | **RMB'000** | **RMB'000 (Unaudited)** |
| Within 1 year | 285,915 | 285,106 |
| 1–2 years | 579 | 904 |
| | 286,494 | 286,010 |

The carrying amounts of trade and bills payables and other payables and accruals approximated their fair values as at the balance sheet dates due to their short-term nature.

## 11 BORROWINGS

| | As at 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2020 | | |
| | RMB'000 | | | RMB'000 (Unaudited) | | |
| | Current | Non-current | Total | Current | Non-current | Total |
| Bank borrowings (i) | | | | | | |
| — Secured | 104,000 | — | 104,000 | 141,500 | — | 141,500 |
| — Unsecured | 18,000 | — | 18,000 | 18,000 | — | 18,000 |
| | 122,000 | — | 122,000 | 159,500 | — | 159,500 |
| Entrusted loans from a third party (ii) | | | | | | |
| — Unsecured | — | 68,790 | 68,790 | — | 68,790 | 68,790 |
| Total borrowings | 122,000 | 68,790 | 190,790 | 159,500 | 68,790 | 228,290 |

### (i) Bank borrowings

The bank borrowings of the Group as at 31 December 2019 and 2020 were secured by the pledge of assets of the Group as set out below, corporate guarantees provided by two subsidiaries of the Group, and guarantees from Mr. Ye Zhijie, Mr. Huang Wengui and his spouse and one independent third party credit guarantee corporation.

| | As at 31 December | |
|---|---|---|
| | 2019 | 2020 |
| | RMB'000 | RMB'000 (Unaudited) |
| *Assets of the Group pledged as securities:* | | |
| — Property, plant and equipment | 45,751 | 45,533 |
| — Right-of-use assets | 22,361 | 21,740 |
| — Investment properties | 7,578 | 7,214 |
| — Transferred receivables | — | 1,000 |
| Total | 75,690 | 75,487 |

For the years ended 31 December 2019 and 2020, the weighted average effective interest rates on bank borrowings were 5.64% and 5.17% respectively.

The carrying amounts of the Group's bank loans were denominated in RMB.

### (ii) Entrusted loans from a third party

The Group obtained three two-year long-term loans totalling RMB68,790,000 from a third party through a bank in Xiamen, the PRC, for working capital purpose. The loans were unsecured, interest bearing at 5% per annum and will be due for repayment in October and December 2022.

**(iii) Repayment periods**

At 31 December 2019 and 2020, the Group's borrowings were repayable as follows:

| | As at 31 December | |
|---|---|---|
| | **2019** | **2020** |
| | **RMB'000** | **RMB'000 (Unaudited)** |
| Within 1 year | 122,000 | 159,500 |
| Between 1 and 2 years | 68,790 | 68,790 |
| | 190,790 | 228,290 |

**(iv) Undrawn financing facilities**

The Group had the following undrawn financing facilities:

| | As at 31 December | |
|---|---|---|
| | **2019** | **2020** |
| | **RMB'000** | **RMB'000 (Unaudited)** |
| Bank borrowings, at floating rates | | |
| — Expiring within 1 year | 50,000 | 140,510 |
| — Expiring between 1 and 2 years | 23,010 | — |
| | 73,010 | 140,510 |

## 12 COMMITMENTS

**(a) Capital commitments**

Significant capital expenditure commitments are set out below:

| | As at 31 December | |
|---|---|---|
| | **2019** | **2020** |
| | **RMB'000** | **RMB'000 (Unaudited)** |
| Contracted but not provided for: | | |
| — Property, plant and equipment | 246 | 383 |
| Share capital of a PRC incorporated subsidiary to be paid up | 32,975 | 32,975 |

**(b) Non-cancellable short-term operating leases**

| | As at 31 December | |
|---|---|---|
| | 2019 | 2020 |
| | RMB'000 | RMB'000 (Unaudited) |
| Warehouses | | |
| — Less than 1 year | 2,698 | 1,947 |

## 13 CONTINGENCIES

As at 31 December 2019 and 2020, there were no significant contingencies for the Group and the Company.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

We are a leading manufacturer and supplier of concrete-based building materials in Xiamen, Fujian Province of the PRC. Our principal products can be broadly categorised into two types, namely, (i) ready-mixed concrete and (ii) PC components. During the Track Record Period and up to the Latest Practicable Date, all of our Group's products were sold in the PRC with primary focus in Fujian Province.

Currently, our business operations are primarily based in Xiamen, where two of our wholly-owned production plants, namely the RMC Plant and the PC Plant, and a leased production workshop, namely the Jimei Workshop, are located. Our current aggregate annual production capacity for ready-mixed concrete and PC components is approximately 1,439,000 $m^3$ and 119,800 $m^3$, respectively. For the year ended 31 December 2020, approximately 78.5% of our revenue were derived from construction projects in Xiamen. Given transportation limitations and costs being important factors in making purchase decision for concrete-related products, the proximity of our production plants to customers and our truck fleet capabilities provide our Group with competitive advantage in terms of delivery time and logistics costs as compared to suppliers from further areas within Fujian Province.

For the year ended 31 December 2020, our Group's revenue amounted to approximately RMB784.9 million, representing an increase of approximately RMB194.1 million or 32.9% from approximately RMB590.8 million for the year ended 31 December 2019. We recorded an increase in our gross profit from approximately RMB114.4 million for the year ended 31 December 2019 to approximately RMB152.5 million for the year ended 31 December 2020, representing a year-on-year growth of approximately 33.3%. As a result, our profit for the year increased from approximately RMB41.8 million for the year ended 31 December 2019 to approximately RMB62.6 million for the year ended 31 December 2020. For the year ended 31 December 2020, our gross profit margin was approximately 19.4% and our net profit margin was approximately 8.0%, respectively.

### Future Plans and Prospects

Our primary objectives are to strengthen our leading market position in Fujian Province and continue to expand our scale of operations to achieve long-term sustainable business growth and increase our market share in the fast-growing PC component industry by pursuing the following strategies:

- Expansion of production capacity of PC components with greater production automation to achieve better production efficiency;
- Enhancing our information technology system;

- Further improve our environmental protection system;
- Truck fleet expansion and replacement strategy.

Except for the estimated non-recurring Listing expenses as disclosed in this prospectus, to the best of our Directors' knowledge, there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2020 and up to the date of this prospectus.

## RESULTS OF OPERATIONS

### Revenue

The Group derived its revenue from sales of (i) ready-mixed concrete and (ii) PC component products. For the year ended 31 December 2020, our revenue increased by approximately RMB194.1 million or 32.9% from approximately RMB590.8 million for the year ended 31 December 2019 to approximately RMB784.9 million for the year ended 31 December 2020.

*Ready-mixed concrete*

Our revenue derived from sale of ready-mixed concrete increased from approximately RMB446.8 million for they year ended 31 December 2019 to approximately RMB537.4 million for the year ended 31 December 2020, which was mainly due to (i) the overall increase in sales volume of ready-mixed concrete; and (ii) the overall increase in average selling price of our ready-mixed concrete products mainly attributable to our ability to negotiate favorable pricing terms with our customers.

*PC components*

Our revenue derived from sale of PC components increased from approximately RMB144.0 million for the year ended 31 December 2019 to approximately RMB247.5 million for the year ended 31 December 2020, which was attributable to the combined effects of (i) increase in revenue from sale of other construction components by approximately RMB145.8 million mainly due to increase in sales volume and average selling price of other construction components; and (ii) decrease in revenue from sales of tunnel segments by approximately RMB42.4 million as our tunnel segment projects on hand were close to their completion.

### Cost of sales

Our cost of sales increased by approximately RMB156.0 million or 32.7% from approximately RMB476.4 million for the year ended 31 December 2019 to approximately RMB632.4 million for the year ended 31 December 2020. Such increase was mainly attributable to the (i) increase in raw material cost by approximately RMB96.5 million mainly due to overall increase in sales volume of our ready-mixed concrete and PC components; and (ii) increase in outsourcing cost by approximately RMB37.6 million mainly due to increase in reliance on outsourced workers to supplement our production of PC components and on-site assembly works of our underground utility tunnel projects.

**Gross profit and gross profit margin**

Our Group's overall gross profit increased by approximately RMB38.1 million or 33.3% from approximately RMB114.4 million for the year ended 31 December 2019 to approximately RMB152.5 million for the year ended 31 December 2020. Our Group's overall gross profit margin remained stable at approximately 19.4% for the year ended 31 December 2020.

*Ready-mixed concrete*

The gross profit of our Group's ready-mixed concrete increased from approximately RMB72.9 million for the year ended 31 December 2019 to approximately RMB84.2 million for the year ended 31 December 2020. Such increase was primarily due to the foregoing reason for our revenue growth of ready-mixed concrete and the effect was partially offset by the decrease in gross profit margin from approximately 16.3% for the year ended 31 December 2019 to approximately 15.7% for the year ended 31 December 2020 mainly attributable to the change in product grade mix.

*PC components*

The gross profit of our Group's PC components increased from approximately RMB41.5 million for the year ended 31 December 2019 to approximately RMB68.3 million for the year ended 31 December 2020 primarily due to the foregoing reason for our revenue growth of PC components. Such increase was partially offset by the slight decrease of gross profit margin from approximately 28.8% for the year ended 31 December 2019 to approximately 27.6% for the year ended 31 December 2020, which was attributable to the change in product mix.

**Other income**

Our other income increased by approximately RMB1.3 million or 33.9% from RMB3.7 million for the year ended 31 December 2019 to approximately RMB4.9 million for the year ended 31 December 2020 mainly due to the increase in non-recurring government grants and awards.

**Selling expenses**

Our selling expenses increased by approximately RMB8.3 million or 60.8% from RMB13.7 million for the year ended 31 December 2019 to approximately RMB22.0 million for the year ended 31 December 2020 primarily attributable to the increase in transportation costs mainly due to the increase in sales of PC components to projects outside of Xiamen.

**Administrative expenses**

Our administrative expenses increased by approximately RMB2.1 million or 7.3% from RMB28.2 million for the year ended 31 December 2019 to approximately RMB30.2 million for the year ended 31 December 2020. Such increase was mainly attributable to the increase in the (i) overall salary increment of our administrative staff; and (ii) increase in performance bonus paid to them, which is linked to our production volume.

**Finance costs — net**

Our finance costs — net increased by approximately RMB4.9 million or 55.6% from RMB8.7 million for the year ended 31 December 2019 to approximately RMB13.6 million for the year ended 31 December 2020 primarily due to (i) the additional bank borrowings of RMB37.5 million drawn during the year ended 31 December 2020; and (ii) three entrusted loans with total principals amounting to approximately RMB68.8 million obtained during the fourth quarter of 2019.

**Income tax expense**

Our income tax expense increased by approximately RMB6.9 million or 42.7% from RMB16.1 million for the year ended 31 December 2019 to approximately RMB23.0 million for the year ended 31 December 2020 as a result of the increase in taxable profit from our Group's operation in the PRC.

**Profit and total comprehensive income for the year**

Due to the factors of the foregoing, our profit and total comprehensive income increased from approximately RMB41.8 million for the year ended 31 December 2019 to approximately RMB62.6 million for the year ended 31 December 2020.

## DISCUSSION OF CERTAIN KEY BALANCE SHEET ITEMS

### Net current assets

The following table sets forth our current assets and current liabilities as at the dates indicated.

| | As at 31 December | |
|---|---|---|
| | 2019 | 2020 |
| | RMB'000 | RMB'000 (Unaudited) |
| **Current assets** | | |
| Inventories | 27,825 | 50,432 |
| Trade receivables | 400,446 | 493,454 |
| Prepayments, deposits and other receivables | 15,382 | 15,767 |
| Restricted bank balance | 4,710 | 4,710 |
| Cash and bank balances | 16,144 | 30,485 |
| | 464,507 | 594,848 |
| **Current liabilities** | | |
| Trade and bills payables | 286,494 | 286,010 |
| Other payables and accruals | 31,435 | 58,673 |
| Amounts due to related parties | — | 4,789 |
| Current income tax liabilities | 4,149 | 16,514 |
| Borrowings | 122,000 | 159,500 |
| Contract liabilities | 12,360 | 643 |
| Lease liabilities | 5,695 | 6,806 |
| | 462,133 | 532,935 |
| **Net current assets** | 2,374 | 61,913 |

### Inventories

Our inventories increased by approximately RMB22.6 million or 81.2% from approximately RMB27.8 million as at 31 December 2019 to approximately RMB50.4 million as at 31 December 2020 mainly attributable to the increase in finished goods of approximately RMB21.3 million as a higher inventory level of PC components was maintained to cope with the increasing demand of our PC components products.

### Trade receivables

The current portion of our trade receivables increased by approximately RMB93.0 million or 23.2% from approximately RMB400.4 million as at 31 December 2019 to approximately RMB493.5 million as at 31 December 2020. Such increase was mainly attributable to (i) our slower collection of trade receivables from February to May 2020 as a result of the COVID-19 outbreak; (ii) the increase in revenue generated during the fourth quarter from approximately RMB217.9 million during the fourth quarter of 2019 to approximately RMB262.7 million of revenue during the fourth quarter of 2020 and certain amount of which were not yet due for settlement; and (iii) the increase in trade receivables from our SOE customers, who generally have longer settlement periods, of approximately RMB47.2 million.

The following table sets out our turnover days of trade receivables for the relevant years indicated:

| | Year ended 31 December | |
|---|---|---|
| | 2019 | 2020 |
| | days | days |
| Trade receivables turnover days *(note)* | 223.3 | 216.0 |

*Note:* Trade receivables turnover days is calculated based on the average of beginning and ending trade receivables balance for the year divided by the sales for the year, and multiplying by the number of days in the year.

Our trade receivables turnover days decreased from approximately 223.3 days for the year ended 31 December 2019 to approximately 216.0 days for the year ended 31 December 2020 as a result of our Group's efforts to collect overdue trade receivables.

### Prepayments, deposits and other receivables

Our prepayments, deposits and other receivables remained at a similar level of approximately RMB15.4 million and RMB15.8 million as at 31 December 2019 and 2020 respectively, which was attributable to the combined effects of (i) increase in prepayments for Listing expenses of approximately RMB1.8 million; and (ii) decrease in prepayments for raw materials and operating expenses of approximately RMB1.4 million mainly due to the decrease in prepaid operating expenses in relation to labour outsourcing services.

### Trade and bills payables

Our trade and bills payable remained at a similar level of approximately RMB286.5 million and RMB286.0 million as at 31 December 2019 and 2020 respectively.

The following table sets out our turnover days of trade and bills payables for the relevant years indicated:

| | Year ended 31 December | |
|---|---|---|
| | 2019 | 2020 |
| | days | days |
| Trade and bills payables turnover days *(note)* | 205.0 | 165.2 |

*Note:* Trade and bills payables turnover days is calculated based on the average of beginning and ending trade and bills payables balance for the year divided by the cost of sales for the year, and multiplying by the number of days in the year.

Our trade and bills payables turnover days decreased from approximately 205.0 days for the year ended 31 December 2019 to approximately 165.2 days for the year ended 31 December 2020. Such decrease was in line with the improvement in our liquidity position and trade receivables turnover days for the year ended 31 December 2020.

**Other payables and accruals**

Our other payables and accruals increased by approximately RMB27.2 million or 86.6% from approximately RMB31.4 million as at 31 December 2019 to approximately RMB58.7 million as at 31 December 2020. The increase was primarily attributable to the (i) increase in accrual for operating expenses of approximately RMB12.6 million primarily in relation to labour outsourcing services; and (ii) increase in other taxes payable of approximately RMB11.3 million mainly due to increase in VAT payable.

## KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios for the relevant years indicated:

| | As at 31 December | |
|---|---|---|
| | 2019 | 2020 |
| Current ratio(Note 1) | 1.0 times | 1.1 times |
| Quick ratio(Note 2) | 0.9 times | 1.0 times |
| Gearing ratio(Note 3) | 208.0% | 152.8% |
| Debt to equity ratio(Note 4) | 192.6% | 134.6% |

| | Year ended 31 December | |
|---|---|---|
| | 2019 | 2020 |
| Return on equity(Note 5) | 40.1% | 37.5% |
| Return on assets(Note 6) | 6.2% | 7.7% |
| Net profit margin(Note 7) | 7.1% | 8.0% |
| Interest coverage ratio(Note 8) | 7.6 times | 7.3 times |

*Notes:*

(1) Current ratio is calculated based on total current assets divided by total current liabilities as at the relevant year end.

(2) Quick ratio represents current assets (net of inventories) divided by total current liabilities as at the relevant year end.

(3) Gearing ratio is calculated based on total debt (being (i) total borrowings and (ii) interest-bearing loans from Mr. Ye and Mr. Huang) divided by total equity as at the relevant year end and multiplied by 100%.

(4) Debt to equity ratio represents net debt (being total debt net of cash and cash equivalents) divided by total equity as at the relevant year end and multiplied by 100%.

(5) Return on equity is calculated by profit for the year divided by the total shareholders' equity as at the relevant year end and multiplied by 100%.

(6) Return on assets is calculated by profit for the year divided by the total assets as at the relevant year end and multiplied by 100%.

(7) Net profit margin is calculated by dividing profit for the year by revenue as at the relevant year end and multiplied by 100%.

(8) Interest coverage ratio is calculated by dividing operating profit for the year by net finance costs as at the relevant year end.

**Current ratio**

Our Group's current ratio remained stable at approximately 1.0 times and 1.1 times as at 31 December 2019 and 31 December 2020, respectively.

**Quick ratio**

As at 31 December 2019 and 31 December 2020, our Group's quick ratio were approximately 0.9 times and 1.0 times respectively. The trend in quick ratio was similar to that of the current ratio.

**Gearing ratio**

Our Group's gearing ratio decreased from approximately 208.0% as at 31 December 2019 to approximately 152.8% as at 31 December 2020 mainly due to the increase of our total equity of approximately RMB62.6 million as a result of accumulation of our profit for the year ended 31 December 2020.

**Debt to equity ratio**

Our Group's debt to equity ratio decreased from approximately 192.6% as at 31 December 2019 to approximately 134.6% as at 31 December 2020, primarily attributable to the same reasons for the decrease in gearing ratio mentioned above.

**Return on equity**

Our Group's return on equity decreased from approximately 40.1% for the year ended 31 December 2019 to approximately 37.5% for the year ended 31 December 2020, mainly attributable to our strengthened equity base as a result of accumulation of our net profit.

**Return on assets**

Our Group's return on assets increased from approximately 6.2% for the year ended 31 December 2019 to approximately 7.7% for the year ended 31 December 2020, mainly attributable to the increase in our net profit as a result of the reasons discussed in the section headed "Results of Operations" in this appendix.

**Net profit margin**

Our Group's net profit margin increased from approximately 7.1% for the year ended 31 December 2019 to approximately 8.0% for the year ended 31 December 2020, mainly attributable to the increase in our net profit as a result of the reasons discussed in the section headed "Results of Operations" in this appendix.

**Interest coverage ratio**

Our Group's interest coverage ratio remained stable at approximately 7.6 times and 7.3 times as at 31 December 2019 and 31 December 2020, respectively.

**INDEBTEDNESS**

The following table sets forth our indebtedness as at the dates indicated:

| | As at 31 December | |
|---|---|---|
| | 2019 | 2020 |
| | RMB'000 | RMB'000 (Unaudited) |
| **Current liabilities** | | |
| Borrowings | 122,000 | 159,500 |
| Lease liabilities | 5,695 | 6,806 |
| Amounts due to related parties | — | 4,789 |
| | 127,695 | 171,095 |
| **Non-current liabilities** | | |
| Borrowings | 68,790 | 68,790 |
| Lease liabilities | 12,406 | 10,351 |
| Amounts due to related parties | 26,283 | 26,876 |
| | 107,479 | 106,017 |
| | 235,174 | 277,112 |

As at 31 December 2020, we had (i) bank borrowings of approximately RMB159.5 million repayable within one year; (ii) three two-year entrusted loans from an Independent Third Party of approximately RMB68.8 million repayable between one and two years; (iii) amounts due to related parties of approximately RMB31.7 million, representing the outstanding balances of loans and interest from Mr. Ye and Mr. Huang of approximately RMB26.9 million and Listing expenses paid by Mr. Ye on behalf of our Group of approximately RMB4.8 million; and (iv) lease liabilities of approximately RMB17.2 million. As at 31 December 2020, we had unutilised banking facilities available to us of approximately RMB140.5 million.

Save as aforesaid or as otherwise disclosed herein, we did not have outstanding at the close of business on 31 December 2020, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

## QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Please refer to "Financial Information — Quantitative and Qualitative Analysis of Financial Risks" for further information.

## CODE ON CORPORATE GOVERNANCE PRACTICES

Since we were not yet listed on the Stock Exchange during the year ended 31 December 2020, the Corporate Governance Code as set out in Appendix 14 to the Listing Rules ("**Corporate Governance Code**") was not applicable to us during such period under review. After the Listing, we will comply with all the code provisions set forth in the Corporate Governance Code.

## REVIEW OF OUR PRELIMINARY FINANCIAL INFORMATION

We established an audit committee, which will come into operation with effect from the Listing, in compliance with the Corporate Governance Code. Each of the proposed members of the audit committee will review the 2020 Preliminary Financial Information as set out in this appendix.

The unaudited financial information in respect of our consolidated statement of financial position as at 31 December 2020, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in the 2020 Preliminary Financial Information above has been agreed by the Reporting Accountant to the amounts set out in the Group's unaudited consolidated financial statements for the year ended 31 December 2020 following their work under Practice Note 730 "Guidance for Auditors Regarding Preliminary Announcements of Annual Results" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). The work performed by the Reporting Accountant in this respect did not constitute an assurance engagement performed in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by the Reporting Accountant on the 2020 Preliminary Financial Information.

## PURCHASE, SALES OR REDEMPTION OF OUR SHARES

Since we were not yet listed on the Stock Exchange in during the year ended 31 December 2020, this disclosure requirement is not applicable to us.

*The following is the text of letter, summary of valuation and valuation report, prepared for the purpose of incorporation in this prospectus, received from Grant Sherman Appraisal Limited, an independent property valuer, in connection with their valuation as at 31 December 2020 of the property interests held by the Group in the People's Republic of China.*

Grant Sherman

Unit 1005, 10/F., Capital Centre,
151 Gloucester Road,
Wanchai,
Hong Kong

16 March 2021

The Directors
Zhixin Group Holding Limited
Suite No. 2, 3/F,
Sino Plaza,
No. 255 Gloucester Road,
Causeway Bay,
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests held by Zhixin Group Holding Limited (the "Company") and its subsidiaries (together referred to as the "Group") in the People's Republic of China ("the PRC"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interests as at the 31 December 2020 ("Valuation Date") for the purpose of incorporation into the prospectus issued by the Company on the date hereof.

Market Value, in accordance with International Valuation Standard published by International Valuation Standard Council ("IVSC"), is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

Market Value is understood as the value of a property estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

In valuing the property interests nos. 1 and 2 in Group I, we have adopted a combination of the market and depreciated replacement cost approach in assessing the land portion of the property and the buildings and structures standing on the land respectively. Hence, the sum of the two results represents the market value of the property as a whole. In the valuation of the land portion, reference has been made to the standard land price in Xiamen City and the sales evidence as available to us in the locality. As the nature of the buildings and structures cannot be valued on the basis of market value, they have therefore been valued on the basis of their depreciated replacement costs. The depreciated replacement cost approach considers the current cost of replacement (reproduction) of the buildings and improvements less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. The depreciated replacement cost approach generally furnishes the most reliable indication of value for property in the absence of a known market based on comparables sales.

In valuing the property interests no. 3 in Group II, we have adopted the market approach, reference has been made to the sales evidence as available to us in the locality.

In valuing the property interest no. 4 in Group II, we have adopted the income approach by taking into account the current rent passing of the property interests and the reversionary potential of the tenancy(ies). In determining the reversionary potential of the tenancy(ies), we have adopted the market approach with reference to the recent proposed leasing and sale transactions for similar premises in the proximity.

Our valuation has been made on the assumption that the owner sells the property interests on the open market in its existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property interests. In addition, no forced sale situation in any manner is assumed in our valuation.

We have been provided with copies of extracts of title documents relating to the properties in the PRC. However, we have not caused title searches to be made for the property interest sat the relevant government bureaus in the PRC and we have not inspected the original documents to verify the ownership, encumbrances or the existence of any subsequent amendments which may not appear on the copies handed to us. In undertaking our valuation for the property interests in the PRC, we have relied on the legal opinion ("the PRC legal opinion") provided by the Group's PRC legal adviser, Jingtian & Gongcheng.

We have relied to a considerable extent on information provided by the Group and have accepted advice given to us by the Group on such matters as planning approvals or statutory notices, easements, tenure, occupancy, lettings, site and floor areas and in the identification of the properties and other relevant matter. We have no reason to doubt the truth and accuracy of the information provided to us by the Company which is material to the valuation. We have also been advised by the Group that no material facts had been concealed or omitted in the information provided to us and have no reason to suspect that any material information has been withheld. All documents have been used for reference only. We consider that we have been provided with sufficient information to reach an informed view.

All dimensions, measurements and areas included in the valuation report are based on information contained in the documents provided to us by the Group and are approximations only. No on-site measurement has been taken.

We have inspected the exteriors, and where possible, the interiors of the properties, in the course of our inspection, we did not note any serious defects. However, we have not carried out a structural survey nor have we inspected woodwork or other parts of the structures which are covered, unexposed or inaccessible and we are therefore unable to report that any such parts of the properties are free from defect though in the course of our inspections we did not note any serious defects. No tests were carried out on any of the services.

We have not carried out investigation to determine the suitability of the ground conditions or the services for any property developments to be erected thereon. Our valuation is on the basis that these aspects are satisfactory and that no extraordinary expense or delay will be incurred during the construction period. Moreover, it is assumed that the utilization of the land and improvements will be within the boundaries of the sites held by the owner or permitted to be occupied by the owner. In addition, we assumed that no encroachment or trespass exits, unless noted in the valuation report.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

In valuing the property interest, our valuation has been prepared in accordance with the RICS Valuation — Global Standards published by the Royal Institution of Chartered Surveyors ("RICS") and the International Valuation Standards published by IVSC and the requirements set out in Chapter 5 of and Practice Note 12 to the Rule Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited.

Unless otherwise stated, all money amounts stated are in Renminbi ("RMB"). The exchange rate adopted in valuing the property interests in the PRC as at the Valuation Date was HK$1: RMB0.8418. There has been no significant fluctuation in the exchange rate for this currency against Hong Kong Dollars between that date and the date of this letter.

The English transliteration of the Chinese name(s) in this valuation report, where indicated by an asterisk (*), is included for information purpose only, and should not be regarded as the official English name(s) of such Chinese name(s).

We enclose herewith our valuation report.

Respectfully submitted,
For and on behalf of
**GRANT SHERMAN APPRAISAL LIMITED**

**Victor W.K. Lam**
***MRICS, RICS Registered Valuer, CFA, FRM***
*Associate Director*
**Real Estate Group**

*Note:* Mr. Victor W.K. Lam is a member of the Royal Institution of Chartered Surveyors, a RICS Registered Valuer, a Chartered Financial Analyst, and a Financial Risk Manager who has been working in the financial industry since 2009. He is experienced in valuation of real estate, business equities, intangible assets and derivatives for various purposes.

## SUMMARY OF VALUATION

| | Property | Market Value in existing state as at 31 December 2020 | Interest attributable to the Group | Market Value in existing state attributable to the Group as at 31 December 2020 |
|---|---|---|---|---|
| **Group I — Property interests held by the Group in the PRC for self-occupation purpose** | | | | |
| 1. | Portion of the land and various buildings located at No. 55 Guan Kou Road, Guan Kou Town, Jimei District, Xiamen City, Fujian Province, The PRC (Adjacent to property no. 4) | RMB16,500,000 (equivalent to approximately HK$19,600,000) | 100% | RMB16,500,000 (equivalent to approximately HK$19,600,000) |
| 2. | The land and buildings located at No. 77 Hou Shan Tou Road, Jimei District, Xiamen City, Fujian Province, The PRC | RMB68,000,000 (equivalent to approximately HK$80,800,000) | 100% | RMB68,000,000 (equivalent to approximately HK$80,800,000) |
| | **Sub-total** | **RMB84,500,000 (equivalent to approximately HK$100,400,000)** | | **RMB84,500,000 (equivalent to approximately HK$100,400,000)** |
| **Group II — Property interests held by the Group in the PRC for investment purpose** | | | | |
| 3. | Shop No. D120 of Block 5, Wanda Plaza, No. 2 Jinjiang Avenue, Jiaomei Town, Zhangzhou Taiwan Merchant Investment Zone, Longhai City, Zhangzhou City, Fujian Province, The PRC | RMB3,000,000 (equivalent to approximately HK$3,600,000) | 100% | RMB3,000,000 (equivalent to approximately HK$3,600,000) |
| 4. | Portion of the land parcel and a building located at No.55 Guan Kou Road, Guan Kou Town, Jimei District, Xiamen City, Fujian Province, The PRC (Adjacent to Property no. 1) | RMB15,100,000 (equivalent to approximately HK$17,900,000) | 100% | RMB15,100,000 (equivalent to approximately HK$17,900,000) |
| | Sub-total | RMB18,100,000 (equivalent to approximately HK$21,500,000) | | RMB18,100,000 (equivalent to approximately HK$21,500,000) |
| | **Grand Total** | **RMB102,600,000 (equivalent to approximately HK$121,900,000)** | | **RMB102,600,000 (equivalent to approximately HK$121,900,000)** |

## VALUATION REPORT

### Group I — Property interests held by the Group in the PRC for self-occupation purpose

| Property | Description and Tenure | Particulars of Occupancy | Market Value in existing state as at 31 December 2020 |
|---|---|---|---|
| 1. Portion of the land and various buildings located at No. 55 Guan Kou Road, Jimei District, Xiamen City, Fujian Province, The PRC (Adjacent to property no. 4) | The property comprises portion of a parcel of land together with 7 single to 5-storey buildings and structures completed in between 2000s and 2010s erected thereon.<br><br>The site area and total gross floor area of the property are approximately 17,625.06 sq.m. and 5,347.11 sq.m. respectively.<br><br>The land use rights of the property were granted for a term expiring on 22 September 2044 for industrial use. | The property was occupied by the Group for industrial and ancillary uses as at the Valuation Date. | RMB16,500,000 (equivalent to approximately HK$19,600,000)<br><br>**Interest attributable to the Group**<br><br>100%<br><br>**Market Value in existing state attributable to the Group as at 31 December 2020**<br><br>RMB16,500,000 (equivalent to approximately HK$19,600,000) |

*Notes:*

1. Pursuant to a State-owned Land Use Rights Grant Contract (Document No.: 2008 Xia Guo Tu Fang Ji He Zi No. 001) entered into between the Jimei Division of Xiamen City State-owned Land Resources and Property Management Bureau (Party A) and Xiamen Zhixin Construction Material Group Limited* (廈門智欣建材集團有限公司) ("Zhixin Construction Material") (Party B) dated 9 January 2008, the land use rights of the property together with property no.4 with a total site area of approximately 36,411.743 sq.m. were granted from Party A to Party B for a term expiring on 22 September 2044 at a consideration of RMB9,216,722 for industrial use.

2. Pursuant to 7 Xiamen City Land and Building Ownership Certificates (Document Nos.: Xia Guo Tu Fang Zheng Nos. 01186521, 01186527, 01186531, 01186535, 01186539, 01186540 and 01186575), the land use rights of the property together with property no. 4 with a site area of 36,411.69 sq.m. were granted to Zhixin Construction Material for industrial use. In addition, the buildings of the property with a total gross floor area of approximately 5,347.11 sq.m. are vested in Zhixin Construction Material.

3. According to a Pledge Contract of Maximum Amount (Document No.: Xing Yin Xia Hu Bin Ye E Di Zi No, 2019003) dated 30 January 2019, the property together with property nos. 2 and 4 are subject to a pledge in favour of Xiamen Branch of Industrial Bank Company Limited (興業銀行股份有限公司廈門分行).

4. The property was inspected by our Mr. Lawrence Chan (MRICS, MHKIS, RPS(GP), MCIREA MHIREA, RICS Registered Valuer) on 27 May 2019, the external and internal conditions of the property were fair.

5. According to the information provided by the Group, Zhixin Construction Material is a wholly-owned subsidiary of the Company.

6. The property is situated at Guan Kou Road of Guan Kou Town, buildings in the locality are low rise village houses and industrial complexes. It takes about 30-minute driving distance to the Xiamen International Airport. Taxis and buses are accessible to the property.

7. The average unit rate of industrial land parcel in the locality as at the Valuation Date is in the range of RMB500 per sq.m. to RMB650 per sq.m.

8. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, Jingtian & Gongcheng, which contains, *inter alia*, the following information:

   (a) Zhixin Construction Material is the owner of the property and is entitled to occupy, use, yield, transfer, lease and pledge the property;

   (b) the property together with property nos. 2 and 4 are subject to a pledge in favour of Xiamen Branch of Industrial Bank Company Limited, transferal of the property is subject to the consent of the pledgee; and

   (c) The following legal documents were obtained:

      (i) Land and Building Ownership Certificates Yes

## VALUATION REPORT

| Property | Description and Tenure | Particulars of Occupancy | Market Value in existing state as at 31 December 2020 |
|---|---|---|---|
| 2. The land and buildings located at No.77 Hou Shan Tou Road, Jimei District, Xiamen City, Fujian Province, The PRC | The property comprises a parcel of land together with 5 single to 5-storey buildings and structures completed in about 2016 erected thereon.<br><br>The site area and total gross floor area of the property are approximately 52,221.82 sq.m. and 23,630.03 sq.m. respectively.<br><br>The land use rights of the property were granted for a term expiring on 13 November 2062 for industrial and warehouse uses. | The property was occupied by the Group for industrial and ancillary uses as at the Valuation Date. | RMB68,000,000 (equivalent to approximately HK$80,800,000)<br><br>**Interest attributable to the Group**<br><br>100%<br><br>**Market Value in existing state attributable to the Group as at 31 December 2020**<br><br>RMB68,000,000 (equivalent to approximately HK$80,800,000) |

*Notes:*

1. Pursuant to a State-owned Land Use Rights Grant Contract (Document No.: 35021120121113CG07) entered into between the Jimei Division of Xiamen City State-owned Land Resources and Property Management Bureau (Party A) and Xiamen Tangsong Mechanic Technology Company Limited (廈門唐松機器人科技有限公司) (subsequently known as Xiamen Zhixin Construction Technology Limited* (廈門智欣建工科技有限公司) ("Zhixin Construction Technology") (Party B) dated 13 November 2012, the land use rights of the property with a site area of approximately 52,221.818 sq.m. were granted from Party A to Party B for a term of 50 years commencing from 13 November 2012 and expiring on 13 November 2062 at a consideration of RMB17,546,531 for industrial and warehouse uses.

2. Pursuant to 5 Real Estate Ownership Certificates (Document Nos.: Min (2018) Xia Men Shi Bu Dong Chan Quan Nos. 0102683, 0102687, 0102685, 0102691 and 0102686), the buildings of the property with a total gross floor area of approximately 23,630.03 sq.m. are vested in Zhixin Construction Technology.

3. According to a Pledge Contract of Maximum Amount (Document No.: Xing Yin Xia Hu Bin Ye E Di Zi No, 2019003) dated 30 January 2019, the property together with property nos.1 and 4 are subject to a pledge in favour of Xiamen Branch of Industrial Bank Company Limited (興業銀行股份有限公司廈門分行).

4. The property was inspected by our Mr. Lawrence Chan (MRICS, MHKIS, RPS(GP), MCIREA MHIREA, RICS Registered Valuer) on 27 May 2019, the external and internal conditions of the property were fair.

5. According to the information provided by the Group, Zhixin Construction Technology is a wholly-owned subsidiary of the Company.

6. The property is situated at Hou Shan Tou Road, buildings in the locality are low rise village houses and industrial complexes. It takes about 30-minute driving distance to the Xiamen International Airport. Taxis and buses are accessible to the property.

7. The average unit rate of industrial land parcel in the locality as at the Valuation Date is in the range of RMB500 per sq.m. to RMB650 per sq.m.

8. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, Jingtian & Gongcheng, which contains, *inter alia*, the following information:

    (a) Zhixin Construction Technology is the owner of the property and is entitled to occupy, use, yield, transfer, lease and pledge the property;

    (b) the property together with property nos. 1 and 4 are subject to a pledge in favour of Xiamen Branch of Industrial Bank Company Limited, transferal of the property is subject to the consent of the pledgee; and

    (c) The following legal documents were obtained:

        (i) Real Estate Ownership Certificates Yes

## VALUATION REPORT

### Group II — Property interests held by the Group in the PRC for investment purpose

| | Property | Description and Tenure | Particulars of Occupancy | Market Value in existing state as at 31 December 2020 |
|---|---|---|---|---|
| 3. | Shop No. D120 of Block 5, Wanda Plaza, No. 2 Jinjiang Avenue, Jiaomei Town, Zhangzhou Taiwan Merchant Investment Zone, Longhai City, Zhangzhou City, Fujian Province, The PRC | The property comprises a duplex shop unit on Levels 1 and 2 of a 18-storey composite building completed in about 2010s.<br><br>The gross floor area of the property is approximately 154.42 sq.m.<br><br>The land use rights of the property were granted for a term expiring on 8 November 2053 for wholesale and retail uses. | The property was vacant as at the Valuation Date. | RMB3,000,000 (equivalent to approximately HK$3,600,000)<br><br>**Interest attributable to the Group**<br><br>100%<br><br>**Market Value in existing state attributable to the Group as at 31 December 2020**<br><br>RMB3,000,000 (equivalent to approximately HK$3,600,000) |

*Notes:*

1. Pursuant to a Commodity House Sale and Purchase Agreement (Document No.: 35068301000103201900 2206) entered into between Zhangzhou Taiwan Merchant Investment Zone Wanda Plaza Investment Limited* (漳州台商投資區萬達廣場投資有限公司) (the ''Vendor'') and Zhixin Construction Material (the ''Purchaser'') dated 23 May 2019, the ownership of the property with a gross floor area of approximately 154.42 sq.m. was transferred from the Vendor to the Purchaser at a consideration of RMB2,947,269.

2. Pursuant to a Real Estate Ownership Certificates (Document No.: Min (2019) Zhang Zhou Tai Shang Tou Zi Qu Bu Dong Chan Quan No. 0009133), the land use rights of the property were granted to Zhixin Construction Material for wholesale and retail uses. In addition, the building of the property with a total gross floor area of approximately 154.42 sq.m. is vested in Zhixin Construction Material.

3. The property was inspected by our Mr. Tony Wong (MSc) on 3 January 2020, the external and internal conditions of the property were reasonable.

4. According to the information provided by the Group, Zhixin Construction Material is a wholly-owned subsidiary of the Company.

5. The property is situated at the junction of Jinjiang Avenue and Jiaojiang Road of Jiaomei Town, buildings in the locality are low-rise village houses and medium to high-rise residential buildings. It takes about 40-minute driving distance to the Xiamen International Airport. Taxis and buses are accessible to the property.

6. The average unit rate of shop units on Level 1 in the locality as at the Valuation Date is in the range of RMB15,000 per sq.m. to RMB25,000 per sq.m..

7. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, Jingtian & Gongcheng, which contains, *inter alia*, the following information:

   (a) Zhixin Construction Material is the owner of the property and is entitled to occupy, use, yield, transfer, lease and pledge the property;

   (b) The following legal documents were obtained:

      (i) Real Estate Ownership Certificate Yes

## VALUATION REPORT

| Property | Description and Tenure | Particulars of Occupancy | Market Value in existing state as at 31 December 2020 |
|---|---|---|---|
| 4. Portion of the land parcel located at No.55 Guan Kou Road, Jimei District, Xiamen City, Fujian Province, The PRC (Adjacent to property no. 1) | The Property comprises a parcel of land together with a 6-storey office/laboratory composite building completed in 2000s erected thereon.<br><br>The total site area and gross floor area of the Property are approximately 18,786.63 sq.m. and 2,721.72 sq.m. respectively.<br><br>The land use rights of the property were granted for a term expiring on 22 September 2044 for industrial use. | The property was leased to an independent third party as at the Valuation Date. | RMB15,100,000 (equivalent to approximately HK$17,900,000)<br><br>**Interest attributable to the Group**<br><br>100%<br><br>**Market Value in existing state attributable to the Group as at 31 December 2020**<br><br>RMB15,100,000 (equivalent to approximately HK$17,900,000) |

*Notes:*

1. Pursuant to a State-owned Land Use Rights Grant Contract (Document No.:2008 Xia Guo Tu Fang Ji He Zi No. 001) entered into between the Jimei Division of Xiamen City State-owned Land Resources and Property Management Bureau (Party A) and Zhixin Construction Material (Party B) dated 9 January 2008, the land use rights of the property together with property no. 1 with a total site area of approximately 36,411.743 sq.m. were granted from Party A to Party B for a term expiring on 22 September 2044 at a consideration of RMB9,216,722 for industrial use.

2. Pursuant to a Xiamen City Land and Building Ownership Certificate (Document Nos.: Xia Guo Tu Fang Zheng No. 01186528), the land use rights of the property together with property no. 1 with a site area of 36,411.69 sq.m. were granted to Zhixin Construction Material for industrial use. In addition, the buildings of the property with a total gross floor area of approximately 2,721.72 sq.m. are vested in Zhixin Construction Material.

3. According to a land tenancy agreement and its supplementary agreement entered into between Zhixin Construction Material and China Railway 24th Bureau Co., Ltd Xiamen City Railway Line 1 Factory (中鐵二十四局集團有限公司廈門市軌道1號線管片廠) (the "Tenant"), the property was leased to the Tenant for a term of 6 years commencing from 1 January 2017 and expiring on 31 December 2022 at various annual rental exclusive of taxes, management fee and other operating outgoings. The details are as below:

| **Lease term(s)** | **Annual Rental (RMB) (Exclusive of taxes, management fee and other operating outgoings)** |
|---|---|
| 1 January 2017 to 31 December 2017 | 1,699,528 |
| 1 January 2018 to 31 December 2018 | 1,594,632 |
| 1 January 2019 to 31 December 2019 | 1,661,335 |
| 1 January 2020 to 31 December 2022 | 1,827,469 |

4. As confirmed by the Company, the Tenant is an independent third party, which is not connected with and is independent of, any of the directors, or any of their respective associates of the Group.

5. Apart from the buildings stated in Note 2, various buildings and structures are erected on the property. According to information provided by the Company, these buildings and structures were erected by the Tenant and hence, the buildings and structures are excluded in the scope of our valuation.

6. According to a Pledge Contract of Maximum Amount (Document No.: Xing Yin Xia Hu Bin Ye E Di Zi No, 2019003) dated 30 January 2019, the property together with property nos.1 and 2 are subject to a pledge in favour of Xiamen Branch of Industrial Bank Company Limited (興業銀行股份有限公司廈門分行).

7. The property was inspected by our Mr. Lawrence Chan (MRICS, MHKIS, RPS(GP), MCIREA MHIREA, RICS Registered Valuer) on 27 May 2019, the external and internal conditions of the property were fair.

8. According to the information provided by the Group, Zhixin Construction Material is a wholly-owned subsidiary of the Company.

9. The property is situated at Guan Kou Road of Guan Kou Town, buildings in the locality are low rise village houses and industrial complexes. It takes about 30-minute driving distance to the Xiamen International Airport. Taxis and buses are accessible to the property.

10. The average annual unit rent of industrial land parcel in the locality as at the Valuation Date is in the range of RMB25 per sq.m. to RMB50 per sq.m. while the average annual unit rent of industrial workshop in the locality as at the Valuation Date is in the range of RMB150 per sq.m. to RMB200 per sq.m..

11. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, Jingtian & Gongcheng, which contains, *inter alia*, the following information:

    (a) Zhixin Construction Material is the owner of the property and is entitled to occupy, use, yield, transfer, lease and pledge the property;

    (b) the property together with property nos. 1 and 2 are subject to a pledge in favour of Xiamen Branch of Industrial Bank Company Limited, transferal of the property is subject to the consent of the pledgee;

    (c) the tenancy agreement stated in Note 3 is legally binding; and

    (d) The following legal documents were obtained:

        (i) Land and Building Ownership Certificates Yes

Set out below is a summary of certain provisions of the memorandum and articles of association of the Company and of certain aspects of Cayman Islands company law.

## 1. MEMORANDUM OF ASSOCIATION

The Memorandum provides that our Company's objects are unrestricted. The objects of our Company are set out in Clause 3 of the memorandum of association which is available for inspection at the address and during the period specified in the paragraph headed "Documents available for inspection" specified in appendix VII to this prospectus. As an exempted company, our Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of our Company carried on outside the Cayman Islands.

## 2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 4 March 2021 and will take effect from the Listing Date. The following is a summary of certain provisions of the Articles.

### (a) Directors

(i) *Power to allot and issue shares*

Without prejudice to any special rights or restrictions for the time being attaching to any shares or any class of shares, any share may be issued upon such terms and conditions and with such preferred, deferred or other special rights, or such restrictions, whether as regards dividend, voting, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Directors may determine) and any preference shares may be issued on terms that they are liable to be redeemed upon the happening of a specified event or upon a given date and either at the option of the Company or at the option of the holder. The Directors may issue warrants to subscribe for any class of shares or securities of the Company on such terms as they may from time to time determine.

All unissued shares in the Company shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and generally on such terms they shall in their absolute discretion think fit, but so that no shares shall be issued at a discount.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries although the Directors may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or relevant statutes of the Cayman Islands to be exercised or done by the Company in general meeting.

(iii) *Compensation or payments for loss of office*

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) *Loans and the giving of security for loans to Directors*

Where the shares of the Company remain listed on the Stock Exchange or on a stock exchange in such other territory as the Directors may from time to time decide, the Company may not make, without the approval of, or ratification by, the Company in general meeting, any loans to, or provide any guarantee, indemnity or security in respect of any loan to a Director or any of his associates, provided that the Articles do not prohibit the granting of any loan or the provision of any guarantee, indemnity or security (i) to be applied for, or in respect of a liability incurred for any business of the Company, (ii) for the purchase by a Director (or the repayment of a loan for his purchase) of a residence where the amount of the loan, the liability under the guarantee or indemnity or the value of the security does not exceed 80 per cent. of the fair market value of such residence nor 5 per cent. of the consolidated net asset value of the Company as shown in its latest audited accounts; provided that any such loan is on normal commercial terms and is secured by a legal charge over the residence; or, (iii) of any amount to, or in respect of a liability of, a company in which the Company has an equity interest, and the amount of such loan, or the liability assumed by the Company under such guarantee, indemnity or security, does not exceed its proportional interest in such company.

(v) *Financial assistance to purchase shares of the Company or its holdings company*

There are no provisions in the Articles relating to the giving by the Company of financial assistance for the purchase, subscription or other acquisition of shares of the Company or of its holding company. The law on this area is summarised in paragraph 4(b) below.

(vi) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of an auditor) in conjunction with his office of Director for such period and upon such terms as the Directors may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) as the Directors may determine. A Director may be or become a director or other officer of, or be otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profit or other benefit received by him as a director or officer of or from his interest in such other company. The Directors may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as they think fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company. A Director shall not vote or be counted in the quorum on any resolution of the Directors concerning his own appointment or the appointment of any of his associates as the holder of any office or place of profit with the Company or any other company in which the Company is interested (including the arrangement or variation of the terms thereof, or the termination thereof).

Subject to the provisions of the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor will any contract with regard thereto or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. If to the knowledge of a Director, he or any of his associates, is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company, he must declare the nature of his or, as the case may be, his associate(s)' interest at the meeting of the Directors at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest or that of his associates then exists, or in any other case at the first meeting of the Directors after he knows that he or his associate(s) is or has become so interested.

Save as otherwise provided by the Articles, a Director may not vote (nor be counted in the quorum for the voting) on any resolution of the Directors approving any contract or arrangement in which he or any of his close associate(s) (as defined in the Articles) is to his knowledge materially interested, and if he does so his vote will not be counted, but this prohibition will not apply to any of the following matters, namely:

(aa) any contract or arrangement for the giving to the Director or his close associate(s) of any security or indemnity in respect of money lent by him or any of them or obligations undertaken by him for the benefit of the Company;

(bb) any contract or arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company or any company in which the Company has an interest for which the Director or his close associate(s) has himself/themselves guaranteed or secured in whole or in part;

(cc) any contract or arrangement by a Director or his close associate(s) to subscribe for shares or debentures or other securities of the Company to be issued pursuant to any offer or invitation to the members or debenture or other securities holders or to the public which does not provide the Director or his close associate(s) any privilege not accorded to any other members or debenture or other securities holders or to the public;

(dd) any contract or arrangement concerning an offer of the shares, debentures or other securities of or by the Company for subscription or purchase where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer and/or for the purposes of making any representations, the giving of any covenants, undertakings or warranties or assuming any other obligations in connection with such offer;

(ee) any contract or arrangement in which the Director or his close associate(s) is/are interested by virtue only of his/their interest in shares or debentures or other securities of the Company and/or his/their being the offeror or one of the offerors or is interested in one of the offerors for the purchase or effective acquisition of such shares, debentures or other securities;

(ff) any proposal or arrangement for the benefit of employees of the Company or its subsidiaries including a pension fund or retirement, death or disability benefit scheme or personal pension plan under which a Director, his close associate(s) and employees of the Company or of any of its subsidiaries may benefit and which has been approved by or is subject to and conditional on approval by the relevant tax authorities for taxation purposes or relates to Directors, close associate(s) of Directors and employees of the Company or any of its subsidiaries and does not give the Director or his close associate(s) any privilege not accorded to the relevant class of officers of which the Director is a member and to whom such scheme or fund relates;

(gg) any proposal concerning the adoption, modification or operation of any share scheme involving the issue or grant of options over shares or other securities by the Company to, or for the benefit of, the employees of the Company or its subsidiaries under which the Director or his close associate(s) may benefit; and

(hh) any contract, transaction or proposal concerning the purchase and/or maintenance of any insurance policy for the benefit of any Director, his close associate(s), officer or employee pursuant to the Articles.

(vii) *Remuneration*

The Directors shall be entitled to receive by way of ordinary remuneration for their services such sum as is from time to time determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The foregoing provisions shall not apply to a Director who holds any salaried employment or office in the Company except in the case of sums paid in respect of Directors' fees. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them respectively in or about the performance of their duties as Directors, including their expenses of travelling to and from Directors' meetings, committee meetings or general meetings, or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who performs any special or extra services to or at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be arranged. Notwithstanding the foregoing the remuneration of the managing director, joint managing director, deputy managing director or an executive Director or a Director appointed to any other office in the management of the Company may be fixed from time to time by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration is in addition to his ordinary remuneration as a Director.

The Directors also have power to establish and maintain or procure the establishment and maintenance of any contributory or non-contributory pension or superannuation funds for the benefit of, or to give or procure the giving of donations, gratuities, pensions, allowances or emoluments to, any persons who are or were at any time in the employment or service of the Company, or of any company which is a subsidiary of the Company, or is allied or associated with the Company or with any such subsidiary company, or who are or were at any time directors or officers of the Company or of any such other company as aforesaid, and holding or who have held any salaried employment or office in the Company or such other company, and the spouses, widows, widowers, families and dependants of any such persons and may make payments for or towards the insurance of any such persons. Any Director holding any such employment or office is entitled to participate in and retain for his own benefit any such donation, gratuity, pension, allowance or emolument.

(viii) *Retirement, appointment and removal*

At each annual general meeting, one-third of the Directors for the time being (or if their number is not three or a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot.

A Director is not required to retire upon reaching any particular age.

The Directors are entitled to attend and speak at all general meetings.

The number of Directors shall not be fewer than one. A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for breach of any contract of service between him and the Company). Subject to the statutes and the provisions of the Articles, the Company may from time to time in general meeting by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an additional Director. In addition, the Directors may appoint any person to be a Director either to fill a casual vacancy or as an additional Director but so that the number of Directors so appointed shall not exceed the maximum number determined from time to time by the members in general meeting. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting.

The Directors may from time to time entrust to and confer upon the chairman, deputy chairman, managing director, joint managing director, deputy managing director or executive director of the Company all or any of the powers of the Directors that they may think fit, provided that the exercise of all powers by such Director shall be subject to such regulations and restrictions as the Directors may from time to time make and impose. The Directors may delegate any of their powers to committees consisting of such member or members of their body and such other persons as they think fit, and they may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall in the exercise of the powers so delegated conform to any regulations that may from time to time be imposed upon it by the Directors.

(ix) *Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and uncalled capital or any part thereof. The Directors may raise or secure the payment or repayment of such sum or sums in such manner and upon such terms and conditions in all respects as they think fit and in particular, but subject to the provisions of the Companies Act, by the issue of debentures, debenture stock, bonds or other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

*Note:* The provisions summarised above, in common with the Articles in general, may be varied with the sanction of a special resolution of the Company.

(x) *Qualification shares*

Directors of the Company are not required under the Articles to hold any qualification shares.

(xi) *Indemnity to Directors*

The Articles contain provisions that provide indemnity to, among other persons, the Directors from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts, except such (if any) as they shall incur or sustain through their own fraud or dishonesty.

**(b) Alterations to constitutive documents**

The memorandum of association of the Company may be altered by the Company in general meeting. The Articles may also be amended by the Company in general meeting. As more fully described in paragraph 3 below, the Articles provide that, subject to certain exceptions, a special resolution is required to alter the memorandum of association, to approve any alteration to the Articles and to change the name of the Company.

**(c) Alterations of capital**

The Company may from time to time by ordinary resolution:

(i) increase its share capital;

(ii) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; on any consolidation of fully paid shares into shares of larger amount, the Board may settle any difficulty which may arise as it thinks expedient and in particular (but without prejudice to the generality of the foregoing) may, as between the holders of the shares to be consolidated, determine which particular shares are to be consolidated into a consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;

(iii) divide its shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions;

(iv) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled;

(v) sub-divide its shares or any of them into shares of smaller amount than is fixed by the memorandum of association, subject nevertheless to the Companies Act, and so that the resolution whereby any shares are sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares;

(vi) change the currency of denomination of its share capital; and

(vii) make provision for the issue and allotment of shares which do not carry any voting rights.

The Company may by special resolution reduce its issued share capital, any capital redemption reserve fund or other undistributable reserve in any manner authorised and subject to any conditions prescribed by law. The Company may apply its share premium account in any manner permitted by law.

**(d) Variation of rights of existing shares or classes of shares**

If at any time the capital is divided into different classes of shares, all or any of the special rights (unless otherwise provided for by the terms of issue of that class) attached to any class may, subject to the provisions of the Companies Act, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, save as to the provisions regarding the quorum of meetings, as to which see paragraph 2(s) below.

**(e) Special resolutions — majority required**

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives, or by proxy, at a general meeting of which notice has been duly given in accordance with paragraph 2(i) below for further details.

**(f) Voting rights**

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for every share of which he is the holder which is fully paid or credited as fully paid (but so that no amount paid or credited as paid on a share in advance of calls or instalments is treated for the foregoing purposes as paid on the share). So long as the shares are listed on the Stock Exchange, where any member is, under the Listing Rules (as defined in the Articles), required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member (whether by way of proxy or, as the case may be, corporate representative) in contravention of such requirement or restriction shall not be counted. On a poll, a member entitled to more than one vote need not use all his votes or cast all his votes in the same way.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

Where a shareholder is a clearing house (as defined in the Articles) or a nominee of a clearing house, it may authorise such persons as it thinks fit to act as its representatives at any meeting of the Company or at any meeting of any class of shareholders provided that the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised. Each person so authorised under the provisions of the Articles shall be entitled to exercise the same rights and powers as if such person was the registered holder of the shares of the Company held by the clearing house (or its nominees) in respect of the number and class of shares specified in the relevant authorisation including, where a show of hands is allowed, the right to vote individually on a show of hands.

**(g) Requirements for annual general meetings**

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, an annual general meeting must be held once in every year and within not more than 15 months after the last preceding annual general meeting or such longer period as is permissible or not prohibited under the rules of the Stock Exchange on which any securities of the Company are listed with the permission of the Company.

**(h) Accounts and audit**

The Directors shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipts and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by law or are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts are to be kept at the principal office of the Company or at such other place as the Directors think fit and shall always be open to the inspection of the Directors. No member (not being a Director) or other person has any right to inspect any account or book or document of the Company except as conferred by the Companies Act or ordered by a court of competent jurisdiction or authorised by the Directors or by the Company in general meeting. However, an exempted company shall make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act of the Cayman Islands.

The Directors shall from time to time cause to be prepared and laid before the Company at its annual general meeting such profit and loss accounts, balance sheets, group accounts (if any) and reports and so long as any shares in the Company are listed on the Stock Exchange, the accounts of the Company shall be prepared and audited based on the generally accepted accounting principles of Hong Kong or the International Financial Reporting Standards or such other standards as the Stock Exchange may permit. Every balance sheet of the Company shall be signed on behalf of the Directors by two Directors and a copy of every balance sheet (including every document required by law to be comprised therein or attached or annexed thereto) and profit and loss account which is to be laid before the Company at its annual general meeting, together with a copy of the Directors' report and a copy of the auditors' report, shall not less than 21 days before the date of the meeting, be sent to every member of, and every holder of debentures of, the Company and every other person entitled to receive notices of general meetings of the Company under the Companies Act or of the Articles. Subject to due compliance with the Companies Act and the rules of the Stock Exchange, and to obtaining all necessary consents, if any, required thereunder and such consents being in full force and effect, such requirements shall be deemed satisfied in relation to any person by sending to the person in any manner not prohibited by the Companies Act and instead of such copies, a summary financial statement derived from the Company's annual financial statements and the directors' report thereon, which shall be in the form and containing the information required by applicable laws and regulation, provided that any person who is otherwise entitled to the annual financial statements of the Company and the directors' report thereon may, if he so requires by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon. If all or any of the shares or debentures of the Company are for the time being (with the consent of the Company) listed or dealt in on any stock exchange, there shall be forwarded to such stock exchange such number of copies of such documents as may for the time being be required under its regulations or practice.

At the annual general meeting in each year, the members shall appoint one or more firms of auditors to hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditors at any time before the expiration of the term of office and shall by ordinary resolution at that meeting appoint another auditor in its place for the remainder of his term. Save as otherwise provided by such provisions the remuneration of the auditors shall be fixed by or on the authority of the Company at each annual general meeting, but in respect of any particular year, the Company in general meeting may delegate the fixing of such remuneration to the Directors.

**(i) Notices of meetings and business to be conducted thereat**

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings (including an extraordinary general meeting) must be called by notice of not less than fourteen (14) clear days and not less than ten (10) clear business days. The notice shall specify the place, the day and the hour of meeting and particulars of resolutions to be considered at the meeting and, in case of special business, the general nature of that business.

Extraordinary general meetings may be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the board shall be reimbursed to the requisitionist(s) by the Company.

**(j) Transfer of shares**

All transfers of shares must be effected by transfer in writing in the usual or common form or so long as any shares in the Company are listed on the Stock Exchange, such standard form prescribed by the Stock Exchange or in any other form acceptable to the Board and may be under hand only or, if the transferor or transferee is a clearing house or its nominee(s), by hand, by machine imprinted signature or by such other means of execution as the Directors may approve from time to time; and an instrument of transfer must be executed by or on behalf of the transferor and by or on behalf of the transferee and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof, provided that the Directors may in their absolute discretion dispense with the requirement for the production of a transfer in writing before registering a transfer of a share, and may accept mechanically executed transfers in any case.

The Directors may, in their absolute discretion, at any time and from time to time transfer or agree to transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Directors otherwise agree, no shares on the principal register shall be transferred to any branch register nor shall shares on any branch register be transferred to the principal register or any other register. All transfers and other documents of title must be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the transfer office for that register.

The Directors may in their absolute discretion and without assigning any reason therefor, refuse to register any transfer of any shares (not being fully paid shares) to a person of whom they do not approve and they may refuse to register the transfer of any shares (not being fully paid shares) on which the Company has a lien. The Directors may also refuse to register a transfer of shares (whether fully paid or not) in favour of more than four persons jointly or any share issued under any share option scheme for employees upon which a restriction on transfer imposed thereby shall subsist, or where the transfer is to an infant or a person of unsound mind or under other legal disability. If the Directors refuse to register a transfer, they must within two months after the date on which the transfer was lodged with the Company send to the transferor and transferee notice of the refusal and (if the shares concerned are fully paid shares) the reasons(s) for such refusal.

The Directors may, if applicable, decline to recognise an instrument of transfer unless the instrument of transfer is properly stamped, is in respect of only one class of share and is lodged at the relevant registration or transfer office accompanied by the relevant share certificate(s) and such other evidence as they may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may, on giving notice by advertisement in one English and one Chinese newspaper circulating in Hong Kong, be suspended at such times and for such periods as the Directors may from time to time determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

**(k) Power for the Company to purchase its own shares**

The Articles provide that the power of the Company to purchase or otherwise acquire its shares is exercisable by the Directors upon such terms and conditions as they think fit subject to the conditions prescribed by the Companies Act.

**(l) Power of any subsidiary to own securities in the Company**

There are no provisions in the Articles relating to ownership of securities in the Company by a subsidiary.

**(m) Dividends and other methods of distribution**

The Company in general meeting may declare dividends in any currency but no dividend may exceed the amount recommended by the Directors. The Company may also make a distribution out of share premium account subject to the provisions of the Companies Act.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends will be apportioned and paid pro rata according to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid on a share in advance of calls will for this purpose be treated as paid on the shares. The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid in lieu of the whole or such part of the dividend as the Directors may think fit.

The Company may also upon the recommendation of the Directors by an ordinary resolution resolve in respect of any particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared the Directors may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends, bonuses or other distributions or the proceeds of the realisation of any of the foregoing unclaimed for one year after having been declared may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions or proceeds as aforesaid unclaimed for six years after having been declared may be forfeited by the Directors and, upon such forfeiture, shall revert to the Company and, in the case where any of the same are securities in the Company, may be re-allotted or re-issued for such consideration as the Directors think fit.

**(n) Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company or a meeting of the holders of any class of shares in the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him to vote on his behalf at a general meeting of the Company or at a class meeting. At any general meeting, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy. Proxies need not be members of the Company.

A proxy shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member.

**(o) Corporate representatives**

A corporate member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint any person or persons as its representative to attend and vote on its behalf. A corporate member represented by its representative is deemed to be present in person at the relevant meeting and its representative may vote on a poll on any resolution put at such meeting.

**(p) Calls on shares and forfeiture of shares**

The Directors may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent. per annum as the Directors shall fix from the day appointed for the payment thereof to the time of actual payment, but the Directors may waive payment of such interest wholly or in part. The Directors may, if they think fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20 per cent. per annum as the Directors may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Directors may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of fourteen days from the date of the notice) on or before which the payment required by the notice is to be made, and it will also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all moneys which, at the date of forfeiture, were payable by him to the Company in respect of the forfeited shares together with (if the Directors shall in their discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20 per cent. per annum as the Board may prescribe.

**(q) Inspection of register of members**

For so long as any part of the share capital is listed on the Stock Exchange, any member may inspect the principal or branch register of the Company maintained in Hong Kong without charge and require the provision to him of copies or extracts thereof in all respect as if the Company were incorporated under and is subject to the Companies Ordinance (Cap. 622) of the laws of Hong Kong.

**(r) Inspection of register of Directors**

There are no provisions in the Articles relating to the inspection of the register of Directors and Officers of the Company, since the register is not open to inspection (as to which see paragraph 4(k) below).

**(s) Quorum for meetings and separate class meetings**

For all purposes the quorum for a general meeting shall be two members present in person and entitled to vote (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting convened to sanction the modification of class rights, the necessary quorum shall not be less than two persons holding or representing by proxy one-third in nominal value of the issued shares of that class and, where such meeting is adjourned for want of quorum, the quorum for the adjourned meeting shall be any two members present in person and entitled to vote or by proxy (whatever the number of shares held by them).

**(t) Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority members in relation to fraud or oppression. However, certain remedies are available to members of the Company under Cayman Islands company law as summarised in paragraph 4(e) below.

### (u) Procedures on liquidation

A resolution for a court or voluntary winding up of the Company must be passed by way of a special resolution.

If the Company shall be wound up, the surplus assets remaining after payment to all creditors are to be divided among the members in proportion to the capital paid up on the shares held by them respectively, and if such surplus assets shall be insufficient to repay the whole of the paid up capital, they are to be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them respectively, all subject to the rights of any shares issued on special terms and conditions.

If the Company shall be wound up (whether the liquidation is voluntary or by the court), the liquidator may, with the sanction of a special resolution, divide among the members in specie or kind the whole or any part of the assets of the Company and whether the assets consist of property of one kind or properties of different kinds and the liquidator may, for such purposes, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division is to be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any one or more class or classes of property and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any shares or other assets upon which there is a liability.

### (v) Untraceable members

The Company may sell the shares of any member if: (i) dividends or other distributions have been declared by the Company on at least three occasions during a period of 12 years and these dividends or distributions have been unclaimed on such shares; (ii) the Company has published an advertisement of its intention to sell such shares in English and in Chinese in one leading English and (unless unavailable) one leading Chinese newspaper circulating in the territory of the stock exchange on which the ordinary share capital of the Company is listed and a period of three months has elapsed since the date of the first publication of such notice; (iii) the Company has not at any time during the said periods of 12 years and three months received any indication of the existence of the member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operations of law; and (iv) the Company has notified the stock exchange on which the ordinary share capital of the Company is listed of its intention to sell such shares. The net proceeds of any such sale will belong to the Company and upon the receipt of such net proceeds by the Company, the Company will become indebted to the former holder of such shares for an amount equal to the amount of such net proceeds.

**(w) Stock**

The Company may by ordinary resolution convert any fully paid shares into stock, and may from time to time by like resolution reconvert any stock into fully paid shares of any denominations. The holders of stock may transfer the same or any part thereof in the same manner, and subject to the same regulations as and subject to which the shares from which the stock arose might prior to conversion have been transferred or as near thereto as circumstances admit, but the Directors may from time to time, if they think fit, fix the minimum amount of stock transferable and restrict or prohibit the transfer of fractions of that minimum, but so that such minimum shall not exceed the nominal amount of the shares from which the stock arose. No warrants to bearer shall be issued in respect of any stock. The holders of stock shall, according to the amount of the stock held by them, have the same rights, privileges and advantages as regards dividends, participation in assets on a winding-up, voting at meetings, and other matters, as if they held the shares from which the stock arose, but no such privilege of the Company shall be conferred by an amount of stock which would not, if existing in shares, have conferred such privilege or advantage. All such of the provisions of the Articles as are applicable to paid up shares shall apply to stock, and the words "share" and "shareholder" and "member" therein shall include "stock" and "stockholder".

**(x) Other provisions**

The Articles provide that, to the extent that it is not prohibited by and is in compliance with the Companies Act, if any rights attaching to any warrants which the Company may issue after the date of this prospectus shall remain exercisable and the Company does any act which would result in the subscription price under such warrants being reduced below the par value of a Share, a subscription right reserve shall be established and applied in paying up the shortfall between the subscription price and the par value of a Share on any exercise of the warrants.

## 3. VARIATION OF MEMORANDUM AND ARTICLES OF ASSOCIATION

Subject to the rights of the Company set out in paragraph 2(c) above to amend its capital by ordinary resolution, the memorandum of association of the Company may be altered by the Company by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the memorandum of association (subject as provided above) or the Articles or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than 21 clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of not less than 21 clear days' notice and not less than ten (10) clear business days notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together representing not less than 95 per cent. of the total voting rights at the meeting of all the members.

## 4. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of the Cayman Islands company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman Islands company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

### (a) Share capital

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". The share premium account may be applied by a company subject to the provisions of its memorandum and articles of association in such manner as the company may from time to time determine including, but without limitation:

(i) in paying distributions or dividends to members;

(ii) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;

(iii) in redeeming or purchasing its shares as provided in the Companies Act; or

(iv) in writing off

(aa) the preliminary expenses of the company; or

(bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No dividend or distribution may be paid to members out of the share premium account unless immediately following the date of the proposed payment, the company is able to pay its debts as they fall due in the ordinary course of business.

A company may issue preference shares and redeemable preference shares.

The Companies Act does not contain any express provisions dealing with the variation of rights of holders of different classes of shares.

**(b) Financial assistance to purchase shares of a company or its holding company**

There is no statutory restriction in the Cayman Islands against the provision of financial assistance for the purchase, subscription or other acquisition of its shares, though on English common law principles, the directors have a duty to act in good faith for a proper purpose in the best interests of the company, and moreover, there are restrictions on any act which amounts to a reduction of capital. Accordingly, it may, depending on the circumstances be legitimate for the directors to authorise the provision by a company of financial assistance for the purchase, subscription or other acquisition of its own shares, or the shares of its holding company.

**(c) Redemption and Purchase of shares and warrants by a company and its subsidiaries**

A company may, if authorised by its articles of associations issue redeemable shares and, purchase its own shares, including any redeemable shares and the Companies Act expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. Purchases and redemptions may only be effected out of the profits of the company or the share premium account of the company or out of the proceeds of a fresh issue of shares made for the purpose, or, if so authorised by its articles of association and subject to the provisions of the Companies Act, out of capital. Any premium payable on a redemption or purchase over the par value of the shares to be purchased must be provided for out of profits of the company or out of the company's share premium account, or, if so authorised by its articles of association and subject to the provisions of the Companies Act, out of capital. Any purchase by a company of its own shares may be authorised by its directors or otherwise by or in accordance with the provisions of its articles. A payment out of capital for a redemption or purchase of a company's own shares is not lawful unless immediately following the date of the proposed payment the company is able to pay its debts as they fall due in the ordinary course of business. Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Act. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own subscription warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. A company, whether a subsidiary or a holding company, may only purchase its own shares for cancellation if it is authorised to do so in its articles of association.

**(d) Dividends and distributions**

A company may not pay a dividend, or make a distribution out of share premium account unless immediately following the date on which the payment is proposed to be made, the company is able to pay its debts as they fall due in the ordinary course of business.

**(e) Protection of minorities**

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of a company to challenge (a) an act which is ultra vires the company or illegal (b) an act which constitutes a fraud against the minority and the wrong doers are themselves in control of the company, or (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company shall be wound up.

Generally, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the memorandum and articles of association of the company.

**(f) Management**

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary is required, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**(g) Accounting and auditing requirements**

The Companies Act requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company. A company is required to keep such books of account as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

**(h) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**(i) Taxation**

There are no income, corporation, capital gains or other taxes in effect in the Cayman Islands on the basis of the present legislation. As an exempted company, the Company has received from the Governor-in-Counsel of the Cayman Islands pursuant to the Tax Concessions Act of the Cayman Islands, an undertaking that in the event of any change to the foregoing, the Company, for a period of 20 years from the date of the grant of the undertaking, will not be chargeable to tax in the Cayman Islands on its income or its capital gains arising in the Cayman Islands or elsewhere and that dividends of the Company will be payable without deductions of Cayman Islands tax. No capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Shares.

**(j) Stamp duty**

Certain documents (which do not include contract, notes for the sale and purchase of, or instruments of transfer of, shares in Cayman Islands companies) are subject to stamp duty which is generally calculated on an ad valorem basis.

**(k) Inspection of corporate records**

Neither the members of a company nor the general public have the right to inspect the register of directors and officers, the minutes, accounts or, in the case of any exempted company, the register of members. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act of the Cayman Islands. The register of members shall contain particulars as required by Section 40 of the Companies Act. The register of mortgages and charges must be kept at the registered office of the company and must be open to inspection by any creditor or member at all reasonable times. A copy of the register of Directors must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

Members of the public have no right to inspect the constitutive documents of a company but the memorandum and articles of association must be forwarded to any member of the company upon request. If no articles of association have been registered with the Registrar of Companies, each member has the right to receive copies of special resolutions of members upon request upon payment of a nominal fee.

The location of the registered office of a company is available to the general public upon request to the Registrar of Companies.

**(l) Beneficial Ownership Register**

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, 25% or more of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

**(m) Winding up**

A company may be wound up by the Cayman Islands court on application presented by the company itself, its creditors or its contributors. The Cayman Islands court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Cayman Islands court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles of association expires, or the event occurs on the occurrence of which the memorandum or articles of association provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where a resolution has been passed for the voluntary winding up of a company, the court may make an order that the winding up should continue subject to the supervision of the court with such liberty to creditors, contributors or others to apply to the court as the court may think fit.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purposes of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice called by Public Notice in the Cayman Islands or otherwise as the Registrar of Companies may direct.

**(n) Economic Substance Requirements**

Pursuant to the International Tax Cooperation (Economic Substance) Act, 2018 of the Cayman Islands ("**ES Act**") that came into force on 1 January 2019, a "relevant entity" is required to satisfy the economic substance test set out in the ES Act. A "relevant entity" includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands. Accordingly, for so long as the Company is a tax resident outside the Cayman Islands, including in Hong Kong, it is not required to satisfy the economic substance test set out in the ES Act.

## 5. GENERAL

Conyers Dill & Pearman, our Company's legal advisers on Cayman Islands law, have sent to our Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VII to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

## FURTHER INFORMATION ABOUT OUR GROUP

### 1. Incorporation of our Company

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Act on 14 November 2018. Our Company was registered under Part 16 of the Companies Ordinance on 29 May 2019. Our principal place of business in Hong Kong is at Suite No. 2, 3/F Sino Plaza, 255 Gloucester Road, Causeway Bay, Hong Kong. Mr. Yuen Chi Wai has been appointed as the authorised representative of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company was incorporated in the Cayman Islands, we operate subject to the relevant laws and regulations of the Cayman Islands and our constitution which comprises the Memorandum of Association and the Articles of Association. A summary of the relevant laws and regulations of the Cayman Islands and of our Company's constitution is set out in Appendix V to this prospectus.

### 2. Changes in share capital of our Company

#### (a) *Sub-division of shares*

On 4 March 2021, each issued and unissued ordinary share of our Company of HK1.00 each was sub-divided into 100 Shares of HK$0.01 each and following the sub-division of share capital of our Company, the number of issued shares of our Company was increased from 10,000 to 1,000,000.

#### (b) *Change in authorised share capital*

The authorised share capital of our Company was increased from HK$50,000 to HK$30,000,000 by the creation of 2,995,000,000 new Shares pursuant to a resolution passed by our Shareholders referred to in paragraph 3 below and subject to the conditions contained therein.

Pursuant to the resolutions passed by our Board and our Shareholders on 4 March 2021, an aggregate of 560,000,000 Shares will be issued and allotted under the Capitalisation Issue to our Shareholders whose names appear on the register of members of our Company as of the date of such resolutions.

Immediately following completion of the Capitalisation Issue and the Share Offer, our authorised share capital will be HK$30,000,000 divided into 3,000,000,000 Shares, of which 748,000,000 Shares will be issued fully paid or credited as fully paid, and 2,252,000,000 Shares will remain unissued. There is no present intention to issue any of the authorised but unissued share capital of our Company and, without the prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this paragraph and in the paragraphs headed "Incorporation of our Company" and "Resolutions of our Shareholders" in this Appendix and the section headed "History, Reorganisation and corporate structure" in this prospectus, there has been no alteration in the share capital of our Company since its incorporation.

**(c) *Founder shares***

Our Company has no founder shares, management shares or deferred shares.

**3. Resolutions of our Shareholders**

By resolutions in writing of all of our Shareholders passed on 4 March 2021, pursuant to which, among other matters:

(a) our Company conditionally approved and adopted the Memorandum of Association and the Articles of Association which will take effect on the Listing Date, the terms of which are summarised in Appendix V to this prospectus;

(b) the authorised share capital of our Company was increased from HK$50,000 to HK$30,000,000 by the creation of 2,995,000,000 new Shares; and

(c) conditional on (i) the Listing Committee granting the approval for the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned in this prospectus, and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before the date falling 30 days after the date of the issue of this prospectus:

(i) the Share Offer was approved and our Directors were authorised to allot and issue the Offer Shares pursuant to the Share Offer;

(ii) conditional on the share premium account of our Company being credited as a result of the Share Offer, our Directors were authorised to capitalise HK$5,600,000 standing to the credit of the share premium account of our Company by applying that sum in paying up in full at par 560,000,000 Shares for allotment and issue to the holders of Shares whose names appear on the register of members of our Company at the close of business on 4 March 2021 (or as they may direct) in proportion (as nearly as possible without involving fractions so that no fraction of a Share shall be issued and allotted) to their then existing respective shareholdings in our Company and so that the Shares be issued and allotted pursuant to this resolution shall rank *pari passu* in all respects with the then existing issued Shares and our Directors were authorised to give effect to such capitalisation;

(iii) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements in accordance with the Articles, or under the Share Offer or the Capitalisation Issue, Shares with an aggregate number of not exceeding the sum of (aa) 20% of the aggregate number of issued shares of our Company immediately following completion of the Share Offer and the Capitalisation Issue; (bb) the number of issued shares of our Company which may be purchased by our Company pursuant to the authority granted to our Directors as referred to in paragraph (iv) below, until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of the Company is required by the Articles or any applicable law to be held, or the passing of an ordinary resolution by Shareholders revoking or varying the authority given to our Directors, whichever occurs first;

(iv) a general unconditional mandate (the "**Repurchase Mandate**") was given to our Directors to exercise all powers of our Company to repurchase Shares on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and recognised by the SFC and the Stock Exchange for this purpose, in accordance with all applicable laws and requirements of the Listing Rules (or of such other stock exchange), such number of Shares as will represent up to 10% of the aggregate number of the issued Shares immediately following completion of the Share Offer and the Capitalisation Issue, until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable law to be held, or the passing of an ordinary resolution by Shareholders revoking or varying the authority given to our Directors, whichever occurs first;

(v) the extension of the general mandate to allot, issue and deal with Shares pursuant to paragraph (iii) above to include the number of Shares which may be purchased or repurchased pursuant to (iv) above; and

(d) the form and substance of each of the service agreements made between our executive Directors and our Company, and the form and substance of each of the appointment letters made between each of our independent non-executive Directors and our Company, were approved.

**4. Changes in share capital of the subsidiaries of our Company**

The subsidiaries of our Company are listed in the Accountant's Report set out in Appendix I to this prospectus.

Save as disclosed in the section headed "History, Reorganisation and corporate structure" in this prospectus, there is no alteration in the share capital of our subsidiaries which took place within the two years immediately preceding the date of this prospectus.

**5. Group Reorganisation**

The companies comprising our Group underwent the Reorganisation to rationalise our Group's structure in preparation for Listing, steps of the Reorganisation are set out in the section headed "History, Reorganisation and corporate structure" in this prospectus.

**6. Repurchase by our Company of our own securities**

This section includes information relating to the repurchase of securities, including information required by the Listing Rules to be included in this prospectus concerning such repurchase. The Listing Rules permit companies whose primary listing is on the Main Board of the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important restrictions are summarised below:

**(a)** ***Shareholders' approval***

All proposed repurchases of securities (which must be fully paid up) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholder, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution in writing passed by our Shareholders on 4 March 2021, the Repurchase Mandate was given to our Directors authorising any repurchase by our Company of Shares on the Stock Exchange or any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of up to 10% of the aggregate number of issued Shares immediately following completion of the Capitalisation Issue and the Share Offer, such mandate to expire at the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or applicable Cayman Islands law to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first. Please refer to the above paragraph headed "Resolutions of our Shareholders" in this Appendix for further details.

**(b)** ***Source of funds***

Any repurchases must be paid out of funds legally available for the purpose in accordance with the Articles of Association, Listing Rules and all the applicable laws and regulations of the Cayman Islands. We may not repurchase our own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Under the Cayman Companies Act, any repurchases by us may be made out of our profits, our share premium account or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if so authorised by the Articles and subject to the Cayman Companies Act, out of capital. Any premium payable on a redemption or purchase over the par value of the Shares to be repurchased must be provided for out of either or both of our profits or our share premium account or, if authorised by the Articles and subject to the Cayman Companies Act, out of capital.

**(c) *Connected parties***

The Listing Rules prohibit our Company from knowingly repurchasing its Shares on the Main Board of the Stock Exchange from a core connected person and a core connected person shall not knowingly sell his/her/its Shares to our Company.

No core connected person has notified our Company that he/she/it has a present intention to sell his/her/its Shares to our Company, or has undertaken not to do so, if any repurchase mandate is exercised.

**(d) *Reasons for repurchases***

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have general authority from our Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if our Directors believe that such repurchases will benefit our Company and our Shareholders.

**(e) *Funding of repurchases***

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account our current working capital position, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.

**(f) *General***

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, the Articles, and the applicable laws of the Cayman Islands.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

Our Company has not made any repurchase of its own securities since its incorporation.

**(g) *Takeovers Code***

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase.

To the best knowledge and belief of our Directors, Mr. Ye will be deemed to be interested in 364,706,100 Shares through its controlled corporation under the SFO, representing 48.7575% of the issued share capital of the Company immediately following completion of the Capitalisation Issue and the Share Offer. In the event that our Directors should exercise in full the Repurchase Mandate, such interests will be increased to approximately 54.18% of the issued share capital of the Company, which would trigger an obligation to make a mandatory offer under the Takeovers Code. Our Directors have no present intention to repurchase the Shares to the extent that will trigger the obligation under the Takeovers Code for Mr. Ye to make a mandatory offer. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

## FURTHER INFORMATION ABOUT THE BUSINESS OF OUR COMPANY

### 7. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of our Group within the two years preceding the date of this prospectus and are or may be material:

(a) the share purchase agreement dated 12 August 2019 and entered into between our Company, Zhixin Enterprises BVI, Pakhim Chen BVI and Ms. Chen, pursuant to which Pakhim Chen BVI shall sell the entire issued share capital in Pakhim Chen HK to Zhixin Enterprises BVI in consideration of the allotment and issue of 1,332 ordinary shares of HK$1.00 each in our Company, credited as fully paid, to Pakhim Chen BVI;

(b) the cornerstone investment agreement dated 8 March 2021 and entered into among our Company, Wang Miao and Kingsway Financial Services Group Limited (acting as a Joint Bookrunner and a Joint Lead Manager), pursuant to which Wang Miao conditionally agreed to subscribe for 16,832,000 Shares at the Offer Price (details of the cornerstone placing are set out in the section headed "Our cornerstone investors" in this prospectus);

(c) the cornerstone investment agreement dated 8 March 2021 and entered into among our Company, Tenancy Co., Limited and Kingsway Financial Services Group Limited (acting as a Joint Bookrunner and a Joint Lead Manager), pursuant to which Tenancy Co., Limited conditionally agreed to subscribe for 31,976,000 Shares at the Offer Price (details of the cornerstone placing are set out in the section headed "Our cornerstone investors" in this prospectus);

(d) the Deed of Indemnity; and

(e) the Public Offer Underwriting Agreement.

## 8. Intellectual property rights of our Group

### *Patents*

As at the Latest Practicable Date, members of our Group have registered the following patents:

| No. | Title | Type | Place of registration | Registration number | Date of grant | Date of expiry |
|---|---|---|---|---|---|---|
| 1 | A concrete admixture tank (一種混凝土外加劑罐) | Utility Patent | The PRC | ZL201620851611.1 | 22 February 2017 | 7 August 2026 |
| 2 | A composite plate type shear wall with exposed buckled steel bars and connection method (外露扣合鋼筋的疊合板式剪力牆及連接方法) | Invention | The PRC | ZL201410596094.3 | 5 December 2017 | 29 October 2034 |
| 3 | A large prefabricated wall panel installation device (一種大型預製牆板安裝裝置) | Utility Patent | The PRC | ZL201721339371.8 | 3 July 2018 | 15 October 2027 |
| 4 | A cement precast plastic mould (一種水泥預製板塑料模具) | Utility Patent | The PRC | ZL201721778037.2 | 24 August 2018 | 17 December 2027 |
| 5 | An assembly type pipe gallery component and pipe gallery (一種裝配式管廊構件及管廊) | Utility Patent | The PRC | ZL201820540788.9 | 13 November 2018 | 16 April 2028 |
| 6 | A connection structure of prefabricated concrete wall with strong stability (一種穩定性強的預製混凝土牆體的連接結構) | Utility Patent | The PRC | ZL201820551070.X | 18 December 2018 | 17 April 2028 |
| 7 | A fast-laying precast concrete pavement (一種快速鋪裝的預制混凝土路面) | Utility Patent | The PRC | ZL201820635500.6 | 21 December 2018 | 30 April 2028 |
| 8 | A centralised gas supply system for powder transportation vehicles (一種粉料運輸車集中供氣系統) | Utility Patent | The PRC | ZL201820873244.4 | 4 January 2019 | 5 June 2028 |
| 9 | A well-assembled assembled building structure (一種組裝牢固的裝配式建築結構) | Utility Patent | The PRC | ZL201820538320.6 | 22 January 2019 | 15 April 2028 |
| 10 | A building prefabricated mould (一種建築預製件模具) | Utility Patent | The PRC | ZL201820846140.4 | 25 January 2019 | 1 June 2028 |
| 11 | A prefabricated component of concrete component (一種混凝土構件預製構件) | Invention | The PRC | ZL201610226454.X | 19 February 2019 | 12 April 2036 |

| No. | Title | Type | Place of registration | Registration number | Date of grant | Date of expiry |
|---|---|---|---|---|---|---|
| 12 | A device and segment die for fixing pre-buried channel (一種用於固定預埋槽道的裝置及管片模具) | Utility Patent | The PRC | ZL201820630628.3 | 12 April 2019 | 27 April 2028 |
| 13 | A square pile pouring positioning device (一種方樁澆築定位裝置) | Utility Patent | The PRC | ZL201820747385.1 | 12 April 2019 | 18 May 2028 |
| 14 | A square pile pouring steel cage positioning device and square pile pouring mould (一種方樁澆築鋼筋籠定位裝置及其方樁澆築模具) | Utility Patent | The PRC | ZL201820952595.4 | 12 April 2019 | 19 June 2028 |
| 15 | A structurally reinforced road board (一種結構加強型道路板) | Utility Patent | The PRC | ZL201821282362.4 | 12 April 2019 | 8 August 2028 |
| 16 | An auxiliary cutting tool and cutting machine for processing laminated plate mould (一種用於加工疊合板模具的輔助切割工裝及切割機) | Utility Patent | The PRC | ZL201821627565.2 | 21 May 2019 | 7 October 2028 |
| 17 | A concrete powder tank residual material measuring device (一種混凝土粉料罐餘料測量裝置) | Utility Patent | The PRC | ZL201921001139.2 | 3 January 2020 | 27 June 2029 |
| 18 | Test device for performance of concrete mixture (混凝土拌合物性能試驗裝置) | Utility Patent | The PRC | ZL201920794325.X | 21 January 2020 | 28 May 2029 |
| 19 | A concrete silt raw material storage silo (一種混凝土砂石原料儲存料倉) | Utility Patent | The PRC | ZL201920794400.2 | 7 February 2020 | 28 May 2029 |
| 20 | A concrete silt raw material storage silo (一種混凝土砂石原料儲存料倉) | Utility Patent | The PRC | ZL201920795355.2 | 11 February 2020 | 28 May 2029 |
| 21 | A conveying device for concrete raw materials (一種用於混凝土原料的傳送裝置) | Utility Patent | The PRC | ZL201920845132.2 | 18 February 2020 | 4 June 2029 |
| 22 | A conduit elbow for powder tank for conveying raw materials (一種用於粉料罐輸送原料的輸送管彎頭) | Utility Patent | The PRC | ZL201920873102.2 | 18 February 2020 | 10 June 2029 |
| 23 | A cement consistency meter (一種水泥稠度儀) | Utility Patent | The PRC | ZL201921000867.1 | 24 March 2020 | 27 June 2029 |
| 24 | A vehicle-mounted pump parking system (一種車載泵的停車系統) | Utility Patent | The PRC | ZL201921000351.7 | 10 April 2020 | 27 June 2029 |
| 25 | A triple test mode for cement mortar vibrating table (一種用於水泥膠砂振實台的三聯試模) | Utility Patent | The PRC | ZL201921001712.X | 24 March 2020 | 27 June 2029 |

| No. | Title | Type | Place of registration | Registration number | Date of grant | Date of expiry |
|---|---|---|---|---|---|---|
| 26 | A password-type feeding management system for the main building of concrete mixer (一種用於混凝土攪拌機主機樓密碼式入料管理系統) | Utility Patent | The PRC | ZL201921000707.7 | 24 April 2020 | 27 June 2029 |
| 27 | A spray device for ash opening on concrete (一種用於混凝土上灰口的噴淋裝置) | Utility Patent | The PRC | ZL201920844878.1 | 24 March 2020 | 4 June 2029 |
| 28 | An air cleaner filter element cleaning machine (一種空氣濾清器濾芯清理機) | Utility Patent | The PRC | ZL201921077087.7 | 3 April 2020 | 9 July 2029 |
| 29 | A hopper of concrete pump truck (一種混凝土泵車的料斗) | Utility Patent | The PRC | ZL201921076769.6 | 10 April 2020 | 9 July 2029 |
| 30 | A concrete conveying pump tube storage device (一種混凝土輸送泵管存放裝置) | Utility Patent | The PRC | ZL201921078153.2 | 7 April 2020 | 9 July 2029 |
| 31 | An explosion-proof device for tire of concrete mixer (一種混凝土攪拌車輪胎防爆裝置) | Utility Patent | The PRC | ZL201921080069.4 | 17 March 2020 | 9 July 2029 |
| 32 | A slag pump system (一種渣漿泵系統) | Utility Patent | The PRC | ZL201921005373.2 | 17 March 2020 | 27 June 2029 |
| 33 | Car washing platform of concrete mixer truck with automatic cleaning function (具有自動清洗功能的混凝土攪拌車洗車台) | Utility Patent | The PRC | ZL201920845354.4 | 7 April 2020 | 4 June 2029 |
| 34 | Dust removal device for concrete mixing main building (混凝土攪拌主機樓除塵裝置) | Utility Patent | The PRC | ZL201920873869.5 | 24 March 2020 | 10 June 2029 |
| 35 | An embedded window frame mould for prefabricated components (一種預製構件用窗框預埋模具) | Utility Patent | The PRC | ZL201920968249.X | 8 May 2020 | 24 June 2029 |
| 36 | A concrete mixer for prefabricated components (一種預製構件用混凝土攪拌機) | Utility Patent | The PRC | ZL201920966980.9 | 5 May 2020 | 24 June 2029 |
| 37 | A prefabricated beam mould with adjustable bottom plate (一種底板可調的預製橫梁模具) | Utility Patent | The PRC | ZL201920968341.6 | 5 May 2020 | 24 June 2029 |
| 38 | A fixing structure for pre-embedded steel sleeve of prefabricated member crossbeam mould (一種用於預製構件橫梁模具預埋鋼套管的固定結構) | Utility Patent | The PRC | ZL201920901538.8 | 21 April 2020 | 14 June 2029 |

| No. | Title | Type | Place of registration | Registration number | Date of grant | Date of expiry |
|---|---|---|---|---|---|---|
| 39 | A composite beam mould (一種叠合梁模具) | Utility Patent | The PRC | ZL201920901911.X | 21 April 2020 | 14 June 2029 |
| 40 | A prefabricated member beam mold for easy disassembly (一種便於拆裝的預製構件橫梁模具) | Utility Patent | The PRC | ZL201920902200.4 | 21 April 2020 | 14 June 2029 |
| 41 | A hole blocking structure of square pile forming mould (一種方樁成型模具堵孔結構) | Utility Patent | The PRC | ZL201920902232.4 | 21 April 2020 | 14 June 2029 |
| 42 | A prefabricated stair mould (一種預製樓梯模具) | Utility Patent | The PRC | ZL201920968384.4 | 21 April 2020 | 24 June 2029 |
| 43 | A single-piece wall prefabricated component with template (一種帶模板的單片牆預製構件) | Utility Patent | The PRC | ZL201921076184.4 | 10 April 2020 | 9 July 2029 |
| 44 | A reinforced cage tooling of prefabricated comprehensive pipe corridor (一種預製綜合管廊鋼筋籠工裝) | Utility Patent | The PRC | ZL201920902100.1 | 3 April 2020 | 14 June 2029 |
| 45 | A laminated pipe corridor with improved durability (一種提高耐久性的叠合管廊) | Utility Patent | The PRC | ZL201921076116.8 | 3 April 2020 | 9 July 2029 |
| 46 | A simple sand and stone cleaning device (一種簡易式砂石清洗裝置) | Utility Patent | The PRC | ZL201920968184.9 | 20 March 2020 | 24 June 2029 |
| 47 | A device for punching sealing strip of pre-buried channel of shield segment (一種盾構管片預埋槽道的密封條打孔裝置) | Utility Patent | The PRC | ZL201920967328.9 | 17 March 2020 | 24 June 2029 |
| 48 | A reinforced cage tooling (一種鋼筋籠工裝) | Utility Patent | The PRC | ZL201920967701.0 | 17 March 2020 | 24 June 2029 |
| 49 | A stacking rack of laminated board (一種叠合板堆放架) | Utility Patent | The PRC | ZL201920968518.2 | 17 March 2020 | 24 June 2029 |
| 50 | A decompression mechanism for concrete powder tank (一種用於混凝土粉料罐的減壓機構) | Utility Patent | The PRC | ZL201920845314.X | 8 May 2020 | 4 June 2029 |
| 51 | A connecting sleeve for discharge pipe of concrete aggregate warehouse (一種用於混凝土骨料倉卸料管的連接套) | Utility Patent | The PRC | ZL201921005945.7 | 8 May 2020 | 27 June 2029 |

| No. | Title | Type | Place of registration | Registration number | Date of grant | Date of expiry |
|---|---|---|---|---|---|---|
| 52 | A concrete weighing bucket with conductive wire (一種具有導電線的混凝土稱重斗) | Utility Patent | The PRC | ZL201920872482.8 | 5 May 2020 | 10 June 2029 |
| 53 | A respirator of weighing tank for concrete mixer (一種用於混凝土攪拌機的稱量罐呼吸器) | Utility Patent | The PRC | ZL201920872824.6 | 5 May 2020 | 10 June 2029 |
| 54 | A rainproof device for feed hopper of concrete mixer truck (一種混凝土攪拌車進料斗的防雨裝置) | Utility Patent | The PRC | ZL201921077053.8 | 5 May 2020 | 9 July 2029 |
| 55 | A pile hopper for pouring concrete (一種樁基混凝土澆築下料斗) | Utility Patent | The PRC | ZL201920844838.7 | 24 April 2020 | 4 June 2029 |
| 56 | A concrete mixer with discharge opening enclosure (一種帶有卸料口圍擋的混凝土攪拌機) | Utility Patent | The PRC | ZL201921000449.2 | 24 April 2020 | 27 June 2029 |
| 57 | An unloading mechanism of concrete transition warehouse (一種混凝土過渡倉的卸料機構) | Utility Patent | The PRC | ZL201921002475.9 | 24 April 2020 | 27 June 2029 |
| 58 | A concrete test block curing room (一種混凝土試塊養護室) | Utility Patent | The PRC | ZL201920794297.1 | 6 March 2020 | 28 May 2029 |
| 59 | A concrete sand and gravel raw material storage silo (一種混凝土砂石原料儲存料倉) | Utility Patent | The PRC | ZL201920795631.5 | 19 May 2020 | 28 May 2029 |
| 60 | Sand and stone conveying device of concrete mixing station with dustproof function (具有防塵功能的混凝土攪拌站沙石輸送裝置) | Utility Patent | The PRC | ZL201921000408.3 | 19 May 2020 | 27 June 2029 |
| 61 | An agitating spindle cleaning device for agitator (一種用於攪拌機的攪拌主軸清洗裝置) | Utility Patent | The PRC | ZL201920845282.3 | 19 May 2020 | 4 June 2029 |
| 62 | A storage structure of prefabricated laminated plates (一種預製疊合板儲放結構) | Utility Patent | The PRC | ZL202021158370.5 | 2 February 2021 | 19 June 2030 |

As at the Latest Practicable Date, members of our Group have applied for the following patent(s):

| No. | Title | Type | Place of registration | Application number | Date of application |
|---|---|---|---|---|---|
| 1 | A device and segment die for fixing pre-buried channel (一種用於固定預埋槽道的裝置及管片模具) | Invention | The PRC | 2018104022544 | 28 April 2018 |

### *Trademark*

As at the Latest Practicable Date, members of our Group have registered the following trademarks:

| No. | Trademark | Place of registration | Class | Registration No. | Date of registration | Date of expiry |
|---|---|---|---|---|---|---|
| 1 | 智欣集团 Zhixin Group | The PRC | 19(1) | 15237318 | 14 October 2015 | 13 October 2025 |
| 2 | | The PRC | 19(1) | 24298475 | 21 May 2018 | 20 May 2028 |
| 3 | 中建智欣 | The PRC | 19(1) | 24303090 | 21 May 2018 | 20 May 2028 |
| 4 | 智欣建科 Zhixin Constr.&Tech. | The PRC | 19(2) | 34175394 | 28 June 2019 | 27 June 2029 |
| 5 | | Hong Kong | 19(3) | 304955365 | 11 June 2019 | 10 June 2029 |
| 6 | 智欣建科 ZhiXin Constr.&Tech. | The PRC | 19(4) | 43686699 | 21 September 2020 | 20 September 2030 |

*Notes:*

1. The specific goods or services (as the case may be) under the respective classes in respect of which these trademarks were registered for under the PRC trademark law are as follows:

| Class | Goods/Services |
|---|---|
| 19 | Fine sand; concrete; sandstone for construction; cement; concrete building component; cement column; cement board; brick; asphalt; non-metal prefabricated house (kit) |

2. The specific goods or services (as the case may be) under the respective classes in respect of which this trademark was registered for under the PRC trademark law are as follows:

| Class | Goods/Services |
|---|---|
| 19 | Concrete building components; non-metal mould for concrete; concrete slabs; concrete pavements; concrete walls; concrete piles; concrete columns; concrete pipes; concrete poles for construction; concrete walls for construction |

3. The specific goods or services (as the case may be) under the respective classes in respect of which this trademark was registered for under Hong Kong trademark law are as follows:

| Class | Goods/Services |
|---|---|
| 19 | Materials, not of metal, for building and construction; rigid pipes, not of metal, for building; transportable buildings, not of metal |

4. The specific goods or services (as the case may be) under the respective classes in respect of which this trademark was registered for under the PRC trademark are as follows:

| Class | Goods/Services |
|---|---|
| 19 | Concrete building components; non-metal mould for concrete; concrete slabs; concrete pavements; concrete walls; concrete piles; concrete columns; concrete pipes; concrete poles for construction; concrete walls for construction |

### *Domain names*

As at the Latest Practicable Date, members of our Group have registered the following domain names:

| No. | Domain name | Registration date | Expiry date |
|---|---|---|---|
| 1 | xiamenzhixin.com | 11 October 2016 | 11 October 2022 |
| 2 | zjzx-xm.com | 17 February 2017 | 17 February 2023 |

## 9. Related party transactions

Save as disclosed in Note 32 to the Accountant's Report, during the two years immediately preceding the date of this prospectus, we have not engaged in any other material related party transactions.

## FURTHER INFORMATION ABOUT DIRECTORS, SUBSTANTIAL SHAREHOLDERS AND EXPERTS

### 10. Directors

**(a)** ***Disclosure of interests of Directors***

(i) Each of Mr. Ye and Mr. Huang is interested in the Reorganisation.

**(b)** ***Particulars of Directors' service contracts***

*Executive Directors*

Each of our executive Directors has entered into a service contract with our Company pursuant to which they agreed to act as executive Directors for an initial term of three years with effect from 4 March 2021. The terms and conditions of each of such service agreements are similar in all material aspects. The term of service shall be renewed and extended automatically by one year on the expiry of such initial term, unless either party has given at least three months' written notice of non-renewal before the expiry of the initial term.

Each of our executive Directors is entitled to a basic salary as set out below (subject to an annual increment after 31 December 2021 at the discretion of our Directors of not more than 5% of the annual salary immediately prior to such increase). In addition, each of our executive Directors is also entitled to a discretionary management bonus provided that the aggregate amount of the bonuses payable to all our executive Directors for any financial year of our Company may not exceed 10% of the audited combined or consolidated audited net profit of our Group (after taxation and minority interests and payment of such bonuses but before extraordinary items) in respect of that financial year of our Company. An executive Director is required to abstain from voting and is not counted towards the quorum in respect of any resolution of the Directors regarding the amount of the monthly salary and the discretionary bonus payable to him. The current basic annual salaries (excluding discretionary bonus) of our executive Directors are as follows:

| Name | Annual salary |
|---|---|
| | HK$'000 |
| Mr. Ye | 1,056 |
| Mr. Huang | 444 |
| Mr. Qiu Limiao | 299 |
| Mr. Ye Dan | 366 |
| Mr. Huang Kaining | 252 |

*Independent non-executive Directors*

Each of our independent non-executive Directors has been appointed for an initial term of two years commencing from 4 March 2021 renewable automatically for a term of one year commencing from the next day after the expiry of the initial term of appointment, unless terminated by not less than three months' notice in writing served by our independent non-executive Directors or our Company expiring at the end of the initial term. Each of Ms. Wong Tuen Sau, Mr. Cai Huinong and Mr. Huang Youling is entitled to a director's fee of HK$180,000, HK$96,000 and HK$96,000 per annum, respectively. Save for directors' fees, none of our independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

Save as disclosed aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any of our subsidiaries other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

**(c) *Remunerations of Directors***

(i) The aggregate emoluments paid and benefits in kind granted by our Group to our Directors in respect of each of the three years ended 31 December 2019 and the ten months ended 31 October 2020 was approximately RMB264,000, RMB428,000, RMB736,000 and RMB900,000, respectively.

(ii) Under the arrangements currently in force, the aggregate emoluments (excluding discretionary bonus) payable by our Group to and benefits in kind receivable by our Directors (including our independent non-executive Directors) for the year ending 31 December 2021, are expected to be approximately RMB2.3 million.

(iii) None of our Directors or any past directors of any member of our Group has been paid any sum of money for each of the three years ended 31 December 2019 and the ten months ended 31 October 2020 as (i) an inducement to join or upon joining our Company; or (ii) for loss of office as a director of any member of our Group or any other office in connection with the management of the affairs of any member of our Group.

(iv) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three years ended 31 December 2019 and the ten months ended 31 October 2020.

**(d) *Interests and short positions of our Directors in the shares, underlying shares or debentures of our Company and our associated corporations following the Share Offer***

Immediately following completion of the Capitalisation Issue and the Share Offer, the interests or short positions of our Directors in the shares, underlying shares and debentures of our Company and our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules required to be notified to our Company and the Stock Exchange, will be as follows:

| Name of Director | Capacity | Number of Shares[(1)] | Approximate percentage of shareholding (%) |
|---|---|---|---|
| Mr. Ye | Interest of controlled corporation | 364,706,100 (L)[(2)] | 48.7575 |
| Mr. Huang | Interest of controlled corporation | 121,568,700 (L)[(3)] | 16.2525 |

*Notes:*

1. The letter "L" denotes long position in our Shares.

2. These represents Shares to be held by Zhixin Investment BVI, which was wholly owned by Mr. Ye as at the Latest Practicable Date.

3. These represents Shares to be held by Yaohe BVI, which was wholly owned by Mr. Huang as at the Latest Practicable Date.

Save as disclosed above, so far as our Directors are aware, immediately following completion of the Capitalisation Issue and the Share Offer, none of our Directors and chief executive of our Company has any interests or short positions in the shares or underlying shares and debentures of our Company or its associated corporations which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) once the Shares are listed, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein once the Shares are listed, or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules to be notified to our Company and the Stock Exchange once the Shares are listed.

## 11. Interests discloseable under the SFO and substantial shareholders

So far as our Directors are aware, immediately following completion of the Capitalisation Issue and the Share Offer, other than a Director or chief executive of our Company whose interests are disclosed under the sub-paragraph headed "Interests and short positions of our Directors in the shares, underlying shares or debentures of our Company and our associated corporations following the Share Offer" above, the following persons will have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of our Company required to be kept under section 336 of the SFO or who are directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any member of our Group:

| Name of Substantial Shareholders | Capacity | Number of Shares[1] | Approximate percentage of shareholding (%) |
|---|---|---|---|
| Zhixin Investment BVI | Beneficial owner | 364,706,100 (L) | 48.7575 |
| Ms. Hong Wei | Interest of spouse | 364,706,100 (L)[2] | 48.7575 |
| Yaohe BVI | Beneficial owner | 121,568,700 (L) | 16.2525 |
| Ms. Lin Lingling | Interest of spouse | 121,568,700 (L)[3] | 16.2525 |
| Pakhim Chen BVI | Beneficial owner | 74,725,200 (L) | 9.99 |
| Ms. Chen | Interest in controlled corporation | 74,725,200 (L)[4] | 9.99 |
| Mr. Chen Qishi | Interest of spouse | 74,725,200 (L)[5] | 9.99 |

*Notes:*

1. The Letter "L" denotes long position in our Shares.

2. Ms. Hong Wei is the spouse of Mr. Ye. By virtue of the SFO, Ms. Hong Wei is deemed to be interested in all the Shares held by Mr. Ye.

3. Ms. Lin Lingling is the spouse of Mr. Huang. By virtue of the SFO, Ms. Lin Lingling is deemed to be interested in all the Shares held by Mr. Huang.

4. As at the Latest Practicable Date, Pakhim Chen BVI was wholly owned by Ms. Chen.

5. Mr. Chen Qishi is the spouse of Ms. Chen. By virtue of the SFO, Mr. Chen Qishi is deemed to be interested in all the Shares held by Ms. Chen.

Save as disclosed above, our Directors are not aware of any person who will, immediately following completion of the Capitalisation Issue and the Share Offer, have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of our Group.

**12. Disclaimers**

Save as disclosed in this Appendix and in the sections headed "Business" and "Substantial Shareholders" in this prospectus:

(a) taking no account of any Shares which may be taken up or acquired under the Share Offer, our Directors are not aware of any person who immediately following completion of the Capitalisation Issue and the Share Offer will have an interest or short position in our Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who is, either directly or indirectly, interested in 10% or more of the issued voting shares of our Company or any other members of our Group;

(b) none of our Directors or chief executive of our Company has for the purpose of Divisions 7 and 8 of Part XV of the SFO or the Listing Rules, nor is any of them taken to or deemed to have under Divisions 7 and 8 of Part XV of the SFO, an interest or short position in the shares, underlying shares and debentures of our Company or any associated corporations (within the meaning of the SFO) or any interest which will have to be entered in the register of to be kept by our Company pursuant to section 352 of the SFO or which will be required to be notified to our Company and the Stock Exchange pursuant to Appendix 10 to the Listing Rules once our Shares are listed on the Stock Exchange;

(c) none of the Directors nor any of the experts listed in paragraph headed "19. Qualification of experts" below has been interested, directly or indirectly, in the promotion of our Company, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

(d) none of the Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group; and

(e) save in connection with the Underwriting Agreement(s), none of the experts listed in paragraph headed "19. Qualifications of experts" below:

i. is interested legally or beneficially in any securities of any member of our Group; or

ii. has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

## OTHER INFORMATION

### 13. Estate duty, tax and other indemnities

Our Controlling Shareholders (together, the "**Indemnifiers**") have entered into the Deed of Indemnity with and in favour of our Company (for itself and as trustee for each of our present subsidiaries) (being the material contract (d) referred to in paragraph 7 above) to provide indemnities on a joint and several basis in respect of, among other matters:

(a) any duty which is or hereafter becomes payable by any member of our Group by virtue of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) under the provisions of section 43 of the Estate Duty Ordinance or the equivalent thereof under the laws of any jurisdiction outside Hong Kong by reason of the death of any person and by reason of the assets of our Group or any of such assets being deemed for the purpose of Hong Kong estate duty to be included in the property passing on his death by reason of that person making or having made a relevant transfer to any member of our Group at any time on or prior to the Listing Date; and

(b) taxation and taxation claim, together with all costs (including all legal costs), expenses or other liabilities which any member of our Group may incur in connection with (i) the investigation, assessment or the contesting of any taxation claim; (ii) the settlement of any claim under the Deed of Indemnity; (iii) any legal proceedings in which any member of our Group under or in respect of the Deed of Indemnity and in which judgment is given for any member of our Group; or (iv) the enforcement of any such settlement or judgment, falling on any member of our Group resulting from or by reference to any income, profits or gains earned, accrued or received on or before the Listing Date or any transactions, events, matters or things entered into or occurring on or before the Listing Date, whether alone or in conjunction with any other circumstances whenever occurring and whether or not such taxation or taxation claim is chargeable against or attributable to any other person, firm, company or corporation.

The Indemnifiers are under no liability under the Deed of Indemnity in respect of any taxation:

(a) to the extent that provision has been made for such taxation in the audited accounts of any member of our Group for any accounting period up to 31 October 2020; or

(b) to the extent that such taxation or liability for such taxation falling on any of the members of our Group in respect of any accounting period commencing on or after 1 November 2020 and ending on the Listing Date, where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily effected by, any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers, other than any such act, omission or transaction:

(i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or after 1 November 2020; or

(ii) carried out, made or entered into pursuant to a legally binding commitment created on or before 31 October 2020 or pursuant to any statement of intention made in this prospectus; or

(c) to the extent that such taxation liability or claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the Inland Revenue Department or the taxation authority of the PRC, or any other relevant authority (whether in Hong Kong or the PRC or any other part of the world) coming into force after the date of the Deed of Indemnity or to the extent such claim arises or is increased by an increase in rates of taxation after the date of the Deed of Indemnity with retrospective effect; or

(d) to the extent that any provision or reserve made for taxation in the audited accounts of any member of our Group up to 31 October 2020 and which is finally established to be an overprovision or an excessive reserve, in which case the Indemnifiers' liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied referred to in this paragraph to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

Under the Deed of Indemnity, each of the Indemnifiers has also undertaken to us that he/it will indemnify and at all times keeps us fully indemnified, on a joint and several basis, from among other matters, all claims, payments, suits, damages, settlements, liabilities, losses, administrative or other charges, levies, payments and any associated costs and expenses which would be incurred or suffered by any member of our Group as a result of any litigation, arbitration and/or legal proceedings against any member of our Group which was issued and/or accrued and/or arising from any act, non-performance, omission, non-compliance, or otherwise of any member of our Group on or before the Listing Date including, without limitation, the non-compliances as set out in the paragraphs headed "Non-compliance" in the section headed "Business" in this prospectus.

**14. Litigation**

No member of our Group is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company, that would have a material adverse effect on our results of operation or financial condition of our Company.

**15. Preliminary expenses**

The preliminary expenses of our Company are estimated to be approximately HK$42,000 and are payable by our Company.

**16. Promoter**

(a) Our Company does not have any promoter.

(b) Within the two years preceding the date of this prospectus, no amount or benefit has been paid or given to any promoters of our Company in connection with the Share Offer or the related transactions in this prospectus.

**17. Agency fees or commissions received**

Except as disclosed in the paragraph headed "Underwriting — Underwriting arrangement and expenses — Commissions and expenses" in this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of any member of our Group within the two years immediately preceding the date of this prospectus.

**18. Sponsor**

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on the Stock Exchange. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

The Sole Sponsor is independent from our Company pursuant to Rule 3A.07 of the Listing Rules.

The Sole Sponsor's fees payable by us in respect of the Sole Sponsor's services as sponsor for the Listing is HK$6.0 million.

**19. Qualifications of experts**

The following are the qualifications of the experts who have given opinions or advice which are contained in this prospectus:

| | |
|---|---|
| Kingsway Capital Limited | Licensed corporation permitted to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO |
| PricewaterhouseCoopers | Certified Public Accountants under Professional Accountant Ordinance (Chapter 50 of the Laws of Hong Kong) and Registered PIE Auditor under Financial Reporting Council Ordinance (Chapter 588 of the Laws of Hong Kong) |
| Jingtian & Gongcheng | PRC legal advisers |
| Conyers Dill & Pearman | Cayman Islands attorneys-at-law |
| Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. | Independent industry consultant |
| Grant Sherman Appraisal Limited | Independent property valuer |

**20. Consents of experts**

Each of the experts named in paragraph 19 of this Appendix has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their report and/or letter and/or legal opinion (as the case may be) and the references to their names or summaries of reports and/or letters and/or opinions included herein in the form and context in which they respectively appear.

**21. Binding effect**

This prospectus shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (WUMP) Ordinance so far as applicable.

**22. Taxation of holders of Shares**

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares. It is emphasised that none of our

Company, our Directors or the other parties involved in the Share Offer can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred.

Under present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty so long as the Company does not hold any interest in land in the Cayman Islands.

**23. Miscellaneous**

(a) Save as disclosed in the sections headed "History, Reorganisation and corporate structure" and "Underwriting" in this prospectus,

(i) within two years preceding the date of this prospectus:

(aa) no share or loan capital of our Company or any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;

(bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and

(cc) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any shares in our Company or any of our subsidiaries;

(ii) no part of the Shares or loan capital of our Company is listed, traded or dealt in on any other stock exchange. At present, our Company is not seeking or proposing to seek listing of, or permission to deal in, any part of the Shares or loan capital on any other stock exchange;

(iii) our Company has no outstanding convertible debt securities;

(iv) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(b) our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 October 2020 (being the date to which the latest audited consolidated financial statements of our Group were made up); and

(c) our Directors confirm that there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus.

**24. Bilingual prospectus**

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided under section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses for Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong). In case of any discrepancies between the English language version and the Chinese language version, the English language version shall prevail.

## DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were, amongst other documents, copies of the Application Forms, the written consents referred to in the paragraph headed "Other information — 20. Consents of experts" in Appendix VI to this prospectus and the material contracts referred to in the paragraph headed "Further information about the business of our Company — 7. Summary of material contracts" in Appendix VI to this prospectus.

## DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of our Company's Hong Kong legal advisers, Chiu & Partners of 40th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong, from 9:00 a.m. to 6:00 p.m. on Monday to Friday which is not a public holiday from the date of this prospectus up to and including the date which is 14 days from the date of this prospectus:

(1) the Memorandum of Association and the Articles of Association;

(2) the Accountant's Report from PricewaterhouseCoopers, in respect of the historical financial information of our Group for the three years ended 31 December 2019 and the ten months ended 31 October 2020, the text of which is set out in Appendix I to this prospectus;

(3) the audited consolidated financial statements of our Group for the three years ended 31 December 2019 and the ten months ended 31 October 2020;

(4) the report on unaudited pro forma financial information of our Group from PricewaterhouseCoopers, the text of which is set out in Appendix II to this prospectus;

(5) the summary of the property valuation report prepared by Grant Sherman Appraisal Limited, the text of which is set out in Appendix IV to this prospectus;

(6) the Cayman Companies Act;

(7) the letter of advice prepared by Conyers Dill & Pearman, summarising certain aspects of Cayman Islands company law referred to in Appendix V to this prospectus;

(8) the legal opinion prepared by our PRC Legal Advisers in respect of the business operations of our Group in the PRC and properties of our Group located in the PRC;

(9) the material contracts referred to in the paragraph headed "Further information about the business of our Company — 7. Summary of material contracts" in Appendix VI to this prospectus;

(10) the service contracts referred to in the paragraph headed "Further information about Directors, substantial shareholders and experts — 10. Directors" in Appendix VI to this prospectus;

(11) the industry report prepared by Frost & Sullivan; and

(12) the written consents referred to in the paragraph headed "Other information — 20. Consents of experts" in Appendix VI to this prospectus.

Zhixin Group Holding Limited
智欣集團控股有限公司