
SUMMARY

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

OVERVIEW

Established in April 2007, we are a manufacturer and supplier of concrete-based building materials in Xiamen, Fujian Province of the PRC. Our principal products can be broadly categorised as (i) ready-mixed concrete; and (ii) precast concrete components (“**PC components**”). During the Track Record Period and up to the Latest Practicable Date, all of our products were sold in the PRC with primary focus in Fujian Province. According to the Frost & Sullivan Report, our production volume for ready-mixed concrete accounted for approximately 7.2% of market share in Xiamen in 2019. Our Group accounted for approximately 0.04% of market share in terms of approximately 1,034,000 m³ production volume in the commercial ready-mixed concrete market in the PRC for the same year. According to the Frost & Sullivan Report, the size of the PC component market in Fujian Province and Xiamen to the overall PRC market in 2019 is 3.0% and 0.5% in terms of total production volume and 3.6% and 0.5% in terms of sales value, respectively.

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

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

Our Group currently owns and operates two production plants, namely the RMC Plant and PC Plant and leases one production workshop, namely the Jimei Workshop, in Xiamen, with a current aggregate annual production capacity of approximately 1,439,000 m³ of ready-mixed concrete and approximately 119,800 m³ of PC components. During the Track Record Period, the utilisation rate of our RMC Plant was approximately 76.0%, 75.8%, 71.9% and 78.5%, respectively, while the utilisation rate of our PC Plant was approximately 12.6%, 42.9%, 70.1% and 84.7%, respectively. As our PC Plant was put into commercial operation gradually since the second half of 2017, the production scale was comparatively lower than the estimated production capacity and resulted in low utilisation rate. During the Track Record Period, the utilisation rate of the Jimei Workshop, which commenced production in October 2019, was nil, nil, approximately 28.6% and 61.2%, respectively. For details, please refer to the section headed “Business — Production facilities, capacity and utilisation” in this prospectus.

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

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

Notes:

- Actual compressive strength of ready-mixed concrete is determined by test of compressive strength on test cubes made after curing for 28 days.
- Other construction components primarily include floor slabs, square piles, beams and utility tunnel segments.

During the Track Record Period, our total revenue amounted to approximately RMB399.5 million, RMB511.3 million, RMB590.8 million and RMB602.2 million, respectively, while our sales volume amounted to approximately 1,086,382 m³, 1,129,299 m³, 1,104,321 m³ and 1,002,218 m³, respectively.

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

For the ten months ended 31 October 2020, our overall gross profit increased to approximately RMB119.0 million from approximately RMB85.9 million for the ten months ended 31 October 2019 mainly due to the increase in gross profit of PC components and overall revenue growth. Our Group’s overall gross profit margin remained stable at approximately 19.6% and 19.8% for the ten

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months ended 31 October 2019 and 2020, respectively, which was attributable to the combined effects of (i) increased gross profit margin of our other construction components products as our production efficiency improved from the growth of our production scale of other construction components products; and (ii) decreased gross profit margin of our ready-mixed concrete products mainly due to the change in product grade mix.

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

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

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

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

The average selling price of other construction components decreased from approximately RMB2,317.5 per m³ for the year ended 31 December 2017 to approximately RMB1,575.2 per m³ for the year ended 31 December 2018. The decrease in average selling price of other construction components was mainly due to the change in our product mix by selling approximately 89 m³ and 12,455 m³ of square piles, representing approximately 3.7% and 73.0% of other construction components in terms of sales volume, for the two years ended 31 December 2018, respectively. Our square piles were on average priced relatively lower per m³ as its production process is less complex. For further details on the price range of other construction components, please refer to the section headed “Business — Our products — (ii) PC components — Other construction components” in this prospectus.

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

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

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

Notes:

1. Project nature is categorised based on the project description as stipulated in their respective master contracts and the principal utilisation of our products.
2. Others refer to sales with no master contracts for project nature categorisation.

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

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

Notes:

- Not all of our revenue is recorded in our backlog for a number of reasons, including (i) some contracts entered into between our Group and the customers do not have a specified contract value; and (ii) small-scale ad hoc orders with no master contracts.
- The actual revenue of certain contracts may differ from its original contract value because the revenue that we recognise is subject to the actual volume of products ordered by our customers and price adjustment based on prevailing market unit price for each of our products specified in the contracts. This may result in addition or deduction of the original contract value of our projects during the Track Record Period, which was represented as the value of subsequent rectifications, modifications or adjustments.
- During the Track Record Period and for the three months ended 31 January 2021, we had 62, 51, 30, 23 and 12 on-going contracts for ready-mixed concrete with unspecified contract values and nil, three, one, nil and nil on-going contracts for PC components with unspecified contract values, respectively, and thus they were not accounted for in our backlog calculation.
- Our backlog may not be indicative of our future operating results. Please refer to the section headed “Risk factors — Our backlog and new contract value may not be indicative of our future results of operation” of this prospectus for details.

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COMPETITIVE STRENGTHS

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

BUSINESS STRATEGIES

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

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

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

OUR CUSTOMERS

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

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

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

OUR SUPPLIERS

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

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

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RISK FACTORS

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

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

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

PRICING POLICY

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

COMPETITIVE LANDSCAPE

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

It is expected that the ready-mixed concrete production volume will continue to grow in Fujian Province and Xiamen, reaching approximately 105,600,000 m³ and 20,000,000 m³ respectively by 2024. Under the various supportive government policies issued by the central, provincial and municipal government of the PRC, the PC component industry in Fujian Province and Xiamen will experience further growth with total production volume reaching approximately 4,166,200 m³ and 530,000 m³ respectively by 2024, according to the Frost & Sullivan Report.

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KEY OPERATIONAL AND FINANCIAL DATA

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

Highlights of our consolidated statements of comprehensive income

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

NON-HKFRS FINANCIAL MEASURES⁽¹⁾

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

Notes:

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

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

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

Highlights of our consolidated statements of cash flows

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

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

SUMMARY

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

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

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

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

Highlights of our consolidated statements of financial position

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

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

SUMMARY

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

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

SUMMARY

Highlights of indebtedness

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

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

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

SUMMARY

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

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

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

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

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

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

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

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

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

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

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

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

SUMMARY

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

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

- (a) our sales teams will negotiate the commercial aspect of the contract with specific emphasis on payment terms, amount of retention monies to be withheld by customers and amount of advance payments from customers;
- (b) our finance department will prepare an analysis of the forecast amount and timing of cash inflows and outflows in relation to our overall business operations so as to ensure the sufficiency of our financial resources;
- (c) for trade receivables past due, material overdue payments are monitored continuously and evaluated on a case-by-case basis based upon the customer's normal payment processing procedures, our relationship with the customer, its history of making payments, its financial position as well as the general economic environment, with appropriate follow-up actions including (i) active communications with the customers' appropriate personnel; (ii) cessation of processing any further purchase orders from such customer until settlement of the overdue balance; (iii) conducting review on the recoverable amount of each individual trade receivable balance at the end of each reporting period to ensure adequate provision of impairment losses for irrecoverable amounts; and (iv) seeking legal advices when necessary; and
- (d) if, based on our regular monitoring by our finance department, there is any expected shortage of internal financial resources, we may (i) refrain from undertaking new projects; (ii) hasten the collection of our trade receivables; (iii) delay our non-urgent payments; and/or (iv) consider different financing alternatives, including but not limited to drawing on unutilised banking facilities and/or obtaining adequate banking facilities from banks and other financial institutions.

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

KEY FINANCIAL RATIOS

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

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

SUMMARY

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

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

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

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

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

NON-COMPLIANCE

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

CONTROLLING SHAREHOLDERS

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

SUMMARY

FUTURE PLANS AND USE OF PROCEEDS

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

- approximately HK\$199.6 million (equivalent to RMB181.5 million), representing approximately 82.7% of the net proceeds of the Share Offer, will be used to expand our PC component production capacity at our PC Plant, of which (i) approximately HK\$115.7 million (equivalent to RMB105.2 million), representing approximately 47.9% of the net proceeds of the Share Offer will be used to set up the PC component facility including a factory building, ancillary facilities and production lines; (ii) approximately HK\$4.7 million (equivalent to RMB4.3 million), representing approximately 2.0% of the net proceeds of the Share Offer will be used to lease storage site(s) to support our enlarged production capacity; (iii) approximately HK\$45.4 million (equivalent to RMB41.3 million), representing approximately 18.8% of the net proceeds of the Share Offer will be used to purchase raw materials for the production of PC components at our new production lines; (iv) approximately HK\$19.8 million (equivalent to RMB18.0 million), representing approximately 8.2% of the net proceeds of the Share Offer will be used to acquire flatbed trucks; and (v) approximately HK\$14.0 million (equivalent to RMB12.7 million), representing approximately 5.8% of the net proceeds of the Share Offer will be used to enhance and expand our workforce to support our business expansion;
- approximately HK\$8.8 million (equivalent to RMB8.0 million), representing approximately 3.6% of the net proceeds of the Share Offer, will be used to enhance our information technology system by introducing an ERP system so that our business operations can be better maintained and monitored;
- approximately HK\$7.7 million (equivalent to RMB7.0 million), representing approximately 3.2% of the net proceeds of the Share Offer, will be used to further improve our environmental protection system in response to the expected increase in waste discharge and pollutants emission arising from our expansion plans;
- approximately HK\$8.5 million (equivalent to RMB7.7 million) will be used to acquire five mixer and two concrete pump trucks, of which approximately HK\$1.1 million (equivalent to RMB1.0 million) will be funded by the net proceeds of the Share Offer (representing approximately 0.5% of the net proceed of the Share Offer) and the balance of approximately HK\$7.4 million (equivalent to RMB6.7 million) will be funded by internal resources; and
- approximately HK\$24.2 million (equivalent to RMB21.9 million), representing approximately 10.0% of the net proceeds of the Share Offer, will be used as our general working capital.

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

RECENT DEVELOPMENT

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

SUMMARY

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

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

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

COVID-19 outbreak

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

Operation impact

- *Production:* In response to the PRC government announcement to extend the Chinese New Year holiday in early 2020, our production was temporarily suspended from late January 2020 to mid February 2020, which was gradually resumed since mid February 2020 and fully resumed in mid March 2020. As a result, we recorded lower production volume of both ready-mixed concrete and PC components of approximately 159,067 m³ during the first quarter of 2020 as compared to the first quarter of 2019 of approximately 168,329 m³, despite having a higher backlog as at 31 December 2019 as compared to the backlog as at 31 December 2018.
- *Product demand:* To the best knowledge of our Directors after making reasonable enquiries, 102 and 21 on-going projects as at 31 December 2019 with initial contract sum of approximately RMB879.5 million and RMB290.1 million for our ready-mixed concrete and PC components respectively had been temporarily suspended in late January 2020 due to the outbreak of COVID-19, and all on-going projects as at the Latest Practicable Date had resumed their construction works by the end of May 2020. Despite the aforesaid negative impact, for the six months ended 30 June 2020, the sales volume of ready-mixed concrete increased by approximately 117,095 m³ or 32.3% as compared to the six months ended 30 June 2019 mainly due to the increase in demand from projects performing foundation and road works; while the sales volume of PC components decreased by approximately 10,841 m³ or 29.1% as compared to the six months ended 30 June 2019 mainly due to our tunnel segment projects on hand were close to their completion.

SUMMARY

Financial impact

- *Sales:* Despite the temporarily suspension of our production and customers' on-going construction projects from late January 2020 to mid February 2020 and late January 2020 to May 2020 respectively, our Group recorded an increase in revenue for the six months ended 30 June 2020. Such increase was mainly driven by the increase in revenue from the sale of ready-mixed concrete by approximately RMB59.7 million or 38.6% for the six months ended 30 June 2020 as compared to the six months ended 30 June 2019 primarily due to (i) the increase in sales volume of ready-mixed concrete; and (ii) the increase in average selling price of ready-mixed concrete mainly attributable to our ability to negotiate favorable pricing terms with our customers. Our revenue derived from sale of PC components remained stable at approximately RMB64.5 million and RMB68.8 million for the six months ended 30 June 2019 and 2020 respectively.
- *Collection of trade receivables:* Due to temporarily suspension of our customers' operations, we experienced a slower collection of trade receivables throughout the year of 2020, in particular during the first half of 2020, as our trade receivable turnover days spiked from approximately 223.3 days as at 31 December 2019 to approximately 273.5 days as at 30 June 2020. The collection rate of trade receivables has then improved as the impact of the COVID-19 outbreak gradually eased in the PRC. As at 31 October 2020, our trade receivables turnover days has reduced to approximately 242.6 days and our Directors expect such collection rate to further improve towards the end of 2020.

Construction activities are normally less active during the period from January to March due to Chinese New Year and we have maintained stable working relationship with our major suppliers and customers. Based on our historical experience, our customers will generally speed up their construction activities to catch up on delayed construction progress caused by unanticipated interruptions such as the impact from the COVID-19 outbreak. As such, we recorded an increase in (i) production volume of approximately 86,184 m³; (ii) sales volume of approximately 81,631 m³; and (iii) total revenue of approximately RMB101.1 million for the four months ended 31 October 2020 as compared to the four months ended 31 October 2019.

Financial viability

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

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

DIVIDEND

There were no dividends paid or payable by our Company in respect of the Track Record Period. The dividends declared by Zhixin Construction Material to its then shareholders was nil, RMB82.8 million, nil and nil for the three years ended 31 December 2019 and the ten months ended 31 October 2020, respectively. According to the PRC Company Law, provided that 10% of the annual post-tax profits after covering any outstanding accumulated losses brought forward from previous years has been contributed into its statutory surplus reserve, a company could distribute its retained earnings as dividend. The company may elect not to contribute to the statutory surplus

SUMMARY

reserve if it reached 50% of the company's registered capital. Our Directors confirm that Zhixin Construction Material had no accumulated losses brought forward and had legally contributed 10% of its annual post-tax profits into its statutory surplus reserve upon the distribution of dividend at company level in 2018. Our Group's accumulated losses of approximately RMB40.5 million as at 31 December 2018 primarily represented accumulated losses of our primary subsidiary, namely Zhixin Construction Technology due to the losses accumulated from the early stage of our Group's PC component operation. Based on the above, despite of the accumulated losses at the group level, our PRC Legal Advisers are of the view that the distribution of dividend of Zhixin Construction Material in 2018 was in compliance with the applicable laws and regulations in the PRC.

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

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

LISTING EXPENSES

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

OFFER STATISTICS

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

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