

The following is the text of a report set out on pages I-1 to I-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF ZHIXIN GROUP HOLDING LIMITED 智欣集團控股有限公司 AND KINGSWAY CAPITAL LIMITED

Introduction

We report on the historical financial information of Zhixin Group Holding Limited 智欣集團控股有限公司 (the “**Company**”) and its subsidiaries (together, the “**Group**”) set out on pages I-4 to I-83, which comprises the consolidated statements of financial position as at 31 December 2017, 2018 and 2019 and 31 October 2020, the company statements of financial position as at 31 December 2018 and 2019 and 31 October 2020, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2017, 2018 and 2019 and the ten months ended 31 October 2020 (the “**Track Record Period**”) and a summary of significant accounting policies and other explanatory information (together, the “**Historical Financial Information**”). The Historical Financial Information set out on pages I-4 to I-83 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 16 March 2021 (the “**Prospectus**”) in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public

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Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant’s judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity’s preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant’s report, a true and fair view of the financial position of the Company as at 31 December 2018 and 2019 and 31 October 2020 and the consolidated financial position of the Group as at 31 December 2017, 2018 and 2019 and 31 October 2020, and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the ten months ended 31 October 2019 and other explanatory information (the “Stub Period Comparative Financial Information”). The directors of the Company are responsible for the presentation and preparation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of

all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on pages I-4 have been made.

Dividends

We refer to note 13 to the Historical Financial Information which states that no dividends have been paid by Zhixin Group Holding Limited in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong

16 March 2021

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA (“**Underlying Financial Statements**”).

The Historical Financial Information is presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

A. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended 31 December			Ten months ended 31 October	
		2017	2018	2019	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue	5	399,519	511,267	590,797	437,105	602,155
Cost of sales	5, 8	(359,853)	(434,775)	(476,420)	(351,245)	(483,167)
Gross profit		39,666	76,492	114,377	85,860	118,988
Other income	6	2,985	4,061	3,693	3,054	4,158
Other (losses)/gains — net	7	(189)	464	(1,572)	(1,500)	(444)
Selling expenses	8	(7,306)	(11,432)	(13,699)	(9,844)	(20,142)
Administrative expenses	8	(17,711)	(23,655)	(28,188)	(22,182)	(24,376)
Net impairment losses on financial assets	3.1(b)	(35)	(1,588)	(1,431)	(1,114)	(2,030)
Listing expenses	8	—	—	(6,512)	(5,220)	(5,662)
Operating profit		17,410	44,342	66,668	49,054	70,492
Finance income	10	349	319	105	88	54
Finance costs	10	(2,142)	(7,277)	(8,836)	(6,819)	(11,171)
Finance costs — net	10	(1,793)	(6,958)	(8,731)	(6,731)	(11,117)
Profit before income tax		15,617	37,384	57,937	42,323	59,375
Income tax expense	11	(3,378)	(10,015)	(16,115)	(11,866)	(16,402)
Profit and total comprehensive income for the year/period		<u>12,239</u>	<u>27,369</u>	<u>41,822</u>	<u>30,457</u>	<u>42,973</u>
Profit attributable to:						
Owners of the Company		16,087	27,369	41,822	30,457	42,973
Non-controlling interests		(3,848)	—	—	—	—
		<u>12,239</u>	<u>27,369</u>	<u>41,822</u>	<u>30,457</u>	<u>42,973</u>
Earnings per share for profit attributable to owners of the Company						
Basic earnings per share (RMB)	12	16.09	27.37	41.82	30.46	42.97
Diluted earnings per share (RMB)	12	<u>16.09</u>	<u>27.37</u>	<u>41.82</u>	<u>30.46</u>	<u>42.97</u>

B. CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<i>Note</i>	As at 31 December			As at
		2017	2018	2019	31 October
		RMB'000	RMB'000	RMB'000	2020
				RMB'000	
ASSETS					
Non-current assets					
Property, plant and equipment	14	116,630	139,763	140,431	140,913
Right-of-use assets	15	24,447	25,509	41,057	40,733
Investment properties	16	8,306	7,942	10,554	10,129
Intangible assets	17	7	239	213	192
Trade receivables	21	18,660	22,266	17,343	17,136
Prepayment for non-current assets	18	23,416	3,800	—	—
Deferred income tax assets	29	6,790	7,517	1,535	2,081
		<u>198,256</u>	<u>207,036</u>	<u>211,133</u>	<u>211,184</u>
Current assets					
Inventories	20	17,818	20,531	27,825	51,593
Trade receivables	21	227,778	282,796	400,446	523,178
Prepayments, deposits and other receivables	21	29,567	14,090	15,382	17,872
Amount due from a related party	32(c)	12,533	13,940	—	—
Restricted bank balance	22	32,000	9,001	4,710	3,210
Cash and bank balances	22	46,290	3,807	16,144	2,467
		<u>365,986</u>	<u>344,165</u>	<u>464,507</u>	<u>598,320</u>
Total assets		<u>564,242</u>	<u>551,201</u>	<u>675,640</u>	<u>809,504</u>
EQUITY					
Equity attributable to owners of the Company					
Share capital	23	—	—	9	9
Other reserves	24	100,000	103,012	105,642	105,642
Retained earnings/ (Accumulated losses)		<u>17,946</u>	<u>(40,497)</u>	<u>(1,305)</u>	<u>41,668</u>
		<u>117,946</u>	<u>62,515</u>	<u>104,346</u>	<u>147,319</u>
Non-controlling interests		—	—	—	—
Total equity		<u>117,946</u>	<u>62,515</u>	<u>104,346</u>	<u>147,319</u>

	<i>Note</i>	As at 31 December			As at
		2017	2018	2019	31 October
		RMB'000	RMB'000	RMB'000	2020
				RMB'000	
LIABILITIES					
Non-current liabilities					
Borrowings	26	—	—	68,790	16,590
Lease liabilities	27	—	1,241	12,406	11,333
Amounts due to related parties	32(c)	—	—	26,283	26,963
Deferred income	28	825	1,418	1,682	2,109
		<u>825</u>	<u>2,659</u>	<u>109,161</u>	<u>56,995</u>
Current liabilities					
Trade and bills payables	25	259,610	248,562	286,494	327,832
Other payables and accruals	25	24,446	34,209	31,435	35,896
Amounts due to related parties	32(c)	54,178	82,895	—	4,920
Current income tax liabilities		5,924	12,236	4,149	10,416
Borrowings	26	98,500	101,000	122,000	217,872
Contract liabilities	5(c)	2,316	6,116	12,360	1,547
Lease liabilities	27	497	1,009	5,695	6,707
		<u>445,471</u>	<u>486,027</u>	<u>462,133</u>	<u>605,190</u>
Total liabilities		<u>446,296</u>	<u>488,686</u>	<u>571,294</u>	<u>662,185</u>
Total equity and liabilities		<u>564,242</u>	<u>551,201</u>	<u>675,640</u>	<u>809,504</u>
Net current (liabilities)/ assets		<u>(79,485)</u>	<u>(141,862)</u>	<u>2,374</u>	<u>(6,870)</u>
Total assets less current liabilities		<u>118,771</u>	<u>65,174</u>	<u>213,507</u>	<u>204,314</u>

C. COMPANY STATEMENTS OF FINANCIAL POSITION

	<i>Note</i>	As at 31 December		As at 31 October
		2018	2019	2020
		RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Interests in a subsidiary	34	—	91,014	91,014
Current assets				
Other receivables and prepayments	21	—	2,046	3,634
Cash and bank balances		—	9	14
Total current assets		—	2,055	3,648
Total assets		—	93,069	94,662
EQUITY AND LIABILITIES				
Share capital	23	—	9	9
Capital reserve	24	—	91,014	91,014
Accumulated losses		(36)	(4,586)	(9,507)
Total (deficit)/equity		(36)	86,437	81,516
LIABILITIES				
Non-current liabilities				
Amount due to a related party	32(c)	—	6,383	6,648
Current liabilities				
Amount due to a related party	32(c)	—	—	4,920
Other payables and accruals	25	36	249	1,578
Total current liabilities		36	249	6,498
Total liabilities		36	6,632	13,146
Total equity and liabilities		—	93,069	94,662

D. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Note	Equity attributable to owners of the Company					
		Share capital	Other reserves	Retained earnings/ (Accumulated losses)	Total	Non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2017		—	103,597	10,800	114,397	710	115,107
Comprehensive income							
Profit for the year		—	—	16,087	16,087	(3,848)	12,239
Total comprehensive income		—	—	16,087	16,087	(3,848)	12,239
Transactions with owners							
Profit appropriation to statutory reserves		—	2,422	(2,422)	—	—	—
Transactions with non-controlling interests	24	—	(6,019)	(6,519)	(12,538)	3,138	(9,400)
Total transactions with owners		—	(3,597)	(8,941)	(12,538)	3,138	(9,400)
As at 31 December 2017		—	100,000	17,946	117,946	—	117,946
As at 1 January 2018		—	100,000	17,946	117,946	—	117,946
Comprehensive income							
Profit for the year		—	—	27,369	27,369	—	27,369
Total comprehensive income		—	—	27,369	27,369	—	27,369
Transactions with owners							
Profit appropriation to statutory reserves		—	3,012	(3,012)	—	—	—
Dividends declared	13	—	—	(82,800)	(82,800)	—	(82,800)
Total transactions with owners		—	3,012	(85,812)	(82,800)	—	(82,800)
As at 31 December 2018		—	103,012	(40,497)	62,515	—	62,515
As at 1 January 2019		—	103,012	(40,497)	62,515	—	62,515
Comprehensive income							
Profit for the year		—	—	41,822	41,822	—	41,822
Total comprehensive income		—	—	41,822	41,822	—	41,822
Transactions with owners							
Profit appropriation to statutory reserves		—	2,630	(2,630)	—	—	—
Share allotment to Controlling Shareholders	23	9	—	—	9	—	9
Contribution from shareholders	24	—	91,014	—	91,014	—	91,014
Deemed distribution to shareholders	24	—	(91,014)	—	(91,014)	—	(91,014)
Total transactions with owners		9	2,630	(2,630)	9	—	9
As at 31 December 2019		9	105,642	(1,305)	104,346	—	104,346

		Equity attributable to owners of the Company					
		Share capital	Other reserves	Retained earnings/ (Accumulated losses)	Total	Non-controlling interests	Total equity
Note		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	As at 1 January 2020	9	105,642	(1,305)	104,346	—	104,346
	Comprehensive income						
	Profit for the period	—	—	42,973	42,973	—	42,973
	Total comprehensive income	—	—	42,973	42,973	—	42,973
	As at 31 October 2020	9	105,642	41,668	147,319	—	147,319
	(Unaudited)						
	As at 1 January 2019	—	103,012	(40,497)	62,515	—	62,515
	Comprehensive income						
	Profit for the period	—	—	30,457	30,457	—	30,457
	Total comprehensive income	—	—	30,457	30,457	—	30,457
	Transactions with owners						
	Share allotment to Controlling Shareholders	23	9	—	9	—	9
	Contribution from shareholders	24	—	91,014	91,014	—	91,014
	Deemed distribution to shareholders	24	—	(91,014)	(91,014)	—	(91,014)
	Total transactions with owners	9	—	—	9	—	9
	As at 31 October 2019	9	103,012	(10,040)	92,981	—	92,981

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION OF THE GROUP, REORGANISATION AND BASIS OF PRESENTATION

1.1 General information

The Company was incorporated in the Cayman Islands on 14 November 2018 as an exempted company with limited liability under the Companies Act of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company and its subsidiaries (together, the “**Group**”) are principally engaged in the manufacturing and sale of ready-mixed concrete and precast concrete components (the “**Listing Business**”) in the People’s Republic of China (the “**PRC**”). The Group’s headquarters is in Xiamen city, Fujian province of the PRC.

The shareholders of the Company are Zhixin Investment Holding Limited, Yaohe Holding Limited and Pakhim Chen Capital Limited, which are beneficially owned by Mr. Ye Zhijie, Mr. Huang Wengui and Ms. Chen Manhong and holds 65.01%, 21.67% and 13.32% of the shares of the Company respectively. Zhixin Investment Holding Limited is the ultimate holding company of the Group and Mr. Ye Zhijie is the ultimate controlling shareholder of the Group.

1.2 Reorganisation

Immediately prior to the Reorganisation (as defined below) and during the Track Record Period, the Listing Business was operated by Xiamen Zhixin Construction Material Group Co., Ltd. (“**Zhixin Construction Material**”) and its two subsidiaries, Xiamen Zhixin Logistics Co., Ltd. (“**Zhixin Logistics**”) and Xiamen Zhixin Construction Technology Co., Ltd. (“**Zhixin Construction Technology**”). The companies are collectively referred to as the Operating Subsidiaries. Immediately prior to the Reorganisation (as defined below), the Operating Subsidiaries were owned as to 75% by Mr. Ye Zhijie and 25% by Mr. Huang Wengui.

In preparation for the initial public offering (“**IPO**”) and listing (the “**Listing**”) of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited, a group reorganisation (the “**Reorganisation**”) was undertaken pursuant to which the Operating Subsidiaries engaged in the Listing Business were transferred to the Company.

The Reorganisation mainly involved the followings:

1.2.1 *Incorporation of the Company*

On 14 November 2018, the Company was incorporated in the Cayman Islands with 1 subscriber share allotted and issued. On the same date, the subscriber share of the Company was transferred to Zhixin Investment Holding Limited and 74 shares and 25 shares of the Company were allotted and issued to Zhixin Investment Holding Limited and Yaohe Holding Limited, which are wholly owned by Mr. Ye Zhijie and Mr. Huang Wengui, respectively.

1.2.2 *Incorporation of intermediate holding companies by the Company*

On 20 November 2018, Zhixin Enterprises Limited was incorporated in the British Virgin Islands (“**BVI**”) with 1 share allotted and issued to the Company. Since then, Zhixin Enterprises Limited became a direct wholly owned subsidiary of the Company.

On 13 December 2018, Zhixin Group (HK) Limited was incorporated in Hong Kong with 1 share allotted and issued to Zhixin Enterprises Limited. Since then, Zhixin Group (HK) Limited became an indirect wholly owned subsidiary of the Company.

1.2.3 *Transfer of the equity interest of Zhixin Construction Material to the Group*

(i) Transfer of 13.32% equity interest to a new shareholder

On 14 January 2019, Pakhim Chen (Hong Kong) Limited, a company incorporated in Hong Kong and ultimately controlled by Ms. Chen Manhong, acquired 9.99% and 3.33%, totalling 13.32% of the equity interests in Zhixin Construction Material from Mr. Ye Zhijie and Mr. Huang Wengui, respectively, at aggregate cash considerations of HK\$16,260,000 (equivalent to RMB13,986,000). Zhixin Construction Material then became owned by Mr. Ye Zhijie, Mr. Huang Wengui and Ms. Chen Manhong as to 65.01%, 21.67% and 13.32%, respectively.

(ii) Transfer of 86.68% equity interest in Zhixin Construction Material to the Group

On 23 January 2019, Zhixin Group (HK) Limited acquired 65.01% and 21.67%, totalling 86.68% equity interests in Zhixin Construction Material from Mr. Ye Zhijie and Mr. Huang Wengui, respectively, at aggregate cash considerations of RMB91,014,000.

(iii) During March to April 2019, Mr. Ye Zhijie and Mr. Huang Wengui, through companies owned by them, made cash contributions totalling HK\$107,000,000 (equivalent to RMB 91,014,000) to the Company. The cash contributions were subsequently used to settle the considerations payable to the two shareholders as mentioned in (ii) above.

1.2.4 *Allotment of shares of the Company and completion of the Reorganisation*

(i) On 12 August 2019, 6,426 shares and 2,142 shares, representing enlarged shares of 65.01% and 21.67% of the Company were allotted and issued to Zhixin Investment Holding Limited and Yaohe Holding Limited, which are wholly owned by Mr. Ye Zhijie and Mr. Huang Wengui, respectively.

(ii) On 12 August 2019, Zhixin Enterprises Limited, a subsidiary of the Company, acquired a 100% equity interest of Pakhim Chen (Hong Kong) Limited, which held 13.32% of the equity interest in Zhixin Construction Material since 14 January 2019 (note 1.2.3). In consideration, the Company issued and allotted 1,332 shares of the Company to Pakhim Chen Capital Limited, a company wholly owned by Ms. Chen Manhong.

Since then, the Company was ultimately owned by Mr. Ye Zhijie, Mr. Huang Wengui and Ms. Chen Manhong as to 65.01%, 21.67% and 13.32%, respectively.

Upon completion of the Reorganisation on 27 September 2019, the Company became the holding company of the companies now comprising the Group.

As at the date of this report, the Company has the following subsidiaries:

Company name	Date of incorporation	Country/ Place of incorporation/ establishment	Registered/ Issued and paid-up capital	Effective interest held as at				Date of this report	Principal activities	Note
				31 December 2017	31 December 2018	31 October 2019	31 October 2020			
Directly hold:										
Zhixin Enterprises Limited	20 November 2018	BVI, limited liability company	HK\$1	NA	100%	100%	100%	100%	Investment holding	Note (i)
Indirectly hold:										
Zhixin Group (HK) Limited	13 December 2018	Hong Kong, limited liability company	HK\$1	NA	100%	100%	100%	100%	Investment holding	Note (ii)

Company name	Date of incorporation	Country/ Place of incorporation/ establishment	Registered/ Issued and paid-up capital	Effective interest held as at				Date of this report	Principal activities	Note
				31 December 2017	31 December 2018	31 October 2019	31 October 2020			
Pakhim Chen (Hong Kong) Limited	3 October 2018	Hong Kong, limited liability company	HK\$100	NA	NA	100%	100%	100%	Investment holding	Note (ii)
Xiamen Zhixin Construction Material Group Co., Ltd.* 廈門智欣建材集團有限公司	19 April 2007	PRC, private enterprise	RMB100,000,000	100%	100%	100%	100%	100%	Manufacturing, processing and sale of ready-mixed concrete	Note (iii)
Xiamen Zhixin Logistics Co., Ltd.* 廈門智欣物流有限公司	27 December 2012	PRC, private enterprise	RMB5,000,000	100%	100%	100%	100%	100%	Logistics business	Note (iii)
Xiamen Zhixin Construction Technology Co., Ltd.* (previously known as "Xiamen Tangsong Robot Technology Co., Ltd.*") 廈門智欣建工科技有限公司 (前稱廈門唐松機器人科技有限公司)	2 November 2010	PRC, private enterprise	Registered capital RMB200,000,000 Paid in capital RMB167,025,000	100%	100%	100%	100%	100%	Manufacturing and sale of precast concrete components	Note (iii)

Note (i): No audited statutory financial statements were prepared for this subsidiary as it was not required to issue audited financial statements under local statutory requirements.

Note (ii): The financial statements of Zhixin Group (HK) Limited for the period from 13 December 2018 (date of incorporation) to 31 December 2019 and Pakhim Chen (Hong Kong) Limited for the period from 3 October 2018 (date of incorporation) to 31 December 2019 were audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

Note (iii): The financial statements of Xiamen Zhixin Construction Material Group Co., Ltd., Xiamen Zhixin Logistics Co., Ltd., and Xiamen Zhixin Construction Technology Co., Ltd. for the years ended 31 December 2017, 2018 and 2019 were audited by Xiamen Hongzheng Accounting Firm Co., Ltd.* 廈門泓正會計師事務所有限公司, Certified Public Accountants in the PRC.

* The English names of the PRC companies and statutory auditor referred to in this note represent management's best efforts in translating the Chinese names of those companies as no English names have been registered or are available.

1.3 Basis of presentation

Immediately prior to and after the Reorganisation, the Listing Business was operated by the Operating Subsidiaries. Pursuant to the Reorganisation, the Operating Subsidiaries were transferred to and held by the subsidiaries newly set up by the Company. The Company and its newly set up subsidiaries had not been involved in any other business prior to the Reorganisation and do not meet the definition of a business. The Reorganisation is merely a reorganisation of the Listing Business with no change in management of such business and the ultimate controlling shareholders of the Listing Business. Accordingly, the Group resulting from the Reorganisation is regarded as a continuation of the Listing Business under the Operating Subsidiaries and, for the purpose of this report, the Historical Financial Information has been prepared and presented as a continuation of the consolidated financial statements of Zhixin Construction Material, with the assets and liabilities of the Group recognised and measured at the carrying amounts of the Listing Business for all the periods presented.

The Historical Financial Information has been prepared as if the current group structure had been in existence throughout the periods presented, or since the date when the combining companies first came under the control of the controlling shareholder, whichever is a shorter period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to Track Record Period, unless otherwise stated. The Historical Financial Information is for the Group consisting of Zhixin Group Holding Limited and its subsidiaries.

2.1 Basis of preparation

The principal accounting policies applied in the preparation of the Historical Financial Information which are in accordance with the Hong Kong Financial Reporting Standards (“**HKFRS**”) issued by the HKICPA are set out below. The Historical Financial Information has been prepared on a historical cost basis.

The preparation of the Historical Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in note 4.

2.1.1 *Going concern*

The Group had net current liabilities of RMB79,485,000, RMB141,862,000 and RMB6,870,000 as at 31 December 2017 and 2018 and 31 October 2020, and negative cash outflow from operations in certain year/ periods during the Track Record Period.

Management closely monitors the Group’s financial performance and liquidity position. A number of measures have been put in place by management to improve the financial position and alleviate the liquidity pressure. Subsequently to 31 October 2020, the Group had successfully renewed short term bank borrowings amounting to RMB120,500,000 upon expiry of the loan repayment term in November 2020, and extended the repayment date of the entrusted loans from third party amounting to RMB52,200,000 for another year to October 2022.

The Directors are of the opinion that, taking into account the Group’s future operational performance and the expected future operating cash inflows; and the continuous availability of bank facilities, the Group will have sufficient financial resources to support its operations and to meet its financial obligations as and when they fall due in the coming twelve months from 31 October 2020. Accordingly, the Historical Financial information has been prepared on a going concern basis.

2.1.2 *New standards and interpretations not yet adopted*

All effective standards, amendments to standards and interpretations, including HKFRS 9 and HKFRS 15, which are mandatory for the financial year beginning on 1 January 2018, and HKFRS 16, which is mandatory for the financial year beginning on 1 January 2019, are consistently applied to the Group for the Track Record Period.

Certain new accounting standards and interpretations have been published that are not mandatory for the Track Record Period and have not been early adopted by the Group. These new standards and interpretations are:

<u>Standards and amendments</u>	<u>Effective for annual periods beginning on or after</u>
HKFRS 10 (Amendment) and HKAS 28 (Amendment) 'Sale or contribution of assets between an investor and its associate or joint venture'	To be determined
HKFRS 16 (Amendment) 'COVID-19-Related rent concessions'	1 June 2020
HKFRS 9 (Amendment), HKAS 39 (Amendment), HKFRS 7 (Amendment), HKFRS 4 (Amendment) and HKFRS 16 (Amendment) 'interest rate reform — phase 2'	1 January 2021
HKAS 16 (Amendment) 'Property, plant and equipment — proceeds before intended use'	1 January 2022
HKAS 37 (Amendment) 'Onerous contracts — cost of fulfilling a contract'	1 January 2022
HKFRS 3 (Amendment) 'Reference to the conceptual Framework'	1 January 2022
Annual Improvements to HKFRS Standards 2018–2020	1 January 2022
HKAS 1 (Amendment) 'Classification of liabilities as current or non-current'	1 January 2023
HKFRS 17 'Insurance contracts'	1 January 2023
AG 5 (revised) 'Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations'	1 January 2022
HK Int 5 (2020) 'Hong Kong Interpretation 5 (2020 Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause'	1 January 2023

Management is currently assessing the effects of applying these new standards and amendments on the Group's consolidated financial information. None of these is expected to have a significant effect on the consolidated financial information of the Group. The Group does not expect to adopt these new standards and amendments until their effective dates.

2.2 Principles of consolidation

(i) *Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (note 2.3).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

(ii) *Changes in ownership interests in subsidiaries without change of control*

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in other reserves within equity attributable to owners of the Company.

2.3 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the following:

- fair values of the assets transferred
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition related costs are expensed as incurred.

The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

2.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The chief operating decision maker of the Company assesses the financial performance and position of the Group, and makes strategic decisions. The chief operating decision maker of the Group consists of the executive directors and the chief financial officer.

2.6 Foreign currency translation

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("**the functional currency**"). Majority of the subsidiaries of the Group operate in the PRC and their functional currency is RMB. The Historical Financial Information is presented in RMB, which is the Company's functional and the Group's presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income on a net basis within other (losses)/gains.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are recognised in other comprehensive income.

2.7 Investment properties

Investment properties, principally comprising buildings and land use right, are held for long-term rental yields and is not occupied by the Group. Investment properties is initially measured at cost, including related transaction costs and where applicable borrowing costs. Subsequently, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. The estimated useful lives are from 20 to 35 years.

2.8 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values of 5% over their estimated useful lives as follows:

Buildings	20–40 years
Machineries	3–15 years
Concrete mixer trucks	5–10 years
Office equipment and vehicles	3–10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.10).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

Construction-in-progress represents properties under construction and is stated at cost less accumulated impairment losses. This includes cost of construction and other direct costs. Construction-in-progress is not depreciated until such time as the assets are completed and are ready for operational use.

2.9 Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring the specific software into usage. The Group's intangible assets mainly comprise production management system software licences which are amortised using the straight-line method over an estimated useful life of 10 years. In determining the estimated useful lives, unlimited license period and actual economic lives are considered.

2.10 Impairment of non-financial assets

Other than goodwill and intangible assets that have an indefinite useful life, non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.11 Financial assets

(i) *Classification*

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (“OCI”) or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (“FVOCI”).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) *Recognition and derecognition*

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) *Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (“FVPL”), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of comprehensive income.

(iv) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at a amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3 details how the Group determines whether there has been a significant increase in credit risk.

Expected credit losses are a probability-weighted estimation of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial assets.

The Group has the following types of assets that are subject to HKFRS 9's expected credit loss model:

- trade receivables
- other receivables
- cash and bank balance
- restricted bank balance

While cash and bank balances, restricted bank balance and other receivables are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

For trade receivables with no significant financing component, the Group applies simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of the trade receivables with similar risk characteristics and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

Impairment on cash and bank balances, restricted bank balance, note and other receivables are measured as lifetime expected credit losses if a significant increase in credit risk of a receivable has occurred since initial recognition.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the consolidated statements of comprehensive income.

2.12 Inventories

Raw materials, work-in-progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.13 Trade receivables

Trade receivables are amounts due from customers for products sold or services rendered in the ordinary course of business. If collection of trade receivables is expected in one year or less (or in the normal operating cycle of business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are initially recognised at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See note 2.11 for a description of the Group's impairment policies.

2.14 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand and deposits held at call with financial institutions.

2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Trade and other payables

Trade payables represent liabilities for products and services provided to the Group prior to the end of the reporting period which are unpaid. Trade and other payables are presented as current liabilities if payment is due within 12 months. If not, they are presented as non-current liabilities. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2.18 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

2.19 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(i) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) *Deferred income tax*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Historical Financial Information. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

(iii) *Offsetting deferred income tax*

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.20 Employee benefits

(i) *Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated statement of financial position.

(ii) *Pension obligations*

The Group only operates defined contribution pension plans. In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organized by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the governments.

The Group's contributions to the defined contribution retirement scheme are expensed as incurred.

(iii) *Housing funds, medical insurances and other social insurances*

Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurances and other social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each year. Contributions to the housing funds, medical insurances and other social insurances are expensed as incurred.

2.21 Revenue recognition

The Group is engaged in manufacturing and sale of concrete and precast building component products.

Revenue from sales of concrete and precast building component products are recognised when control of the products has been transferred to the customers, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Advances from customers that are related to sales of goods not yet delivered are recorded as contract liability when cash are received from the customers before the transfer of goods control.

Revenue from sales of products is based on the price specified in the sales contracts and is shown net of value-added tax and after eliminating sales within the Group. No element of financing is deemed present as the sales are made with a credit term. A receivable is recognised when the control of products are transferred as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

2.22 Interest income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in the consolidated statement of comprehensive income as part of finance income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see note 10 below. Any other interest income is included in finance income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.23 Leases

The Group leases land and properties as lessee. Rental contracts of properties are typically made for fixed periods of 1 to 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date,
- amounts expected to be payable by the Group under residual value guarantees,
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The lease payments are discounted using the Group's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the consolidated statement of financial position based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

Land use rights

All land in the PRC is state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the rights to use certain land. The premiums paid for such rights are recorded as right-of-use assets, and are amortised over the lease periods of 30 years using the straight-line method.

2.24 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's Historical Financial Information in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.25 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected useful lives of the related assets.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not use any derivative financial instruments to hedge certain risk exposures during the Track Record Period.

(a) *Market risk*

(i) *Foreign exchange risk*

The Group mainly operates in mainland China and is exposed to foreign exchange risk arising from currency exposures with respect to HK dollars. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. The Group does not hedge against any fluctuation in foreign currency.

At 31 December 2017, 2018 and 2019 and 31 October 2020, if HK dollar had weakened/strengthened by 10% against the RMB with all other variables held constant, post-tax profit for the years/period would have been nil, RMB8,000, RMB531,000 and RMB904,000 higher/lower, respectively, mainly as a result of foreign exchange gains/losses on translation of HK dollar-denominated other receivables, other payables and accruals, cash and bank balances.

(ii) *Interest rate risk*

The Group's interest rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The Group does not hedge its cash flow and fair value interest rate risk.

During the years ended 31 December 2017, 2018 and 2019, and the ten months ended 31 October 2020, if interest rate on borrowings had been higher/lower by 100 basis points of current interest rate, with other variables held constant, post-tax profit for the years/period would have been approximately RMB258,000, RMB433,000, RMB532,000 and RMB696,000 lower/higher, respectively.

(b) *Credit risk*

The Group is exposed to credit risk in relation to its cash and bank balance, restricted bank balance, trade receivables and other receivables. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

(i) *Credit risk of cash and bank balances, restricted bank balance*

To manage this risk arising from cash and bank balances, restricted bank balance, they are mainly placed with banks with high credit rating. There has been no recent history of default in relation to these financial institutions. The expected credit loss is close to zero.

(ii) *Credit risk of trade receivables*

The Group is engaged in manufacturing and sale of concrete and precast building component products. The Group's customers are mainly the construction companies for various types of construction projects including residential, commercial, industrial, municipal and infrastructure projects for the public and private sectors. The credit terms grant to customers are generally within 40 days from the date of issue of the payment certificate by the customer or the invoice date.

The Group applies the HKFRS 9 simplified approach to measure expected credit losses, which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and days past due.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customers' ability to meet its obligations;
- actual or expected significant changes in the operating results of customers;
- significant changes in the expected performance and behaviour of customers, including changes in the payment status.

Individually impaired trade receivable is related to customer who is experiencing unexpected economic difficulties. The Group expects that the entire amounts of the receivables will have difficulty to be recovered and has recognised impairment losses. As at 31 December 2018 and 2019, and 31 October 2020, trade receivable of approximately RMB2,188,000 has been fully provided for loss allowance for these individually assessed receivables.

The expected loss rates of the remaining trade receivables are based on the payment profiles of sales over a period of 36 months before the balance sheet date and the corresponding historical credit losses experienced within this period. The historical loss rates are further adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables, including but not limited to the impact of the COVID-19 pandemic on China's economic growth.

On that basis, the loss allowance as at 31 December 2017, 2018 and 2019 and 31 October 2020 was determined as follows for trade receivables, the expected credit losses below have incorporated forward-looking information.

	Within 1 year	1-2 years	2-3 years	Over 3 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2017					
Gross carrying amount	206,971	39,885	496	1,478	248,830
Expected loss rate	0.56%	1.74%	2.62%	35.05%	
Total loss allowance	<u>1,167</u>	<u>694</u>	<u>13</u>	<u>518</u>	<u>2,392</u>
At 31 December 2018					
Gross carrying amount	234,285	57,487	14,810	272	306,854
Expected loss rate	0.15%	1.60%	2.85%	36.76%	
Loss allowance	<u>351</u>	<u>919</u>	<u>422</u>	<u>100</u>	<u>1,792</u>
Individually impaired receivables	—	2,188	—	—	2,188
Total loss allowance	<u>351</u>	<u>3,107</u>	<u>422</u>	<u>100</u>	<u>3,980</u>
At 31 December 2019					
Gross carrying amount	373,339	41,106	5,041	1,526	421,012
Expected loss rate	0.48%	1.13%	5.45%	46.00%	
Loss allowance	1,781	465	275	702	3,223
Individually impaired receivables	—	—	2,188	—	2,188
Total loss allowance	<u>1,781</u>	<u>465</u>	<u>2,463</u>	<u>702</u>	<u>5,411</u>
At 31 October 2020					
Gross carrying amount	449,541	88,641	6,391	994	545,567
Expected loss rate	0.57%	2.13%	5.91%	42.73%	
Loss allowance	2,562	1,888	378	425	5,253
Individually impaired receivables	—	—	—	2,188	2,188
Total loss allowance	<u>2,562</u>	<u>1,888</u>	<u>378</u>	<u>2,613</u>	<u>7,441</u>

The Group assesses the credit quality of its customers by taking into account various factors such as their financial position, past experience and other factors including but not limited to the economic impact of the unprecedented COVID-19 pandemic on the customers' and the region in which they operate. Individual risk limits are set based on internal or external ratings in accordance with limits set by the management. The compliance with credit limits by customers is regularly monitored by the management.

(iii) *Credit risk of other receivables*

Other receivables mainly comprise deposits and other receivables. The Directors of the Company consider the probability of default upon initial recognition of asset and whether there has been significant increase in credit risk on an ongoing basis during the Track Record Period. To assess whether there is a significant increase in credit risk, the Group compares risk of a default occurring on the assets as at the reporting date with the risk of default as at the date of initial recognition. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial economic conditions that are expected to cause a significant change to the third party's ability to meet its obligation;
- actual or expected significant changes in the operating results of the third party;
- significant changes in the expected performance and behaviour of the third party, including changes in the payment status of the third party.

As at 31 December 2017, 2018 and 2019 and 31 October 2020, there was no significant increase in credit risk since initial recognition, the Group assessed that the expected credit losses for these receivables were not material.

(c) *Liquidity risk*

Prudent liquidity risk management includes maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities and takes into account all available information on future business environment, including, among others, the economic impact of the unprecedented COVID-19 pandemic on the economies of the region in which the Group and its customers and suppliers operate. The Group manages its liquidity risk by controlling the level of inventories, closely monitoring the turnover days of trade receivables, monitoring its working capital requirements and maintaining credit facilities available. Management monitors rolling forecasts of the Group's bank facilities and cash and cash equivalents on the basis of expected cash flows.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2017				
Borrowings, including interest payables	102,159	—	—	102,159
Lease liabilities	521	—	—	521
Trade and bills payables	259,610	—	—	259,610
Other payables and accruals	14,709	—	—	14,709
Amounts due to related parties	<u>54,178</u>	<u>—</u>	<u>—</u>	<u>54,178</u>
	<u>431,177</u>	<u>—</u>	<u>—</u>	<u>431,177</u>
At 31 December 2018				
Borrowings, including interest payables	103,848	—	—	103,848
Lease liabilities	1,167	1,167	141	2,475
Trade and bills payables	248,562	—	—	248,562
Other payables and accruals	21,809	—	—	21,809
Amounts due to related parties	<u>82,895</u>	<u>—</u>	<u>—</u>	<u>82,895</u>
	<u>458,281</u>	<u>1,167</u>	<u>141</u>	<u>459,589</u>
At 31 December 2019				
Borrowings, including interest payables	131,600	71,777	—	203,377
Lease liabilities	6,584	4,484	9,066	20,134
Trade and bills payables	286,494	—	—	286,494
Other payables and accruals	17,927	—	—	17,927
Amounts due to related parties	<u>—</u>	<u>—</u>	<u>28,254</u>	<u>28,254</u>
	<u>442,605</u>	<u>76,261</u>	<u>37,320</u>	<u>556,186</u>
At 31 October 2020				
Borrowings, including interest payables	222,726	16,719	—	239,445
Lease liabilities	7,509	6,311	5,700	19,520
Trade and bills payables	327,832	—	—	327,832
Other payables and accruals	25,632	—	—	25,632
Amounts due to related parties	<u>4,920</u>	<u>—</u>	<u>27,343</u>	<u>32,263</u>
	<u>588,619</u>	<u>23,030</u>	<u>33,043</u>	<u>644,692</u>

3.2 Capital management

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, lease liabilities and amounts due to related parties less cash and cash equivalents and restricted bank balance. Total capital is calculated as “equity” as shown in the consolidated statements of financial position plus net debt.

The gearing ratios as at 31 December 2017, 2018 and 2019 and 31 October 2020 were as follows:

	As at 31 December			As at
	2017	2018	2019	31 October
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Borrowings (<i>note 26</i>)	98,500	101,000	190,790	234,462
Lease liabilities (<i>note 27</i>)	497	2,250	18,101	18,040
Amounts due to related parties excluding dividend payable (<i>note 32(c)</i>)	54,178	95	26,283	31,883
Total debt	153,175	103,345	235,174	284,385
Less: Cash and bank balances (<i>note 22</i>)	(46,290)	(3,807)	(16,144)	(2,467)
Restricted bank balance (<i>note 22</i>)	(32,000)	(9,001)	(4,710)	(3,210)
Net debt	74,885	90,537	214,320	278,708
Total equity	117,946	62,515	104,346	147,319
Total capital	192,831	153,052	318,666	426,027
Gearing ratio	39%	59%	67%	65%

The increase in gearing ratio from 31 December 2017 to 31 December 2018 was resulted from the increase in borrowings and lease liabilities due to operation needs and the decrease in equity and cash and cash equivalents due to distribution of dividends to the shareholders in 2018.

The increase in gearing ratio from 31 December 2018 to 31 December 2019 was resulted from combined effect of increase in borrowings, amounts due to related parties and cash and cash equivalents.

3.3 Fair value estimation

As at 31 December 2017, 2018 and 2019 and 31 October 2020, the Group did not have any assets and liabilities that were measured at fair value other than the financial assets and liabilities which the carrying values are considered to approximate their fair values due to the short term maturity.

The fair value estimation of the investment property is categorised in level 3 hierarchy.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of Historical Financial Information requires the use of accounting estimates, which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Estimated useful lives and residual values of property, plant and equipment

The Group estimates useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly because of technical innovations and competitors action in response to industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technical obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives, and actual residual values. Periodic reviews could result in a change in useful lives and residual values and therefore, changes in depreciable expenses in the future periods.

(b) Provision for impairment of trade receivables

The Group's management determines the provision for impairment of trade receivables on a forward-looking basis and the expected lifetime losses are recognised from initial recognition of the assets. The provision matrix is determined based on the Group's historical observed default rates over the expected life of the trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. In making the judgement, management considers available reasonable and supportive forward-looking information such as actual or expected significant changes in the operating results of customers, actual or expected significant adverse changes in business and customers' financial position including, among others, the economic impact of the unprecedented COVID-19 pandemic on the customers' and the region in which they operate. At every reporting date, historical observed default rates are updated and changes in the forward-looking estimates are analysed by the Group's management, see note 21 below.

(c) Provision for impairment of inventories

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to changes in market conditions.

Management reassesses these estimations at the end of each reporting period to ensure inventory is shown at the lower of cost and net realisable value.

(d) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, including, among others, the economic impact of the unprecedented COVID-19 pandemic on the operations of the Group and the region in which it operates. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount,

which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

(e) Income taxes

The Group is subject to income taxes in a few jurisdictions. Judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will affect the recognition of deferred income tax assets and taxation in the periods in which such estimate is changed. Deferred income tax assets and liabilities are determined using tax rates that are expected to apply when the related deferred income tax assets are realised or the deferred income tax liabilities are settled. The expected applicable tax rate is determined based on the enacted tax laws and regulations and the actual situation of the Group. The management of the Group will revise the expectation where the intending tax rate is different from the original expectation.

5 SEGMENT INFORMATION

The Company's executive directors are the Group's chief operating decision maker. The Group's chief operating decision maker examines the Group's performance from a product perspective and has identified two operating segments of its business as follows:

- (i) Ready-mixed concrete, and
- (ii) Precast concrete components.

The Group derived its revenue mainly from the transfer of goods at point in time during the Track Record Period.

(a) Segment information of the Group

	Year ended 31 December 2017		
	Ready-mixed concrete	Precast concrete components	Total
	RMB'000	RMB'000	RMB'000
Revenue	393,882	5,637	399,519
Cost of sales	<u>(348,463)</u>	<u>(11,390)</u>	<u>(359,853)</u>
Gross profit	45,419	(5,753)	39,666
Selling expenses	(6,514)	(792)	(7,306)
Administrative expenses	<u>(11,552)</u>	<u>(5,597)</u>	<u>(17,149)</u>
Segment results	<u>27,353</u>	<u>(12,142)</u>	<u>15,211</u>

A reconciliation of results of reportable segments to profit for the year is as follows:

Results of reportable segments	15,211
Unallocated costs and expenses	(597)
Other income	2,985
Other losses — net	(189)
Finance income	349
Finance costs	<u>(2,142)</u>
Profit before income tax	15,617
Income tax expense	<u>(3,378)</u>
Profit and total comprehensive income for the year	<u>12,239</u>

**Other items for the year ended
31 December 2017:**

Additions to non-current assets (other than financial instruments and deferred income tax assets)	8,969	35,760	44,729
Depreciation	9,961	2,691	12,652
Amortisation	<u>8</u>	<u>—</u>	<u>8</u>
As at 31 December 2017			
Segment assets	410,463	138,683	549,146
Unallocated assets			<u>15,096</u>
Total assets			<u>564,242</u>
Segment liabilities	277,905	9,789	287,694
Unallocated liabilities			<u>158,602</u>
Total liabilities			<u>446,296</u>

	Year ended 31 December 2018		
	Ready-mixed concrete	Precast concrete components	Total
	RMB'000	RMB'000	RMB'000
Revenue	453,072	58,195	511,267
Cost of sales	<u>(381,746)</u>	<u>(53,029)</u>	<u>(434,775)</u>
Gross profit	71,326	5,166	76,492
Selling expenses	(9,191)	(2,241)	(11,432)
Administrative expenses	<u>(15,579)</u>	<u>(8,643)</u>	<u>(24,222)</u>
Segment results	<u>46,556</u>	<u>(5,718)</u>	<u>40,838</u>

A reconciliation of results of reportable segments to profit for the year is as follows:

Results of reportable segments	40,838
Unallocated costs and expenses	(1,021)
Other income	4,061
Other gains — net	464
Finance income	319
Finance costs	<u>(7,277)</u>
Profit before income tax	37,384
Income tax expense	<u>(10,015)</u>
Profit and total comprehensive income for the year	<u>27,369</u>

Other items for the year ended

31 December 2018:

Additions to non-current assets (other than financial instruments and deferred income tax assets)	4,298	16,202	20,500
Depreciation	7,621	8,287	15,908
Amortisation	<u>26</u>	<u>—</u>	<u>26</u>

As at 31 December 2018

Segment assets	355,461	180,264	535,725
Unallocated assets			<u>15,476</u>
Total assets			<u>551,201</u>
Segment liabilities	250,778	41,676	292,454
Unallocated liabilities			<u>196,232</u>
Total liabilities			<u>488,686</u>

	Year ended 31 December 2019		
	Ready-mixed concrete	Precast concrete components	Total
	RMB'000	RMB'000	RMB'000
Revenue	446,832	143,965	590,797
Cost of sales	<u>(373,977)</u>	<u>(102,443)</u>	<u>(476,420)</u>
Gross profit	72,855	41,522	114,377
Selling expenses	(7,845)	(5,854)	(13,699)
Administrative expenses	<u>(15,763)</u>	<u>(11,129)</u>	<u>(26,892)</u>
Segment results	<u>49,247</u>	<u>24,539</u>	<u>73,786</u>

A reconciliation of results of reportable segments to profit for the year is as follows:

Results of reportable segments	73,786
Unallocated costs and expenses	(9,239)
Other income	3,693
Other losses — net	(1,572)
Finance income	105
Finance costs	<u>(8,836)</u>
Profit before income tax	57,937
Income tax expense	<u>(16,115)</u>
Profit and total comprehensive income for the year	<u>41,822</u>

Other items for the year ended

31 December 2019:

Additions to non-current assets (other than financial instruments and deferred income tax assets)	4,806	35,630	40,436
Depreciation	6,594	12,018	18,612
Amortisation	<u>26</u>	<u>—</u>	<u>26</u>

As at 31 December 2019

Segment assets	391,512	269,932	661,444
Unallocated assets			<u>14,196</u>
Total assets			<u>675,640</u>
Segment liabilities	254,271	95,433	349,704
Unallocated liabilities			<u>221,590</u>
Total liabilities			<u>571,294</u>

	Ten months ended 31 October 2020		
	Ready-mixed concrete	Precast concrete components	Total
	RMB'000	RMB'000	RMB'000
Revenue	407,888	194,267	602,155
Cost of sales	(344,748)	(138,419)	(483,167)
Gross profit	63,140	55,848	118,988
Selling expenses	(8,391)	(11,751)	(20,142)
Administrative expenses	(13,224)	(10,486)	(23,710)
Segment results	<u>41,525</u>	<u>33,611</u>	<u>75,136</u>

A reconciliation of results of reportable segments to profit for the period is as follows:

Results of reportable segments	75,136
Unallocated costs and expenses	(8,358)
Other income	4,158
Other losses — net	(444)
Finance income	54
Finance costs	<u>(11,171)</u>
Profit before income tax	59,375
Income tax expense	<u>(16,402)</u>
Profit and total comprehensive income for the period	<u><u>42,973</u></u>

Other items for the ten months ended

31 October 2020:

Additions to non-current assets (other than financial instruments and deferred income tax assets)	5,944	11,823	17,767
Depreciation	4,622	13,036	17,658
Amortisation	<u>21</u>	<u>—</u>	<u>21</u>

As at 31 October 2020

Segment assets	430,094	363,437	793,531
Unallocated assets			<u>15,973</u>
Total assets			<u><u>809,504</u></u>
Segment liabilities	274,944	125,791	400,735
Unallocated liabilities			<u>261,450</u>
Total liabilities			<u><u>662,185</u></u>

	Ten months ended 31 October 2019		
	Ready-mixed concrete	Precast concrete components	Total
	RMB'000	RMB'000	RMB'000
(Unaudited)			
Revenue	320,206	116,899	437,105
Cost of sales	<u>(266,209)</u>	<u>(85,036)</u>	<u>(351,245)</u>
Gross profit	53,997	31,863	85,860
Selling expenses	(5,606)	(4,238)	(9,844)
Administrative expenses	<u>(12,454)</u>	<u>(9,171)</u>	<u>(21,625)</u>
Segment results	<u>35,937</u>	<u>18,454</u>	<u>54,391</u>

A reconciliation of results of reportable segments to profit for the period is as follows:

Results of reportable segments	54,391
Unallocated costs and expenses	(6,891)
Other income	3,054
Other losses — net	(1,500)
Finance income	88
Finance costs	<u>(6,819)</u>
Profit before income tax	42,323
Income tax expense	<u>(11,866)</u>
Profit and total comprehensive income for the period	<u>30,457</u>

Other items for the ten months ended

31 October 2019:

Additions to non-current assets (other than financial instruments and deferred income tax assets)	1,133	30,437	31,570
Depreciation	5,348	10,095	15,443
Amortisation	<u>21</u>	<u>—</u>	<u>21</u>

As at 31 October 2019

(Unaudited)			
Segment assets	356,624	248,798	605,422
Unallocated assets			<u>17,357</u>
Total assets			<u>622,779</u>
Segment liabilities	227,716	84,905	312,621
Unallocated liabilities			<u>217,177</u>
Total liabilities			<u>529,798</u>

(b) Information about major customers

External customers that have contributed over 10% of total revenue of the Group for any of the years ended 31 December 2017, 2018 and 2019 and the ten months ended 31 October 2019 and 2020 were as follows:

	<u>Year ended 31 December</u>			<u>Ten months ended 31 October</u>	
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2019</u>	<u>2020</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
				(Unaudited)	
Company A	N/A	69,545	N/A	N/A	N/A
Company B	N/A	58,181	N/A	N/A	N/A
Company C	N/A	55,542	61,255	N/A	93,124

No single customer, including Company A, B and C, individually contributed 10% or more to the Group's revenue for the year ended 31 December 2017 and ten months ended 31 October 2019. Company A and B individually did not contribute 10% or more to the Group's revenue for the year ended 31 December 2017 and 2019 and the ten months ended 31 October 2019 and 2020.

(c) Contract liabilities

The Group recognised the following revenue-related contract liabilities:

	<u>As at 31 December</u>			<u>As at</u>
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>31 October</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Contract liabilities				
Ready-mixed concrete	2,316	1,015	2,634	1,471
Precast concrete components	—	5,101	9,726	76
	<u>2,316</u>	<u>6,116</u>	<u>12,360</u>	<u>1,547</u>

The contract liabilities of the Group recognised are related to the non-refundable advance payment from customers of the Group. Such liabilities fluctuated as a result of the terms of different projects. A contract liability is the Group's obligation to a customer for which the Group has received consideration from the customer. A contract liability is recognised by the Group when the customer pays consideration but before the Group delivers goods to the customer.

(i) *Revenue recognised in relation to contract liabilities*

The following table shows how much of the revenue, which was included in the contract liability balance at the beginning of the period, recognised during the Track Record Period relates to carried-forward contract liabilities.

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Ready-mixed concrete	1,833	2,316	1,015	1,015	2,592
Precast concrete components	—	—	5,101	5,101	9,715
	<u>1,833</u>	<u>2,316</u>	<u>6,116</u>	<u>6,116</u>	<u>12,307</u>

(ii) *Unsatisfied performance obligations*

The following table shows unsatisfied performance obligations as at 31 December 2017, 2018 and 2019 and 31 October 2020.

	As at 31 December			As at 31 October
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Ready-mixed concrete	173,045	205,993	367,854	414,552
Precast concrete components	<u>6,486</u>	<u>115,401</u>	<u>185,202</u>	<u>401,562</u>
	<u>179,531</u>	<u>321,394</u>	<u>553,056</u>	<u>816,114</u>

Management expects that 66% of the transaction price allocated to the unsatisfied contracts as at 31 October 2020 will be recognised as revenue before 31 October 2021, 24% will be recognised as revenue before 31 October 2022, 9% will be recognised as revenue before 31 October 2023, and the remaining 1% will be recognised as revenue after 31 October 2023.

6 OTHER INCOME

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Government grants					
— Received and recognised during the year/period	771	2,232	1,102	791	1,999
— Recognised from deferred income (<i>note 28</i>)	124	148	168	139	163
Rental income (<i>note 16</i>)	1,700	1,595	1,661	1,384	1,541
Others	390	86	762	740	455
	<u>2,985</u>	<u>4,061</u>	<u>3,693</u>	<u>3,054</u>	<u>4,158</u>

Other income recognised during the Track Record Period mainly comprised rental income and incentives and subsidies received from government authorities by the Group's subsidiaries for the subsidiaries' contributions to environmental protection measures, contributions to local employment market, improvement in production efficiency and others.

7 OTHER (LOSSES)/GAINS — NET

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
(Losses)/gains on disposal of property, plant and equipment	(189)	464	(1,443)	(1,436)	(314)
Net foreign exchange loss from operating activities	—	—	(129)	(64)	(130)
	<u>(189)</u>	<u>464</u>	<u>(1,572)</u>	<u>(1,500)</u>	<u>(444)</u>

8 EXPENSES BY NATURE

The expenses charged to cost of sales, selling expenses, listing expenses and administrative expenses are analysed below:

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Raw materials and consumables used	295,347	351,005	386,605	277,478	374,847
Changes in inventories of finished goods and work in progress	(5,359)	(366)	(11,104)	(6,474)	(18,023)
Employee benefit expenses (note 9)	41,891	53,412	54,598	44,339	52,216
Outsourcing service expense	1,489	6,029	14,689	10,900	40,306
Transportation expenses	17,549	23,354	22,418	16,059	27,349
Depreciation of property, plant and equipment (note 14)	11,505	14,043	14,477	12,218	12,534
Depreciation of right-of-use assets (note 15)	783	1,501	3,701	2,874	4,699
Depreciation of investment properties (note 16)	364	364	434	351	425
Amortisation of intangible assets (note 17)	8	26	26	21	21
Repair and maintenance expense	2,900	1,240	1,973	1,330	2,461
Electricity and water expenses	3,110	4,448	6,546	5,371	5,621
Short-term lease rental expenses	—	180	4,734	3,273	8,754
Other taxes and levies	2,322	2,731	2,927	1,682	2,930
Insurance expense	2,029	1,968	1,783	1,582	1,290
Detection expense	2,197	2,015	1,751	1,397	1,475
Provision for impairment of inventories (note 20)	1,669	642	765	202	345
Listing expenses	—	—	6,512	5,220	5,662
Auditor's remuneration	61	76	107	107	64
Others	7,005	7,194	11,877	10,561	10,371
Total	<u>384,870</u>	<u>469,862</u>	<u>524,819</u>	<u>388,491</u>	<u>533,347</u>

9 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Salaries, wages and bonuses	36,156	45,892	47,233	37,982	47,171
Contributions to pension plan	1,624	2,058	2,071	1,634	266
Housing fund, medical insurance and other social insurance	1,322	1,607	1,875	1,496	1,693
Other benefits	<u>2,789</u>	<u>3,855</u>	<u>3,419</u>	<u>3,227</u>	<u>3,086</u>
Total employee benefit expenses	<u>41,891</u>	<u>53,412</u>	<u>54,598</u>	<u>44,339</u>	<u>52,216</u>

The emolument paid or payable to the five highest paid individuals is as follows:

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019	2020
				(Unaudited)	
Directors	—	1	1	1	3
Non-directors	5	4	4	4	2
	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

The five individuals whose emoluments were the highest in the Group include nil, one, one, one and three directors for the years ended 31 December 2017, 2018 and 2019 and the ten months ended 31 October 2019 and 2020, respectively, whose emoluments are disclosed in note 33. The emoluments paid to the remaining five, four, four, four and two individuals, respectively, during the Track Record Period were as follows:

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Salaries and bonus	668	649	1,071	936	804
Contributions to pension plan	23	19	18	14	1
Housing fund, medical insurance and other social insurance	17	22	19	12	12
	<u>708</u>	<u>690</u>	<u>1,108</u>	<u>962</u>	<u>817</u>

The emoluments of the non-director highest paid employees fell within the following range:

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019	2020
Within HK\$1,000,000	<u>5</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>2</u>

10 FINANCE COSTS — NET

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Finance income					
— Interest income on bank deposits	349	319	105	88	54
Finance costs					
Interest Expense on					
— bank borrowings	(3,437)	(5,777)	(7,090)	(5,510)	(9,274)
— lease liabilities	(12)	(234)	(717)	(472)	(828)
— loan from related parties	—	—	—	—	(550)
— loan from a third party	(701)	(701)	(701)	(584)	—
	(4,150)	(6,712)	(8,508)	(6,566)	(10,652)
Less: Amounts capitalised in qualifying assets (<i>note 14</i>)	3,274	401	—	—	—
	(876)	(6,311)	(8,508)	(6,566)	(10,652)
Other financing costs	(1,266)	(966)	(328)	(253)	(519)
Finance costs — net	(1,793)	(6,958)	(8,731)	(6,731)	(11,117)

11 INCOME TAX EXPENSE

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Current income tax					
— PRC income tax	7,489	10,742	10,133	8,885	16,948
Deferred income tax (<i>note 29</i>)	(4,111)	(727)	5,982	2,981	(546)
Income tax expense	3,378	10,015	16,115	11,866	16,402

(i) Cayman Islands profits tax

The Company is an exempted company incorporated in the Cayman Islands and is not liable for taxation in the Cayman Islands.

(ii) BVI profits tax

The Group's subsidiary incorporated in the BVI is exempted company and is not liable for taxation in the BVI.

(iii) Hong Kong profits tax

Hong Kong profits tax considered at the rate of 16.5% on the estimated assessable profits during the Track Record Period. The Group did not have assessable profits in Hong Kong during the Track Record Period.

(iv) PRC corporate income tax ('CIT')

Taxation on PRC income has been calculated on the estimated assessable profit for the year/period at the rates of taxation prevailing in the PRC in which the Group operates. The Company's subsidiaries incorporated in PRC are subject to CIT at the rate of 25% during the Track Record Period.

(v) PRC withholding income tax

According to the CIT Law, a 10% withholding tax on dividends received/receivable will be levied on the PRC companies' immediate holding companies established out of the PRC. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding companies and simultaneously certain conditions are satisfied.

During the Track Record Period, no PRC withholding income tax has been provided since the parent entities are able to control the timing of distributions from their subsidiaries and are not expected to distribute these profits in the near future.

As at 31 October 2020, deferred income tax liabilities of RMB5,890,000 have not been recognised for the withholding tax that would be payable on unremitted earnings of PRC subsidiaries of the Group amounting to RMB58,898,000. The Group does not have the intention to distribute the respective unremitted profits in the foreseeable future.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate applicable to profits of the consolidated entities is as follows:

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit before income tax	15,617	37,384	57,937	42,323	59,375
Tax calculated at the applicable statutory tax rates in the respective regions	3,086	9,360	15,714	11,533	16,077
Adjustment for tax effect of:					
— Expenses not deductible for tax purpose	292	655	401	333	325
Income tax expense	3,378	10,015	16,115	11,866	16,402

For each of the years ended 31 December 2017, 2018 and 2019, and the ten months ended 31 October 2019 and 2020, the weighted average applicable statutory tax rate was 20%, 25%, 27%, 27% and 27% respectively.

For each of the years ended 31 December 2017, 2018 and 2019, and the ten months ended 31 October 2019 and 2020, the effective tax rate was 22%, 27%, 28%, 28% and 28%, respectively.

12 BASIC AND DILUTED EARNINGS PER SHARE

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the respective year/period. The weighted average number of ordinary shares used for such purpose has been retrospectively adjusted for the effect of the issuance of 10,000 shares of the Company in connection with the Reorganisation completed on 27 September 2019 and sub-division of shares on 4 March 2021 where each ordinary share was sub-divided into 100 ordinary shares deemed to have been in issue since 1 January 2017.

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019 (Unaudited)	2020
Profit attributable to owners of the Company (RMB'000)	16,087	27,369	41,822	30,457	42,973
Weighted average number of ordinary shares in issue	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Basic earnings per share (RMB)*	16.09	27.37	41.82	80.46	42.97

*Note: The earnings per share presented above have not been taken into account the proposed capitalisation issue pursuant to the resolutions in writing of all shareholders passed on 4 March 2021 because the proposed capitalisation issue has not become effective as at the date of this report.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all potentially dilutive ordinary shares.

Diluted earnings per share presented is the same as the basic earnings per share as there was no potentially dilutive ordinary share outstanding as at 31 December 2017, 2018 and 2019 and 31 October 2020.

13 DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation. Dividends during the year ended 31 December 2018 represented dividends declared by Zhixin Construction Material, a subsidiary of the Company, to the shareholders at that time, being Mr. Ye Zhijie and Mr. Huang Wengui.

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Dividends declared	—	82,800	—	—	—

Pursuant to the resolutions of the shareholders' meeting of Zhixin Construction Material held on 31 December 2018, dividends of RMB82,800,000 were declared and recognised as payables to Mr. Ye Zhijie and Mr. Huang Wengui, in the amount of RMB62,100,000 and RMB20,700,000, respectively. Dividends of RMB62,900,000 were paid to the two shareholders in December 2019. The rates for dividend and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this report.

14 PROPERTY, PLANT AND EQUIPMENT

	<u>Buildings</u>	<u>Machineries</u>	<u>Concrete mixer trucks</u>	<u>Office equipment and vehicles</u>	<u>Construction in progress</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2017						
Opening net book amount	1,112	15,781	16,271	3,600	48,436	85,200
Additions	—	11,217	—	2,417	29,491	43,125
Transferred from construction in progress	41,701	11,146	—	936	(53,783)	—
Disposals	—	—	(190)	—	—	(190)
Depreciation charge (note 8)	(203)	(4,219)	(5,648)	(1,435)	—	(11,505)
Closing net book amount	<u>42,610</u>	<u>33,925</u>	<u>10,433</u>	<u>5,518</u>	<u>24,144</u>	<u>116,630</u>
At 31 December 2017						
Cost	43,272	59,382	39,598	14,004	24,144	180,400
Accumulated depreciation	(662)	(25,457)	(29,165)	(8,486)	—	(63,770)
Net book amount	<u>42,610</u>	<u>33,925</u>	<u>10,433</u>	<u>5,518</u>	<u>24,144</u>	<u>116,630</u>
Year ended 31 December 2018						
Opening net book amount	42,610	33,925	10,433	5,518	24,144	116,630
Additions	922	30,668	2,090	1,410	2,205	37,295
Transferred from construction in progress	4,140	21,592	—	265	(25,997)	—
Disposals	—	—	(119)	—	—	(119)
Depreciation charge (note 8)	(1,330)	(7,062)	(3,888)	(1,763)	—	(14,043)
Closing net book amount	<u>46,342</u>	<u>79,123</u>	<u>8,516</u>	<u>5,430</u>	<u>352</u>	<u>139,763</u>
At 31 December 2018						
Cost	48,334	111,642	40,237	15,679	352	216,244
Accumulated depreciation	(1,992)	(32,519)	(31,721)	(10,249)	—	(76,481)
Net book amount	<u>46,342</u>	<u>79,123</u>	<u>8,516</u>	<u>5,430</u>	<u>352</u>	<u>139,763</u>
Year ended 31 December 2019						
Opening net book amount	46,342	79,123	8,516	5,430	352	139,763
Additions	—	5,849	98	250	11,944	18,141
Transferred from construction in progress	30	865	—	—	(895)	—
Disposals	(170)	(550)	(1,755)	(521)	—	(2,996)
Depreciation charge (note 8)	(1,346)	(8,897)	(2,558)	(1,676)	—	(14,477)
Closing net book amount	<u>44,856</u>	<u>76,390</u>	<u>4,301</u>	<u>3,483</u>	<u>11,401</u>	<u>140,431</u>
At 31 December 2019						
Cost	48,189	117,433	29,331	13,867	11,401	220,221
Accumulated depreciation	(3,333)	(41,043)	(25,030)	(10,384)	—	(79,790)
Net book amount	<u>44,856</u>	<u>76,390</u>	<u>4,301</u>	<u>3,483</u>	<u>11,401</u>	<u>140,431</u>

	Buildings	Machineries	Concrete mixer trucks	Office equipment and vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Period ended 31 October 2020						
Opening net book amount	44,856	76,390	4,301	3,483	11,401	140,431
Additions	—	3,608	5,020	702	4,062	13,392
Transferred from construction in progress	1,634	9,961	—	—	(11,595)	—
Disposals	—	(345)	(14)	(17)	—	(376)
Depreciation charge (note 8)	(1,152)	(8,555)	(1,597)	(1,230)	—	(12,534)
Closing net book amount	45,338	81,059	7,710	2,938	3,868	140,913
At 31 October 2020						
Cost	49,822	124,252	34,068	14,480	3,868	226,490
Accumulated depreciation	(4,484)	(43,193)	(26,358)	(11,542)	—	(85,577)
Net book amount	45,338	81,059	7,710	2,938	3,868	140,913

During the years ended 31 December 2017 and 2018, the Group capitalised borrowing costs amounting to RMB3,274,000 and RMB401,000 on qualifying assets, using the weighted average rate of the Group's general borrowings of 7.57% and 6.60%, respectively. No capitalisation of borrowing cost was made during the year ended 31 December 2019 and the ten months ended 31 October 2020.

During the Track Record Period, the amounts of depreciation expense charged to profit or loss were as follows:

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation of property, plant and equipment					
— Cost of sales	10,079	11,576	12,083	10,154	10,673
— Selling expenses	12	23	37	31	28
— Administrative expenses	1,414	2,444	2,357	2,033	1,833
	11,505	14,043	14,477	12,218	12,534

As at 31 December 2017, 2018 and 2019 and 31 October 2020, buildings and machineries of the Group with a total net book value of RMB40,440,000, RMB42,823,000, RMB45,751,000 and RMB44,642,000, respectively, were pledged to secure borrowings of the Group (note 26).

15 RIGHT-OF-USE ASSETS

	<u>Land use rights</u>	<u>Lease of warehouse and factory premises</u>	<u>Vehicles</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2017				
Opening net book amount	24,224	—	—	24,224
Additions	—	1,006	—	1,006
Depreciation (<i>note 8</i>)	(621)	(162)	—	(783)
Closing net book amount	<u>23,603</u>	<u>844</u>	<u>—</u>	<u>24,447</u>
At 31 December 2017				
Cost	26,344	1,006	—	27,350
Accumulated depreciation	(2,741)	(162)	—	(2,903)
Net book amount	<u>23,603</u>	<u>844</u>	<u>—</u>	<u>24,447</u>
Year ended 31 December 2018				
Opening net book amount	23,603	844	—	24,447
Additions	—	—	2,563	2,563
Depreciation (<i>note 8</i>)	(621)	(497)	(383)	(1,501)
Closing net book amount	<u>22,982</u>	<u>347</u>	<u>2,180</u>	<u>25,509</u>
At 31 December 2018				
Cost	26,344	1,006	2,563	29,913
Accumulated depreciation	(3,362)	(659)	(383)	(4,404)
Net book amount	<u>22,982</u>	<u>347</u>	<u>2,180</u>	<u>25,509</u>

	<u>Land use rights</u>	<u>Lease of warehouse and factory premises</u>	<u>Vehicles</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2019				
Opening net book amount	22,982	347	2,180	25,509
Additions	—	19,249	—	19,249
Depreciation (<i>note 8</i>)	<u>(621)</u>	<u>(2,593)</u>	<u>(487)</u>	<u>(3,701)</u>
Closing net book amount	<u>22,361</u>	<u>17,003</u>	<u>1,693</u>	<u>41,057</u>
At 31 December 2019				
Cost	26,344	19,249	2,563	48,156
Accumulated depreciation	<u>(3,983)</u>	<u>(2,246)</u>	<u>(870)</u>	<u>(7,099)</u>
Net book amount	<u>22,361</u>	<u>17,003</u>	<u>1,693</u>	<u>41,057</u>
Period ended 31 October 2020				
Opening net book amount	22,361	17,003	1,693	41,057
Additions	—	4,375	—	4,375
Depreciation (<i>note 8</i>)	<u>(517)</u>	<u>(3,776)</u>	<u>(406)</u>	<u>(4,699)</u>
Closing net book amount	<u>21,844</u>	<u>17,602</u>	<u>1,287</u>	<u>40,733</u>
At 31 October 2020				
Cost	26,344	23,625	2,563	52,532
Accumulated depreciation	<u>(4,500)</u>	<u>(6,023)</u>	<u>(1,276)</u>	<u>(11,799)</u>
Net book amount	<u>21,844</u>	<u>17,602</u>	<u>1,287</u>	<u>40,733</u>

The land use rights represent the Group's interest in leasehold land that the Group has made prepayment for the lease of the land. These include the land lots for factory office premises and production plants at Jimei district of Xiamen city, Fujian province, the PRC, which are under leases of 30 years.

The Group leases certain warehouses under lease periods from September 2017 to August 2019, certain factory premises and factory production plants under lease periods from June 2019 to May 2024 and certain warehouses under lease periods from July 2020 to June 2023.

As at 31 December 2017, 2018 and 2019 and 31 October 2020, land use rights of the Group with a total net book value of RMB6,263,000, RMB22,982,000, RMB22,361,000 and RMB21,844,000, respectively, were pledged to secure borrowings of the Group (note 26).

The consolidated statements of comprehensive income and the consolidated statements of cash flows contain the following amounts relating to leases:

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
(i) Profit or loss:					
Depreciation of right-of-use assets, charged to cost of sales and administrative expenses	783	1,501	3,701	2,874	4,699
Interest expenses relating to lease liabilities, charged to finance cost	12	234	717	472	828
Rental expense relating to short-term leases, charged to cost of sales and administrative expenses	—	180	4,734	3,021	8,754
(ii) Cash flow:					
The cash outflow for leases presented as financing activities	521	1,548	4,127	3,633	5,409
The cash outflow for short-term leases presented as operating activities	—	180	4,734	3,021	8,754
	<u>521</u>	<u>1,728</u>	<u>8,861</u>	<u>6,654</u>	<u>14,163</u>

16 INVESTMENT PROPERTIES

	Year ended 31 December			Ten months ended
	2017	2018	2019	31 October
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Land and buildings, at cost				
Opening net book amount at 1 January	8,670	8,306	7,942	10,554
Additions	—	—	3,046	—
Depreciation charge (note 8)	(364)	(364)	(434)	(425)
Closing net book amount at 31 December/31 October	<u>8,306</u>	<u>7,942</u>	<u>10,554</u>	<u>10,129</u>
Closing net book amount:				
Cost	10,760	10,760	13,806	13,806
Accumulated depreciation	<u>(2,454)</u>	<u>(2,818)</u>	<u>(3,252)</u>	<u>(3,677)</u>
	<u>8,306</u>	<u>7,942</u>	<u>10,554</u>	<u>10,129</u>

The Group leases a factory building to a third party since the year ended 31 December 2017.

During the year ended 31 December 2019, the Group obtained the ownership of a commercial shop property from a customer as settlement of the trade receivables due from the customer. The Group planned to lease the property for rental purpose and therefore recorded it as addition to investment properties.

As at 31 December 2017, 2018 and 2019 and 31 October 2020, investment properties with a net book amount of RMB8,306,000, RMB7,942,000, RMB7,578,000 and RMB7,275,000, respectively, were pledged to secure borrowings of the Group (Note 26).

The Group's investment properties were stated at historical cost less subsequent accumulated depreciation and any accumulated impairment losses at the end of each reporting period.

The fair values of the factory building and commercial shop investment properties of the Group as at 31 December 2017, 2018 and 2019 and 31 October 2020 were determined by valuation based on income approach and market approach, respectively, by an independent property valuer. The total fair values of the investment properties of the Group amounted to RMB16,600,000, RMB16,200,000, RMB18,700,000 and RMB18,100,000 as at 31 December 2017, 2018 and 2019 and 31 October 2020, respectively. The fair value estimation of the investment property is categorised in level 3 hierarchy.

Valuation techniques

- (i) Income approach takes into account the current rents of the property interests and the reversionary potentials of the tenancies, term yield and reversionary yield are then applied respectively to derive the market value of the property;

- (ii) Market approach is based on comparing the subject asset with identical or similar assets for which price information is available, such as a comparison with market transactions in the same, or closely similar, type of asset within an appropriate time horizon.

There were no changes to the valuation techniques for each of the two investment properties during the Track Record Period.

Information about fair value measurements of investment properties using significant unobservable inputs (level 3)

Factory building, income approach:

	As at 31 December			As at 31 October
	2017	2018	2019	2020
Fair value (RMB'000)	16,600	16,200	15,600	15,100
Unobservable inputs				
— Term Yield	6.0% per annum	6.0% per annum	6.0% per annum	6.0% per annum
— Reversion Yield	7.0% per annum	7.0% per annum	7.0% per annum	7.0% per annum
— Annually Market Rent (RMB/square meter/annum)	35–170	36–175	36–180	38–185

Commercial shop, market approach:

	As at 31 December			As at 31 October
	2017	2018	2019	2020
Fair value (RMB'000)	N/A	N/A	3,100	3,000
Unobservable inputs				
— Adopted Unit Rate	N/A	N/A	G/F: RMB22,000/ square meter 2/F: discount over G/F – 20%	G/F: RMB21,500/ square meter 2/F: discount over G/F – 20%

During the Track Record Period, amounts recognised in profit or loss for investment properties were as follows:

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Rental income (<i>Note 6</i>)	1,700	1,595	1,661	1,384	1,541
Depreciation of investment properties (<i>Note 8</i>)	(364)	(364)	(434)	(351)	(425)
Direct operating expenses of properties that generated rental income	(83)	(89)	(91)	(75)	(82)

17 INTANGIBLE ASSETS

	Year ended 31 December			Ten months ended
				31 October
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Software				
Opening net book amount at 1 January	15	7	239	213
Additions	—	258	—	—
Amortisation charge (<i>note 8</i>)	(8)	(26)	(26)	(21)
Closing net book amount at 31 December/31 October	<u>7</u>	<u>239</u>	<u>213</u>	<u>192</u>
Closing net book amount:				
Cost	80	338	338	338
Accumulated amortisation	(73)	(99)	(125)	(146)
	<u>7</u>	<u>239</u>	<u>213</u>	<u>192</u>

The Group's intangible assets consisted of (i) one production management system for operation purchased in 2008 at RMB80,000 which was still in use by the Group during the Track Record Period, and (ii) system enhancement of the production management system (for new functionalities of production management) purchased in 2018 at the cost of RMB258,000 and there is no limited license period for the production management system (including the system enhancement).

During the Track Record Period, the amounts of amortisation expense charged to profit or loss were as follows:

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Amortisation of intangible assets					
— Cost of sales (<i>note 8</i>)	<u>8</u>	<u>26</u>	<u>26</u>	<u>21</u>	<u>21</u>

18 PREPAYMENT FOR NON-CURRENT ASSETS

	As at 31 December			As at
				31 October
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayment for property, plant and equipment and investment properties	<u>23,416</u>	<u>3,800</u>	<u>—</u>	<u>—</u>

The Group made prepayments for the purchase of property, plant and equipment and investment properties. The prepayments were transferred to the relevant assets when the assets were received.

19 FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

	As at 31 December			As at
	2017	2018	2019	31 October
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
(i) Financial assets at amortised cost				
Cash and bank balances (<i>note 22</i>)	46,290	3,807	16,144	2,467
Restricted bank balance (<i>note 22</i>)	32,000	9,001	4,710	3,210
Trade receivables and other receivables and amount due from a related party excluding prepayments, prepayments for listing expenses, deductible value-added tax recoverable (<i>note 21</i>)	<u>278,285</u>	<u>324,533</u>	<u>423,119</u>	<u>547,100</u>
	356,575	337,341	443,973	552,777
(ii) Financial liabilities at amortised cost				
Borrowings (<i>note 26</i>)	98,500	101,000	190,790	234,462
Lease liabilities (<i>note 27</i>)	497	2,250	18,101	18,040
Trade and bills payables, other payables and accruals and amounts due to related parties excluding non-financial liabilities (<i>note 25</i>)	<u>328,497</u>	<u>353,266</u>	<u>330,704</u>	<u>385,347</u>
	<u>427,494</u>	<u>456,516</u>	<u>539,595</u>	<u>637,849</u>

20 INVENTORIES

	As at 31 December			As at
	2017	2018	2019	31 October
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Raw materials	14,128	15,585	11,761	17,250
Work-in-progress	271	—	810	1,281
Finished goods	5,088	5,725	16,019	33,571
Less: provision for impairment of inventories	<u>(1,669)</u>	<u>(779)</u>	<u>(765)</u>	<u>(509)</u>
	<u>17,818</u>	<u>20,531</u>	<u>27,825</u>	<u>51,593</u>

The provision for impairment of inventories as at 31 December 2017, 2018 and 2019 and 31 October 2020 reconciles to the opening balance for that provision as follows:

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
As at the beginning of year/period	—	1,669	779	779	765
Increase in provision recognised in profit or loss during the year/ period	1,669	642	765	202	345
Write-off of provision upon sales of inventories	—	(1,532)	(779)	(779)	(601)
As at the end of year/period	<u>1,669</u>	<u>779</u>	<u>765</u>	<u>202</u>	<u>509</u>

The costs of individual items of inventory were determined using weighted average costs at the end of each month.

During the years ended 31 December 2017, 2018 and 2019, and the ten months ended 31 October 2019 and 2020, the cost of inventories recognised as expense and included in “cost of sales” amounted to RMB290,075,000, RMB350,639,000, RMB375,501,000, RMB271,004,000 and RMB356,824,000 respectively.

21 TRADE RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The Group

	As at 31 December			As at
	2017	2018	2019	31 October
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables (a)				
Current:				
Trade receivables	230,059	286,636	405,660	530,337
Less: provision for impairment	(2,281)	(3,840)	(5,214)	(7,159)
	<u>227,778</u>	<u>282,796</u>	<u>400,446</u>	<u>523,178</u>
Non-current:				
Retention receivables	18,771	22,406	17,540	17,418
Less: provision for impairment	(111)	(140)	(197)	(282)
	<u>18,660</u>	<u>22,266</u>	<u>17,343</u>	<u>17,136</u>
Total	<u>246,438</u>	<u>305,062</u>	<u>417,789</u>	<u>540,314</u>
Prepayments, deposits and other receivables (b)				
Prepayments for raw materials and operating expenses	7,596	6,620	8,006	5,909
Refundable deposits receivable (i)	1,357	2,109	3,048	4,894
Deductible value-added tax ('VAT') recoverable	2,657	1,939	—	1,585
Prepayments for listing expenses	—	—	2,046	3,592
Other receivables (ii)	<u>17,957</u>	<u>3,422</u>	<u>2,282</u>	<u>1,892</u>
Total	<u>29,567</u>	<u>14,090</u>	<u>15,382</u>	<u>17,872</u>
Total	<u>276,005</u>	<u>319,152</u>	<u>433,171</u>	<u>558,186</u>

(a) Trade receivables

The Group is engaged in manufacturing and sale of concrete and precast building component products. The Group's customers are mainly construction companies for various types of construction projects including residential, commercial, industrial, municipal and infrastructure projects for the public and private sectors. The credit terms grant to customers are generally within 40 days.

Certain of the Group's sales receivables are required to be held back the settlement for up to 6 months after the completion of defects liability periods grant to the customers which normally last for 3 months to 24 months. The Group is responsible for remedial works, which may arise from the defective works or materials used and the related costs are usually immaterial. In the consolidated statements of financial position, retention receivables are presented as non-current assets.

(i) Transferred receivables

The carrying amounts of the trade receivables as at 31 October 2020 include receivables amounting to RMB7,172,000 which are subject to a factoring arrangement (2019: nil). Under this arrangement, the Group has transferred the relevant receivables to the factors (two banks in the PRC) in exchange for cash and is prevented from selling or pledging the receivables. However, the Group has retained late payment and credit risk. The Group therefore continues to recognise the transferred assets in their entirety in its balance sheet. The amount repayable under the factoring agreement is presented as secured borrowing (note 26(i)). The Group considers that the held to collect business model remains appropriate for these receivables and hence continues measuring them at amortised cost (note 26).

(ii) Ageing analysis of trade receivables

The ageing analysis of the trade receivables on demand and retention receivables as at the balance sheet dates based on invoice date was as follows:

	As at 31 December			As at 31 October
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	206,971	234,285	373,339	449,541
1 and 2 years	39,885	59,675	41,106	88,641
2 and 3 years	496	14,810	7,229	6,391
Over 3 years	1,478	272	1,526	3,182
	248,830	309,042	423,200	547,755

(iii) Impairment of trade receivables

The Group applies the simplified approach to provide for expected credit loss which was a lifetime expected loss allowance for all trade receivables and retention receivables as prescribed by HKFRS 9. Details of the expected loss rates based on the payment profile of sales are set out in Note 3.1 b (ii).

The movements in provision for impairment of trade receivables were as follows:

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
As at 1 January	2,357	2,392	3,980	3,980	5,411
Loss allowance recognised in profit or loss during the year/ period	35	1,588	1,431	1,114	2,030
As at 31 December/ 31 October	<u>2,392</u>	<u>3,980</u>	<u>5,411</u>	<u>5,094</u>	<u>7,441</u>

(b) Prepayments, deposits and other receivables

- (i) The refundable deposits receivable mainly represented rental deposits, project guarantee deposits and deposit to independent third party credit guarantee corporation for granting guarantee to the Group's borrowings.
- (ii) Other receivables included an advance to a third party amounting to RMB16,607,000, RMB2,007,000, nil and nil as at 31 December 2017, 2018 and 2019 and 31 October 2020, respectively. The advance had been fully settled in January 2019. Such advance was unsecured, interest free and had no fixed term of repayment.
- (iii) *Impairment of other financial assets at amortised cost*

Other financial assets at amortised cost include amounts due from third parties and other receivables.

All these financial assets are considered to have a low risk of default and each of the counterparties has a strong capacity to meet its contractual cash flow obligations in the near term, hence, the Group considers them to have low credit risk. Accordingly, the impairment provision recognised is limited to 12-month expected losses.

The Group has assessed that the expected credit losses for these financial assets are not material under the 12-month expected losses method. Thus, no loss allowance was recognised during the Track Record Period. The Group does not hold any collateral in relation to these receivables.

The carrying amounts of the Group's trade receivables, prepayments, deposits and other receivables approximated their fair values as at the balance sheet dates, and were denominated in the following currencies:

	As at 31 December			As at
	2017	2018	2019	31 October
	RMB'000	RMB'000	RMB'000	2020
RMB	276,005	319,152	431,125	554,552
HK\$	—	—	2,046	3,634
	<u>276,005</u>	<u>319,152</u>	<u>433,171</u>	<u>558,186</u>

The Company

	As at 31 December		As at
	2018	2019	31 October
	RMB'000	RMB'000	2020
Prepayments for listing expenses	—	2,046	3,592
Prepayments for operating expenses	—	—	42
	<u>—</u>	<u>2,046</u>	<u>3,634</u>

22 CASH AND BANK BALANCES

	As at 31 December			As at
	2017	2018	2019	31 October
	RMB'000	RMB'000	RMB'000	2020
Cash and cash equivalents				
— Cash on hand and at banks	46,290	3,807	16,144	2,467
Restricted bank balance	32,000	9,001	4,710	3,210
Total	<u>78,290</u>	<u>12,808</u>	<u>20,854</u>	<u>5,677</u>

The restricted bank balance was deposits held at banks and pledged for issue of bills payable (note 25).

The cash and bank balances were denominated in the following currencies:

	As at 31 December			As at
	2017	2018	2019	31 October
	RMB'000	RMB'000	RMB'000	2020
RMB	78,290	12,791	20,845	5,621
HK\$	—	17	9	56
	<u>78,290</u>	<u>12,808</u>	<u>20,854</u>	<u>5,677</u>

23 SHARE CAPITAL

	Number of ordinary shares	Share capital	Share capital
		HK\$	RMB
Authorised:			
From 14 November 2018 (date of incorporation) to 31 October 2020			
— Ordinary shares of HK\$1.00 par value		<u>50,000</u>	<u>42,500</u>
Issued:			
At 14 November 2018 (date of incorporation)			
Issue of shares to Mr. Ye Zhijie and Mr. Huang Wengui (Note 1.2.1)	1	1	1
	<u>99</u>	<u>99</u>	<u>84</u>
At 31 December 2018 and 1 January 2019			
Issue of shares to:	100	100	85
— Mr. Ye Zhijie and Mr. Huang Wengui (Note 1.2.4(i))	8,568	8,568	7,283
— Third party investor (Note 1.2.4(ii))	<u>1,332</u>	<u>1,332</u>	<u>1,132</u>
At 31 December 2019 and 31 October 2020	<u>10,000</u>	<u>10,000</u>	<u>8,500</u>

Details of the issuance of share capital of the Company are set out in Notes 1.2.1 and 1.2.4.

On 4 March 2021, each ordinary share of the Company was sub-divided into 100 shares of HK\$0.01 each. Following the sub-division of ordinary shares, the number of issued shares of the Company was increased from 10,000 shares to 1,000,000 shares.

Pursuant to the resolutions passed by the shareholders' meeting on 4 March 2021, conditional on the listing, the authorised shares of the Company has been increased to 3,000,000,000 shares of HKD0.01 par value each. An aggregate of 560,000,000 ordinary shares will be issued and allotted to the shareholders whose names appear on the register of members of the Company as of the date of these resolutions and 187,000,000 shares will be issued upon Share Offer in relation to the listing on the condition of being approved for listing and permitted to deal.

24 OTHER RESERVES

The Group

	<u>Capital reserves</u>	<u>Statutory reserves</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000
At 1 January 2017	100,174	3,423	103,597
Profit appropriation to statutory reserves (i)	—	2,422	2,422
Transactions with non-controlling interests (ii)	(174)	(5,845)	(6,019)
At 31 December 2017 and 1 January 2018	100,000	—	100,000
Profit appropriation to statutory reserves (i)	—	3,012	3,012
At 31 December 2018 and 1 January 2019	100,000	3,012	103,012
Profit appropriation to statutory reserves (i)	—	2,630	2,630
Contribution from shareholders (iii)	91,014	—	91,014
Deemed distribution to shareholders (iii)	(91,014)	—	(91,014)
At 31 December 2019, 1 January 2020 and 31 October 2020	<u>100,000</u>	<u>5,642</u>	<u>105,642</u>
(Unaudited)			
At 1 January 2019	100,000	3,012	103,012
Contribution from shareholders (iii)	91,014	—	91,014
Deemed distribution to shareholders (iii)	(91,014)	—	(91,014)
At 31 October 2019	<u>100,000</u>	<u>3,012</u>	<u>103,012</u>

The Company

	<u>Capital reserve</u>
	RMB'000
At 14 November 2018 (date of incorporation) and 31 December 2018	—
Contribution from shareholders (iii)	91,014
At 31 December 2019 and 31 October 2020	<u>91,014</u>

(i) Statutory reserves

Pursuant to the Company Law of the PRC and the articles of association of PRC subsidiaries, the subsidiaries in the PRC are required to appropriate 10% of each year's net profit (after offsetting previous years' losses) to statutory surplus reserve until the fund aggregates to 50% of their registered capital; after the appropriation to statutory surplus reserve, the subsidiaries in the PRC can appropriate profit, subject to respective equity holders' approval, to discretionary surplus reserve.

The appropriation to statutory and discretionary surplus reserves must be made before distribution of dividends to equity holders. These reserves shall only be used to make up for previous years' losses, to expand production operations, or to increase the capital of the respective company. The entities in the PRC may transfer their respective statutory surplus reserves into paid-in capital, provided that the balance of the statutory surplus reserve after such transfer is not less than 25% of the registered capital before the transformation.

(ii) Transactions with non-controlling interests

On 20 November 2017, Zhixin Construction Material, a subsidiary of the Group, acquired the 40% equity interest of Zhixin Logistics, a 60% owned subsidiary of the Group at that time, from Mr. Ye Zhijie, the controlling shareholder of the Group, at a consideration of RMB2,000,000. After the equity transfer, Zhixin Logistics became a wholly-owned subsidiary of the Group (Transaction 1).

On 1 December 2017, Mr. Huang Wengui transferred his 20% equity interest in Zhixin Construction Technology, a 80% owned subsidiary of the Group at that time, to Zhixin Construction Material at a consideration of RMB7,400,000. After the equity transfer, Zhixin Construction Technology became a wholly-owned subsidiary of the Group (Transaction 2).

Details of the aggregate purchase consideration and equity acquired were as follows:

	<u>Transaction 1</u>	<u>Transaction 2</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000
Purchase considerations	2,000	7,400	9,400
Less: Non-controlling interests (negative) at acquisition dates	<u>(6,188)</u>	<u>3,050</u>	<u>(3,138)</u>
Net impact	<u>8,188</u>	<u>4,350</u>	<u>12,538</u>
Other reserves	1,669	4,350	6,019
Retained earnings	<u>6,519</u>	<u>—</u>	<u>6,519</u>
	<u>8,188</u>	<u>4,350</u>	<u>12,538</u>

The Group's accounting policy treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in other reserves within equity attributable to owners of the Company. If this reserve is insufficient to offset, there would be a further adjustment debiting to retained earnings.

(iii) Capital reserves

The capital reserve of the Group as at 31 December 2017 and 2018 represented the combined share capital of the subsidiaries of the Group prior to the completion of the Reorganisation for the Listing (note 1.2).

As mentioned in note 1.2.3 above, as part of the Reorganisation for the Listing, during March to April 2019, Mr. Ye Zhijie and Mr. Huang Wengui, through companies owned by them, made cash contributions totalling HK\$107,000,000 (equivalent to RMB91,014,000) to the Company. The cash contributions were subsequently used to settle the considerations payable to the two shareholders for the acquisition of the equity interest in Zhixin Construction Material from the two shareholders. The cash contribution from and payment for considerations to the two shareholders were regarded as contributions from and deemed distributions to shareholders, respectively.

25 TRADE AND BILLS PAYABLES AND OTHER PAYABLES AND ACCRUALS

The Group

	As at 31 December			As at
	2017	2018	2019	31 October
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Trade and bills payables				
Trade payables				
— Related parties (<i>note 32(c)</i>)	20,286	14,550	289	—
— Third parties	<u>175,324</u>	<u>204,012</u>	<u>270,505</u>	<u>317,132</u>
	195,610	218,562	270,794	317,132
Bills payable	<u>64,000</u>	<u>30,000</u>	<u>15,700</u>	<u>10,700</u>
Total trade and bills payables	<u>259,610</u>	<u>248,562</u>	<u>286,494</u>	<u>327,832</u>
Other payables and accruals				
Payables for purchase of property, plant and equipment	6,512	11,153	6,283	4,765
Employee benefits payables	6,079	9,103	6,717	7,091
Accrual for operating expenses	6,513	9,196	7,418	16,371
Interest payable	392	239	670	947
Other taxes payable excluding income tax liabilities	3,658	3,297	6,791	3,173
Payable for listing expenses	—	—	1,302	1,069
Others	<u>1,292</u>	<u>1,221</u>	<u>2,254</u>	<u>2,480</u>
Total other payables and accruals	<u>24,446</u>	<u>34,209</u>	<u>31,435</u>	<u>35,896</u>
	<u>284,056</u>	<u>282,771</u>	<u>317,929</u>	<u>363,728</u>

The ageing analysis of trade and bills payables as at 31 December 2017, 2018 and 2019 and 31 October 2020 based on invoice date was as follows:

	As at 31 December			As at
	2017	2018	2019	31 October
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Within 1 year	258,497	247,758	285,915	327,048
1–2 years	1,113	253	579	784
Over 2 years	<u>—</u>	<u>551</u>	<u>—</u>	<u>—</u>
	<u>259,610</u>	<u>248,562</u>	<u>286,494</u>	<u>327,832</u>

The carrying amounts of trade and bills payables and other payables and accruals approximated their fair values as at the balance sheet dates due to their short-term nature.

The carrying amounts of the Group's trade and bills payables and other payables and accruals were denominated in the following currencies.

	As at 31 December			As at
	2017	2018	2019	31 October
	RMB'000	RMB'000	RMB'000	2020
RMB	284,056	282,653	311,297	350,461
HK\$	—	118	6,632	13,267
	<u>284,056</u>	<u>282,771</u>	<u>317,929</u>	<u>363,728</u>

The Company

	As at 31 December		As at
	2018	2019	31 October
	RMB'000	RMB'000	2020
Amounts due to subsidiaries	—	249	1,396
Payable for listing expenses	—	—	65
Other payables	<u>36</u>	<u>—</u>	<u>117</u>
	<u>36</u>	<u>249</u>	<u>1,578</u>

Other payables and accruals

Amounts due to subsidiaries	—	249	1,396
Payable for listing expenses	—	—	65
Other payables	<u>36</u>	<u>—</u>	<u>117</u>
	<u>36</u>	<u>249</u>	<u>1,578</u>

The above balances were unsecured, interest-free and repayable on demand.

26 BORROWINGS

	As at 31 December						As at 31 October					
	2017			2018			2019			2020		
	Current	Non-current	Total	Current	Non-current	Total	Current	Non-current	Total	Current	Non-current	Total
Bank borrowings (i)												
— Secured	36,000	—	36,000	70,000	—	70,000	104,000	—	104,000	147,672	—	147,672
— Unsecured	<u>58,500</u>	<u>—</u>	<u>58,500</u>	<u>27,000</u>	<u>—</u>	<u>27,000</u>	<u>18,000</u>	<u>—</u>	<u>18,000</u>	<u>18,000</u>	<u>—</u>	<u>18,000</u>
	<u>94,500</u>	<u>—</u>	<u>94,500</u>	<u>97,000</u>	<u>—</u>	<u>97,000</u>	<u>122,000</u>	<u>—</u>	<u>122,000</u>	<u>165,672</u>	<u>—</u>	<u>165,672</u>
Entrusted loans from a third party (ii)												
— Unsecured	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>68,790</u>	<u>68,790</u>	<u>52,200</u>	<u>16,590</u>	<u>68,790</u>
Loan from a third party (iii)												
— Unsecured	<u>4,000</u>	<u>—</u>	<u>4,000</u>	<u>4,000</u>	<u>—</u>	<u>4,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total borrowings	<u>98,500</u>	<u>—</u>	<u>98,500</u>	<u>101,000</u>	<u>—</u>	<u>101,000</u>	<u>122,000</u>	<u>68,790</u>	<u>190,790</u>	<u>217,872</u>	<u>16,590</u>	<u>234,462</u>

(i) Bank borrowings

The bank borrowings of the Group were secured by the pledge of assets of the Group as set out below, and corporate guarantees provided by two subsidiaries of the Group, and guarantees from Mr. Ye Zhijie, Mr. Huang Wengui and his spouse and certain independent third parties in 2017 and one independent third party credit guarantee corporation in 2018 and 2019. All guarantees by Mr. Ye Zhijie, Mr. Huang Wengui and his spouse will be released and replaced by corporate guarantees provided by the Group upon Listing.

	As at 31 December			As at 31 October
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Assets of the Group pledged as securities:				
— Property, plant and equipment (note 14)	40,440	42,823	45,751	44,642
— Right-of-use assets (note 15)	6,263	22,982	22,361	21,844
— Investment properties (note 16)	8,306	7,942	7,578	7,275
— Transferred receivables (note 21)	—	—	—	7,172
Total	55,009	73,747	75,690	80,933

For the years ended 31 December 2017, 2018 and 2019 and the ten months ended 31 October 2020, the weighted average effective interest rates on bank borrowings were 6.58%, 5.96%, 5.64% and 5.12% respectively.

The carrying amounts of the Group's bank loans were denominated in RMB.

(ii) Entrusted loans from a third party

The Group obtained three two-year long-term loans totalling RMB68,790,000 from a third party through a bank in Xiamen, the PRC, for working capital purpose. The loans were unsecured, interest bearing at 5% per annum and will be due for repayment in October and December 2021. As at 31 October 2020, RMB52,200,000 of the long-term loans were reclassified to current borrowings since it will be repaid in October 2021. Subsequently on 7 December 2020, the Group agreed with the lender and extended the repayment date of the entrusted loans to October 2022.

(iii) Loan from a third party

The Group obtained an advance from a third party for short term working capital purpose amounting to RMB4,000,000 and RMB4,000,000 as at 31 December 2017 and 2018, respectively. Such loan was interest bearing at 17.53% per annum and was repayable within one year. The loan had been fully repaid during the year ended 31 December 2019.

(iv) Repayment periods

At 31 December 2017, 2018 and 2019 and 31 October 2020, the Group's borrowings were repayable as follows:

	As at 31 December			As at
	2017	2018	2019	31 October
	RMB'000	RMB'000	RMB'000	2020
Within 1 year	98,500	101,000	122,000	217,872
Between 1 and 2 years	—	—	68,790	16,590
	<u>98,500</u>	<u>101,000</u>	<u>190,790</u>	<u>234,462</u>

(v) Undrawn financing facilities

The Group had the following undrawn financing facilities:

	As at 31 December			As at
	2017	2018	2019	31 October
	RMB'000	RMB'000	RMB'000	2020
Bank borrowings, at floating rates				
— Expiring within 1 year	65,000	30,000	50,000	144,010
— Expiring between 1 and 2 years	—	50,000	23,010	—
	<u>65,000</u>	<u>80,000</u>	<u>73,010</u>	<u>144,010</u>

27 LEASE LIABILITIES

	As at 31 December						As at 31 October					
	2017			2018			2019			2020		
	RMB'000			RMB'000			RMB'000			RMB'000		
	Current	Non-current	Total	Current	Non-current	Total	Current	Non-current	Total	Current	Non-current	Total
Land and buildings												
for warehouses and factory	497	—	497	—	—	—	4,593	12,266	16,859	6,377	11,333	17,710
Vehicles	—	—	—	1,009	1,241	2,250	1,102	140	1,242	330	—	330
	<u>497</u>	<u>—</u>	<u>497</u>	<u>1,009</u>	<u>1,241</u>	<u>2,250</u>	<u>5,695</u>	<u>12,406</u>	<u>18,101</u>	<u>6,707</u>	<u>11,333</u>	<u>18,040</u>

The Group leases land, buildings and vehicles for its operations and these liabilities were measured at the net present value of the lease payments during the lease terms that are not yet paid.

The effective interest rates ranged from 5.66% to 8.80% per annum as at 31 December 2017, 2018 and 2019 and 31 October 2020.

28 DEFERRED INCOME

	As at 31 December			As at
	2017	2018	2019	31 October
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Deferred income on asset-related government grants	825	1,418	1,682	2,109

The government grants were received from the local government as subsidies to the Group's purchase of property, plant and equipment. They were recognised in profit or loss on a straight-line basis over the expected useful lives of the related assets.

The movements of the above deferred income during the Track Record Period were as follows:

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
At beginning of year/period	949	825	1,418	1,418	1,682
Additions	—	741	432	432	590
Credited to profit or loss (note 6)	(124)	(148)	(168)	(139)	(163)
At end of year/period	825	1,418	1,682	1,711	2,109

29 DEFERRED INCOME TAX

	As at 31 December			As at
	2017	2018	2019	31 October
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Deferred income tax assets (a)	8,202	9,379	7,267	7,720
Deferred income tax liabilities (b)	(1,412)	(1,862)	(5,732)	(5,639)
	6,790	7,517	1,535	2,081

(a) Deferred income tax assets

	As at 31 December			As at
	2017	2018	2019	31 October
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
The balance comprises temporary differences attributable to:				
Accrued employee benefits	668	640	518	266
Deferred income	206	355	421	531
Provision for impairment of inventories and loss allowance of trade receivables	1,015	1,189	1,540	1,988
Lease liabilities	124	563	4,525	4,722
Tax deductible losses	6,189	6,632	263	213
	<u>8,202</u>	<u>9,379</u>	<u>7,267</u>	<u>7,720</u>

The movements in deferred income tax assets were as follows:

	Accrued employee benefits	Deferred income	Provision for impairment and loss allowance	Lease liabilities	Tax deductible losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	640	237	588	—	1,683	3,148
Credited/(charged) to profit or loss	<u>28</u>	<u>(31)</u>	<u>427</u>	<u>124</u>	<u>4,506</u>	<u>5,054</u>
At 31 December 2017 and 1 January 2018	668	206	1,015	124	6,189	8,202
Credited/(charged) to profit or loss	<u>(28)</u>	<u>149</u>	<u>174</u>	<u>439</u>	<u>443</u>	<u>1,177</u>
At 31 December 2018 and 1 January 2019	640	355	1,189	563	6,632	9,379
Credited/(charged) to profit or loss	<u>(122)</u>	<u>66</u>	<u>351</u>	<u>3,962</u>	<u>(6,369)</u>	<u>(2,112)</u>
At 31 December 2019 and 1 January 2020	518	421	1,540	4,525	263	7,267
Credited/(charged) to profit or loss	<u>(252)</u>	<u>110</u>	<u>448</u>	<u>197</u>	<u>(50)</u>	<u>453</u>
At 31 October 2020	<u>266</u>	<u>531</u>	<u>1,988</u>	<u>4,722</u>	<u>213</u>	<u>7,720</u>
(Unaudited)						
At 31 December 2018 and 1 January 2019	640	355	1,189	563	6,632	9,379
Credited/(charged) to profit or loss	<u>(108)</u>	<u>72</u>	<u>135</u>	<u>4,013</u>	<u>(3,157)</u>	<u>955</u>
At 31 October 2019	<u>532</u>	<u>427</u>	<u>1,324</u>	<u>4,576</u>	<u>3,475</u>	<u>10,334</u>

(b) Deferred income tax liabilities

	As at 31 December			As at
	2017	2018	2019	31 October
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
The balance comprises temporary differences attributable to:				
Property, plant and equipment — capitalisation of interest of construction in progress	1,288	1,299	1,207	1,129
Right-of-use assets	124	563	4,525	4,510
	<u>1,412</u>	<u>1,862</u>	<u>5,732</u>	<u>5,639</u>

The movements in deferred income tax liabilities were as follows:

	Capitalisation of interest relating to construction in progress	Right-of-use assets	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2017	469	—	469
Charged to profit or loss	<u>819</u>	<u>124</u>	<u>943</u>
At 31 December 2017 and 1 January 2018	1,288	124	1,412
Charged to profit or loss	<u>11</u>	<u>439</u>	<u>450</u>
At 31 December 2018 and 1 January 2019	1,299	563	1,862
(Credited)/charged to profit or loss	<u>(92)</u>	<u>3,962</u>	<u>3,870</u>
At 31 December 2019 and 1 January 2020	1,207	4,525	5,732
Credited to profit or loss	<u>(78)</u>	<u>(15)</u>	<u>(93)</u>
At 31 October 2020	<u>1,129</u>	<u>4,510</u>	<u>5,639</u>
(Unaudited)			
At 31 December 2018 and 1 January 2019	1,299	563	1,862
(Credited)/charged to profit or loss	<u>(77)</u>	<u>4,013</u>	<u>3,936</u>
At 31 October 2019	<u>1,222</u>	<u>4,576</u>	<u>5,798</u>

30 CASH FLOW INFORMATION

(a) Reconciliation of profit before income tax to cash (used in)/generated from operations

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit before income tax	15,617	37,384	57,937	42,323	59,375
Adjustments for					
— Depreciation of property, plant and equipment (<i>note 14</i>)	11,505	14,043	14,477	12,218	12,534
— Depreciation of right-of-use asset (<i>note 15</i>)	783	1,501	3,701	2,874	4,699
— Depreciation of investment properties (<i>note 16</i>)	364	364	434	351	425
— Amortisation of intangible assets (<i>note 17</i>)	8	26	26	21	21
— Provision for impairment of inventories (<i>note 20</i>)	1,669	642	765	202	345
— Provision for impairment of receivables (<i>note 21</i>)	35	1,588	1,431	1,114	2,030
— Finance costs	2,142	7,277	8,836	6,819	11,171
— Amortisation of deferred income	(124)	(148)	(168)	(139)	(163)
— Losses/(gains) on disposal of property, plant and equipment	189	(464)	1,443	1,436	314
	32,188	62,213	88,882	67,219	90,751
Changes in working capital:					
— Restricted bank balance	(2,000)	22,999	4,291	4,291	1,500
— Inventories	3,779	(3,355)	(8,059)	(8,822)	(24,113)
— Trade receivables, prepayments, deposits and other receivables	(6,821)	(59,335)	(115,411)	(71,035)	(125,499)
— Contract liabilities	2,221	3,800	6,244	6,172	(10,813)
— Trade and bills payables, other payables and accruals	(59,216)	(2,472)	39,272	(47,836)	52,148
Net cash (used in)/generated from operations	(29,849)	23,850	15,219	(50,011)	(16,026)

(b) Proceeds from disposal of property, plant and equipment

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Net book amount (<i>note 14</i>)	190	119	2,996	2,985	376
(Losses)/gains on disposal (<i>note 7</i>)	(189)	464	(1,443)	(1,436)	(314)
Proceeds from disposal of property, plant and equipment	<u>1</u>	<u>583</u>	<u>1,553</u>	<u>1,549</u>	<u>62</u>

(c) Reconciliation of liabilities arising from financing activities

	Borrowings and interest payable due within 1 year	Borrowings and interest payable due after 1 year	Lease liabilities due within 1 year	Lease liabilities due after 1 year	Amounts due to related parties excluding dividend payable	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total debt as at 1 January 2017	39,716	—	—	—	17,544	57,260
Cash flows — principal	59,000	—	(509)	—	36,634	95,125
Cash flows — interest	(688)	—	(12)	—	—	(700)
Increase of right-of-use assets	—	—	1,006	—	—	1,006
Other non-cash movements — interest expenses	864	—	12	—	—	876
Total debt as at 31 December 2017 and 1 January 2018	98,892	—	497	—	54,178	153,567
Cash flows — principal	2,500	—	(1,314)	—	(54,083)	(52,897)
Cash flows — interest	(6,230)	—	(234)	—	—	(6,464)
Increase of right-of-use assets	—	—	817	2,250	—	3,067
Other non-cash movements — interest expenses	6,077	—	234	—	—	6,311
Reclassification	—	—	1,009	(1,009)	—	—
Total debt as at 31 December 2018 and 1 January 2019	101,239	—	1,009	1,241	95	103,584
Cash flows — principal	21,000	68,790	(3,410)	—	6,288	92,668
Cash flows — interest	(7,360)	—	(717)	—	—	(8,077)
Increase of right-of-use assets	—	—	2,374	16,887	—	19,261
Other non-cash movements — interest expenses	7,314	477	717	—	—	8,508
Other non-cash movements — reclassification from dividend payable (note 32(c))	—	—	—	—	19,900	19,900
Reclassification	—	—	5,722	(5,722)	—	—
Total debt as at 31 December 2019 and 1 January 2020	122,193	69,267	5,695	12,406	26,283	235,844
Cash flows — principal	43,672	—	(5,409)	—	—	38,263
Cash flows — interest	(6,588)	(2,409)	(828)	—	—	(9,825)
Increase of right-of-use assets	—	—	—	5,348	—	5,348
Other non-cash movements — listing expenses paid by shareholder (note 30(d))	—	—	—	—	4,920	4,920
Other non-cash movements — interest expenses	6,642	2,632	828	—	680	10,782
Reclassification	52,200	(52,200)	6,421	(6,421)	—	—
Total debt as at 31 October 2020	218,119	17,290	6,707	11,333	31,883	285,332
(Unaudited)						
Total debt as at 1 January 2019	101,239	—	1,009	1,241	95	103,584
Cash flows — principal	25,000	52,200	(3,633)	—	—	73,567
Cash flows — interest	(5,662)	—	(472)	—	—	(6,134)
Increase of right-of-use assets	—	—	—	19,687	—	19,687
Other non-cash movements — listing expenses paid by shareholder (note 30(d))	—	—	—	—	4,108	4,108
Other non-cash movements — interest expenses	6,136	42	472	—	—	6,650
Other non-cash movements — reclassification from dividend payable (note 32(c))	—	—	—	—	30,600	30,600
Reclassification	—	—	7,433	(7,433)	—	—
Total debt as at 31 October 2019	126,713	52,242	4,809	13,495	34,803	232,062

(d) Significant non-cash transactions

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Listing expenses paid by shareholder	—	—	—	4,108	4,920

31 COMMITMENTS

(a) Capital commitments

Significant capital expenditure commitments are set out below:

	As at 31 December			As at 31 October
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted but not provided for:				
— Property, plant and equipment	13,651	803	246	225
Share capital of a PRC incorporated subsidiary to be paid up	76,250	36,575	32,975	32,975

(b) Non-cancellable short-term operating leases

	As at 31 December			As at 31 October
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Warehouses				
— Less than 1 year	—	102	2,698	1,916

32 RELATED PARTY TRANSACTIONS

(a) Names and relationship with related parties

The following individuals/entities are related parties of the Group that had balances and/or transactions with the Group as at/during the years ended 31 December 2017, 2018 and 2019 and the ten months ended 31 October 2019 and 2020.

<u>Name of related parties</u>	<u>Relationship</u>
Mr. Ye Zhijie	Controlling shareholder and Chairman
Mr. Huang Wengui	Substantial shareholder and Executive director
Xiamen Jichang Construction Engineering Co., Ltd. ("Ji Chang")	A Company controlled by brother of Mr. Ye Zhijie
Xiamen Yaohe Trading Co., Ltd. ("Yao He")	A Company controlled by Mr. Huang Wengui
Xiamen Lianhui Construction Material Limited ("Lian Hui")	A Company controlled by Mr. Huang Wengui until 4 September 2018
Xiamen Guishun Logistics Limited ("Gui Shun")	A Company controlled by Mr. Huang Wengui
Ms. Du Lifang	Close family member of Mr. Ye Zhijie

Note: The entities shown above do not have official English names and their Chinese names have been translated into English, for reference only, by the Directors on a best effort basis.

(b) Transactions with related parties

Save as disclosed in elsewhere in this report, during the years ended 31 December 2017, 2018 and 2019, and the ten months ended 31 October 2019 and 2020, the Group had the following transactions with related parties:

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Related party transactions that will not continue after the Listing:					
(i) Sales of goods to a related party					
— Ji Chang	42	—	4,803	4,754	—
(ii) Purchases of raw materials and logistics services from related parties					
— Yao He	17,474	23,647	—	—	—
— Lian Hui	2,875	132	—	—	—
— Ms. Du Lifang	500	1,753	—	—	—
— Gui Shun	310	326	77	—	—
	<u>21,159</u>	<u>25,858</u>	<u>77</u>	<u>—</u>	<u>—</u>
(iii) Listing expenses paid by shareholder					
— Mr. Ye Zhijie	—	—	—	—	4,920
(iv) Interest expense on loan from related parties					
— Mr. Ye Zhijie	—	—	—	—	447
— Mr. Huang Wengui	—	—	—	—	103
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>550</u>

The above transactions were conducted according to the agreed terms between relevant related parties and the Group and in the ordinary course of business.

(c) Balances with related parties

The Group

	As at 31 December			As at
	2017	2018	2019	31 October
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
<i>Trade in nature:</i>				
(i) <i>Trade receivable from a related party</i>				
— Ji Chang	—	—	2,713	—
(ii) <i>Trade payable to related parties</i>				
— Yao He	17,839	14,479	241	—
— Lian Hui	2,443	N/A	N/A	N/A
— Gui Shun	4	71	48	—
	<u>20,286</u>	<u>14,550</u>	<u>289</u>	<u>—</u>

The above balances were trade in nature and were settled according to the contract terms.

	As at 31 December			As at
	2017	2018	2019	31 October
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
<i>Non-trade in nature:</i>				
(i) <i>Amount due from a related party</i>				
— Mr. Ye Zhijie	<u>12,533</u>	<u>13,940</u>	<u>—</u>	<u>—</u>
(ii) <i>Amounts due to related parties</i>				
— Mr. Ye Zhijie				
Dividend payable	—	62,100	—	—
Three-year loan	—	—	21,308	21,884
Listing expenses paid by shareholder	—	—	—	4,920
— Mr. Huang Wengui				
Dividend payable	—	20,700	—	—
Other payables	26,600	—	—	—
Three-year loan	—	—	4,975	5,079
— Yao He	26,978	95	—	—
— Ji Chang	600	—	—	—
Total	<u>54,178</u>	<u>82,895</u>	<u>26,283</u>	<u>31,883</u>
Less: non-current portion	—	—	(26,283)	(26,963)
Current portion	<u>54,178</u>	<u>82,895</u>	<u>—</u>	<u>4,920</u>

The above balances with related parties were non-trade in nature, unsecured, interest-free and repayable on demand, except that the amounts due to Mr. Ye Zhijie and Mr. Huang Wengui as at 31 December 2019 and 31 October 2020 totalling RMB26,283,000 and RMB26,963,000, respectively, were three years loans to the Group which will be due for repayment by 31 December 2022 and bears interest at 2.50% per annum.

The carrying amounts of the amounts due from/to related parties approximated their fair values as at the balance sheet dates and were denominated in RMB.

All outstanding balance of amounts due to related parties will be capitalised to other reserves upon Listing.

The Company

Save as disclosed in note 25, the Company had the following balance with a related party:

	<u>As at 31 December</u>		<u>As at</u>
	<u>2018</u>	<u>2019</u>	<u>31 October</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>2020</u>
			<u>RMB'000</u>
(i) <i>Amount due to a related party</i>			
— Mr. Ye Zhijie			
Three-year loan	—	6,383	6,648
Listing expenses paid by shareholder	—	—	4,920
	<u>—</u>	<u>—</u>	<u>—</u>
Total	<u>—</u>	<u>6,383</u>	<u>11,568</u>

The above balances due to Mr. Ye Zhijie were non-trade in nature, unsecured, interest-free and repayable on demand, except that the amount due to Mr. Ye Zhijie as at 31 December 2019 and 31 October 2020 totalling RMB6,383,000 and RMB6,648,000, respectively, were three years loan to the Company which will be due for repayment by 31 December 2022 and bears interest at 2.50% per annum.

(d) **Key management compensation**

Key management includes Chairman, Executive Directors and senior management of the Group.

The compensation paid or payable to the key management during the years ended 31 December 2017, 2018 and 2019, and the ten months ended 31 October 2019 and 2020 including those paid to the executive directors which has been disclosed in note 33, are shown as below.

	<u>Year ended 31 December</u>			<u>Ten months ended 31 October</u>	
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2019</u>	<u>2020</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
				(Unaudited)	
Salaries and bonus	531	822	1,826	952	1,536
Contribution to pension plan	66	98	132	45	10
	<u>597</u>	<u>920</u>	<u>1,958</u>	<u>997</u>	<u>1,546</u>

33 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

Remuneration of every director during the years ended 31 December 2017, 2018 and 2019, and the ten months ended 31 October 2019 and 2020 was as follows:

Name of Directors	Fees	Salaries	Discretionary bonus	Contribution to pension plan	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended					
31 December 2017					
<i>Chairman:</i>					
Mr. Ye Zhijie	—	61	—	11	72
<i>Executive directors:</i>					
Mr. Huang Wengui	—	36	—	9	45
Mr. Qiu Limiao	—	68	—	9	77
Mr. Ye Dan	—	63	—	7	70
	<u>—</u>	<u>228</u>	<u>—</u>	<u>36</u>	<u>264</u>
Year ended					
31 December 2018					
<i>Chairman:</i>					
Mr. Ye Zhijie	—	61	—	12	73
<i>Executive directors:</i>					
Mr. Huang Wengui	—	61	—	15	76
Mr. Qiu Limiao	—	99	—	8	107
Mr. Ye Dan	—	162	—	10	172
	<u>—</u>	<u>383</u>	<u>—</u>	<u>45</u>	<u>428</u>
Year ended					
31 December 2019					
<i>Chairman:</i>					
Mr. Ye Zhijie	—	137	—	13	150
<i>Executive directors:</i>					
Mr. Huang Wengui	—	112	—	11	123
Mr. Qiu Limiao	—	155	—	13	168
Mr. Ye Dan	—	188	—	21	209
Mr. Huang Kaining	—	71	—	15	86
	<u>—</u>	<u>663</u>	<u>—</u>	<u>73</u>	<u>736</u>

<u>Name of Directors</u>	<u>Fees</u>	<u>Salaries</u>	<u>Discretionary bonus</u>	<u>Contribution to pension plan</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Ten months ended 31 October 2020					
<i>Chairman:</i>					
Mr. Ye Zhijie	—	286	—	1	287
<i>Executive directors:</i>					
Mr. Huang Wengui	—	191	—	1	192
Mr. Qiu Limiao	—	128	—	1	129
Mr. Ye Dan	—	194	—	2	196
Mr. Huang Kaining	—	95	—	1	96
	—	894	—	6	900

**Ten months ended
31 October 2019
(Unaudited)**

<i>Chairman:</i>					
Mr. Ye Zhijie	—	77	—	11	88
<i>Executive directors:</i>					
Mr. Huang Wengui	—	72	—	9	81
Mr. Qiu Limiao	—	128	—	11	139
Mr. Ye Dan	—	155	—	18	173
Mr. Huang Kaining	—	51	—	13	64
	—	483	—	62	545

- (i) Mr. Ye Zhijie and Mr. Huang Wengui were appointed as the executive directors of the Company on 14 November 2018. Mr. Qiu Limiao, Mr. Ye Dan and Mr. Huang Kaining were appointed as the executive directors of the Company on 2 March 2020. The remuneration shown above represented remuneration received and receivable from the Group by these executive directors in their capacity as employees or/and directors of the companies now comprising the Group.
- (ii) Ms. Wong Tuen Sau, Mr. Cai Huinong and Mr. Huang Youling were appointed as the Company's independent non-executive directors on 4 March 2021. During the years ended 31 December 2017, 2018 and 2019, and the ten months ended 31 October 2019 and 2020, the independent non-executive directors have not yet been appointed and did not receive directors' remuneration in the capacity of independent non-executive directors.
- (iii) No emoluments have been paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office or no directors waived or agreed to waive any emoluments during the years ended 31 December 2017, 2018 and 2019, and the ten months ended 31 October 2019 and 2020.

(b) Directors' retirement and termination benefits

There were no retirement and termination benefits paid to any director during the years ended 31 December 2017, 2018 and 2019, and the ten months ended 31 October 2019 and 2020.

(c) Consideration provided to third parties for making available directors' services

During the years ended 31 December 2017, 2018 and 2019, and the ten months ended 31 October 2019 and 2020, no consideration to third parties for making available director's services.

(d) Information about loans, quasi-loans and other dealings in favour of directors

Save as disclosed in note 32, there were no loans, quasi-loans and other dealings entered into between the Group and the directors and in favour of the directors as at 31 December 2017, 2018 and 2019 and 31 October 2020, or at any time during the years ended 31 December 2017, 2018 and 2019, and ten months ended 31 October 2019 and 2020.

(e) Directors' material interests in transactions, arrangements or contracts

Other than those disclosed in note 32, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted as at 31 December 2017, 2018 and 2019 and 31 October 2020 or at any time during the years ended 31 December 2017, 2018 and 2019, the ten months ended 31 October 2019 and 2020.

34 INTERESTS IN A SUBSIDIARY — THE COMPANY

	As at 31 December		As at 31 October
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Investment in a subsidiary — at cost	—	—	—
Long term receivable from the subsidiary	—	91,014	91,014
	—	91,014	91,014
	—	91,014	91,014

The amount of investment in a subsidiary represented the aggregate net asset value of the Operating Subsidiaries acquired pursuant to the Reorganisation (note 1.2.2).

The list of subsidiaries of the Company is set out in note 1.2.

35 CONTINGENCIES

As at 31 December 2017, 2018 and 2019 and 31 October 2020, there were no significant contingencies for the Group and the Company.

36 EVENTS AFTER THE BALANCE SHEET DATE

Save as disclosed elsewhere in the report, the Group has the following subsequent events after the balance sheet date:

- (i) On 4 March 2021, each ordinary share of the Company was sub-divided into 100 shares of HK\$0.01 each. Following the sub-division of ordinary shares, the number of issued shares of the Company was increased from 10,000 shares to 1,000,000 shares.

- (ii) Pursuant to the resolutions passed by the shareholders' meeting on 4 March 2021, and conditional upon the Listing, the authorised shares of the Company has been increased to 3,000,000,000 shares of HKD0.01 par value each. An aggregate of 560,000,000 ordinary shares will be issued and allotted to the shareholders whose names appear on the register of members of the Company as of the date of these resolutions and 187,000,000 shares will be issued upon Share Offer in relation to the listing on the condition of being approved for listing and permitted to deal.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 October 2020 and up to the date of this report. Saved as disclosed in this report in note 13, no dividend or distribution has been declared or, made by the Company or any of the subsidiaries now comprising the Group in respect of any period subsequent to 31 October 2020.