

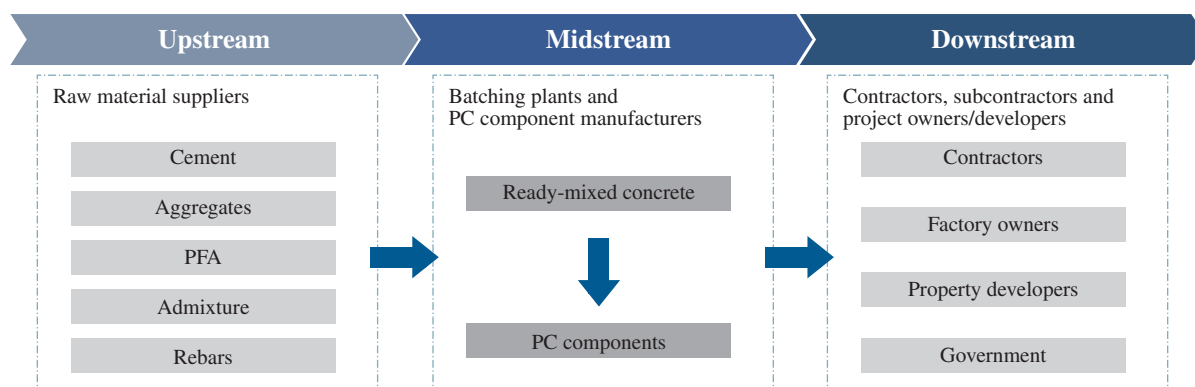
INDUSTRY OVERVIEW

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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

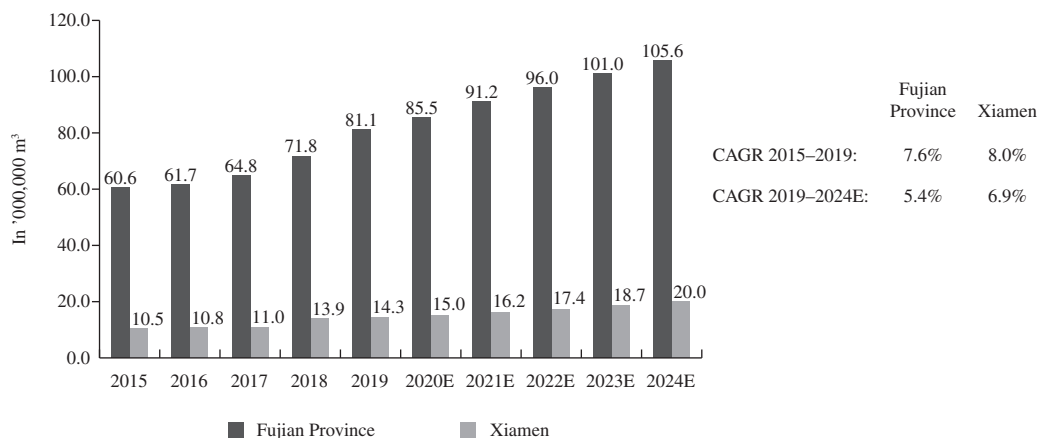
Concrete is a widely used composite construction material generally produced by combining cement, aggregates (comprising sand and gravel or crushed stones), water and additives to form a fluid paste, which can be poured and moulded into any desire shape before it cures and hardens over time to form a stone-like material. Hardened concrete possesses high compressive strength, durability, wind and water resistance and it is non-combustible, which is used extensively in

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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

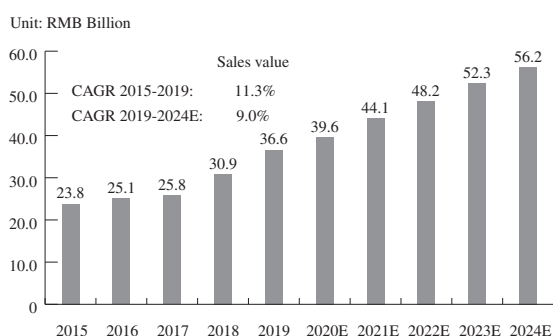


Source: China Concrete and Cement-based Products Association, Xiamen Bulk Cement Development Center, Frost & Sullivan

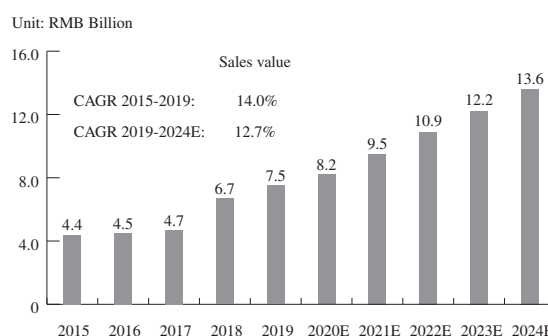
Note: According to the Frost & Sullivan Report, considering the nature of ready-mixed concrete, which is produced to order, its consumption volume will be similar to its production volume.

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 m³ in 2015 to approximately 81,100,000 m³ 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 m³ in 2015 to approximately 14,300,000 m³ 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 m³ and 20,000,000 m³ 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 concrete 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.

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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 m³ 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 m³, 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 (in '000,000 m ³)	Market share
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 (in '000 m ³)	Market share
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

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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	<ul style="list-style-type: none"> Production is almost unaffected by weather conditions, making construction schedule more manageable High degree of mechanisation and standardisation ensures the high construction efficiency 	<ul style="list-style-type: none"> Manpower is replaced with modern equipment, which not only enhances production safety, but also reduces labour costs 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> More environmental friendly by reducing material waste during construction, saving water and electricity, reducing construction energy consumption and noise in the process
Traditional construction	<ul style="list-style-type: none"> The process of cast-in-situ construction is much more complicated and is limited by workers, weather and other external factors Improving construction efficiency is difficult for traditional construction 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> The poor standardisation degree of the traditional construction method and the low technical level make the error and quality of constructions difficult to control 	<ul style="list-style-type: none"> 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

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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 µg/m ³	Dust level (PM10)	85–100 µg/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

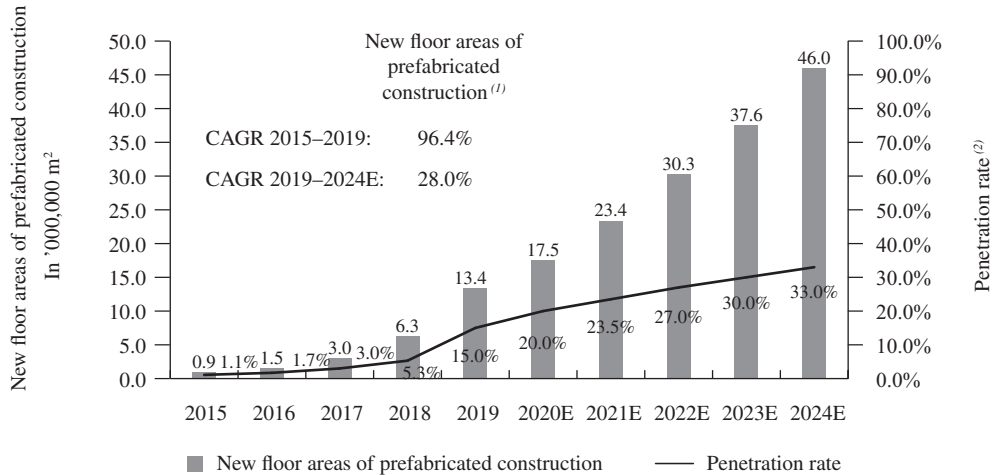
As the focus of the construction industrialisation development, prefabricated construction embraces an opportunity of explosive growth in the PRC. Guided by the development plan and incentive policies introduced by the central government, a large number of provinces and cities, including Fujian Province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

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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

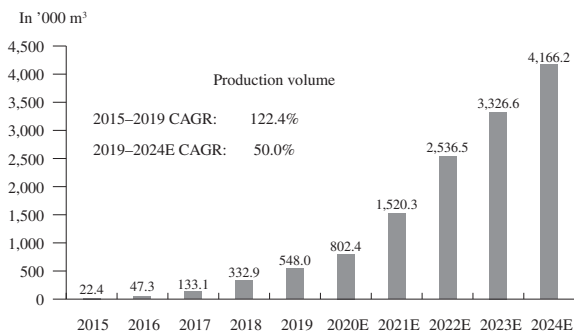
Notes:

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.

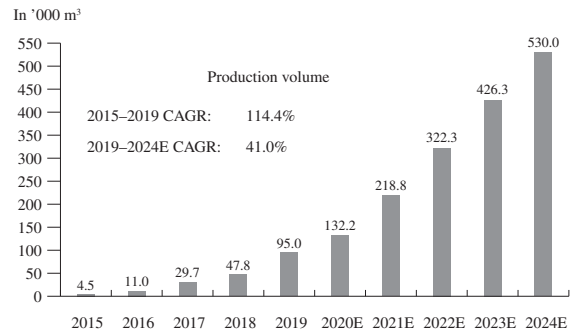
From 2015 to 2019, new floor areas of prefabricated building in Fujian Province increased from approximately 900,000 m² to 13,400,000 m² respectively, representing a CAGR of approximately 96.4%, with the favourable government policies and plans in place, it is expected to reach 46,000,000 m² in 2024. 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

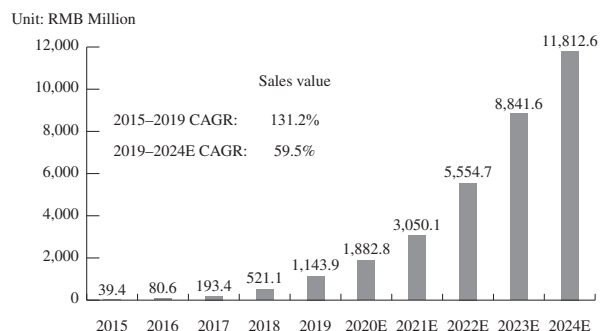
Note: According to the Frost & Sullivan Report, given PC components are customised products produced to order, their consumption volume will be similar to their production volume.

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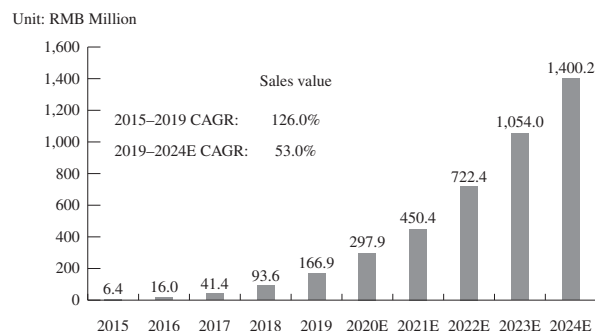
The total production volume of PC component in Fujian Province increased from approximately 22,400 m³ in 2015 to approximately 548,000 m³ in 2019 at a CAGR of approximately 122.4% and the total production volume of PC component in Xiamen increased from approximately 4,500 m³ in 2015 to approximately 95,000 m³ 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 m³ and approximately 530,000 m³ 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 m³ 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 m³ and RMB144.0 million respectively, and dominated the market with approximately 88.8% and 86.3% market share, respectively.

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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 (in '000 m ³)	Revenue of PC component RMB million	Market share in terms of production volume	Market share in terms of revenue
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 (in '000 m ³)	Revenue of PC component RMB million	Market share in terms of production volume	Market share in terms of revenue
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.

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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 (《福建省住房和城乡建设廳辦公室》) 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

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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.

INDUSTRY OVERVIEW

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

INDUSTRY OVERVIEW

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.

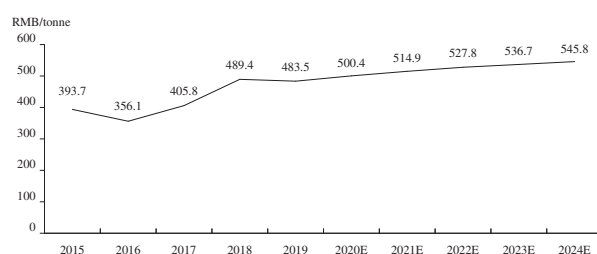
PRICE TRENDS IN FUJIAN PROVINCE

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:

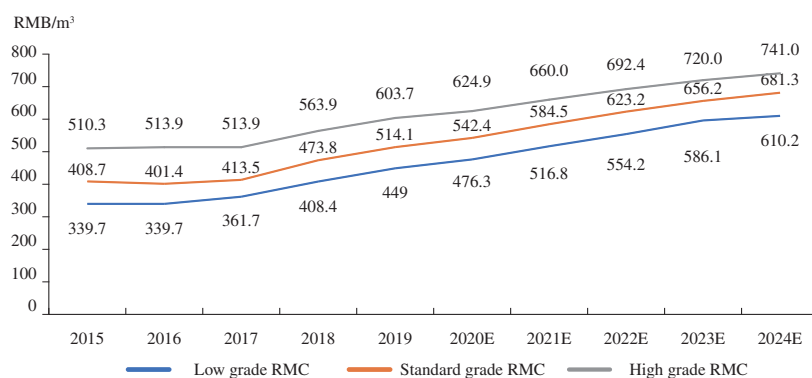
1. All prices are exclusive of tax.
2. The prices from 2015 to 2019 are calculated based on the average of the average monthly price for the relevant year.

INDUSTRY OVERVIEW

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..