You should read this section in conjunction with our audited consolidated financial statements as at and for the years ended 31 December 2016, 31 December 2017 and 31 December 2018 and the eight months ended 31 August 2019 as set out in the Accountants' Report, together with the accompanying notes. The Accountants' Report has been prepared in accordance with HKFRSs. You should read the Accountants' Report in its entirety and not merely rely on the information contained in this section.

The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, whether the actual outcome and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. Please also refer to the sections headed "Risk Factors" and "Forward-looking Statements" in this prospectus.

OVERVIEW

We are a producer of tantalum- and niobium-based metallurgical products in China. Our principal products are tantalum pentoxide and niobium pentoxide. We also produce and sell potassium heptafluorotantalate. We process our products into varying purity levels and specifications in order to meet the requirements for different end products. In addition, we sell processed products such as tantalum bars, tantalum carbide, niobium bars and niobium powder, which are produced by engaging third-party metallurgy companies to process the pentoxide products and potassium heptafluorotantalate we produce, or purchased from third-party metallurgy companies. Moreover, we provide processing services for processing tantalum ores and niobium ores supplied by our customers into pentoxide products and potassium heptafluorotantalate.

Our total production volume of pentoxide products and potassium heptafluorotantalate accounted for approximately 30.0%, 31.5% and 35.8% of the market share in China for FY2016, FY2017 and FY2018, respectively. In 2017, we commenced the construction of four new production lines for pentoxide products in our existing production plant, and expanded our estimated production capacity of pentoxide products from approximately 804 tonnes for FY2017 to approximately 1,282.5 tonnes for FY2018 to approximately 1,800 tonnes for the year ended 31 December 2019. Our total actual production volume of pentoxide products increased from approximately 771.6 tonnes for FY2016 to approximately 922.5 tonnes for FY2017 and further increased to approximately 1,121.5 tonnes for FY2018. For 8M2019, our total actual production volume of pentoxide products amounted to approximately 876.6 tonnes. The expansion of our production facility enabled us to increase our production volume in support of the increase of our sales volume. Our total sales volume of pentoxide products increased from approximately 592.3 tonnes for FY2016 to approximately 789.0 tonnes for FY2017 to approximately 1,008.9 tonnes for FY2018, and increased from approximately 627.4 tonnes for 8M2018 to approximately 906.8 tonnes for 8M2019.

In addition, despite our estimated production capacity of potassium heptafluorotantalate remained stable at approximately 207 tonnes during the Track Record Period, we increased our utilisation rate during FY2018. As a result, our actual total production volume of potassium heptafluorotantalate remained stable at approximately 107.3 tonnes and 108.5 tonnes for FY2016 and FY2017, respectively, and increased to approximately 199.5 tonnes for FY2018. For 8M2019, our actual total production volume of potassium heptafluorotantalate amounted to approximately 59.0 tonnes. Our total sales volume of potassium heptafluorotantalate increased from approximately 43.3 tonnes for FY2016 to approximately 62.0 tonnes for FY2017 to approximately 159.0 tonnes for FY2018, and decreased from approximately 123.6 tonnes for 8M2018 to approximately 44.2 tonnes for 8M2019.

Our revenue increased from approximately RMB217.4 million for FY2016 to approximately RMB307.4 million for FY2017, and further increased to approximately RMB514.7 million for FY2018. For 8M2019, our revenue amounted to approximately RMB400.8 million, representing an increase of approximately RMB53.0 million from approximately RMB347.8 million for 8M2018. Our net profit from continuing operations increased from approximately RMB24.7 million for FY2016 to approximately RMB38.6 million for FY2017 and further increased to approximately RMB77.1 million for FY2018. For 8M2019, our net profit from continuing operations amounted to approximately RMB51.4 million, representing a decrease of approximately RMB11.3 million from approximately RMB62.7 million for 8M2018.

BASIS OF PRESENTATION

Our Company is an exempted company incorporated in the Cayman Islands on 26 May 2017. Pursuant to the Reorganisation, which was completed on 31 August 2017, our Company became the holding company of the companies now comprising our Group. For further details, please refer to the section headed "History, Reorganisation and Corporate Structure" in this prospectus.

The companies now comprising our Group were under the control of Mr. Wu, being one of our Controlling Shareholders, before and after the Reorganisation. Accordingly, the financial information for FY2016, FY2017, FY2018, 8M2018 and 8M2019 has been presented as a continuation of the existing group and the historical financial information is prepared as if the current group structure had been in existence throughout the Track Record Period.

The financial information has been prepared in accordance with HKFRSs. These principles have been consistently applied throughout the Track Record Period.

The historical financial information has been prepared under the historical cost conversion, except for derivative financial instruments, which have been measured at fair value.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION OF CONTINUING OPERATIONS

Our results of operations, financial condition and future prospects have been, and will continue to be, affected by a number of factors, which primarily include the following:

General economic conditions

We generated a majority of our revenue from customers in the PRC during the Track Record Period. For FY2016, FY2017, FY2018 and 8M2019, our revenue from customers in the PRC accounted for approximately 80.0%, 84.8%, 89.9% and 90.2% of our total revenue, respectively. Accordingly, the PRC's economic conditions have a direct impact on our business and the demand for our products. In addition, the PRC Government may from time to time adjust its monetary, financial, fiscal or industry policies. Any adjustment in or implementation of economic policies and measures would also directly or indirectly affect our results of operations and financial condition. In addition, the growth of the global economy and the growth of certain relevant industries, including the metallurgy industry, in the overseas markets may impact our business and financial performance in the future as well. For the associated risk, please refer to the paragraph headed "Risk Factors — Risks relating to our business and industry — Our sales are dependent, among other things, on the conditions of the global and PRC economy, and any downturn in the global and PRC economy could adversely affect our business, financial condition, results of operations and prospects" in this prospectus.

Competition

According to the CIC Report, the PRC tantalum- and niobium-based hydrometallurgical products market is competitive and relatively concentrated, with around 15 market players and the top five players accounting for 82.9% of the market share in terms of production volume for external sales in 2018. We were the largest producer of tantalum- and niobium-based hydrometallurgical products in China for FY2016, FY2017 and FY2018 in terms of total annual production volume for external sales. As such, we believe that there are significant entry barriers for new participants and our position as the largest producer of tantalum- and niobium-based hydrometallurgical products in China provides us with a competitive advantage. For details, please refer to the paragraphs headed "Business — Our competitive strengths — We were the largest producer of tantalum- and niobium-based hydrometallurgical products in terms of total annual production volume for external sales in China" and "Business — Market and Competition" in this prospectus.

However, if we cannot (i) provide products with quality that meet the requirements of our customers at a competitive price; (ii) increase our production capacity to fulfil our orders; or (iii) focus on sales and marketing activities, our customers may not continue to purchase our products and our results of operations and financial position will be adversely affected.

Production capacity

Our results of operations and financial condition are affected by our production capacity of pentoxide products and potassium heptafluorotantalate. We commenced the construction of four new production lines for pentoxide products in our existing production plant in 2017, and expanded our estimated production capacity of pentoxide products from approximately 804 tonnes for FY2017 to approximately 1,282.5 tonnes for FY2018 to approximately 1,800 tonnes for the year ended 31 December 2019. Our estimated production capacity of potassium heptafluorotantalate remained stable at approximately 207 tonnes during the Track Record Period. For details of the expansion of our production facilities, please refer to the paragraph headed "Business — Production facilities" in this prospectus. If we are unable to increase our production capacity, we may not be able to meet customers' demands and lose market share. Furthermore, we may not be able to achieve further growth of our revenue.

We plan to build and set up new production facilities to produce downstream tantalum-based products, such as tantalum powder and tantalum bars, which will be financed by the net proceeds from the Global Offering. For details, please refer to the paragraph headed "Business — Our business strategies — Extend our production and sales to downstream products" in this prospectus.

Prices of raw materials

Tantalum ores and niobium ores are the principal raw materials for our production.

For FY2016, FY2017, FY2018, 8M2018 and 8M2019, our purchases of tantalum ores and niobium ores amounted to approximately RMB126.8 million, RMB221.0 million, RMB373.8 million, RMB262.7 million and RMB183.5 million, respectively, representing approximately 84.8%, 87.8%, 85.4%, 88.6% and 83.8% of our total purchases for the same years/periods, respectively. In addition, raw materials costs constituted a significant portion of our cost of sales during the Track Record Period. For FY2016, FY2017, FY2018, 8M2018 and 8M2019, our raw materials costs amounted to approximately RMB147.2 million, RMB196.5 million, RMB322.7 million, RMB213.9 million and RMB263.5 million, respectively, representing approximately 88.9%, 89.3%, 92.3%, 93.5% and 90.6% of our costs of sales for the same years/periods, respectively. As such, any significant increase in the prices of tantalum ores and niobium ores could impact our cost of sales if we cannot pass the costs increase to our customers and would adversely affect our profitability. For details, please refer to the paragraph headed "Risk Factors — Fluctuation or changes in price, availability and quality of raw materials could adversely affect our business, reputation, financial condition and results of operations" in this prospectus.

The following table sets forth a sensitivity analysis on our raw materials costs in relation to tantalum ores and niobium ores during the Track Record Period is set forth below, which illustrates the hypothetical effects on our net profit with a 5%, 10%, 15%, 20%, 25%, 30% and 35% increase or decrease in our raw materials costs, representing the maximum fluctuation in our raw materials costs:

	Change in our net profit for change in raw materials costs of						
	+/–5%	**+/–10%**	**+/–15%**	**+/–20%**	**+/–25%**	**+/–30%**	**+/–35%**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
FY2016	5,471	10,946	16,422	21,898	27,374	32,849	38,325
FY2017	6,829	13,658	20,487	27,316	34,145	40,974	47,803
FY2018	11,941	23,881	35,882	47,762	59,703	71,643	83,584
8M2019	7,851	15,702	23,553	31,404	39,255	47,106	55,719

Fluctuations in foreign exchange rates

As our sales were primarily denominated in RMB whereas our purchases of tantalum ores and niobium ores were primarily denominated in USD, we were exposed to exchange rate risk. For the associated risk, please refer to the paragraph headed "Risk Factors — Our sales were primarily denominated in RMB whereas our purchases of tantalum ores and niobium ores were primarily denominated in USD. Fluctuations on exchange rates between RMB and USD may have a material and adverse impact on our financial condition and profitability" in this prospectus.

The amount of revenue and purchases during the Track Record Period which were made in USD is as follows:

	FY2016	FY2017	FY2018	8M2018	8M2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	43,543	46,857	51,891	15,846	39,434
Purchases	119,908	170,844	325,612	228,434	156,325

The following analysis is for illustration purpose only and does not take into account the potential adjustments to the selling price of our products as a result of the change in the foreign currency exchange rates. The sensitivity analysis below sets out the sensitivity of our revenue, cost of sales and net profit during the Track Record Period with reference to movements in the annual average exchange rate of the USD against the RMB. The movement of average exchange rate of the USD against the RMB used in the below analysis represents increase/decrease of 1% and 13% for USD in the fluctuation of the annual average exchange rate of USD against RMB during the Track Record Period. The parameters used in the sensitivity analysis are commensurate with their historical volatility.

USD against RMB

	FY2016	FY2017	FY2018	8M2018	8M2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Impact on revenue for the year/period					
+/–1%	435	469	519	158	394
+/–13%	5,661	6,091	6,746	2,060	5,126
Impact on cost of sales for the year/period					
+/–1%	1,208	1,273	715	1,628	1,961
+/–13%	15,698	16,554	9,289	21,158	25,495
Impact on net profit for the year/period					
+/–1%	658	665	166	1,249	1,290
+/–13%	8,551	8,648	2,162	16,243	16,766

Research and development

Our research and development capabilities are crucial to the development of our Group. Through our research and development efforts, we have been able to expand our production capacity, improve the purity level of tantalum pentoxide and niobium pentoxide, develop pentoxide products with special physical properties to meet the demand of our customers, and enhance our capabilities in recycling waste materials for environmental protection. For details, please refer to the paragraph headed "Business — Research and development" in this prospectus.

For FY2016, FY2017, FY2018, 8M2018 and 8M2019, our Group incurred approximately RMB8.4 million, RMB12.2 million, RMB22.7 million, RMB13.8 million and RMB14.3 million on research and development, respectively. As at 31 August 2019, we had eight on-going in-house research and development projects and one cooperative project with research and academic institute in China. However, there is no assurance that the products we plan to develop will be as profitable as we expected. In addition, there is no assurance that our research and development efforts will lead to the introduction of new technologies that will be commercially viable. While we strive to focus our research and development efforts to develop products that will be commercially viable and profitable, there is no assurance that our research and development efforts will be successful or directly applicable to improve our products, or that our new technologies and products will be accepted in the market.

APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the financial information, we have consistently applied the HKFRSs which are effective for annual accounting periods beginning on 1 January 2019 throughout the Track Record Period.

Our Group has not yet applied newly established/amended HKFRSs which are related to our Group and have already been issued but are not yet effective.

HKFRS 9

Our Group has consistently applied HKFRS 9 throughout the Track Record Period. HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets. Key requirements of HKFRS 9 which are relevant to our Group are in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Our Directors are of the view that the application of HKFRS 9 did not have a material impact on the amounts of impairment losses recognised, financial position and performance of our Group during the Track Record Period.

HKFRS 15

Our Group has consistently applied HKFRS 15 throughout the Track Record Period. HKFRS 15 replaces the previous revenue standards including HKAS 18, HKAS 11 and the related interpretations. HKFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer

- Step 2: Identify the performance obligations in the contract

- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Our Directors are of the view that the application of HKFRS 15 did not have a material impact on the timing and amounts of revenue recognised, financial position and performance of our Group during the Track Record Period.

HKFRS 16

Our Group consistently applied HKFRS 16 throughout the Track Record Period. HKFRS 16 replaces the previous leasing standards including HKAS 17 and the related interpretations. HKFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion. Upon the application of HKFRS 16, our Group recognised (i) leased properties (classified under right-of-use assets) of approximately RMB1.6 million, RMB1.2 million, RMB4.6 million and RMB4.5 million as at 31 December 2016, 31 December 2017, 31 December 2018 and 31 August 2019, respectively; and (ii) leased liabilities of approximately RMB1.6 million, RMB1.3 million, RMB4.7 million and RMB5.0 million as at 31 December 2016, 31 December 2017, 31 December 2018 and 31 August 2019, respectively. Our Directors are of the view that the leased properties and leased liabilities recognised are not significant and that the application of HKFRS 16 did not have a material impact on our Group's financial position, performance and key financial ratios.

SIGNIFICANT ACCOUNTING POLICIES

We have identified certain accounting policies which are significant to the preparation of the financial information in accordance with HKFRSs. The determination of these accounting policies is fundamental to our financial positions and results of operations, and requires us to make significant judgments and estimation, further information on which is set forth in the paragraphs headed "Significant accounting judgments and estimates" in this section.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which our Group expects to be entitled in exchange for those goods or services.

Sale of products

Revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Provision of processing services

Revenue generated from the provision of processing services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by our Group.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated statements of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the consolidated statements of profit or loss by way of a reduced depreciation charge.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, our Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2.9%–10%
Plant and machinery	10%–20%
Office equipment	20%–25%
Motor vehicles	16.7%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless our Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average cost method and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss and loans and borrowings.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Our Group's financial liabilities include trade and other payables, amount due to a related company, financial liabilities at fair value through profit or loss and interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by our Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Fair value measurement

Our Group measures our derivative financial instrument at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by our Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Our Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, our Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Research and development

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when our Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, our intention to complete and our ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of our financial information requires our management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of each reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future. For details of our significant accounting judgements and estimates, please refer to Note 2.5 to the Accountants' Report.

RESULTS OF OPERATIONS

The consolidated statements of profit or loss during the Track Record Period are summarised below, which are extracted from the Accountants' Report:

	FY2016	FY2017	FY2018	8M2018	8M2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
CONTINUING OPERATIONS					
Revenue	217,441	307,360	514,718	347,815	400,786
Cost of sales	(165,684)	(220,016)	(349,485)	(228,812)	(290,730)
Gross profit	51,757	87,344	165,233	119,003	110,056
Other income and gains	4,186	1,842	3,016	1,306	4,244
Selling and distribution expenses	(1,791)	(2,277)	(5,688)	(3,723)	(3,982)
Administrative expenses	(21,979)	(33,991)	(56,900)	(32,696)	(44,375)
Other expenses	(524)	(3,087)	(12,368)	(8,892)	(1,252)
Finance costs	(2,729)	(3,197)	(3,199)	(1,272)	(2,236)
Profit before tax from continuing operations	28,920	46,634	90,094	73,726	62,455
Income tax expense	(4,256)	(8,050)	(13,023)	(11,042)	(11,045)
Profit for the year/period from continuing operations	24,664	38,584	77,071	62,684	51,410
DISCONTINUED OPERATION					
Loss for the year/period from a discontinued operation	(787)	—	—	—	—
Profit for the year/period	23,877	38,584	77,071	62,684	51,410

PRINCIPAL COMPONENTS OF THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Revenue

Our revenue comprised revenue generated from sale of products and the provision of processing services. The following table sets forth the breakdown of our total revenue by source for the years/periods indicated:

	FY2016		FY2017		FY2018		8M2018		8M2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Sale of products	199,215	91.6	293,048	95.3	504,098	97.9	338,761	97.4	396,817	99.0
Provision of processing services	18,226	8.4	14,312	4.7	10,620	2.1	9,054	2.6	3,969	1.0
Total revenue	**217,441**	**100.0**	**307,360**	**100.0**	**514,718**	**100.0**	**347,815**	**100.0**	**400,786**	**100.0**

Our total revenue for FY2016, FY2017, FY2018, 8M2018 and 8M2019 amounted to approximately RMB217.4 million, RMB307.4 million, RMB514.7 million, RMB347.8 million and RMB400.8 million, respectively, of which our revenue generated from sale of products accounted for approximately 91.6%, 95.3%, 97.9%, 97.4% and 99.0% of our total revenue for the same years/periods, respectively.

During the Track Record Period, we mainly generated revenue from customers in the PRC. For FY2016, FY2017, FY2018, 8M2018 and 8M2019, our revenue generated from customers in the PRC accounted for approximately 80.0%, 84.8%, 89.9%, 95.4% and 90.2% of our total revenue for the same years/periods, respectively. The following table sets forth the breakdown of our total revenue by geographic location of our customers for the years/periods indicated:

	FY2016		FY2017		FY2018		8M2018		8M2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
The PRC	173,898	80.0	260,503	84.8	462,827	89.9	331,969	95.4	361,352	90.2
The United States	19,990	9.2	21,875	7.1	19,995	3.9	2,275	0.7	22,286	5.5
European countries(1)	18,279	8.4	13,796	4.5	19,365	3.8	7,497	2.2	4,439	1.1
Others(2)	5,274	2.4	11,186	3.6	12,531	2.4	6,074	1.7	12,709	3.2
Total revenue	**217,441**	**100.0**	**307,360**	**100.0**	**514,718**	**100.0**	**347,815**	**100.0**	**400,786**	**100.0**

Notes:

(1) During the Track Record Period, we sold our products to different European countries including Austria, France, Luxembourg and the United Kingdom.

(2) Others included Hong Kong, Japan, South Korea and Taiwan.

(i) Sale of products

The following table sets forth the breakdown of our revenue from sale of products for the years/periods indicated:

	FY2016		FY2017		FY2018		8M2018		8M2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Pentoxide products:	167,398	84.0	235,447	80.3	340,815	67.6	228,846	67.6	320,797	80.8
Tantalum pentoxide:	93,703	47.0	105,449	36.0	126,635	25.1	92,981	27.5	150,577	37.9
Industrial grade tantalum pentoxide	*91,415*	*45.9*	*98,573*	*33.7*	*116,537*	*23.1*	*84,884*	*25.1*	*146,110*	*36.8*
High-purity tantalum pentoxide	*2,288*	*1.1*	*6,876*	*2.3*	*10,098*	*2.0*	*8,097*	*2.4*	*4,467*	*1.1*
Niobium pentoxide:	73,695	37.0	129,998	44.3	214,180	42.5	135,865	40.1	170,220	42.9
Industrial grade niobium pentoxide	*63,136*	*31.7*	*102,624*	*35.0*	*168,193*	*33.4*	*104,292*	*30.8*	*123,617*	*31.2*
High-purity niobium pentoxide	*10,559*	*5.3*	*27,374*	*9.3*	*45,987*	*9.1*	*31,573*	*9.3*	*46,603*	*11.7*
Potassium heptafluorotantalate	21,142	10.6	44,756	15.3	134,347	26.7	105,734	31.2	31,630	8.0
Processed products:	8,297	4.2	12,845	4.4	25,056	5.0	2,266	0.7	29,818	7.5
Tantalum bars	*6,821*	*3.4*	*12,786*	*4.4*	*20,392*	*4.1*	*2,249*	*0.7*	*23,202*	*5.8*
Tantalum carbide	*1,360*	*0.8*	—	—	—	—	—	—	—	—
Niobium bars	*97*	*0.0*	*2*	*0.0*	*4,647*	*0.9*	—	—	*6,616*	*1.7*
Niobium powder	*19*	*0.0*	*57*	*0.0*	*17*	*0.0*	*17*	*0.0*	—	—
Recycled products	2,207	1.1	—	—	3,698	0.7	1,915	0.5	10,148	2.6
Others	171	0.1	—	—	182	0.0	—	—	4,424	1.1
Total revenue from sale of products	**199,215**	**100.0**	**293,048**	**100.0**	**504,098**	**100.0**	**338,761**	**100.0**	**396,817**	**100.0**

During the Track Record Period, our products sold included: (i) pentoxide products; (ii) potassium heptafluorotantalate; (iii) processed products; (iv) recycled products; and (v) others. Out of the products we sold, pentoxide products accounted for approximately 84.0%, 80.3%, 67.6%, 67.6% and 80.8% of our total revenue generated from sale of products for FY2016, FY2017, FY2018, 8M2018 and 8M2019, respectively.

Pentoxide products

In respect of pentoxide products, they included (i) tantalum pentoxide; and (ii) niobium pentoxide. For each of tantalum pentoxide and niobium pentoxide, our products sold included industrial grade and high-purity products.

Our revenue generated from sale of pentoxide products increased by approximately RMB68.0 million or 40.6% from approximately RMB167.4 million for FY2016 to approximately RMB235.4 million for FY2017, and further increased by approximately RMB105.4 million or 44.8% from approximately RMB235.4 million for FY2017 to approximately RMB340.8 million for FY2018. Such increase was driven by the increase in revenue from sale of both tantalum pentoxide and niobium pentoxide.

For 8M2019, our revenue generated from sale of pentoxide products amounted to approximately RMB320.8 million, representing an increase of approximately RMB92.0 million or 40.2% from approximately RMB228.8 million for 8M2018. Such increase was driven by the increase in revenue from sale of both tantalum pentoxide and niobium pentoxide.

Tantalum pentoxide

Our revenue generated from sale of tantalum pentoxide increased by approximately RMB11.7 million or 12.5% from approximately RMB93.7 million for FY2016 to approximately RMB105.4 million for FY2017, and further increased by approximately RMB21.2 million or 20.1% from approximately RMB105.4 million for FY2017 to approximately RMB126.6 million for FY2018. Such increase was mainly due to the increase in average selling price for industrial grade tantalum pentoxide which outweighed the decrease in sales volume for industrial grade tantalum pentoxide.

For 8M2019, our revenue generated from sale of tantalum pentoxide amounted to approximately RMB150.6 million, representing an increase of approximately RMB57.6 million or 61.9% from approximately RMB93.0 million for 8M2018. Such increase was mainly due to the increase in sales volume of industrial grade tantalum pentoxide which outweighed the decrease in average selling price of industrial grade tantalum pentoxide.

For analysis of fluctuation in sales volume and average selling price, please refer to the paragraph headed "Sales volume and average selling price" below in this section.

Niobium pentoxide

Our revenue generated from sale of niobium pentoxide increased by approximately RMB56.3 million or 76.4% from approximately RMB73.7 million for FY2016 to approximately RMB130.0 million for FY2017, and further increased by approximately RMB84.2 million or 64.8% from approximately RMB130.0 million for FY2017 to approximately RMB214.2 million for FY2018. Such increase was mainly due to the increase in sales volume and average selling price for both industrial grade and high-purity niobium pentoxide.

For 8M2019, our revenue generated from sale of niobium pentoxide amounted to approximately RMB170.2 million, representing an increase of approximately RMB34.3 million or 25.2% from approximately RMB135.9 million for 8M2018. Such increase was mainly due to the increase in sales volume of industrial grade niobium pentoxide and high-purity niobium pentoxide which outweighed the decrease in average selling price of industrial grade niobium pentoxide and high-purity niobium pentoxide.

For analysis of fluctuation in sales volume and average selling price, please refer to the paragraph headed "Sales volume and average selling price" below in this section.

Potassium heptafluorotantalate

Our revenue generated from sale of potassium heptafluorotantalate increased by approximately RMB23.7 million or 112.3% from approximately RMB21.1 million for FY2016 to approximately RMB44.8 million for FY2017, and further increased significantly by approximately RMB89.5 million or 199.8% from approximately RMB44.8 million for FY2017 to approximately RMB134.3 million for FY2018. Such increase was mainly due to the increase in sales volume and average selling price.

For 8M2019, our revenue generated from sale of potassium heptafluorotantalate amounted to approximately RMB31.6 million, representing a significant decrease of approximately RMB74.1 million or 70.1% from approximately RMB105.7 million for 8M2018. Such decrease was mainly due to the significant decrease in sales volume and the decrease in average selling price.

For analysis of fluctuation in sales volume and average selling price, please refer to the paragraph headed "Sales volume and average selling price" below in this section.

Processed products

During the Track Record Period, our processed products sold included tantalum bars, tantalum carbide, niobium bars and niobium powder, which were produced by engaging third-party metallurgy companies to process the pentoxide products and potassium heptafluorotantalate we produced, or purchased from third-party metallurgy companies. For further details of our processed products, please refer to the paragraph headed "Business — Our products — Processed products" in this prospectus.

Our revenue generated from sale of processed products increased by approximately RMB4.5 million or 54.2% from approximately RMB8.3 million for FY2016 to approximately RMB12.8 million for FY2017, and further increased by approximately RMB12.3 million or 96.1% from approximately RMB12.8 million for FY2017 to approximately RMB25.1 million for FY2018. For 8M2019, our revenue generated from sale of processed products amounted to approximately RMB29.8 million, representing an increase of approximately RMB27.5 million from approximately RMB2.3 million for 8M2018.

The increase in revenue generated from sale of processed products during the Track Record Period was mainly contributed by the sale of tantalum bars. For FY2016, FY2017, FY2018, 8M2018 and 8M2019, our revenue from sale of tantalum bars amounted to approximately RMB6.8 million, RMB12.8 million, RMB20.4 million, RMB2.3 million and RMB23.2 million, respectively, representing approximately 82.2%, 99.5%, 81.4%, 99.2% and 77.8% of our revenue from sale of processed products for the same years/periods, respectively.

Recycled products

During the Track Record Period, our recycled products sold mainly included three types of products produced by recycling our waste materials, namely tin hydroxide, potassium fluorosilicate and tungsten acid. For further details, please refer to the paragraph headed "Business — Production facilities — Facilities for waste material recycling" in this prospectus.

Our revenue generated from sale of recycled products amounted to approximately RMB2.2 million, nil, RMB3.7 million, RMB1.9 million and RMB10.1 million for FY2016, FY2017, FY2018, 8M2018 and 8M2019, respectively. For FY2017, we did not receive any order for our recycled products and as a result we did not sell any recycled products. The increase in revenue generated from sale of recycled products from 8M2018 to 8M2019 was primarily because we mainly sold tin hydroxide, potassium fluorosilicate and tungsten acid for 8M2019 while we only sold potassium fluorosilicate for 8M2018.

Others

Our revenue generated from sale of other products amounted to approximately RMB0.2 million, nil, RMB0.2 million, nil and RMB4.4 million for FY2016, FY2017, FY2018, 8M2018 and 8M2019, respectively.

For FY2016, we sold cobalt carbonate (CoCO3), which is a type of by-product generated in our production process. For FY2017, we did not sell other products. For FY2018 and 8M2019, we sold ferro niobium tantalum alloy, which is a kind of impurity included in our raw materials. Considering its higher impurity, we resold ferro niobium tantalum alloy to utilise our inventories.

(ii) Provision of processing services

During the Track Record Period, we provided processing services for processing tantalum ores and niobium ores supplied by our customers into pentoxide products and potassium heptafluorotantalate. Our revenue generated from the provision of processing services accounted for approximately 8.4%, 4.7%, 2.1%, 2.6% and 1.0% of our total revenue for FY2016, FY2017, FY2018, 8M2018 and 8M2019, respectively.

Our revenue generated from the provision of processing services decreased by approximately RMB3.9 million or 21.4% from approximately RMB18.2 million for FY2016 to approximately RMB14.3 million for FY2017, and further decreased by approximately RMB3.7 million or 25.9% from approximately RMB14.3 million for FY2017 to approximately RMB10.6 million for FY2018. For 8M2019, our revenue generated from the provision of processing services amounted to approximately RMB4.0 million, representing a decrease of approximately RMB5.1 million or 56.0% from approximately RMB9.1 million for 8M2018. The decrease in revenue from the provision of processing services throughout the Track Record Period was mainly because we allocated our production capacity to focus more on production for sale of products than for provision of processing services in view of the higher average selling price for sale of products than that for provision of processing services.

Sales volume and average selling price

The following table sets forth the revenue, sales volume and average selling price for the years/periods indicated:

	FY2016			FY2017			FY2018			8M2018			8M2019		
	Revenue	Sales volume	Average selling price	Revenue	Sales volume	Average selling price	Revenue	Sales volume	Average selling price	Revenue	Sales volume	Average selling price	Revenue	Sales volume	Average selling price
	RMB'000	tonne	RMB'000 per tonne	RMB'000	tonne	RMB'000 per tonne	RMB'000	tonne	RMB'000 per tonne	RMB'000	tonne	RMB'000 per tonne	RMB'000	tonne	RMB'000 per tonne
Sale of products:															
Pentoxide products:															
Tantalum pentoxide:															
Industrial grade tantalum pentoxide	*91.415*	*98.4*	*929.4*	*98,573*	*87.0*	*1,132.4*	*116,537*	*81.6*	*1,428.2*	*84,884*	*58.2*	*1,457.7*	*146,110*	*121.8*	*1,199.1*
High-purity tantalum pentoxide	*2,288*	*2.0*	*1,150.4*	*6,876*	*5.6*	*1,224.8*	*10,098*	*6.5*	*1,549.7*	*8,097*	*5.3*	*1,524.6*	*4,467*	*3.3*	*1,365.5*
Niobium pentoxide:															
Industrial grade niobium pentoxide	*63,136*	*442.3*	*142.7*	*102,624*	*572.7*	*179.2*	*168,193*	*751.7*	*223.8*	*104,292*	*448.2*	*232.7*	*123,617*	*604.2*	*204.6*
High-purity niobium pentoxide	*10,559*	*49.6*	*213.0*	*27,374*	*123.7*	*221.2*	*45,987*	*169.1*	*272.0*	*31,573*	*115.7*	*272.8*	*46,603*	*177.5*	*262.5*
Potassium heptafluorotantalate	21,142	43.3	488.3	44,756	62.0	721.9	134,347	159.0	845.2	105,734	123.6	855.8	31,630	44.2	716.3
Processed products:															
Tantalum bars	*6,821*	*4.2*	*1,605.3*	*12,786*	*7.0*	*1,826.6*	*20,392*	*9.2*	*2,216.5*	*2,249*	*1.0*	*2,248.9*	*23,202*	*12.5*	*1,856.2*
Tantalum carbide	*1,360*	*1.0*	*1,360.3*	—	—	—	—	—	—	—	—	—	—	—	—
Niobium bars	*97*	*0.3*	*324.8*	*2*	*0.0*	*367.5*	*4,647*	*11.5*	*404.1*	—	—	—	*6,616*	*16.2*	*408.2*
Niobium powder	*19*	*0.0*	*512.8*	*57*	*0.1*	*535.9*	*17*	*0.0*	*598.3*	*17*	*0.0*	*598.3*	—	—	—
Recycled products	2,207	26.7	82.8	—	—	—	3,698	1,330.4	2.8	1,915	693.7	2.8	10,148	919.2	11.0
Others	171	1.7	100.9	—	—	—	182	0.8	219.8	—	—	—	4,424	24.2	182.7
Processing services	18,226	251.1	72.6	14,312	134.2	106.6	10,620	93.0	114.3	9,054	74.8	121.0	3,969	25.2	157.5
Total	**217,441**	**920.6**		**307,360**	**992.3**		**514,718**	**2,612.8**		**347,815**	**1,520.5**		**400,786**	**1,948.3**	

Sales volume

(i) Pentoxide products and potassium heptafluorotantalate

We produced our products for sale of products and for provision of processing services. The following table sets forth the breakdown of our sales volume and production volume for sale of products in respect of pentoxide products and potassium heptafluorotantalate for the years/periods indicated:

	FY2016		FY2017		FY2018		8M2018		8M2019	
	Production volume for sale of products	Sales volume	Production volume for sale of products	Sales volume	Production volume for sale of products	Sales volume	Production volume for sale of products	Sales volume	Production volume for sale of products	Sales volume
	tonnes	tonnes	tonnes	tonnes	tonnes	tonnes	tonnes	tonnes	tonnes	tonnes
Pentoxide products:										
Industrial grade tantalum pentoxide	94.6	98.4	87.8	87.0	95.2	81.6	58.6	58.2	107.7	121.8
High-purity tantalum pentoxide	2.8	2.0	11.0	5.6	9.9	6.5	6.1	5.3	—	3.3
Industrial grade niobium pentoxide	421.8	442.3	579.6	572.7	733.3	751.7	454.7	448.2	578.5	604.2
High-purity niobium pentoxide	88.9	49.6	141.8	123.7	201.6	169.1	131.5	115.7	176.8	177.5
Subtotal for pentoxide products	608.1	592.3	820.2	789.0	1,040.0	1,008.9	650.9	627.4	863.0	906.8
Potassium heptafluorotantalate	45.6	43.3	84.0	62.0	181.5	159.0	136.1	123.6	47.2	44.2
Total	653.7	635.6	904.2	851.0	1,221.5	1,167.9	787.0	751.0	910.2	951.0

For FY2016, FY2017, FY2018, 8M2018 and 8M2019, our total sales volume of pentoxide products and potassium heptafluorotantalate amounted to approximately 635.6 tonnes, 851.0 tonnes, 1,167.9 tonnes, 751.0 tonnes and 951.0 tonnes, respectively. During the same years/periods, our total production volume of pentoxide products and potassium heptafluorotantalate for sale of products amounted to approximately 653.7 tonnes, 904.2 tonnes, 1,221.5 tonnes, 787.0 tonnes and 910.2 tonnes, respectively. During FY2018, we increased our purchases of raw materials and recorded an increase in our inventories from approximately RMB75.7 million as at 31 December 2017 to approximately RMB162.7 million as at 31 December 2018. During 8M2019, we utilised our excess inventories as at 31 December 2018, and as a result, (i) our sales volume of pentoxide products exceeded our total production volume for 8M2019; and (ii) our inventories as at 31 August 2019 decreased to approximately RMB90.1 million. For detailed analysis of our inventories, please refer to the paragraph headed "Description of certain line items in the consolidated statements of financial position — Inventories" in this section.

From FY2016 to FY2018, the increase in our total sales volume of pentoxide products and potassium heptafluorotantalate was generally in line with the increase in our total production volume of pentoxide products and potassium heptafluorotantalate for sale of products. In particular, the significant increase in our total sales volume of pentoxide products from approximately 789.0 tonnes for FY2017 to approximately 1,008.9 tonnes for FY2018 was facilitated by the increase in our production capacity due to the expansion of our production facilities. For details of the expansion of our production facilities, please refer to the paragraph headed "Business — Production facilities" in this prospectus. As a result of our increased utilisation rate during FY2017 and the expansion of our production facilities, our total actual production volume of pentoxide products increased from approximately 771.6 tonnes for FY2016 to approximately 922.5 tonnes for FY2017 and further increased to approximately 1,121.5 tonnes for FY2018. Of the actual production volume, (i) the proportion of the industrial grade tantalum pentoxide for sale of products decreased from FY2016 to FY2018; and (ii) the proportion of industrial grade niobium for sale of products increased from FY2016 to FY2018.

From 8M2018 to 8M2019, the respective increase and decrease in our sales volume of pentoxide products and potassium heptafluorotantalate were generally in line with the respective increase and decrease in our total production volume of pentoxide products and potassium heptafluorotantalate for sale of products.

Our sales volume of industrial grade tantalum pentoxide decreased from approximately 98.4 tonnes for FY2016 to approximately 87.0 tonnes for FY2017, which was in line with the decrease in production volume for sale of products during FY2017. The decrease in sales orders was mainly attributable to (i) the decrease in sales orders from our repeat customers for FY2016, including Yanling Jincheng Tantalum & Niobium Co., Ltd.* (炎陵縣今成鉭鈮有限公司) and Zhuzhou Tuobang Import and Export Company Ltd.* (株洲拓邦進出口有限公司), being our largest customer and one of our five largest customers for FY2016, respectively; and (ii) Guangxi Non-ferrous Limu Mining Co., Ltd.* (廣西有色栗木礦業有限公司), being our second largest customer for FY2016, did not make sales orders with us during FY2017, offset by the sales orders from new customers for FY2017, including Liling Shengyu New Material Co., Ltd.* (醴陵市盛裕新材料有限公司), being a new customer and our second largest customer for FY2017.

Our sales volume of industrial grade tantalum pentoxide decreased from approximately 87.0 tonnes for FY2017 to approximately 81.6 tonnes for FY2018, while our production volume for sale of products increased from approximately 87.8 tonnes for FY2017 to approximately 95.2 tonnes for FY2018. During the second half of FY2018, our Group received certain sales orders from Customer K for an aggregate amount of approximately 20.0 tonnes of industrial grade tantalum pentoxide which were delivered during 8M2019. Excluding the aforementioned sales orders from Customer K, our production volume for sale of products in respect of industrial grade tantalum pentoxide for FY2018 decreased from FY2017, and as a result of the aforementioned sales orders from Customer K, our sales volume for 8M2019 exceeded the production volume for sale of products in respect of industrial grade tantalum pentoxide for the same period. The decrease in sales orders was mainly attributable to the decrease in sales orders from Liling Shengyu New Material Co., Ltd.* (醴陵市盛裕新材料有限公司), offset by the increase in sales orders from Yanling Jincheng Tantalum & Niobium Co., Ltd.* (炎陵縣今成鉭鈮有限公司), being our second largest customer for FY2018.

Our sales volume of industrial grade tantalum pentoxide increased from approximately 58.2 tonnes for 8M2018 to approximately 121.8 tonnes for 8M2019, mainly attributable to the increase in sales orders from Yanling Jincheng Tantalum & Niobium Co., Ltd.* (炎陵縣今成鉭鈮有限公司) and Customer K, being our largest and second largest customer for 8M2019, respectively.

Our sales volume of high-purity tantalum pentoxide increased from approximately 2.0 tonnes for FY2016 to approximately 5.6 tonnes for FY2017, mainly attributable to the increase in sales orders from a new customer in Japan for FY2017.

Our sales volume for high-purity tantalum pentoxide increased from approximately 5.6 tonnes for FY2017 to approximately 6.5 tonnes for FY2018, mainly attributable to the increase in sales orders from a customer in Japan.

Our sales volume for high-purity tantalum pentoxide decreased from approximately 5.3 tonnes for 8M2018 to approximately 3.3 tonnes for 8M2019, mainly attributable to the decrease in sales orders from Company S (as referred to the section headed "Business — Raw materials, utilities and suppliers — Entities that were both customers and suppliers" in this prospectus).

Our sales volume of industrial grade niobium pentoxide increased from approximately 442.3 tonnes for FY2016 to approximately 572.7 tonnes for FY2017, mainly attributable to (i) the sales orders from Liling Shengyu New Material Co., Ltd.* (醴陵市盛裕新材料有限公司), being a new customer and our second largest customer for FY2017; and (ii) the increase in sales orders from repeat customers for FY2017, including Customer F and Yanling Jincheng Tantalum & Niobium Co., Ltd.* (炎陵縣今成鉭鈮有限公司), being our largest customer and one of our five largest customers for FY2017.

Our sales volume of industrial grade niobium pentoxide increased from approximately 572.7 tonnes to approximately 751.7 tonnes for FY2018, mainly attributable to the increase in sales orders from Customer F, Yanling Jincheng Tantalum & Niobium Co., Ltd.* (炎陵縣今成鉭鈮有限公司) and Liling Shengyu New Material Co., Ltd.* (醴陵市盛裕新材料有限公司), being our three largest customers for FY2018.

Our sales volume of industrial grade niobium pentoxide increased from approximately 448.2 tonnes for 8M2018 to approximately 604.2 tonnes for 8M2019, mainly attributable to the increase in sales orders from Yanling Jincheng Tantalum & Niobium Co., Ltd.* (炎陵縣今成鉭鈮有限公司) and Customer L, being our largest customers and one of our largest customers for 8M2019, respectively.

Our sales volume for high-purity niobium pentoxide increased from approximately 49.6 tonnes for FY2016 to approximately 123.7 tonnes for FY2017, mainly attributable to (i) the increase in number of customers for sale of high-purity niobium pentoxide; and (ii) the increase in sales orders from Company Y (as referred to the section headed "Business — Raw materials, utilities and suppliers — Entities that were both customers and suppliers" in this prospectus), two metallurgy companies in the PRC and a new customer in Japan for FY2017.

Our sales volume for high-purity niobium pentoxide increased from approximately 123.7 tonnes for FY2017 to approximately 169.1 tonnes for FY2018, mainly attributable to the increase in sales orders from a metallurgy company in the PRC and two new customers in the PRC for FY2018.

Our sales volume for high-purity niobium pentoxide increased from approximately 115.7 tonnes for 8M2018 to approximately 177.5 tonnes for 8M2019, mainly attributable to the increase in sales orders from a customer in Japan and two metallurgy companies in the PRC.

Our sales volume of potassium heptafluorotantalate increased from approximately 43.3 tonnes for FY2016 to approximately 62.0 tonnes for FY2017, mainly attributable to the sales orders from Customer F, being our largest customer for FY2017, offset by the decrease in sales orders from Customer E, being one of our five largest customers for FY2016.

Our sales volume of potassium heptafluorotantalate increased from approximately 62.0 tonnes for FY2017 to approximately 159.0 tonnes for FY2018, mainly attributable to the increase in sales orders from Customer F and Customer J, being our largest customer and one of our five largest customers for FY2018, respectively.

Our sales volume of potassium heptafluorotantalate decreased significantly from approximately 123.6 tonnes for 8M2018 to approximately 44.2 tonnes for 8M2019, mainly attributable to the significant decrease in sales orders from Customer F, being one of our five largest customers for 8M2019.

(ii) Processed products

During the Track Record Period, the sales volume of our processed products generally increased. Such increase was mainly contributed by the increase in sales volume of tantalum bars. Our tantalum bars sold during the Track Record Period were mainly to Customer H, being one of our five largest customers for FY2017 and FY2018.

Average selling price

The average selling price of tantalum pentoxide and niobium pentoxide generally increased throughout the period from FY2016 to FY2018 and decreased for 8M2019. Such trend was generally consistent with overall market trend of the average selling price of tantalum pentoxide and niobium pentoxide according to the CIC Report. According to the CIC Report, (i) the increasing trend throughout the period from FY2016 to FY2018 was mainly driven by the growing demand from various downstream industries in line with the recovering global economy; and (ii) the decreasing trend for 8M2019 was mainly due to an expected stable supply of tantalum ores and niobium ores in the upstream industries and was in line with the price decline in tantalum ores and niobium ores.

The average selling price of potassium heptafluorotantalate generally increased throughout the period from FY2016 to FY2018 and decreased for 8M2019. Such trend was generally consistent with overall market trend of the average selling price of potassium heptafluorotantalate according to the CIC Report. According to the CIC Report, (i) the increasing trend throughout the period from FY2016 to FY2018 was in line with the price increase in tantalum ores and niobium ores; and (ii) the decreasing trend for 8M2019 was mainly due to the expected stable and sufficient supply of tantalum ores and niobium ores for the global and PRC market.

For details, please refer to the paragraph headed "Industry overview — PRC tantalum- and niobium-based hydrometallurgical products market" in this prospectus.

Cost of sales

Cost of sales represented the direct costs of production, which comprised raw materials costs, factory overheads, electricity and fuels costs, labour costs and processing fee in respect of our processed products. For FY2016, FY2017, FY2018, 8M2018 and 8M2019, our cost of sales amounted to approximately RMB165.7 million, RMB220.0 million, RMB349.5 million, RMB228.8 million and RMB290.7 million, respectively. The following table sets forth the breakdown of our cost of sales for the years/periods indicated:

	FY2016		FY2017		FY2018		8M2018		8M2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Raw materials	147,241	88.9	196,527	89.3	322,688	92.3	213,852	93.5	263,516	90.6
Factory overheads	9,482	5.7	12,178	5.5	11,468	3.3	6,605	2.9	12,516	4.3
Electricity and fuels	4,424	2.7	5,540	2.5	6,989	2.0	4,455	1.9	5,976	2.1
Labour(1)	3,592	2.2	4,728	2.2	6,335	1.8	3,733	1.6	5,570	1.9
Processing fee	945	0.5	1,043	0.5	2,005	0.6	167	0.1	3,152	1.1
Total cost of sales	**165,684**	**100.0**	**220,016**	**100.0**	**349,485**	**100.0**	**228,812**	**100.0**	**290,730**	**100.0**

Note:

(1) Labour costs mainly included salaries and benefits for our production personnel.

Our raw materials costs mainly represented the cost for purchasing tantalum ores and niobium ores and accounted for approximately 88.9%, 89.3%, 92.3%, 93.5% and 90.6% of our total cost of sales for FY2016, FY2017, FY2018, 8M2018 and 8M2019, respectively. The increase in our raw materials costs during the Track Record Period was primarily due to the increase in purchase volume of raw materials which was in line with the increase in our total production volume and total sales volume.

For sensitivity analysis on the hypothetical fluctuations in raw materials costs on our net profit during the Track Record Period, please refer to the paragraph headed "Significant factors affecting our results of operations and financial condition of continuing operations — Prices of raw materials" in this section.

Gross profit and gross profit margin

The following table sets forth the gross profit and gross profit margin by source of revenue for the years/periods indicated:

	FY2016		FY2017		FY2018		8M2018		8M2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Sale of products:	**42,635**	**21.4**	**79,408**	**27.1**	**160,171**	**31.7**	**114,405**	**33.8**	**108,471**	**27.3**
Pentoxide products:	34,706	20.7	57,820	24.6	107,967	31.6	76,209	33.3	91,759	28.6
Tantalum pentoxide:	25,130	26.8	37,617	35.7	36,199	28.6	28,275	30.4	30,775	20.4
Industrial grade tantalum pentoxide	*24,339*	*26.6*	*34,824*	*35.3*	*33,108*	*28.4*	*25,793*	*30.4*	*30,448*	*20.8*
High-purity tantalum pentoxide	*791*	*34.6*	*2,793*	*40.6*	*3,091*	*30.6*	*2,482*	*30.7*	*327*	*7.3*
Niobium pentoxide:	9,576	13.0	20,203	15.5	71,768	33.5	47,934	35.3	60,984	35.8
Industrial grade niobium pentoxide	*5,542*	*8.8*	*13,383*	*13.0*	*60,020*	*35.7*	*39,658*	*38.0*	*45,717*	*37.0*
High-purity niobium pentoxide	*4,034*	*38.2*	*6,820*	*24.9*	*11,748*	*25.5*	*8,276*	*26.2*	*15,267*	*32.8*
Potassium heptafluorotantalate	4,228	20.0	17,522	39.2	45,668	34.0	37,586	35.5	3,884	12.3
Processed products:	2,524	30.4	4,066	31.7	6,453	25.8	489	21.6	5,020	16.8
Tantalum bars	*1,989*	*29.2*	*4,061*	*31.8*	*5,607*	*27.5*	*486*	*21.6*	*3,112*	*13.4*
Tantalum carbide	*515*	*37.9*	—	—	—	—	—	—	—	—
Niobium bars	*20*	*21.2*	*0*	*14.0*	*843*	*18.1*	—	—	*1,908*	*28.8*
Niobium powder	*0*	*2.4*	*5*	*9.2*	*3*	*17.5*	*3*	*17.3*	—	—
Recycled products	1,176	53.3	—	—	17	0.5	121	6.3	6,515	64.2
Others	1	0.3	—	—	66	36.2	—	—	1,293	29.2
Processing services	**9,122**	**50.1**	**7,936**	**55.5**	**5,062**	**47.7**	**4,598**	**50.8**	**1,585**	**39.9**
Total gross profit/overall gross profit margin	**51,757**	**23.8**	**87,344**	**28.4**	**165,233**	**32.1**	**119,003**	**34.2**	**110,056**	**27.5**

Our gross profit increased from approximately RMB51.8 million for FY2016 to approximately RMB87.3 million for FY2017, and further to approximately RMB165.2 million for FY2018. For 8M2019, our gross profit amounted to approximately RMB110.1 million, representing a decrease of approximately RMB8.9 million from 8M2018. Our gross profit margin increased from approximately 23.8% for FY2016 to approximately 28.4% for FY2017, and further increased to approximately 32.1% for FY2018. Our gross profit margin decreased from approximately 34.2% for 8M2018 to approximately 27.5% for 8M2019.

Our total gross profit was mainly contributed by gross profit from sale of products, which accounted for approximately 82.4%, 90.9%, 96.9%, 96.1% and 98.6% of our total gross profit for FY2016, FY2017, FY2018, 8M2018 and 8M2019, respectively.

According to the CIC Report, (i) the price of pentoxide products and potassium heptafluorotantalate all increased throughout the period from FY2016 to FY2018 and decreased for 8M2019; and (ii) the price of tantalum ores and niobium ores followed the same pattern as the demand for tantalum-based products increased throughout the period from FY2016 to FY2018 and then stabilised for 8M2019. Our gross profit margin for sale of products increased from approximately 21.4% for FY2016 to approximately 27.1% for FY2017, and further increased to approximately 31.7% for FY2018, and decreased to approximately 27.3% for 8M2019. The gross profit margin of industrial grade tantalum pentoxide and potassium heptafluorotantalate increased from approximately 26.6% and 20.0%, respectively, for FY2016 to approximately 35.3% and 39.2% for FY2017, respectively, and decreased to approximately 28.4% and 34.0% for FY2018, respectively. This was mainly because (i) for FY2017 the percentage of increase of average selling price of industrial grade tantalum pentoxide and potassium heptafluorotantalate outweighed the increase of cost of tantalum ores; and (ii) for FY2018 the percentage of increase of cost of tantalum ores outweighed the increase of average selling price of industrial grade tantalum pentoxide and potassium heptafluorotantalate.

The gross profit margin of industrial grade niobium pentoxide increased from approximately 13.0% for FY2017 to approximately 35.7% for FY2018. This is mainly because for FY2018 the raw materials we used to produce industrial grade niobium pentoxide included a higher proportion of ferro niobium alloy, whose price was lower than niobium ores.

The decrease in gross profit margin for 8M2019 was mainly due to (i) the decrease in our average selling price for 8M2019; and (ii) the utilisation during 8M2019 of our inventories as at 31 December 2018 which was purchased when the market price of our raw material was higher.

For detailed analysis of gross profit margin of tantalum bars, please refer to the paragraph headed "Business — Our business strategies — Extend our production and sales to downstream products — Cost-benefit analysis — Analysis of gross profit margin" in this prospectus.

Other income and gains

The following table sets forth the breakdown of our other income and gains for the years/periods indicated:

	FY2016		FY2017		FY2018		8M2018		8M2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Government subsidies	2,006	47.9	1,386	75.2	2,580	85.6	1,208	92.5	3,698	87.1
Bank interest income	207	5.0	399	21.7	414	13.7	86	6.6	515	12.1
Gain on disposal of items of property, plant and equipment	—	—	32	1.7	—	—	—	—	—	—
Fair value gains on derivative financial instruments, net	1,737	41.5	—	—	—	—	—	—	—	—
Others	236	5.6	25	1.4	22	0.7	12	0.9	31	0.8
Total other income and gains	**4,186**	**100.0**	**1,842**	**100.0**	**3,016**	**100.0**	**1,306**	**100.0**	**4,244**	**100.0**

Our other income and gains primarily comprised government subsidies, bank interest income and net fair value gains on derivative financial instruments. Our other income and gains for FY2016, FY2017, FY2018, 8M2018 and 8M2019 amounted to approximately RMB4.2 million, RMB1.8 million, RMB3.0 million, RMB1.3 million and RMB4.2 million, respectively.

We received government subsidies from local government authorities for engaging in research and development activities. For FY2016, FY2017, FY2018, 8M2018 and 8M2019, we recognised government subsidies of approximately RMB2.0 million, RMB1.4 million, RMB2.6 million, RMB1.2 million and RMB3.7 million, respectively. Government subsidies vary from year to year.

Fair value gains on derivative financial instruments mainly represented the net gains arising from the closing out of derivatives and the changes in fair value of derivatives as at the end of each reporting period. During the Track Record Period, we entered into certain forward currency contracts, which were all settled as at 31 August 2019. For the associated risk, please refer to the paragraph headed "Risk Factors — If we hold derivative financial instruments in the future, such derivative financial instruments may materially and adversely affect our financial condition and results of operations" in this prospectus. For FY2016, we recognised approximately RMB1.7 million of fair value gains on such derivative financial instruments.

Selling and distribution expenses

Our selling and distribution expenses primarily comprised expenses for transportation and packaging for delivery of products, salaries and benefits for personnel of our sales and procurement department and travelling and entertainment expenses. Our selling and distribution expenses for FY2016, FY2017, FY2018, 8M2018 and 8M2019 amounted to approximately RMB1.8 million, RMB2.3 million, RMB5.7 million, RMB3.7 million and RMB4.0 million, respectively. The table below sets forth the breakdown of our selling and distribution expenses for the years/periods indicated:

	FY2016		FY2017		FY2018		8M2018		8M2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Distribution costs	1,091	60.9	1,134	49.8	2,199	38.7	1,520	40.8	1,802	45.3
Travelling and entertainment expenses	306	17.1	546	24.0	627	11.0	376	10.1	159	4.0
Staff costs	257	14.4	429	18.8	2,632	46.3	1,649	44.3	1,709	42.9
Office expenses	126	7.0	125	5.5	131	2.3	114	3.1	46	1.2
Others	11	0.6	43	1.9	99	1.7	64	1.7	266	6.6
Total selling and distribution expenses	**1,791**	**100.0**	**2,277**	**100.0**	**5,688**	**100.0**	**3,723**	**100.0**	**3,982**	**100.0**

Administrative expenses

Our administrative expenses primarily comprised: (i) research and development expenses; (ii) staff costs of our administrative and management staff; and (iii) Listing expenses. Our administrative expenses for FY2016, FY2017, FY2018, 8M2018 and 8M2019 amounted to approximately RMB22.0 million, RMB34.0 million, RMB56.9 million, RMB32.7 million and RMB44.4 million, respectively. The table below sets forth the breakdown of our administrative expenses for the years/periods indicated:

	FY2016		FY2017		FY2018		8M2018		8M2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Research and development expenses	8,374	38.0	12,207	35.9	22,705	39.9	13,757	42.1	14,273	32.2
Staff costs	6,004	27.2	7,399	21.8	14,897	26.2	7,816	23.9	9,044	20.4
Listing expenses	1,287	5.8	6,741	19.8	4,829	8.5	4,060	12.4	8,454	19.1
Other tax expenses	1,786	8.1	1,918	5.6	2,061	3.6	1,356	4.1	1,345	3.0
Legal advisory and professional fees	671	3.1	1,113	3.3	377	0.7	538	1.7	1,384	3.1
Depreciation and amortisation	982	4.5	1,238	3.7	1,749	3.1	852	2.6	1,734	3.9
Travelling and entertainment expenses	870	4.0	673	2.0	804	1.4	354	1.1	1,016	2.3
Bank charges	147	0.7	491	1.4	1,893	3.3	695	2.1	551	1.2
Others[(1)]	1,858	8.6	2,211	6.5	7,585	13.3	3,268	10.0	6,574	14.8
Total administrative expenses	**21,979**	**100.0**	**33,991**	**100.0**	**56,900**	**100.0**	**32,696**	**100.0**	**44,375**	**100.0**

Note:

(1) Others mainly comprised audit fees, insurance, office expenses, motor vehicle expenses, maintenance fee and handling charges.

Our research and development expenses amounted to approximately RMB8.4 million, RMB12.2 million, RMB22.7 million, RMB13.8 million and RMB14.3 million for FY2016, FY2017, FY2018, 8M2018 and 8M2019, respectively. Such expenses were primarily used to expand our production capacity, improve the purity level of tantalum pentoxide and niobium pentoxide, develop pentoxide products with special physical properties to meet the demands of our customers, and enhance our capabilities in recycling waste materials for environmental protection. We intend to continue our investment in research and development in line with our business strategies. For details, please refer to the paragraph headed "Business — Our business strategies" in this prospectus.

Other expenses

Our other expenses mainly comprised loss arising from changes in the fair value of derivative financial instruments and foreign exchange loss. Our other expenses for FY2016, FY2017, FY2018, 8M2018 and 8M2019 amounted to approximately RMB0.5 million, RMB3.1 million, RMB12.4 million, RMB8.9 million and RMB1.3 million, respectively. For FY2017, FY2018, 8M2018 and 8M2019, we recognised approximately RMB2.5 million, RMB0.6 million, RMB1.0 million and RMB0.4 million of fair value loss on derivative financial instruments, respectively.

Finance costs

Our finance costs mainly represented interest on interest-bearing bank borrowings. The following table sets forth the breakdown of our finance costs for the years/periods indicated:

	FY2016	FY2017	FY2018	8M2018	8M2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Finance costs on interest-bearing bank borrowings	2,657	3,517	6,161	3,233	4,029
Interest on lease liabilities	72	78	60	43	160
Less: interest capitalised	—	(398)	(3,022)	(2,004)	(1,953)
Total net finance costs	2,729	3,197	3,199	1,272	2,236

Our finance costs on interest-bearing bank borrowings before capitalisation for FY2016, FY2017, FY2018, 8M2018 and 8M2019 amounted to approximately RMB2.7 million, RMB3.5 million, RMB6.2 million, RMB3.2 million and RMB4.0 million, respectively. For FY2016, FY2017, FY2018, 8M2018 and 8M2019, we capitalised interest of nil, approximately RMB0.4 million, RMB3.0 million, RMB2.0 million and RMB2.0 million, respectively, in respect of the interest that was directly attributable to the construction of our production facilities. As a result, our net finance costs charged to the consolidated statements of profit or loss amounted to approximately RMB2.7 million, RMB3.2 million, RMB3.2 million, RMB1.3 million and RMB2.2 million for FY2016, FY2017, FY2018, 8M2018 and 8M2019, respectively.

Income tax expense

During the Track Record Period, our Group was subject to a tax rate of 25% pursuant to the EIT Law. Our Group was accredited in 2012 as a High-tech Enterprise and renewed such accreditation in October 2015, allowing us to enjoy a lower applicable tax rate of 15%, as compared to 25%. In addition, we enjoyed tax refund at the rate of 9% for our export sales of tantalum bars. For FY2016, FY2017, FY2018, 8M2018 and 8M2019, we received approximately RMB0.6 million, RMB1.2 million, RMB2.2 million, RMB0.2 million and RMB2.9 million of tax refund, respectively.

Our income tax expense for FY2016, FY2017, FY2018, 8M2018 and 8M2019 amounted to approximately RMB4.3 million, RMB8.1 million, RMB13.0 million, RMB11.0 million and RMB11.0 million, respectively. Our effective tax rate for FY2016, FY2017, FY2018, 8M2018 and 8M2019 was approximately 15.1%, 17.3%, 14.4%, 15.0% and 17.7%, respectively.

Our Directors confirm that our Group has paid all relevant taxes and were not subject to any dispute or unsolved tax issues with the relevant tax authorities in the PRC during the Track Record Period.

During the Track Record Period, our Group generated revenue from overseas customers of approximately RMB43.5 million, RMB46.9 million, RMB51.9 million, RMB15.8 million and RMB39.4 million for FY2016, FY2017, FY2018, 8M2018 and 8M2019, respectively, representing approximately

20.0%, 15.2%, 10.1%, 4.6% and 9.8% of our total revenue for the same years/periods, respectively. To the best knowledge of our Directors, our Group's sales to overseas customers were not subject to income tax in overseas jurisdictions considering that (i) saved for Xite Hong Kong in Hong Kong under the transfer pricing arrangement, our Group did not carry on a trading business through any permanent establishment and physical presence in the relevant overseas jurisdictions; (ii) our Group did not obtain the sales through any dependent agents located in these jurisdictions who are given general authority to negotiate or enter into contracts on our Group's behalf; and (iii) saved for Xite Hong Kong, our Group did not register as a tax resident in the relevant overseas jurisdictions.

For details of the transfer pricing arrangements between Zhiyuan New Material and Xite Hong Kong, please refer to the paragraph headed "Business — Transfer pricing arrangement between Zhiyuan New Material and Xite Hong Kong" in this prospectus.

As disclosed in the paragraph headed "Business — Our business strategies" in this prospectus, we plan to set up an office in the United Kingdom to strengthen our sales network in Europe and set up an office in Brazil to strengthen our sourcing channels. To ensure future compliance with the relevant tax laws and regulations in the United Kingdom and Brazil and to monitor our Group's overall tax efficiency, we expect to engage a tax adviser upon we complete the initial stage of setting up the abovementioned offices or when the need arises.

Loss from discontinued operation

We were engaged in trading of metallurgical products through our subsidiary Jiayuan Metal during the Track Record Period. We acquired Jiayuan Metal from Guangdong Jiana in August 2015 and disposed of it to Fogang Jiata in July 2016 in order to focus our resources on production and sale of pentoxide products and potassium heptafluorotantalate. For FY2016, Jiayuan Metal was classified and accounted for as a discontinued operation in our consolidated statements of profit or loss. The disposal is not expected to have any material impact on our continuing operations. For further details of the disposal, please refer to the paragraph headed "History, Reorganisation and Corporate Structure — Acquisition and disposal of Jiayuan Metal" in this prospectus. Following the disposal of Jiayuan Metal, its results of operations were not consolidated with our results of operations for FY2017, FY2018, 8M2018 and 8M2019. For FY2016, the results of our continuing operations in our consolidated statements of profit or loss excluded the results of the discontinued operation.

The following table sets forth the results of operations of the discontinued operation for FY2016:

	FY2016
	RMB'000
Revenue	8,712
Cost of sales	(6,705)
Other income	50
Expenses	(2,844)
Finance costs	—
Loss before tax and loss for the year from the discontinued operation	**(787)**

Profit for the year from continuing operations

As a result of the foregoing, we recorded net profit from continuing operations of approximately RMB24.7 million, RMB38.6 million and RMB77.1 million for FY2016, FY2017 and FY2018, respectively, and our net profit margin for continued operation was approximately 11.3%, 12.6% and 15.0%, respectively, for the same years. For 8M2019, our net profit from continuing operations amounted to approximately RMB51.4 million, representing a decrease of approximately RMB11.3 million from approximately RMB62.7 million for 8M2018. Our net profit margin for continued operation was approximately 18.0% and 12.8% for 8M2018 and 8M2019, respectively.

REVIEW OF RESULTS OF OPERATIONS

FY2018 compared with FY2017

Revenue

Our revenue increased by approximately RMB207.3 million or 67.4% from approximately RMB307.4 million for FY2017 to approximately RMB514.7 million for FY2018. The increase was mainly due to the increase in revenue generated from sale of products of tantalum pentoxide, niobium pentoxide and potassium heptafluorotantalate, offset by the decrease in revenue generated from the provision of processing services. For detailed analysis, please refer to the paragraph headed "Principal components of the consolidated statements of profit or loss — Revenue" in this section.

Cost of sales

Our cost of sales increased by approximately RMB129.5 million or 58.9% from approximately RMB220.0 million for FY2017 to approximately RMB349.5 million for FY2018. Such increase was mainly attributable to the increase in raw materials costs which was in line with the increase in our purchases. Our raw materials costs as a percentage of our total cost of sales remained stable at approximately 89.3% and 92.3% for FY2017 and FY2018, respectively.

Our raw materials costs amounted to approximately RMB196.5 million and RMB322.7 million for FY2017 and FY2018, respectively, representing approximately 67.1% and 64.0% of our revenue generated from sale of products for the same years, respectively.

Gross profit and gross profit margin

Our gross profit increased by approximately RMB77.9 million or 89.2% from approximately RMB87.3 million for FY2017 to approximately RMB165.2 million for FY2018, mainly driven by the increase in our revenue.

Our gross profit margin increased from approximately 28.4% for FY2017 to approximately 32.1% for FY2018. Such increase was mainly driven by the increase in our average selling price of pentoxide products and potassium heptafluorotantalate.

Other income and gains

Our other income and gains increased by approximately RMB1.2 million from approximately RMB1.8 million for FY2017 to approximately RMB3.0 million for FY2018. Such increase was mainly attributable to the increase in government subsidies of approximately RMB1.2 million from approximately RMB1.4 million for FY2017 to approximately RMB2.6 million for FY2018.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately RMB3.4 million from approximately RMB2.3 million for FY2017 to approximately RMB5.7 million for FY2018. Such increase was mainly attributable to (i) the increase in distribution costs of approximately RMB1.1 million from approximately RMB1.1 million for FY2017 to approximately RMB2.2 million for FY2018; and (ii) the increase in staff costs of approximately RMB2.2 million from approximately RMB0.4 million for FY2017 to approximately RMB2.6 million for FY2018.

Our increase in distribution costs was generally in line with the increase in our sale of products. Our distribution costs as a percentage of our revenue generated from sale of products remained stable at approximately 0.4% and 0.4% for FY2017 and FY2018, respectively.

Our increase in staff costs was mainly due to the increase in the number of employees.

Administrative expenses

Our administrative expenses increased by approximately RMB22.9 million from approximately RMB34.0 million for FY2017 to approximately RMB56.9 million for FY2018. Such increase was mainly attributable to (i) the increase in research and development expenses of approximately RMB10.5 million from approximately RMB12.2 million for FY2017 to approximately RMB22.7 million for FY2018; (ii) the increase in staff costs of approximately RMB7.5 million from approximately RMB7.4 million for FY2017 to approximately RMB14.9 million for FY2018; and (iii) the increase in others of approximately RMB5.4 million from approximately RMB2.2 million for FY2017 to approximately RMB7.6 million for FY2018.

The increase in research and development expenses was mainly due to the commencement of new research and development projects.

The increase in staff costs was mainly due to the increase in the number of employees.

The increase in others was mainly due to (i) maintenance fee of approximately RMB1.6 million incurred during FY2018 in respect of our office in the PRC; and (ii) handling fee of approximately RMB1.4 million incurred in respect of utilising our bills receivables.

Other expenses

Our other expenses increased by approximately RMB9.3 million from approximately RMB3.1 million for FY2017 to approximately RMB12.4 million for FY2018. Such increase was mainly attributable to foreign exchange loss of approximately RMB10.5 million arising from settlement of USD by RMB. Our increase in foreign exchange loss was mainly due to (i) our purchases made in USD has increased significantly from approximately RMB170.8 million for FY2017 to approximately RMB325.6 million for FY2018; and (ii) the USD strengthened against RMB during FY2018.

Finance costs

Our finance costs before capitalisation increased by approximately RMB2.7 million from approximately RMB3.5 million for FY2017 to approximately RMB6.2 million for FY2018, mainly due to the increase in our bank borrowings. For FY2017 and FY2018, we capitalised interest of approximately RMB0.4 million and RMB3.0 million, respectively, in respect of the interest that was directly attributable to the construction of our production facilities. As a result, our net finance costs remained stable at approximately RMB3.2 million and RMB3.2 million for FY2017 and FY2018, respectively.

Income tax expense

Our income tax expense increased by approximately RMB4.9 million from approximately RMB 8.1 million for FY2017 to approximately RMB13.0 million for FY2018. Such increase was in line with the increase in profit before tax. Our effective tax rate was approximately 17.3% and 14.4% for FY2017 and FY2018, respectively. The decrease in our effective tax rate was mainly due to decrease in expense not deductible for tax.

Profit for the year from continuing operations

For the foregoing reasons, our profit for the year from continuing operations increased significantly by approximately RMB38.5 million from approximately RMB38.6 million for FY2017 to approximately RMB77.1 million for FY2018. Our net profit margin for continuing operations increased from approximately 12.6% for FY2017 to approximately 15.0% for FY2018.

FY2017 compared with FY2016

Revenue

Our revenue increased by approximately RMB90.0 million or 41.4% from approximately RMB217.4 million for FY2016 to approximately RMB307.4 million for FY2017. The increase was mainly due to the increase in revenue generated from sale of products of tantalum pentoxide, niobium pentoxide and potassium heptafluorotantalate, offset by the decrease in revenue from the provision of processing services. For detailed analysis, please refer to the paragraph headed "Principal components of the consolidated statements of profit or loss — Revenue" in this section.

Cost of sales

Our cost of sales increased by approximately RMB54.3 million or 32.8% from approximately RMB165.7 million for FY2016 to approximately RMB220.0 million for FY2017. Such increase was mainly attributable to the increase in raw materials costs which was generally in line with the increase in our purchases. Our raw materials costs as a percentage of our total cost of sales remained stable at approximately 88.9% and 89.3% for FY2016 and FY2017, respectively.

Our raw materials cost amounted to approximately RMB147.2 million and RMB196.5 million for FY2016 and FY2017, respectively, representing approximately 73.9% and 67.1% of our revenue generated from sale of products, respectively.

Gross profit and gross profit margin

Our gross profit increased by approximately RMB35.5 million or 68.5% from approximately RMB51.8 million for FY2016 to approximately RMB87.3 million for FY2017, mainly driven by the increase in our revenue.

Our gross profit margin increased from approximately 23.8% for FY2016 to approximately 28.4% for FY2017. Such increase was mainly driven by the increase in our average selling price of pentoxide products and potassium heptafluorotantalate.

Other income and gains

Our other income and gains decreased by approximately RMB2.4 million from approximately RMB4.2 million for FY2016 to approximately RMB1.8 million for FY2017 primarily because we did not recognise any fair value gains on derivative financial instruments for FY2017.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately RMB0.5 million from approximately RMB1.8 million for FY2016 to approximately RMB2.3 million for FY2017. Such increase was mainly attributable to the increase in staff costs of approximately RMB0.1 million from approximately RMB0.3 million for FY2016 to approximately RMB0.4 million for FY2017 while our distribution costs remained stable at approximately RMB1.1 million and RMB1.1 million for FY2016 and FY2017, respectively.

Our increase in staff costs was mainly due to the increase in the number of employees.

Our distribution costs as a percentage of our revenue generated from sale of products remained stable at approximately 0.5% and 0.4% for FY2016 and FY2017, respectively.

Administrative expenses

Our administrative expenses increased by approximately RMB12.0 million from approximately RMB22.0 million for FY2016 to approximately RMB34.0 million for FY2017. Such increase was mainly attributable to (i) the increase in Listing expenses of approximately RMB5.4 million from approximately RMB1.3 million for FY2016 to approximately RMB6.7 million for FY2017; and (ii) the increase in research and development expenses of approximately RMB3.8 million from approximately RMB8.4 million for FY2016 to approximately RMB12.2 million for FY2017, mainly due to commencement of new research and development projects.

Other expenses

Our other expenses significantly increased by approximately RMB2.6 million from approximately RMB0.5 million for FY2016 to approximately RMB3.1 million for FY2017. Such increase was mainly due to the fair value loss on derivative financial instruments of approximately RMB2.5 million.

Finance costs

Our finance costs before capitalisation increased by approximately RMB0.9 million from approximately RMB2.7 million for FY2016 to approximately RMB3.6 million for FY2017, mainly due to the increase in our bank borrowings. For FY2017, we capitalised interest of approximately RMB0.4 million in respect of the interest that was directly attributable to the construction of our production facilities.

Income tax expense

Our income tax expense increased by approximately RMB3.8 million from approximately RMB4.3 million for FY2016 to approximately RMB8.1 million for FY2017, and our effective tax rate increased from approximately 15.1% for FY2016 to 17.3% for FY2017. The increases in our income tax expense and effective tax rate were mainly due to the increase in Listing expenses which was not deductible for tax.

Profit for the year from continuing operations

For the foregoing reasons, our profit for the year from continuing operations increased by approximately RMB13.9 million from approximately RMB24.7 million for FY2016 to approximately RMB38.6 million for FY2017, and our net profit margin for continuing operations increased from approximately 11.3% for FY2016 to approximately 12.6% for FY2017.

8M2019 compared to 8M2018

Revenue

Our revenue increased by approximately RMB53.0 million or 15.2% from approximately RMB347.8 million for 8M2018 to approximately RMB400.8 million for 8M2019. The increase was mainly due to the increase in revenue generated from sale of products of tantalum pentoxide, niobium pentoxide and tantalum bars, offset by the decrease in revenue generated from sale of products of potassium heptafluorotantalate and the provision of processing services. For detailed analysis, please refer to the paragraph headed "Principal components of the consolidated statements of profit or loss — Revenue" in this section.

Cost of sales

Our cost of sales increased by approximately RMB61.9 million or 27.1% from approximately RMB228.8 million for 8M2018 to approximately RMB290.7 million for 8M2019. Such increase was mainly attributable to the increase in raw materials costs which was in line with the increase in our purchases. Our raw materials costs as a percentage of our total cost of sales remained relatively stable at approximately 93.5% and 90.6% for 8M2018 and 8M2019, respectively.

Our raw materials costs amounted to approximately RMB213.9 million and RMB263.5 million for 8M2018 and 8M2019, respectively, representing approximately 63.1% and 66.4% of our revenue generated from sale of products, respectively.

Gross profit and gross profit margin

Our gross profit decreased by approximately RMB8.9 million or 7.5% from approximately RMB119.0 million for 8M2018 to approximately RMB110.1 million for 8M2019, mainly driven by the increase in our cost of sales.

Our gross profit margin decreased from approximately 34.2% for 8M2018 to approximately 27.5% for 8M2019. Such decrease was mainly to (i) the decrease in our average selling price of pentoxide products and potassium heptafluorotantalate; and (ii) the utilisation of our inventories as at 31 December 2018 which was purchased when the market price of our raw material was higher.

Other income and gains

Our other income and gains increased by approximately RMB2.9 million from approximately RMB1.3 million for 8M2018 to approximately RMB4.2 million for 8M2019. Such increase was mainly attributable to the increase in government subsidies of approximately RMB2.5 million from approximately RMB1.2 million for 8M2018 to approximately RMB3.7 million for 8M2019.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately RMB0.3 million from approximately RMB3.7 million for 8M2018 to approximately RMB4.0 million for 8M2019. Such increase was mainly attributable to the increase in distribution costs of approximately RMB0.3 million from approximately RMB1.5 million for 8M2018 to approximately RMB1.8 million for 8M2019.

Our increase in distribution costs was generally in line with the increase in our sale of products. Our distribution costs as a percentage of our revenue generated from sale of products remained stable at approximately 0.4% and 0.5% for 8M2018 and 8M2019, respectively.

Administrative expenses

Our administrative expenses increased by approximately RMB11.7 million from approximately RMB32.7 million for 8M2018 to approximately RMB44.4 million for 8M2019. Such increase was mainly attributable to (i) the increase in Listing expenses of approximately RMB4.4 million from approximately RMB4.1 million for 8M2018 to approximately RMB8.5 million for 8M2019; and (ii) the increase in others of approximately RMB3.3 million from approximately RMB3.3 million for 8M2018 to approximately RMB6.6 million for 8M2019, mainly due to increase in office expenses.

Other expenses

Our other expenses decreased by approximately RMB7.6 million from approximately RMB8.9 million for 8M2018 to approximately RMB1.3 million for 8M2019. Such decrease was mainly attributable to the foreign exchange loss of approximately RMB7.8 million recognised for 8M2018 arising from settlement of USD.

Finance costs

Our finance costs before capitalisation increased by approximately RMB0.8 million from approximately RMB3.2 million for 8M2018 to approximately RMB4.0 million 8M2019, respectively. For 8M2018 and 8M2019, we capitalised interest of approximately RMB2.0 million and RMB2.0 million, respectively, in respect of the interest that was directly attributable to the construction of our production facilities. As a result, our net finance costs increased from approximately RMB1.3 million for 8M2018 to approximately RMB2.2 million for 8M2019.

Income tax expense

Our income tax expense remained stable at approximately RMB11.0 million and RMB11.0 million for 8M2018 and 8M2019, respectively. Our effective tax rate increased from approximately 15.0% for 8M2018 to approximately 17.7% for 8M2019. The increase in our effective tax rate was mainly due to increase in expense not deductible for tax.

Profit for the period from continuing operations

For the foregoing reasons, our profit for the period from continuing operations decreased by approximately RMB11.3 million from approximately RMB62.7 million for 8M2018 to approximately RMB51.4 million for 8M2019. Our net profit margin for continuing operations decreased from approximately 18.0% for 8M2018 to approximately 12.8% for 8M2019.

LIQUIDITY AND CAPITAL RESOURCES

Working capital

During the Track Record Period, we financed our operations by cash generated from operating activities and bank borrowings. As at 31 August 2019, we had cash and cash equivalents of approximately RMB61.7 million. Going forward, we intend to finance our operations by cash generated from operating activities, bank borrowings and proceeds from the Global Offering.

We monitor our cash flows and cash balance on a regular basis and strive to maintain an optimum liquidity that can meet our working capital needs while supporting a viable business scale and future plans. As at 31 August 2019, we had unutilised banking facilities of approximately RMB128.9 million.

Taking into account the financial resources available to us, including our existing cash and cash equivalents, availability of banking facilities, estimated net proceeds to be received by us from the Global Offering and cash flows from our operations, our Directors are of the view that, after due and careful inquiry, we have sufficient working capital for at least the next 12 months commencing from the date of this prospectus.

Cash flows

The following table sets forth a summary of our cash flows for the years/periods indicated:

	FY2016	FY2017	FY2018	8M2018	8M2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Operating cash flows before movements in working capital	35,214	58,045	100,460	79,681	72,156
Movements in working capital	(32,087)	(71,364)	(40,899)	(129,204)	(36,519)
Cash generated from/(used in) operations	3,127	(13,319)	59,561	(49,523)	35,637
Taxes paid	(3,112)	(6,261)	(9,560)	(5,028)	(11,578)
Net cash generated from/(used in) operating activities	15	(19,580)	50,001	(54,551)	24,059
Net cash used in investing activities	(5,313)	(28,342)	(32,916)	(12,149)	(21,413)
Net cash generated from/(used in) financing activities	9,849	68,959	42,508	55,384	(42,728)
Net increase/(decrease) in cash and cash equivalents	4,551	21,037	59,593	(11,316)	(40,082)
Effect of foreign exchange rate changes, net	—	(163)	2,061	755	2,524
Cash and cash equivalents at beginning of year/period	12,145	16,696	37,570	37,570	99,224
Cash and cash equivalents at end of year/period	16,696	37,570	99,224	27,009	61,666

We recorded net cash used in operating activities for FY2017 and 8M2018. For the associated risk, please refer to the paragraph headed "Risk Factors — We had net cash used in operating activities for FY2017, and we may have difficulty meeting our payment obligations if we continue to record net cash used in operating activities in the future." in this prospectus. On the other hand, we recorded net cash used in investing activities for all years/periods presented, and net cash generated from financing activities for FY2016, FY2017, FY2018 and 8M2018 and first recorded net cash used in financing activities for 8M2019.

Our cash and cash equivalents amounted to approximately RMB61.7 million as at 31 August 2019, representing a decrease of approximately RMB37.5 million from as at 31 December 2018. Such decrease was mainly because net cash used in investing and financing activities.

Our cash and cash equivalents amounted to approximately RMB37.6 million and RMB99.2 million as at 31 December 2017 and 31 December 2018, respectively, representing an increase of approximately RMB61.6 million. Such increase was mainly because the net cash generated from operating activities and financing activities outweighed the net cash used in investing activities.

Our cash and cash equivalents amounted to approximately RMB16.7 million and RMB37.6 million as at 31 December 2016 and 31 December 2017, respectively, representing an increase of approximately RMB20.9 million. Such increase was mainly because the net cash generated from financing activities outweighed the net cash used in operating and investing activities.

Net cash generated from/(used in) operating activities

For 8M2019, we had net cash generated from operating activities of approximately RMB24.1 million, primarily reflecting (i) profit before tax from continuing operations of approximately RMB62.5 million; (ii) positive adjustments before movement in working capital of approximately RMB9.7 million, which primarily reflected depreciation of approximately RMB6.2 million; and (iii) negative movements in working capital of approximately RMB36.5 million, which primarily reflected (i) an increase in trade and bills receivables of approximately RMB79.4 million; and (ii) a decrease in trade payables of approximately RMB37.8 million, partially offset by a decrease in inventories of approximately RMB72.6 million.

For FY2018, we had net cash generated from operating activities of approximately RMB50.0 million, primarily reflecting: (i) profit before tax from continuing operations of approximately RMB90.1 million; (ii) positive adjustments before movement in working capital of approximately RMB10.4 million, which primarily reflected depreciation of approximately RMB5.3 million; and (iii) negative movements in working capital of approximately RMB40.9 million, which primarily reflected an increase in inventories of approximately RMB87.7 million, offset by a decrease in prepayments, deposits and other receivables of approximately RMB33.4 million.

For FY2017, we had net cash used in operating activities of approximately RMB19.6 million, primarily reflecting: (i) profit before tax from continuing operations of approximately RMB46.6 million; (ii) positive adjustments before movements in working capital of approximately RMB11.4 million, which primarily reflected depreciation of approximately RMB5.5 million; and (iii) negative movements in working capital of approximately RMB71.4 million, which primarily reflected: (a) an increase in inventories of approximately RMB49.8 million; (b) an increase in prepayments, deposits and other receivables of approximately RMB45.4 million; and (c) a decrease in an amount due to a related company of approximately RMB40.7 million, partially offset by a decrease in amounts due from related companies of approximately RMB56.5 million.

For FY2016, we had net cash generated from operating activities of approximately RMB15,000, primarily reflecting: (i) profit before tax from continuing operations of approximately RMB28.9 million; (ii) positive adjustments before movements in working capital of approximately RMB7.1 million, which primarily reflected depreciation of approximately RMB5.8 million; and (iii) negative movements in working capital of approximately RMB32.1 million, which primarily reflected an increase in trade and bills receivables of approximately RMB26.4 million, an increase in amounts due from related companies of approximately RMB15.9 million, partially offset by an increase in other payables and accruals of approximately RMB12.6 million.

Net cash used in investing activities

For 8M2019, our net cash used in investing activities amounted to approximately RMB21.4 million, which was mainly contributed by purchases of property, plant and equipment of approximately RMB21.9 million, offset by interest received of approximately RMB0.5 million.

For FY2018, our net cash used in investing activities amounted to approximately RMB32.9 million, which was mainly contributed by purchases of property, plant and equipment of approximately RMB31.0 million.

For FY2017, our net cash used in investing activities amounted to approximately RMB28.3 million, which was mainly contributed by purchases of property, plant and equipment of approximately RMB18.3 million.

For FY2016, our net cash used in investing activities amounted to RMB5.3 million, which was mainly contributed by purchases of property, plant and equipment of approximately RMB5.6 million.

Net cash generated from/(used in) financing activities

For 8M2019, our net cash used in financing activities amounted to approximately RMB42.7 million, which was mainly contributed by the repayment of bank borrowings of approximately RMB155.3 million, offset by the proceeds from bank borrowings of approximately RMB115.3 million.

For FY2018, our net cash generated from financing activities amounted to approximately RMB42.5 million, which was mainly contributed by the proceeds from bank borrowings of approximately RMB124.1 million, offset by the repayment of bank borrowings of approximately RMB78.1 million.

For FY2017, our net cash generated from financing activities amounted to approximately RMB69.0 million, which was mainly contributed by the proceeds from bank borrowings of approximately RMB146.4 million, offset by repayment of bank borrowings of approximately RMB74.4 million.

For FY2016, our net cash generated from financing activities amounted to approximately RMB9.8 million, which was mainly contributed by the proceeds from bank borrowings of approximately RMB60.8 million and deemed contribution by Mr. Wu of approximately RMB8.4 million as a result of the disposal of Jiayuan Metal, offset by repayment of bank borrowings of approximately RMB56.4 million. For details of the disposal of Jiayuan Metal, please refer to the paragraph headed "History, Reorganisation and Corporate Structure — Acquisition and disposal of Jiayuan Metal" in this prospectus.

Net current assets

	As at 31 December			As at 31 August 2019	As at 31 December 2019
	2016	2017	2018		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current assets					
Inventories	25,918	75,673	162,722	90,104	129,879
Trade and bills receivables	55,149	71,235	68,684	148,112	169,158
Prepayments, deposits and other receivables	21,339	65,402	34,633	41,305	34,485
Amount due from related companies	56,487	—	—	—	—
Financial assets at fair value through profit or loss	919	—	—	—	—
Cash and cash equivalents	16,696	37,570	99,224	61,666	58,475
Total current assets	176,508	249,880	365,263	341,187	391,997
Current liabilities					
Trade payables	6,325	20,343	39,558	4,610	9,492
Other payables and accruals	16,338	27,250	22,651	34,269	34,782
Interest-bearing bank borrowings	30,081	46,721	99,564	64,417	103,015
Amount due to a related company	40,669	—	—	—	—
Financial liabilities at fair value through profit or loss	—	753	80	—	—
Lease liabilities	335	352	979	1,215	1,229
Tax payable	1,257	3,046	6,509	5,976	7,010
Total current liabilities	95,005	98,465	169,341	110,487	155,528
Net current assets	**81,503**	**151,415**	**195,922**	**230,700**	**236,469**

Our net current assets increased during the Track Record Period, mainly driven by the increase in our revenue and net profit which contributed to the overall increase in our inventories, trade and bills receivables and cash and cash equivalents, offset by the overall increase in our trade payables and bank borrowings.

Our net current assets increased from approximately RMB81.5 million as at 31 December 2016 to approximately RMB151.4 million as at 31 December 2017. The increase in our net current assets was mainly driven by the increase in our current assets from approximately RMB176.5 million as at 31 December 2016 to approximately RMB249.9 million as at 31 December 2017. The increase in our current assets during FY2017 was mainly attributable to (i) increase in inventories in line with our expansion; (ii) increase in prepayments, deposits and other receivables mainly due to the increase of our prepayments to our suppliers; (iii) increase in cash and cash equivalents mainly generated from our financing activities, offset by the settlement of our amounts due from related companies.

Our net current assets increased from approximately RMB151.4 million as at 31 December 2017 to approximately RMB195.9 million as 31 December 2018. The increase in our net current assets was mainly driven by the increase in our current assets from approximately RMB249.9 million as at 31 December 2017 to approximately RMB365.3 million as at 31 December 2018. The increase in our current assets during FY2018 was mainly attributable to (i) the increase in inventories in line with our expansion and in view of the closing of our production facilities for general maintenance in February 2019; and (ii) the increase in cash and cash equivalents mainly generated from our operating and financing activities.

Our net current assets increased from approximately RMB195.9 million as at 31 December 2018 to approximately RMB230.7 million as at 31 August 2019. The increase in our net current assets was mainly driven by the decrease in our current liabilities from approximately RMB169.3 million as at 31 December 2018 to approximately RMB110.5 million as at 31 August 2019. The decrease in our current liabilities during 8M2019 was mainly attributable to (i) the decrease in trade payables mainly due to settlement with our suppliers; and (ii) the decrease in bank borrowings mainly due to our repayment.

Our net current assets increased from approximately RMB230.7 million as at 31 August 2019 to approximately RMB236.5 million as at 31 December 2019. The increase in our net current assets was mainly driven by the increase in our current assets from approximately RMB341.2 million as at 31 August 2019 to approximately RMB392.0 million as at 31 December 2019. The increase in our current assets was mainly attributable to the increase in inventories and trade and bill receivables which was in line with our growth in revenue.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The following table sets forth our consolidated statements of financial position as at the dates indicated, which are extracted from the Accountants' Report:

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment	35,499	48,334	73,541	89,096
Right-of-use assets	11,706	21,502	26,993	26,616
Prepayments	8,604	9,951	7,285	3,622
Total non-current assets	55,809	79,787	107,819	119,334
Current assets				
Inventories	25,918	75,673	162,722	90,104
Trade and bills receivables	55,149	71,235	68,684	148,112
Prepayments, deposits and other receivables	21,339	65,402	34,633	41,305
Amount due from related companies	56,487	—	—	—
Financial assets at fair value through profit or loss	919	—	—	—
Cash and cash equivalents	16,696	37,570	99,224	61,666
Total current assets	176,508	249,880	365,263	341,187
Current liabilities				
Trade payables	6,325	20,343	39,558	4,610
Other payables and accruals	16,338	27,250	22,651	34,269
Interest-bearing bank borrowings	30,081	46,721	99,564	64,417
Amount due to a related company	40,669	—	—	—
Financial liabilities at fair value through profit or loss	—	753	80	—
Lease liabilities	335	352	979	1,215
Tax payable	1,257	3,046	6,509	5,976
Total current liabilities	95,005	98,465	169,341	110,487
Net current assets	**81,503**	**151,415**	**195,922**	**230,700**
Total assets less current liabilities	**137,312**	**231,202**	**303,741**	**350,034**
Non-current liabilities				
Interest-bearing bank borrowings	—	55,300	48,509	43,648
Lease liabilities	1,286	938	3,710	3,738
Total non-current liabilities	1,286	56,238	52,219	47,386
Net assets	136,026	174,964	251,522	302,648
Equity				
Share capital	—	—	—	—
Reserves	136,026	174,964	251,522	302,648
Total equity	136,026	174,964	251,522	302,648

DESCRIPTION OF CERTAIN LINE ITEMS IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Assets

Our total assets increased from approximately RMB232.3 million as at 31 December 2016 to approximately RMB329.7 million as at 31 December 2017, and further increased to approximately RMB473.1 million as at 31 December 2018. Our total assets decreased slightly to approximately RMB460.5 million as at 31 August 2019. The principal components of our total assets were property, plant and equipment, inventories and trade and bills receivables, the total of which constituted approximately 50.2%, 59.2%, 64.5% and 71.1% of our total assets as at 31 December 2016, 31 December 2017, 31 December 2018 and 31 August 2019, respectively.

Property, plant and equipment

Our property, plant and equipment comprised (i) buildings; (ii) plant and machinery; (iii) office equipment; (iv) motor vehicles; and (v) construction in progress.

The carrying amount of our property, plant and equipment increased by approximately RMB12.8 million from approximately RMB35.5 million as at 31 December 2016 to approximately RMB48.3 million as at 31 December 2017. Such increase was mainly driven by the increase in construction progress in respect of our new production facilities.

The carrying amount of our property, plant and equipment increased by approximately RMB25.2 million from approximately RMB48.3 million as at 31 December 2017 to approximately RMB73.5 million as at 31 December 2018. Such increase was mainly driven by the increase in buildings and plant and machinery transferred from construction in progress in respect of our new production facilities.

The carrying amount of our property, plant and equipment increased by approximately RMB15.6 million from approximately RMB73.5 million as at 31 December 2018 to approximately RMB89.1 million as at 31 August 2019. Such increase was mainly driven by (i) the increase in construction in progress; and (ii) the increase in plant and machinery transferred from construction in progress in respect of our new production facilities.

For details of the expansion of our production facilities, please refer to the paragraph headed "Business — Production facilities" in this prospectus.

Right-of-use assets

Our right-of-use assets comprised our leased properties and prepaid land lease payments. The following table sets forth the breakdown of our right-of-use assets as at the dates indicated:

	As at 31 December			As at 31 August
	2016	**2017**	**2018**	**2019**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Leased properties	1,556	1,202	4,592	4,538
Prepaid land lease payments	10,150	20,300	22,401	22,078
Total right-of-use assets	11,706	21,502	26,993	26,616

Leased properties

Our leased properties are recognised following our adoption of HKFRS 16 and mainly represented our offices and workshop. Our leased properties increased from approximately RMB1.2 million as at 31 December 2017 to approximately RMB4.6 million as at 31 December 2018, mainly due to the lease entered into in November 2018 in respect of our office in Guangzhou City, Guangdong Province, the PRC.

During the Track Record Period, we leased certain units in the PRC from Mr. Wu Pingfang and a unit in Hong Kong from Jiawei Resources Limited for use as our workshop. For details, please refer to the section headed "Connected Transactions" in this prospectus.

Prepaid land lease payments

Our prepaid land lease payments represented the prepaid land lease payments in respect of our production facilities in Yingde, Guangdong Province, the PRC. The following table sets forth the movement of our prepaid land lease payments during the years/period indicated:

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount at beginning of the year/period	10,374	10,150	20,300	22,401
Additions	—	10,432	2,541	—
Less: Amortisation	(224)	(282)	(440)	(323)
Carrying amount at end of the year/period	10,150	20,300	22,401	22,078

Inventories

Our inventories comprised raw materials, work in progress and finished goods. The following table sets forth the breakdown of our inventories as at the dates indicated:

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	12,656	36,679	68,979	46,107
Work in progress	8,793	19,750	37,151	19,032
Finished goods	4,469	19,244	56,592	24,965
Total inventories	**25,918**	**75,673**	**162,722**	**90,104**
Average inventories[(1)]	29,612	50,796	119,198	126,413
Average inventories to revenue from sale of products[(2)]	14.9%	17.3%	23.6%	21.2%

Notes:

(1) Average inventories represents the average of inventories as at 31 December of the previous year and 31 December of the current year. For average inventories as at 31 August 2019, it represents the average of inventories as at 31 December 2018 and as at 31 August 2019.

(2) Average inventories to revenue from sale of products represents the average of inventories divided by the revenue generated from sale of products for the relevant year/period. For the purpose of illustration, the average of inventories to revenue from sale of products for 8M2019 is calculated on an annualised basis, and may not represent the ratio for the year ended 31 December 2019.

Our inventories amounted to approximately RMB25.9 million, RMB75.7 million, RMB162.7 million and RMB90.1 million as at 31 December 2016, 31 December 2017, 31 December 2018 and 31 August 2019, respectively.

Our average inventories increased from approximately RMB29.6 million as at 31 December 2016 to approximately RMB50.8 million as at 31 December 2017 to approximately RMB119.2 million as at 31 December 2018 to approximately RMB126.4 million as at 31 August 2019, which was in line with the growth of our revenue. Our average inventories to revenue from sale of products was approximately 14.9%, 17.3%, 23.6% and 21.2% for FY2016, FY2017, FY2018 and 8M2019, respectively.

The following is an ageing analysis of inventories as at the dates indicated:

	As at 31 December			As at 31 August
	2016	**2017**	**2018**	**2019**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Within one month	22,413	63,799	91,155	66,820
One to two months	3,505	9,299	50,155	15,282
Two to three months	—	61	14,454	1,557
Over three months	—	2,514	6,958	6,445
Total inventories	**25,918**	**75,673**	**162,722**	**90,104**

The following table sets forth the average inventory turnover days for the years/period indicated:

	FY2016	**FY2017**	**FY2018**	**8M2019**
	(days)	**(days)**	**(days)**	**(days)**
Average inventory turnover days[(1)]	65.2	84.3	124.5	105.8

Note:

(1) Average inventory turnover days equal average inventories divided by cost of sales for the year and multiplied by 365. Average inventories are calculated as inventories at the beginning of the year plus inventories at the end of the year, divided by two. For the purpose of illustration, average inventory turnover days for 8M2019 is calculated on an annualised basis, and may not represent the ratio for the year ended 31 December 2019.

Our average inventory turnover days increased from approximately 65.2 days for FY2016 to approximately 84.3 days for FY2017, and further increased to approximately 124.5 days for FY2018. The increase for FY2018 was mainly due to the increase of our inventories in view of our expanded production capacity and the closing of our production facilities for general maintenance in February 2019. For 8M2019, our annualised average inventory turnover days was approximately 105.8 days.

As at 31 December 2019, approximately RMB89.0 million, or 98.8%, of our inventories as at 31 August 2019 were subsequently consumed.

Trade and bills receivables

Our trade and bills receivables primarily represented the credit sales of our products to be paid by customers and bank acceptance bills received from our customers during the Track Record Period. The following table sets forth the breakdown of our trade and bills receivables as at the dates indicated:

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	39,186	37,679	31,691	96,915
Bills receivables	15,963	33,556	36,993	51,197
Total trade and bills receivables	**55,149**	**71,235**	**68,684**	**148,112**
Average trade and bills receivables[(1)]	39,101	63,192	69,960	108,398
Average trade and bills receivables to total revenue[(2)]	18.0%	20.6%	13.6%	18.0%

Notes:

(1) Average trade and bills receivables represents the average of trade and bills receivables as at 31 December of the previous year and 31 December of the current year. For average trade and bills receivables as at 31 August 2019, it represents the average of trade and bills receivables of 31 December 2018 and as at 31 August 2019.

(2) Average trade and bills receivables to total revenue represents the average of trade and bills receivables divided by total revenue for the relevant year/period. For the purpose of illustration, the average of trade ad bills receivables to total revenue for 8M2019 is calculated on an annualised basis, and may not represent the ratio for the year ended 31 December 2019.

Our trade and bills receivables increased from approximately RMB55.1 million as at 31 December 2016 to approximately RMB71.2 million as at 31 December 2017. Such increase was mainly due to the increase of our revenue. Our trade and bills receivables decreased from approximately RMB71.2 million as at 31 December 2017 to approximately RMB68.7 million as at 31 December 2018. Such decrease was mainly because we utilised our bills receivables for repaying our bank borrowings during 8M2019. Our trade and bills receivables increased from approximately RMB68.7 million as at 31 December 2018 to approximately RMB148.1 million as at 31 August 2019. Such increase was mainly due to the increase of our revenue.

We generally grant a credit term of one month, extending up to three months, to our customers. We seek to maintain strict control over our outstanding receivables and to minimise credit risk. Overdue balances are reviewed regularly by our senior management.

The following is an ageing analysis of trade and bills receivables as at the dates indicated, based on the invoice date:

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within one month	34,097	63,040	47,348	84,099
One to two months	1,876	5,754	1,540	30,390
Two to three months	11,920	600	2,265	26,364
Over three months	7,256	1,841	17,531	7,259
Total trade and bills receivables	**55,149**	**71,235**	**68,684**	**148,112**

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e. by customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity. As at the end of each of the Track Record Period, the expected credit loss rate for our Group's trade and bills receivables is minimal for all the above bands of trade and bills receivables.

The following table sets forth the average turnover days of our trade and bills receivables for the years/period indicated:

	FY2016	FY2017	FY2018	8M2019
	(days)	(days)	(days)	(days)
Average turnover days of trade and bills receivables[(1)]	65.6	75.0	49.6	65.8

Note:

(1) Average turnover days of trade and bills receivables equal average trade and bills receivables divided by revenue for the year and multiplied by 365. Average trade and bills receivables are calculated as trade and bills receivables at the beginning of the year plus trade and bills receivables at the end of the year, divided by two. For the purpose of illustration, average turnover days of trade and bill receivables for 8M2019 is calculated on an annualised basis, and may not represent the ratio for the year ended 31 December 2019.

The average turnover days of our trade and bills receivables remained relatively stable approximately 65.6 days and 75.0 days for FY2016 and FY2017, respectively. Our average turnover days of trade and bills receivables decreased from 75.0 days for FY2017 to 49.6 days for FY2018, mainly because we utilised our bills receivables for repaying our bank borrowings during 8M2019. For 8M2019, the annualised average turnover days of our trade and bill receivables was 65.8 days.

As at 31 December 2019, approximately RMB139.4 million, or 94.1%, of our trade and bills receivables as at 31 August 2019 were subsequently settled.

Prepayments, deposits and other receivables

Our prepayments, deposits and other receivables mainly represented prepayments to our suppliers for purchasing raw materials, prepayments for purchasing our equipment and machinery and prepaid land lease payments for acquiring land use rights. We prepaid land lease payments prior to obtaining the relevant land use rights certificates and reclassified such prepayments as prepaid land lease payments when the land use rights certificate is granted.

The following table sets forth a breakdown of our prepayments, deposits and other receivables as at the dates indicated:

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments	28,174	69,420	37,652	33,768
Deposits and other receivables	1,769	5,933	4,266	11,159
Total prepayments, deposits and other receivables	**29,943**	**75,353**	**41,918**	**44,927**

Our prepayments, deposits and other receivables increased from approximately RMB29.9 million as at 31 December 2016 to approximately RMB75.4 million as at 31 December 2017, mainly driven by the increase in prepayments to suppliers and increase in prepayment for plant and machinery. Our prepayments, deposits and other receivables decreased from approximately RMB75.4 million as at 31 December 2017 to approximately RMB41.9 million as at 31 December 2018 mainly driven by the decrease in prepayments to suppliers and decrease in prepayment for plant and machinery. Our prepayments, deposits and other receivables increased from approximately RMB41.9 million as at 31 December 2018 to approximately RMB44.9 million as at 31 August 2019, mainly driven by prepaid Listing expenses, offset by the decrease in prepayment for plant and machinery.

Trade payables

Our trade payables increased from approximately RMB6.3 million as at 31 December 2016 to approximately RMB20.3 million as at 31 December 2017, and further increased to approximately RMB39.6 million as at 31 December 2018, mainly due to our increased purchases of raw materials to facilitate the increased sales orders. Our trade payables decreased significantly from approximately RMB39.6 million as at 31 December 2018 to approximately RMB4.6 million as at 31 August 2019 mainly due to settlement and decrease in purchases during 8M2019 as we consumed our inventories carried forward from as at 31 December 2018.

The following is an ageing analysis of trade payables, based on the invoice date, as at the dates indicated:

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within one month	5,958	5,042	20,251	4,111
One to two months	143	14,358	16,679	387
Two to three months	5	5	322	23
Over three months	219	938	2,306	89
Total trade payables	**6,325**	**20,343**	**39,558**	**4,610**

Our trade payables were non-interest-bearing and normally settled with terms of 60 days.

The following table sets forth the average turnover days of our trade payables for the years/period indicated:

	FY2016	FY2017	FY2018	8M2019
	(days)	(days)	(days)	(days)
Average turnover days of trade payables[(1)]	15.4	22.1	31.3	18.5

Note:

(1) Average turnover days of trade payables equal average trade payables divided by cost of sales for the year and multiplied by 365. Average trade payables are calculated as trade payables at the beginning of the year plus trade payables at the end of the year, divided by two. For the purpose of illustration, average turnover days of trade payables for 8M2019 is calculated on an annualised basis, and may not represent the ratio for the year ended 31 December 2019.

Our average turnover days of trade payables remained relatively stable at approximately 15.4 days, and 22.1 days for FY2016 and FY2017, respectively. Our average turnover days of trade payables increased to approximately 31.3 days for FY2018, mainly because the increase in our purchases. For 8M2019, the annualised average turnover days of our trade payables was 18.5 days.

As at 31 December 2019, approximately RMB4.5 million, or 97.8%, of our trade payables as at 31 August 2019 were subsequently settled.

Other payables and accruals

Our other payables and accruals comprised accruals, deferred income, contract liabilities, and other payables. Our accruals mainly represented accrued staff costs and accrued Listing expenses. Our contract liabilities mainly represented short-term advances received to deliver goods. Our deferred income mainly represented government grants received from the PRC local government authorities in relation to our research and development activities and acquisition of property, plant and equipment.

The following table sets forth a breakdown of our other payables and accruals as at the dates indicated:

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Accruals	6,297	16,508	13,204	15,323
Deferred income	7,075	6,639	5,481	8,989
Contract liabilities	1,294	2,892	1,873	2,136
Other payables	1,672	1,211	2,093	7,821
Total other payables and accruals	**16,338**	**27,250**	**22,651**	**34,269**

Our other payables and accruals increased from approximately RMB16.3 million as at 31 December 2016 to approximately RMB27.3 million as at 31 December 2017. Such increase was mainly driven by the increase in accrued Listing expenses.

Our other payables and accruals decreased from approximately RMB27.3 million as at 31 December 2017 to approximately RMB22.7 million as at 31 December 2018. Such decrease was mainly driven by the decrease in accrued Listing expenses, partially offset by the increase in accrued staff costs.

Our other payables and accruals increased from approximately RMB22.7 million as at 31 December 2018 to approximately RMB34.3 million as at 31 August 2019. Such increase was mainly driven by the increase in deferred income as a result of increased receipt of government grant and payables for acquisition of property, plant and equipment.

Bank borrowings

Bank borrowings were our principal component of our total liabilities, constituting approximately 31.2%, 65.9%, 66.8% and 68.5% of our total liabilities as at 31 December 2016, 31 December 2017, 31 December 2018 and 31 August 2019, respectively.

The following table sets forth the breakdown of our bank borrowings by current and non-current classification as at the dates indicated:

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current	—	55,300	48,509	43,648
Current	30,081	46,721	99,564	64,417
Total bank borrowings	30,081	102,021	148,073	108,065

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

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year or repayable on demand	30,081	46,721	99,564	64,417
More than one year but less than two years	—	—	9,702	9,702
More than two years but less than five years	—	—	29,105	33,946
More than five years	—	55,300	9,702	—
Total bank borrowings	30,081	102,021	148,073	108,065

During the Track Record Period, our bank borrowings included secured and unsecured bank borrowings. The following table sets forth the breakdown of our bank borrowings by secured and unsecured bank borrowings as at the dates indicated:

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Secured	—	55,300	55,300	51,899
Unsecured	30,081	46,721	92,773	56,166
Total bank borrowings	30,081	102,021	148,073	108,065

As at 31 December 2017, 31 December 2018 and 31 August 2019, our bank borrowings were secured by the pledge of certain of our Group's leasehold land with an aggregate carrying amount of approximately RMB9.9 million, RMB9.7 million and RMB9.6 million, respectively.

During the Track Record Period, our bank borrowings included guaranteed and unguaranteed bank borrowings. The following table sets forth the breakdown of our bank borrowings by guaranteed and unguaranteed bank borrowings as at the dates indicated:

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Guaranteed	30,081	46,721	92,773	56,166
Unguaranteed	—	55,300	55,300	51,899
Total bank borrowings	30,081	102,021	148,073	108,065

As at 31 December 2016, 31 December 2017, 31 December 2018 and 31 August 2019, Mr. Wu guaranteed certain of our Group's bank borrowings of up to approximately RMB300.0 million, RMB397.0 million, RMB487.0 million and RMB437.0 million, respectively. As at 31 December 2016, 31 December 2017 and 31 December 2018, MACRO-LINK Holding guaranteed certain of our Group's bank borrowings of up to approximately RMB215.0 million, RMB215.0 million and RMB38.0 million, respectively. As at 31 December 2018, Mr. Wu and Guangdong Yuanwei jointly guaranteed certain of our Group's bank borrowings of up to approximately RMB50.0 million. As at 31 August 2019, Mr. Wu and Ms. Ruan Xiaomei, being the spouse of Mr. Wu, jointly guaranteed certain of our Group's bank borrowing of up to approximately RMB50.0 million. All the guarantees provided by Mr. Wu and his associates will be released upon Listing.

Our total bank borrowings increased by approximately RMB71.9 million from approximately RMB30.1 million as at 31 December 2016 to approximately RMB102.0 million as at 31 December 2017, and further increased to approximately RMB148.1 million as at 31 December 2018. Such increase was mainly due to our new bank borrowings to finance our business expansion. Our total bank borrowings decreased from approximately RMB148.1 million as at 31 December 2018 to approximately RMB108.1 million as at 31 August 2019. Such decrease was mainly due to our repayment.

SELECTED FINANCIAL RATIOS

The following tables set forth certain key financial ratios as at/for the years/period ended 31 December 2016, 31 December 2017, 31 December 2018 and 31 August 2019:

	As at/For the years ended 31 December			As at/For the eight months ended 31 August
	2016	**2017**	**2018**	**2019**
Gross profit margin(1)	23.8%	28.4%	32.1%	27.5%
Net profit margin for continuing operations(2)	11.3%	12.6%	15.0%	12.8%
Return on equity(3)	18.1%	22.1%	30.6%	25.5%
Return on assets(4)	10.6%	11.7%	16.3%	16.7%
Current ratio(5)	1.9	2.5	2.2	3.1
Quick ratio(6)	1.6	1.8	1.2	2.3
Gearing ratio(7)	9.8%	36.8%	19.4%	15.3%
Debt to equity ratio(8)	22.1%	58.3%	58.9%	35.7%
Interest coverage ratio(9)	11.6	13.9	15.0	15.4

Notes:

(1) Gross profit margin represents gross profit for the year/period divided by total revenue for the respective year/period.

(2) Net profit margin for continuing operations represents net profit for the year/period from continuing operations divided by total revenue for the respective year/period.

(3) Return on equity represents profit for the year/period from continuing operations divided by total equity as at the end of a year/period. For the purpose of illustration, return on equity for 8M2019 is calculated on an annualised basis, and may not represent the ratio for the year ended 31 December 2019.

(4) Return on assets represents profit for the year/period from continuing operations divided by total assets as at the end of a year/period. For the purpose of illustration, return on assets for 8M2019 is calculated on an annualised basis, and may not represent the ratio for the year ended 31 December 2019.

(5) Current ratio represents total current assets divided by total current liabilities as at the relevant year/period end.

(6) Quick ratio represents total current assets less inventories divided by total current liabilities as at the relevant year/period end.

(7) Gearing ratio represents total interest-bearing bank borrowings, less cash and cash equivalents, divided by total equity as at the end of a year/period.

(8) Debt to equity ratio represents total interest-bearing bank borrowings divided by total equity as at the relevant year/period end.

(9) Interest coverage ratio represents profit before interest and tax divided by finance costs before capitalisation for the relevant year/period.

Gross profit margin

Our gross profit margin was approximately 23.8%, 28.4%, 32.1% and 27.5% for FY2016, FY2017, FY2018 and 8M2019, respectively. For analysis of our gross profit margin, please refer to the paragraph headed "Principal components of the consolidated statements of profit or loss — Gross profit and gross profit margin" in this section.

Net profit margin for continuing operations

Our net profit margin for continuing operations was approximately 11.3%, 12.6%, 15.0% and 12.8% for FY2016, FY2017, FY2018 and 8M2019, respectively. Please refer to the paragraphs headed "Review of results of operations" in this section.

Return on equity

Our return on equity increased from approximately 18.1% for FY2016 to approximately 22.1% for FY2017 and further increased to approximately 30.6% for FY2018. Such increase in return on equity were mainly driven by the increase in our net profit for FY2016, FY2017 and FY2018 as a result of the increase in our revenue.

For 8M2019, our annualised return on equity was approximately 25.5%.

Return on assets

Our return on assets increased from approximately 10.6% for FY2016 to approximately 11.7% for FY2017 and further increased to approximately 16.3% for FY2018. The increases in return on assets were mainly driven by the increase in our net profit for FY2016, FY2017 and FY2018 as a result of the increase in our revenue.

For 8M2019, our annualised return on assets was approximately 16.7%.

Current ratio

Our current ratio was approximately 1.9, 2.5, 2.2 and 3.1 as at 31 December 2016, 31 December 2017, 31 December 2018 and 31 August 2019, respectively. For analysis of our net current assets, please refer to the paragraph headed "Liquidity and capital resources — Net current assets" in this section.

Quick ratio

Our quick ratio was approximately 1.6, 1.8, 1.2 and 2.3 as at 31 December 2016, 31 December 2017, 31 December 2018 and 31 August 2019, respectively. The decrease in our quick ratio as at 31 December 2018 was mainly due to the increase in our inventories in view of (i) our expanded production capacity; and (ii) the closing of our production facilities for general maintenance in February 2019. During 8M2019, we utilised our excess inventories as at 31 December 2018, and as a result our quick ratio restored to approximately 2.3 as at 31 August 2019.

Gearing ratio

Our gearing ratio increased significantly from approximately 9.8% as at 31 December 2016 to approximately 36.8% as at 31 December 2017, mainly due to the increase in our bank borrowings to finance the expansion of our production facilities. Our gearing ratio decreased from approximately 36.8% as at 31 December 2017 to approximately 19.4% as at 31 December 2018, mainly due to the increase in our cash and cash equivalent and equity. Our gearing ratio decreased from approximately 19.4% as at 31 December 2018 to approximately 15.3% as at 31 August 2019, mainly due to the decrease in our bank borrowings as a result of our repayment.

Debt to equity ratio

Our debt to equity ratio increased from approximately 22.1% as at 31 December 2016 to approximately 58.3% as at 31 December 2017, mainly due to the increase in our bank borrowings to finance the expansion of our production facilities. Our debt to equity ratio remained stable at approximately 58.3% and 58.9% as at 31 December 2017 and 31 December 2018, respectively. Our debt to equity ratio decreased from approximately 58.9% as at 31 December 2018 to approximately 35.7% as at 31 August 2019, mainly the decrease in our bank borrowings as a result of our repayment.

Interest coverage ratio

Our interest coverage ratio increased from approximately 11.6 times for FY2016 to approximately 13.9 times for FY2017 and further increased to approximately 15.0 times for FY2018, due to an increase in profit before interest and tax. For 8M2019, our interest coverage ratio was approximately 15.4 times.

CAPITAL EXPENDITURES

Our capital expenditures primarily comprised expenditures for purchases of property, plant and equipment. Our capital expenditures amounted to approximately RMB4.6 million, RMB18.3 million, RMB31.0 million and RMB21.9 million for FY2016, FY2017, FY2018 and 8M2019, respectively.

Our current plan with respect to future capital expenditures is subject to changes based on the evolution of our business plan, market conditions and our outlook of future business conditions. As we continue to expand, we may incur additional capital expenditures.

INDEBTEDNESS

Our indebtedness comprised bank borrowings and lease liabilities. The following table sets forth our indebtedness as at the dates indicated:

	As at 31 December			As at 31 August	As at 31 December
	2016	2017	2018	2019	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowings:					
— Current	30,081	46,721	99,564	64,417	103,015
— Non-current	—	55,300	48,509	43,648	40,247
	30,081	102,021	148,073	108,065	143,262
Lease liabilities:					
— Current	335	352	979	1,215	1,229
— Non-current	1,286	938	3,710	3,738	3,297
	1,621	1,290	4,689	4,953	4,526
Total indebtedness	31,702	103,311	152,762	113,018	147,788

As at 31 December 2019, being the latest practicable date for the purpose of this indebtedness statement, our total indebtedness amounted to approximately RMB147.8 million.

Our bank borrowings bear interest at rates ranging from 1.6% to 4.4%, 2.1% to 5.9%, 3.0% to 5.4%, 2.8% to 5.4% and 2.5% to 5.4% per annum, respectively, as at 31 December 2016, 31 December 2017, 31 December 2018, 31 August 2019 and 31 December 2019.

As at 31 December 2019, we had unutilised banking facilities of approximately RMB110.6 million. Our Directors are of the view that we will unlikely have difficulty in the drawdown of such banking facilities.

As at 31 December 2019, save as disclosed above, our Group did not have any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, borrowings, hire purchase commitments, liabilities under acceptance or other similar indebtedness, any guarantees or other material contingent liabilities.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Capital commitments

The following table sets forth our capital commitments as at the dates indicated:

	As at 31 December			As at 31 August
	2016	**2017**	**2018**	**2019**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Contracted but not provided for:				
Plant and equipment	1,414	7,268	10,053	1,433

RELATED PARTY TRANSACTIONS

During the Track Record Period, other than compensation of key management personnel of our Group, our major related party transactions can be classified into the following categories: (i) disposal of 100% equity interest in Jiayuan Metal on 1 July 2016; and (ii) payment of loan guarantee fee to our related parties.

We have incurred approximately RMB1.0 million, RMB1.0 million, RMB0.4 million, RMB0.3 million and RMB0.1 million of loan guarantee fee for certain bank borrowings guaranteed by MACRO-LINK Holding for FY2016, FY2017, FY2018, 8M2018 and 8M2019, respectively. As at 31 August 2019, all the guarantees provided by MACRO-LINK Holding were released.

On 1 July 2016, we entered into the Jiayuan Metal Disposal Agreement, pursuant to which we transferred 100% equity interest in Jiayuan Metal to Fogang Jiata at a total consideration of RMB10.0 million. For details, please refer to the paragraph headed "History, Reorganisation and Corporate Structure — Acquisition and disposal of Jiayuan Metal." in this prospectus.

We had approximately RMB4.0 million of amounts due from Jiayuan Metal as at 31 December 2016. We had approximately RMB52.5 million of amounts due from Guangdong Jiana as at 31 December 2016. We had approximately RMB40.7 million of amounts due to Fogang Jiata as at 31 December 2016. These balances were incurred due to internal capital allocation among the companies managed by Mr. Wu, and were non-trade in nature, non-interest-bearing, unsecured and are repayable on demand. We have settled all such amounts as at the Latest Practicable Date. No sales proceeds for our revenue were collected from, nor any payments for our purchases were made by, these related parties or other third parties on behalf of our Group during the Track Record Period.

For details of the related party transactions, please refer to Notes 17 and 28 to the Accountants' Report.

Our Directors are of the view that the related party transactions were conducted on an arm's length basis and with normal commercial terms between the relevant parties, and would not distort our track record results or make our historical results not reflective of our future performance. Please also refer to the section headed "Connected Transactions" in this prospectus for our connected transactions under Chapter 14A of the Listing Rules.

OFF-BALANCE SHEET ARRANGEMENTS

An off-balance sheet arrangement is any transaction, agreement or other contractual arrangement involving another entity under which we have made guarantees or any obligation arising out of a material variable interest in another entity that provides financing, liquidity, market risk or credit risk support to us, or that engages in leasing, hedging, or research and development arrangements with us. As at 31 August 2019, we did not have any off-balance sheet arrangements.

CONTINGENT LIABILITIES

As at 31 December 2016, 31 December 2017, 31 December 2018 and 31 August 2019, we did not have any material contingent liabilities or guarantees.

Save as disclosed above, and apart from intra-group liabilities, our Group did not have outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances, other than normal trade bills, or acceptable credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees, material covenants, foreign exchange liabilities or other material contingent liabilities as at 31 August 2019.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The primary financial risks we face in the ordinary course of business are interest rate risk, foreign currency risk, credit risk and liquidity risk. For details, please refer to Note 34 to the Accountants' Report.

Interest rate risk

Our exposure to the risk of changes in market interest rates relates primarily to our cash and bank balances and bank borrowings with a floating interest rate. We have not used any interest rate swaps to hedge our interest rate risk, and will consider hedging significant interest rate risk should the need arise.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of our profit before tax (through the impact on floating rate borrowings and cash and cash equivalents) during the Track Record Period:

	Increase/ (decrease) in basis points	Increase/(decrease) in profit before tax				
		FY2016	FY2017	FY2018	8M2018	8M2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RMB	100	27	(240)	306	(337)	(15)
USD	100	(160)	(408)	(810)	(1,395)	(484)
HK$	100	—	—	16	5	34
RMB	(100)	(27)	240	(306)	337	15
USD	(100)	160	408	810	1,395	484
HK$	(100)	—	—	(16)	(5)	(34)

Foreign currency risk

We have transactional currency exposures. Such exposures arise from sales by us in currencies other than our functional currencies. For FY2016, FY2017, FY2018 and 8M2019, approximately 20.0%, 15.2%, 10.1% and 9.9% of our sales were denominated in currencies other than our functional currencies, respectively.

The following table demonstrates the sensitivity as at 31 December 2016, 31 December 2017, 31 December 2018 and 31 August 2019 to a reasonably possible change in the foreign currency exchange rate, with all other variables held constant, of our profit before tax:

	Increase/ (decrease) in foreign currency rate	Increase/(decrease) in profit before tax				
		FY2016	FY2017	FY2018	8M2018	8M2019
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
If RMB weakens against USD	1	(11)	(374)	(797)	(1,375)	(474)
If RMB weakens against HK$	1	—	—	16	5	34
If RMB strengthens against USD	(1)	11	374	797	1,375	474
If RMB strengthens against HK$	(1)	—	—	(16)	(5)	(34)

Credit risk

The credit risk of our Group's other financial assets, which comprised cash and cash equivalents and other receivables, arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments. Since we only traded with recognised and creditworthy third parties, there is no requirement for collateral.

As at 31 December 2016, 31 December 2017, 31 December 2018 and 31 August 2019, we had certain concentration of credit risk as approximately 25.1%, 32.4%, 27.6% and 42.7% of our trade and bills receivables were due from our largest customer for FY2016, FY2017, FY2018 and 8M2019, respectively. Concentrations of credit risk are managed by establishing credit verification procedures. The management determines there are minimal concentrations of credit risk within us as the customers of our trade and bills receivables are creditworthy.

Liquidity risk

The maturity profile of our financial liabilities as at the dates indicated, based on the contractual undiscounted payments, is as follows:

	On demand or no later than 1 year	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2016				
Trade payables	6,325	—	—	6,325
Other payables and accruals	1,993	—	—	1,993
Interest-bearing bank borrowings	30,551	—	—	30,551
Lease liabilities	412	556	1,877	2,845
Amount due to a related company	40,669	—	—	40,669
	79,950	556	1,877	82,383
As at 31 December 2017				
Trade payables	20,343	—	—	20,343
Other payables and accruals	17,719	—	—	17,719
Financial liabilities at fair value through profit or loss	753	—	—	753
Interest-bearing bank borrowings	50,176	45,779	19,545	115,500
Lease liabilities	412	192	1,946	2,550
	89,403	45,971	21,491	156,865
As at 31 December 2018				
Trade payables	39,558	—	—	39,558
Other payables and accruals	15,298	—	—	15,298
Financial liabilities at fair value through profit or loss	80	—	—	80
Interest-bearing bank borrowings	104,412	47,830	13,266	165,508
Lease liabilities	1,201	3,361	1,792	6,354
	160,549	51,191	15,058	226,798
As at 31 August 2019				
Trade payables	4,610	—	—	4,610
Other payables and accruals	23,144	—	—	23,144
Interest-bearing bank borrowings	61,541	46,559	10,611	118,711
Lease liabilities	1,431	3,046	2,022	6,499
	90,726	49,605	12,633	152,964

Capital management

The primary objectives of our capital management are to safeguard our ability to continue as a going concern and to maintain healthy capital ratios in order to support our business and maximise Shareholders' value.

We manage our capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, we may adjust the dividend payment to Shareholders, return capital to Shareholders or issue new Shares. We are not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Track Record Period.

DIVIDENDS

No dividend had been declared or distributed by our Company since its incorporation up to and including the Latest Practicable Date. The recommendation of the payment of dividend is subject to the absolute discretion of our Board, and, after Listing, any declaration of final dividend for the year will be subject to the approval of our Shareholders. Our Directors may recommend a payment of dividend in the future after taking into account our operations, earnings, financial condition, cash requirements and availability, capital expenditure and future development requirements and other factors as it may deem relevant at such time. Our Company currently does not have any predetermined dividend payout ratio.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 26 May 2017 and has not carried out any business since the date of incorporation, save for the transactions related to the Reorganisation. We had no distributable reserves available for distribution to our Shareholders as at 31 August 2019.

PROFIT ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2019

Estimated consolidated profit for the year ended 31 December 2019 *(Notes 1 and 2)*	not less than RMB69 million

Notes:

(1) The bases on which the above profit estimate for the year ended 31 December 2019 have been prepared are summarised in Appendix III to this prospectus. Our Directors have prepared the estimated consolidated profit for the year ended 31 December 2019 based on (i) the audited consolidated results for the eight months ended 31 August 2019; and (ii) the unaudited consolidated results based on the management accounts of our Group for the four months ended 31 December 2019. The profit estimate has been prepared on a basis consistent in all material respects with the accounting policies that we adopt as set out in the Accountants' Report.

(2) The above profit estimate has taken into account the estimated Listing expenses of approximately RMB12 million for the year ended 31 December 2019. Excluding such estimated Listing expenses, our Directors estimated that the estimated consolidated profit for the year ended 31 December 2019 were not less than approximately RMB81 million.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

Please refer to the paragraph headed "A. Unaudited Pro Forma Statement of Adjusted Consolidated Net Tangible Assets" set out in Appendix II to this prospectus.

PROPERTIES AND VALUATION

Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer, has valued our property interests at 31 December 2019. Particulars of our property interests are set out in the paragraph headed "Property Valuation Report" set out in Appendix IV to this prospectus.

The table below sets forth the reconciliation of the aggregate amount of net book value of our property interests from our consolidated financial information as at 31 August 2019 extracted from the Accountants' Report with the valuation of property interests as at 31 December 2019:

	RMB'000
Net book value of property interests of our Group as at 31 August 2019	
— Buildings	35,038
— Prepaid land lease payments	22,078
Net book value as at 31 August 2019	57,116
Movement for the period from 1 September 2019 to 31 December 2019	
Less: Amortisation for the period	(161)
Depreciation for the period	(1,055)
Net book value as at 31 December 2019	55,900
Valuation surplus as at 31 December 2019	3,639
Valuation as at 31 December 2019	59,539

LISTING EXPENSES

The total amount of Listing expenses in connection with the Global Offering, including underwriting commissions, is estimated to be approximately RMB64.8 million (equivalent to approximately HK$72.8 million) (based on the mid-point of the indicative Offer Price range), representing approximately 37.9% of our estimated gross proceeds from the Global Offering (based on the mid-point of the indicative Offer Price range and assuming the Over-allotment Option is not exercised). The Listing expenses of: (i) approximately RMB20.3 million (equivalent to approximately HK$22.8 million) is directly attributable to the issue of the Offer Shares and is to be accounted for as a deduction from equity in accordance with the relevant accounting standard; and (ii) approximately RMB44.5 million (equivalent to approximately HK$50.0 million) has been or is to be charged to the consolidated statements of profit or loss, of which (a) approximately RMB1.3 million, RMB6.7 million, RMB4.8 million and RMB8.5 million have been charged for FY2016, FY2017, FY2018 and 8M2019, respectively; and (b) approximately RMB23.2 million is expected to be charged prior to or upon Listing. Expenses in relation to the Listing are non-recurring in nature.

RECENT DEVELOPMENT AND MATERIAL ADVERSE CHANGE

Our business remained stable after the Track Record Period. Based on our unaudited consolidated financial statements for the year ended 31 December 2019, we recorded a higher revenue for the year ended 31 December 2019 as compared to that for FY2018, mainly driven by the increase in sales volume for sale of products which outweighed the decrease in average selling price.

Our total sales volume of industrial grade tantalum pentoxide, high-purity tantalum pentoxide, industrial grade niobium pentoxide, high-purity niobium pentoxide and potassium heptafluorotantalate amounted to approximately 183.4 tonnes, 6.2 tonnes, 1,062.1 tonnes, 228.2 tonnes and 71.7 tonnes for the year ended 31 December 2019, respectively, as compared to approximately 81.6 tonnes, 6.5 tonnes, 751.7 tonnes, 169.1 tonnes and 159.0 tonnes for FY2018, respectively.

In terms of average selling price, our average selling price of industrial grade tantalum pentoxide, high-purity tantalum pentoxide, industrial grade niobium pentoxide, high-purity niobium pentoxide and potassium heptafluorotantalate decreased from approximately RMB1.4 million per tonne, RMB1.5 million per tonne, RMB223,800 per tonne, RMB272,000 per tonne and RMB845,200 per tonne for FY2018, respectively, to approximately RMB1.2 million per tonne, RMB1.3 million per tonne, RMB191,200 per tonne, RMB257,000 per tonne and RMB686,600 per tonne for the year ended 31 December 2019, respectively. Such decreasing trend was generally consistent with the overall market trend.

In addition, we recorded an increase in raw materials costs for the year ended 31 December 2019 as compared to that for FY2018, which outweighed the increase in revenue. As a result, we recorded a decrease in gross profit and gross profit margin for the year ended 31 December 2019 as compared to that for FY2018.

Since January 2020, there is an outbreak of the Novel Coronavirus in the PRC, in particular in the Wuhan City. The Novel Coronavirus is highly infectious and has resulted in a number of deaths in the PRC. In order to reduce the risk of widespread of the Novel Coronavirus, the government of the PRC imposed a lockdown in the Wuhan City since 23 January 2020 and announced to extend the Chinese New Year holiday and delay 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 the Novel Coronavirus. On 31 January 2020, the World Health Organisation declared the World Health Organisation did not recommend any travel or trade restriction based on the information available. As at the Latest Practicable Date, some foreign countries had also imposed restrictions or bans on passenger traffic from China to control the spread of the Novel Coronavirus. Our Directors have carried out a holistic review of the impact of the Novel Coronavirus on our operations, and confirmed that, based on the measures imposed by overseas countries and the central and local governments of the PRC as at the Latest Practicable Date, the Novel Coronavirus is not expected to bring any permanent or material interruption to our operations based on the following grounds:

A. Impact on our daily operations

While our production was temporarily suspended from 31 January 2020 to 10 February 2020 in accordance with the extension of the Chinese New Year holiday and delay in resumption of work announced by the government of the PRC, we can increase the number of production days by adjusting our maintenance frequency and arranging production during public holidays after the resumption of work to catch up with the production schedule. In addition, we have maintained an inventory of our products, which we estimate that it is sufficient for sale to our customers for approximately three months. As such, we believe that the temporary suspension of our production in compliance with the PRC Government's announcements to extend the Chinese New Year holiday and delay in resumption of work is not expected to cause any material delay in our production.

Our production process is not labour intensive and does not cause crowd gathering in our production facilities. Our Group has issued guidelines to remind our employees to observe personal hygiene to prevent the spread of the Novel Coronavirus within our production facilities. According to such guidelines, all employees are required to measure their body temperature before entering our production facilities, wear masks within our production facilities, and regularly disinfect public areas within our production facilities.

In response to the Novel Coronavirus, we have implemented interim flexible working arrangements, and allowed our office staff to work at home. We believe that such interim flexible working arrangements could help prevent the spread of the Novel Coronavirus in the work environment.

B. Impact on our management team and employees

In response to the Novel Coronavirus, we have implemented an interim policy requiring our management members and employees to declare if they have recently travelled to the Wuhan City or Hubei Province, and if such, they should work at home and they should only return to our office or production facilities upon receiving further notice from our Group. As at the Latest Practicable Date, 16 of our employees visited the Wuhan City or Hubei Province during the Chinese New Year holiday and was required to work at home according to our interim policy. Since such 16 employees only amounted for approximately 7.3% of our employees and none of them are our Director or members of our senior management, we consider that their temporary absence from our production facilities would not cause material adverse impact on our production. In the event that any of our employees is ill upon return to work at our production facilities or office, we would arrange such employee to be quarantined and arrange disinfection of the areas that such employee have visited within our production facilities or office. We believe such measures are effective in reducing the risk of spreading of the Novel Coronavirus among our employees.

C. Impact on the demand for our products

According to the CIC Report, the outbreak of the Novel Coronavirus is expected to bring limited impacts to the markets of tantalum- and niobium-based metallurgical products and their downstream products in the long run because (1) tantalum- and niobium-based metallurgical products are essential in the downstream manufacture of many products used in high-tech industries, such as special alloy, chemical, electronic ceramics, aeronautics, aerospace, high-end electronics, defence and hard alloy; (2) as China is a major exporter of tantalum- and niobium-based metallurgical products to the developed countries where major manufacturers for processing and production of key end products of tantalum and niobium-based metallurgical products are located and the tantalum and niobium metallurgy industry has high entry barriers, overseas customers may not find readily available alternative and abundant supplies of the products out of China; (3) the tantalum and niobium metallurgy industry and the downstream industries are not industries that would commonly be affected by epidemic, as compared with the service industries and labour intensive industries; (4) while delivery and production will be slightly delayed due to the extension of the Chinese New Year holiday and the delay in resumption of work in the PRC, our production resumed on 10 February 2020 according to the approval from the relevant authority and delivery is expected to resume gradually.

In addition, we consider that the demand for our products is not affected by the Novel Coronavirus because:

(1) According to the CIC Report, we were one of the 15 major market players in the tantalum and niobium metallurgy industry in China in 2018, and we were the largest producer of tantalum- and niobium-based hydrometallurgical products in China for FY2016, FY2017 and FY2018 in terms of total annual production volume for external sales. As there is only a limited number of major market players in the tantalum and niobium metallurgy industry, we believe our customers may not find readily available alternative and abundant supplies of our products within China within a short period of time.

(2) We have maintained stable working relationship with our major suppliers and customers. As advised by our major customers during the Track Record Period (including customers in the PRC and overseas customers), the Novel Coronavirus would not cause material adverse impact on their business and they do not expect that the Novel Coronavirus would have any adverse impact on the business relationship with our Group.

D. Impact on imports of our raw materials

We have maintained an inventory of raw materials, which we estimate that it is sufficient for our production for up to three months. Any temporary restriction or interruption on the transportation of our raw materials is not expected to cause disruption to our production.

Our raw materials imported from overseas countries mainly include ores. During the Track Record Period, we mainly imported ores from Brazil, Nigeria and Sierra Leone. As at the Latest Practicable Date, as advised by the Industry Consultant, no shipment restriction was imposed due to the Novel Coronavirus on export of ores to the PRC by these countries. We have maintained a list of alternative suppliers and we can source from the alternative suppliers in the event that these countries from which we imported ores impose any restriction on the export to the PRC.

E. Impact on exports of our products

As at the Latest Practicable Date, as advised by the Industry Consultant, no shipment restriction was imposed due to the Novel Coronavirus on the import of tantalum- and niobium-based metallurgical products from the PRC. During the Track Record Period, most of our products exported to overseas countries were mainly delivered via seagoing vessels. We have maintained close liaison with different logistics services providers, and we were informed by the logistics services providers that they did not contemplate any material interruption to freight transport.

In addition, we maintain close liaison with our customers. In the event that any of the countries that our customers were located imposes any shipment restriction due to the Novel Coronavirus on the import of our products from the PRC, we will discuss alternative arrangement with our customers.

However, any prolonged outbreak of the Novel Coronavirus may result in further suspension of our production or restriction on delivery of goods, and our business and results of operation may be materially affected. For further details, please refer to the paragraph headed "Risk Factors — The national and regional economies in China and our business may be adversely affected by factors beyond our control such as natural disasters, acts of war or terrorism and epidemics, including the Novel Coronavirus" in this prospectus.

As disclosed above, based on the measures imposed by overseas countries and the central and local governments of the PRC as at the Latest Practicable Date, our Directors are of the view that the Novel Coronavirus is not expected to bring any permanent or material interruption to our operations. However, if the outbreak of the Novel Coronavirus prolongs and the following unlikely and extreme events occur, including:

(i) imports of our raw materials are completely restricted and our production is completely suspended; and

(ii) transportation and delivery of our products within the PRC and to overseas are completely restricted and our sale is completely withheld;

our Directors estimate that our cash and cash equivalents and bills receivables as at the Latest Practicable Date are sufficient to maintain our Group's financial viability for the coming 12 months in settling our estimated monthly fixed costs (including rentals and staff costs), trade payables and bank borrowings outstanding as at the Latest Practicable Date. If, in addition to the above unlikely and extreme events, we are unable to recover any of our trade receivables as at the Latest Practicable Date, our Directors estimate that our cash and cash equivalents and bills receivables as at the Latest Practicable Date are sufficient to maintain our Group's financial viability for the coming five months in settling our estimated monthly fixed costs, trade payables and bank borrowings outstanding as at the Latest Practicable Date.

Our Directors confirmed that, up to the date of this prospectus, other than the estimated Listing expenses of approximately RMB64.8 million and the temporary suspension of our production described above, there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects since 31 August 2019.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, they were not aware of any circumstances that would give rise to a disclosure requirement under Rule 13.13 to Rule 13.19 of the Listing Rules.