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## FINANCIAL INFORMATION

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*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<sup>3</sup> and 119,800 m<sup>3</sup>, 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

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## FINANCIAL INFORMATION

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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.

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## FINANCIAL INFORMATION

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### 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.

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## FINANCIAL INFORMATION

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### **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.

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## FINANCIAL INFORMATION

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### 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:

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## FINANCIAL INFORMATION

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### *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).

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## FINANCIAL INFORMATION

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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.

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## FINANCIAL INFORMATION

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### 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.



## FINANCIAL INFORMATION

### 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	RMB'000
				(Unaudited)	
<b>Revenue</b>	399,519	511,267	590,797	437,105	602,155
Cost of sales	<u>(359,853)</u>	<u>(434,775)</u>	<u>(476,420)</u>	<u>(351,245)</u>	<u>(483,167)</u>
<b>Gross profit</b>	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	<u>—</u>	<u>—</u>	<u>(6,512)</u>	<u>(5,220)</u>	<u>(5,662)</u>
<b>Operating profit</b>	17,410	44,342	66,668	49,054	70,492
Finance income	349	319	105	88	54
Finance costs	<u>(2,142)</u>	<u>(7,277)</u>	<u>(8,836)</u>	<u>(6,819)</u>	<u>(11,171)</u>
Finance costs — net	<u>(1,793)</u>	<u>(6,958)</u>	<u>(8,731)</u>	<u>(6,731)</u>	<u>(11,117)</u>
<b>Profit before income tax</b>	15,617	37,384	57,937	42,323	59,375
Income tax expense	<u>(3,378)</u>	<u>(10,015)</u>	<u>(16,115)</u>	<u>(11,866)</u>	<u>(16,402)</u>
<b>Profit and total comprehensive income for the year/period</b>	<u>12,239</u>	<u>27,369</u>	<u>41,822</u>	<u>30,457</u>	<u>42,973</u>
<b>Profit attributable to:</b>					
Owners of our Company	16,087	27,369	41,822	30,457	42,973
Non-controlling interests	<u>(3,848)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>12,239</u>	<u>27,369</u>	<u>41,822</u>	<u>30,457</u>	<u>42,973</u>
<b>Earnings per share for profit attributable to owners of our Company</b>					
Basic and diluted earnings per share (RMB)	<u>16.09</u>	<u>27.37</u>	<u>41.82</u>	<u>30.46</u>	<u>42.97</u>

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## FINANCIAL INFORMATION

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### NON-HKFRS FINANCIAL MEASURES<sup>(1)</sup>

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	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 <i>(unaudited)</i> <sup>(2)</sup>	<u>12,239</u>	<u>27,369</u>	<u>48,334</u>	<u>35,677</u>	<u>48,635</u>
Adjusted net profit margin <i>(unaudited)</i> <sup>(3)</sup>	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.

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## FINANCIAL INFORMATION

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### 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.

## FINANCIAL INFORMATION

### (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	%	RMB'000	%
	(Unaudited)									
<b>Ready-mixed concrete</b>										
— 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
<b>PC components</b>										
— 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
<b>Total</b>	<b>399,519</b>	<b>100.0</b>	<b>511,267</b>	<b>100.0</b>	<b>590,797</b>	<b>100.0</b>	<b>437,105</b>	<b>100.0</b>	<b>602,155</b>	<b>100.0</b>

### (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	Total sales volume	Average selling price	Total sales volume	Average selling price	Total sales volume	Average selling price	Total sales volume	Average selling price
	(m <sup>3</sup> )	RMB/m <sup>3</sup>	(m <sup>3</sup> )	RMB/m <sup>3</sup>	(m <sup>3</sup> )	RMB/m <sup>3</sup>	(m <sup>3</sup> )	RMB/m <sup>3</sup>	(m <sup>3</sup> )	RMB/m <sup>3</sup>
	(Unaudited)									
<b>Ready-mixed concrete</b>										
— 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
<b>PC components</b>										
— 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
<b>Total</b>	<b>1,086,382</b>	<b>367.8</b>	<b>1,129,299</b>	<b>452.7</b>	<b>1,104,321</b>	<b>535.0</b>	<b>814,331</b>	<b>536.8</b>	<b>1,002,218</b>	<b>600.8</b>

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

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## FINANCIAL INFORMATION

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### 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<sup>3</sup> for the year ended 31 December 2017 to approximately RMB417.1 per m<sup>3</sup> 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<sup>3</sup> for the ten months ended 31 October 2019 to approximately RMB439.7 per m<sup>3</sup> 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.

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## FINANCIAL INFORMATION

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### 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<sup>3</sup> for the year ended 31 December 2017 to approximately 42,990 m<sup>3</sup> 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<sup>3</sup> for the year ended 31 December 2017 to approximately RMB1,575.2 per m<sup>3</sup> 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<sup>3</sup> and 12,455 m<sup>3</sup> 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<sup>3</sup> 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<sup>3</sup> for the year ended 31 December 2018 to approximately RMB2,363.0 per m<sup>3</sup> 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<sup>3</sup>; and (ii) increase in sales volume of PC components from approximately 42,990 m<sup>3</sup> for the year ended 31 December 2018 to approximately 78,587 m<sup>3</sup> 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

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## FINANCIAL INFORMATION

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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<sup>3</sup> for the ten months ended 31 October 2019 to approximately RMB2,623.9 per m<sup>3</sup> 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<sup>3</sup>; and (ii) increase in sales volume of other construction components from approximately 33,937 m<sup>3</sup> for the ten months ended 31 October 2019 to approximately 73,570 m<sup>3</sup> 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<sup>3</sup> for the ten months ended 31 October 2019 to approximately 1,028 m<sup>3</sup> 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.

## FINANCIAL INFORMATION

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		
	% to total cost of production		% to total cost of production		% to total cost of production		% to total cost of production		% to total cost of production		
	RMB'000		RMB'000		RMB'000		RMB'000		RMB'000		
	(Unaudited)										
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 <sup>(1)</sup>	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 <sup>(2)</sup>	9,230	2.5	11,111	2.6	21,019	4.3	16,240	4.5	24,919	4.9	
<b>Subtotal</b>	<b>295,347</b>	<b>80.9</b>	<b>351,005</b>	<b>80.7</b>	<b>386,605</b>	<b>79.3</b>	<b>277,478</b>	<b>77.5</b>	<b>374,847</b>	<b>74.8</b>	
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	
<b>Total cost of production</b>	<b>365,212</b>	<b>100.0</b>	<b>435,141</b>	<b>100.0</b>	<b>487,524</b>	<b>100.0</b>	<b>357,719</b>	<b>100.0</b>	<b>501,190</b>	<b>100.0</b>	
Changes in inventories of finished goods and work-in-progress <sup>(3)</sup>	(5,359)		(366)		(11,104)		(6,474)		(18,023)		
<b>Total</b>	<b>359,853</b>		<b>434,775</b>		<b>476,420</b>		<b>351,245</b>		<b>483,167</b>		

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.



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## FINANCIAL INFORMATION

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### *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".

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## FINANCIAL INFORMATION

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### *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".

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## FINANCIAL INFORMATION

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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<sup>3</sup> for the year ended 31 December 2017 to approximately 31,236.1 m<sup>3</sup> 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<sup>3</sup> for the year ended 31 December 2018 to approximately 56,963.4 m<sup>3</sup> 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<sup>3</sup> for the ten months ended 31 October 2019 to approximately 76,738.9 m<sup>3</sup> 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<sup>3</sup> for the ten months ended 31 October 2019 to approximately 52,382.0 m<sup>3</sup> for the ten months ended 31 October 2020, which were on average charged relatively higher per m<sup>3</sup> 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.

## FINANCIAL INFORMATION

### 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	%	RMB'000	%
	(Unaudited)									
<b>Ready-mixed concrete</b>										
— 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	<u>45,419</u>	11.5	<u>71,326</u>	15.7	<u>72,855</u>	16.3	<u>53,997</u>	16.9	<u>63,140</u>	15.5
<b>PC components</b>										
— 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	<u>(5,753)</u>	(102.0)	<u>5,166</u>	8.9	<u>41,522</u>	28.8	<u>31,863</u>	27.3	<u>55,848</u>	28.7
<b>Total</b>	<u>39,666</u>	9.9	<u>76,492</u>	15.0	<u>114,377</u>	19.4	<u>85,860</u>	19.6	<u>118,988</u>	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

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## FINANCIAL INFORMATION

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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<sup>3</sup> for the ten months ended 31 October 2019 to approximately 64,475 m<sup>3</sup> for the ten months ended 31 October 2020, which

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## FINANCIAL INFORMATION

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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<sup>3</sup> for the ten months ended 31 October 2019 to approximately 579,980 m<sup>3</sup> 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.

## FINANCIAL INFORMATION

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<sup>(1)</sup>) 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	%	RMB'000	%
	(Unaudited)									
<b>Low grade</b>										
— 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
<b>Total</b>	<b>190,711</b>	<b>100.0</b>	<b>164,441</b>	<b>100.0</b>	<b>237,845</b>	<b>100.0</b>	<b>160,215</b>	<b>100.0</b>	<b>190,885</b>	<b>100.0</b>
<b>Weighted average % of mark down from the Guidance Price<sup>(2)</sup></b>		9.8		8.0		5.5		5.8		4.8
<b>Standard grade</b>										
— 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
<b>Total</b>	<b>151,939</b>	<b>100.0</b>	<b>179,080</b>	<b>100.0</b>	<b>133,205</b>	<b>100.0</b>	<b>97,414</b>	<b>100.0</b>	<b>141,991</b>	<b>100.0</b>
<b>Weighted average % of mark down from the Guidance Price<sup>(2)</sup></b>		10.0		8.3		6.9		6.9		5.7
<b>High grade</b>										
— 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
<b>Total</b>	<b>43,779</b>	<b>100.0</b>	<b>97,868</b>	<b>100.0</b>	<b>52,414</b>	<b>100.0</b>	<b>45,722</b>	<b>100.0</b>	<b>37,903</b>	<b>100.0</b>
<b>Weighted average % of mark down from the Guidance Price<sup>(2)</sup></b>		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.

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## FINANCIAL INFORMATION

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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.



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## FINANCIAL INFORMATION

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### 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.

Hypothetical fluctuations in gross profit	Year ended 31 December						Ten months ended 31 October			
	2017		2018		2019		2019		2020	
	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)

## FINANCIAL INFORMATION

### *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.

<b>Hypothetical fluctuations in average cost of cement<sup>(Note)</sup></b>	<b>Impact on net profit</b>				
	<b>for the year ended 31 December</b>			<b>for the ten months ended 31 October</b>	
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2019</b>	<b>2020</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
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.

<b>Hypothetical fluctuations in average cost of aggregates<sup>(Note)</sup></b>	<b>Impact on net profit</b>				
	<b>for the year ended 31 December</b>			<b>for the ten months ended 31 October</b>	
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2019</b>	<b>2020</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
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.

## FINANCIAL INFORMATION

### *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
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	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
	<u>895</u>	<u>2,380</u>	<u>1,270</u>	<u>930</u>	<u>2,162</u>
Rental income	1,700	1,595	1,661	1,384	1,541
Sundry income	390	86	762	740	455
<b>Total</b>	<u><u>2,985</u></u>	<u><u>4,061</u></u>	<u><u>3,693</u></u>	<u><u>3,054</u></u>	<u><u>4,158</u></u>

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

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## FINANCIAL INFORMATION

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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	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	<u>238</u>	<u>506</u>	<u>314</u>	<u>105</u>	<u>69</u>
<b>Total</b>	<u><u>7,306</u></u>	<u><u>11,432</u></u>	<u><u>13,699</u></u>	<u><u>9,844</u></u>	<u><u>20,142</u></u>

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.

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## FINANCIAL INFORMATION

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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.

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## FINANCIAL INFORMATION

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### 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	RMB'000
				(Unaudited)	
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 <sup>(Note)</sup>	4,512	4,973	9,132	7,517	7,908
<b>Total</b>	<b><u>17,711</u></b>	<b><u>23,655</u></b>	<b><u>28,188</u></b>	<b><u>22,182</u></b>	<b><u>24,376</u></b>

*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.

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## FINANCIAL INFORMATION

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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

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## FINANCIAL INFORMATION

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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	RMB'000
	(Unaudited)				
<b>Finance income</b>					
Interest income on					
bank deposits	349	319	105	88	54
<b>Finance costs</b>					
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 <sup>(Note)</sup>	(1,266)	(966)	(328)	(253)	(519)
	(5,416)	(7,678)	(8,836)	(6,819)	(11,171)
Amounts capitalised in					
qualifying assets	3,274	401	—	—	—
<b>Finance costs — net</b>	<b>(1,793)</b>	<b>(6,958)</b>	<b>(8,731)</b>	<b>(6,731)</b>	<b>(11,117)</b>

*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.



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## FINANCIAL INFORMATION

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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

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## FINANCIAL INFORMATION

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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.

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## FINANCIAL INFORMATION

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### 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	RMB'000
				(Unaudited)	
Net cash generated from operating activities before working capital changes					
Changes in working capital	32,188	62,213	88,882	67,219	90,751
Income tax paid	(62,037)	(38,363)	(73,663)	(117,230)	(106,777)
	<u>(3,702)</u>	<u>(4,430)</u>	<u>(18,220)</u>	<u>(18,220)</u>	<u>(10,681)</u>
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	<u>83,759</u>	<u>(60,327)</u>	<u>19,651</u>	<u>70,566</u>	<u>27,143</u>
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	<u>15,310</u>	<u>46,290</u>	<u>3,807</u>	<u>3,807</u>	<u>16,144</u>
Cash and cash equivalents at end of the year/period	<u><u>46,290</u></u>	<u><u>3,807</u></u>	<u><u>16,144</u></u>	<u><u>3,811</u></u>	<u><u>2,467</u></u>

### 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

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## FINANCIAL INFORMATION

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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

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## FINANCIAL INFORMATION

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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.

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## FINANCIAL INFORMATION

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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

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## FINANCIAL INFORMATION

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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.

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## FINANCIAL INFORMATION

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### *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-



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## FINANCIAL INFORMATION

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- 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;

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## FINANCIAL INFORMATION

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- (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.

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## FINANCIAL INFORMATION

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### 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	As at
	2017	2018	2019	31 October 2020	31 January 2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)
<b>Current assets</b>					
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
<b>Current liabilities</b>					
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
<b>Net current (liabilities)/assets</b>	<u>(79,485)</u>	<u>(141,862)</u>	<u>2,374</u>	<u>(6,870)</u>	<u>97,818</u>

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## FINANCIAL INFORMATION

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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.

## FINANCIAL INFORMATION

### DISCUSSION ON MAJOR ITEMS OF THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December			As at
	2017	2018	2019	31 October
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
<b>ASSETS AND LIABILITIES</b>				
<b>Non-current assets</b>				
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
	<u>198,256</u>	<u>207,036</u>	<u>211,133</u>	<u>211,184</u>
<b>Current assets</b>				
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
	<u>365,986</u>	<u>344,165</u>	<u>464,507</u>	<u>598,320</u>
<b>Current liabilities</b>				
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
	<u>445,471</u>	<u>486,027</u>	<u>462,133</u>	<u>605,190</u>
<b>Net current (liabilities)/assets</b>	<u>(79,485)</u>	<u>(141,862)</u>	<u>2,374</u>	<u>(6,870)</u>
<b>Total asset less current liabilities</b>	<u>118,771</u>	<u>65,174</u>	<u>213,507</u>	<u>204,314</u>

## FINANCIAL INFORMATION

	As at 31 December			As at
	2017	2018	2019	31 October
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
<b>Non-current liabilities</b>				
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
	<u>825</u>	<u>2,659</u>	<u>109,161</u>	<u>56,995</u>
<b>Net assets</b>	<u>117,946</u>	<u>62,515</u>	<u>104,346</u>	<u>147,319</u>
<b>EQUITY</b>				
<b>Equity attributed to owners</b>				
<b>of the Company</b>				
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
<b>Total equity</b>	<u>117,946</u>	<u>62,515</u>	<u>104,346</u>	<u>147,319</u>

### 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)

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## FINANCIAL INFORMATION

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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,

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## FINANCIAL INFORMATION

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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<sup>3</sup> as at 31 December 2019 to approximately 121,195 m<sup>3</sup> 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 <sup>(note)</sup>	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.



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## FINANCIAL INFORMATION

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### 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
<b>Trade receivables — current</b>				
Trade receivables from				
— SOE	168,135	203,429	298,916	376,190
— non-SOE	<u>61,924</u>	<u>83,207</u>	<u>106,744</u>	<u>154,147</u>
	230,059	286,636	405,660	530,337
Less: provision for impairment	<u>(2,281)</u>	<u>(3,840)</u>	<u>(5,214)</u>	<u>(7,159)</u>
	<u>227,778</u>	<u>282,796</u>	<u>400,446</u>	<u>523,178</u>
<b>Trade receivables — non-current</b>				
Retention receivables from				
— SOE	18,771	22,305	15,535	14,552
— non-SOE	<u>—</u>	<u>101</u>	<u>2,005</u>	<u>2,866</u>
	18,771	22,406	17,540	17,418
Less: provision for impairment	<u>(111)</u>	<u>(140)</u>	<u>(197)</u>	<u>(282)</u>
	<u>18,660</u>	<u>22,266</u>	<u>17,343</u>	<u>17,136</u>
Total trade receivables, net	<u><u>246,438</u></u>	<u><u>305,062</u></u>	<u><u>417,789</u></u>	<u><u>540,314</u></u>

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.

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## FINANCIAL INFORMATION

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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.

## FINANCIAL INFORMATION

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
	<u>248,830</u>	<u>309,042</u>	<u>423,200</u>	<u>547,755</u>

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)	<u>220.6</u>	<u>196.9</u>	<u>223.3</u>	<u>242.6</u>

*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.

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## FINANCIAL INFORMATION

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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.

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## FINANCIAL INFORMATION

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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

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## FINANCIAL INFORMATION

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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) (“ <b>Unsettled Balances</b> ”)	115,833	45,611	161,444
Percentage of the subsequent settlement in the outstanding balance (%)	70.4	71.0	70.5

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## FINANCIAL INFORMATION

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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:

	<b>As at the Latest Practicable Date</b>		
	<b>Unsettled Balances</b>		
	<b>from SOE</b>	<b>from non-SOE</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
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.

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## FINANCIAL INFORMATION

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### 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
	<u>29,567</u>	<u>14,090</u>	<u>15,382</u>	<u>17,872</u>

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



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## FINANCIAL INFORMATION

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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

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## FINANCIAL INFORMATION

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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 <sup>(Note)</sup>	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.

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## FINANCIAL INFORMATION

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### 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.

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## FINANCIAL INFORMATION

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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.

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## FINANCIAL INFORMATION

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### Borrowings

The following table sets forth the breakdown of our borrowings as at the dates indicated:

	As at 31 December			As at
	2017	2018	2019	31 October
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
<b>Borrowings — current</b>				
Bank borrowings				
Secured	36,000	70,000	104,000	147,672
Unsecured	<u>58,500</u>	<u>27,000</u>	<u>18,000</u>	<u>18,000</u>
	<u>94,500</u>	<u>97,000</u>	<u>122,000</u>	<u>165,672</u>
Entrusted loans from				
an Independent Third Party	—	—	—	52,200
Loan from an Independent Third Party	<u>4,000</u>	<u>4,000</u>	<u>—</u>	<u>—</u>
	<u>98,500</u>	<u>101,000</u>	<u>122,000</u>	<u>217,872</u>
<b>Borrowings — non-current</b>				
Entrusted loans from				
an Independent Third Party	<u>—</u>	<u>—</u>	<u>68,790</u>	<u>16,590</u>
	<u>98,500</u>	<u>101,000</u>	<u>190,790</u>	<u>234,462</u>
Carrying amount repayable:				
Within one year or on demand	98,500	101,000	122,000	217,872
Between 1 and 2 years	<u>—</u>	<u>—</u>	<u>68,790</u>	<u>16,590</u>
	<u>98,500</u>	<u>101,000</u>	<u>190,790</u>	<u>234,462</u>

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

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## FINANCIAL INFORMATION

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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

## FINANCIAL INFORMATION

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	RMB'000
<b>Trade in nature:</b>												
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	—	—	—
	<u>20,286</u>	<u>—</u>	<u>20,286</u>	<u>14,550</u>	<u>—</u>	<u>14,550</u>	<u>289</u>	<u>—</u>	<u>289</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Non-trade in nature:</b>												
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	—	—	—	—	—	—	—	—	—
	<u>54,178</u>	<u>—</u>	<u>54,178</u>	<u>82,895</u>	<u>—</u>	<u>82,895</u>	<u>—</u>	<u>26,283</u>	<u>26,283</u>	<u>4,920</u>	<u>26,963</u>	<u>31,883</u>

*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.

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## FINANCIAL INFORMATION

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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.



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## FINANCIAL INFORMATION

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### KEY FINANCIAL RATIOS

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

	<u>As at 31 December</u>			<u>As at</u>
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>31 October 2020</u>
Current ratio <sup>(1)</sup>	0.8 times	0.7 times	1.0 times	1.0 times
Quick ratio <sup>(2)</sup>	0.8 times	0.7 times	0.9 times	0.9 times
Gearing ratio <sup>(3)</sup>	83.5%	161.6%	208.0%	177.5%
Debt to equity ratio <sup>(4)</sup>	44.3%	155.5%	192.6%	175.8%

  

	<u>Year ended 31 December</u>			<u>Ten months</u>
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>ended</u>
				<u>31 October 2020</u>
Return on equity <sup>(5)</sup>	10.4%	43.8%	40.1%	35.0%
Return on assets <sup>(6)</sup>	2.2%	5.0%	6.2%	6.4%
Net profit margin <sup>(7)</sup>	3.1%	5.4%	7.1%	7.1%
Interest coverage ratio <sup>(8)</sup>	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.

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## FINANCIAL INFORMATION

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### **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.

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## FINANCIAL INFORMATION

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### 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.

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## FINANCIAL INFORMATION

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### 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

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## FINANCIAL INFORMATION

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### 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:

	<u>As at 31 December</u>			<u>As at</u>
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>31 October 2020</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Within one year	<u>—</u>	<u>102</u>	<u>2,698</u>	<u>1,916</u>

### 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.

## FINANCIAL INFORMATION

### 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)
<b>Current liabilities</b>					
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	<u>54,178</u>	<u>95</u>	<u>—</u>	<u>4,920</u>	<u>4,789</u>
Subtotal	<u>153,175</u>	<u>102,104</u>	<u>127,695</u>	<u>229,499</u>	<u>160,299</u>
<b>Non-current liabilities</b>					
Borrowings	—	—	68,790	16,590	98,190
Lease liabilities	—	1,241	12,406	11,333	10,401
Amounts due to related parties	<u>—</u>	<u>—</u>	<u>26,283</u>	<u>26,963</u>	<u>26,876</u>
Subtotal	<u>—</u>	<u>1,241</u>	<u>107,479</u>	<u>54,886</u>	<u>135,467</u>
<b>Total</b>	<u><u>153,175</u></u>	<u><u>103,345</u></u>	<u><u>235,174</u></u>	<u><u>284,385</u></u>	<u><u>295,766</u></u>

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)

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## FINANCIAL INFORMATION

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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.

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## FINANCIAL INFORMATION

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### 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.



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## FINANCIAL INFORMATION

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### 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.

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## FINANCIAL INFORMATION

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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
<b>Net book value of the property interests of our Group as at 31 October 2020 (audited):</b>	
Building included in property, plant and equipment	45,338
Right-of-use assets	21,844
Investment properties	<u>10,129</u>
	77,311
Movements for the period from 31 October 2020 to 31 December 2020	(422)
<b>Net book value of the property interests of our Group as at 31 December 2020 (unaudited)</b>	76,889
Net valuation surplus	<u>25,711</u>
<b>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</b>	<u><u>102,600</u></u>

### 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.

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## FINANCIAL INFORMATION

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### **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.