

*The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.*



22/F, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

The Directors  
Ximei Resources Holding Limited  
Cinda International Capital Limited

Dear Sirs,

We report on the historical financial information of Ximei Resources Holding Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-4 to I-51, which comprises the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for each of the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019 (the “Relevant Periods”), and the consolidated statements of financial position of the Group as at 31 December 2016, 2017 and 2018 and 31 August 2019 and the statement of financial position of the Company as at 31 December 2017 and 2018 and 31 August 2019 and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-4 to I-51 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 26 February 2020 (the “Prospectus”) in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

#### **DIRECTORS' RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION**

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

#### **REPORTING ACCOUNTANTS' RESPONSIBILITY**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

### **OPINION**

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Group as at 31 December 2016, 2017 and 2018 and 31 August 2019 and the Company as at 31 December 2017 and 2018 and 31 August 2019 and of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

### **REVIEW OF INTERIM COMPARATIVE FINANCIAL INFORMATION**

We have reviewed the interim comparative financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the eight months ended 31 August 2018 and other explanatory information (the "Interim Comparative Financial Information"). The directors of the Company are responsible for the presentation and preparation of the Interim Comparative Financial Information in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

**REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES OF THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE*****Adjustments***

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

***Dividends***

We refer to note 9 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Relevant Periods.

***No historical financial statements for the Company***

As at the date of this report, no statutory financial statements have been prepared for the Company since its date of incorporation.

Yours faithfully,

**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong

26 February 2020

**I. HISTORICAL FINANCIAL INFORMATION***Preparation of Historical Financial Information*

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

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young, Hong Kong in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

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

*Consolidated Statements of Profit or Loss and Other Comprehensive Income*

	Notes	Year ended 31 December			Eight months ended 31 August	
		2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>CONTINUING OPERATIONS</b>						
REVENUE	4	217,441	307,360	514,718	347,815	400,786
Cost of sales		<u>(165,684)</u>	<u>(220,016)</u>	<u>(349,485)</u>	<u>(228,812)</u>	<u>(290,730)</u>
Gross profit		51,757	87,344	165,233	119,003	110,056
Other income and gains	4	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	5	<u>(2,729)</u>	<u>(3,197)</u>	<u>(3,199)</u>	<u>(1,272)</u>	<u>(2,236)</u>
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	6	28,920	46,634	90,094	73,726	62,455
Income tax expense	7	<u>(4,256)</u>	<u>(8,050)</u>	<u>(13,023)</u>	<u>(11,042)</u>	<u>(11,045)</u>
PROFIT FOR THE YEAR/PERIOD FROM CONTINUING OPERATIONS		24,664	38,584	77,071	62,684	51,410
<b>DISCONTINUED OPERATION</b>						
Loss for the year from a discontinued operation	8	<u>(787)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
PROFIT FOR THE YEAR/PERIOD		<u>23,877</u>	<u>38,584</u>	<u>77,071</u>	<u>62,684</u>	<u>51,410</u>
<b>OTHER COMPREHENSIVE LOSS</b>						
Other comprehensive income/(loss) that may be reclassified to profit and loss in subsequent periods:						
Exchange differences on translation of foreign operations		<u>—</u>	<u>247</u>	<u>(478)</u>	<u>(123)</u>	<u>(59)</u>
Other comprehensive loss that will not be reclassified to profit and loss in subsequent periods:						
Exchange differences on translation of the Company's financial statements		<u>—</u>	<u>(440)</u>	<u>(35)</u>	<u>(38)</u>	<u>(225)</u>
OTHER COMPREHENSIVE LOSS FOR THE YEAR/PERIOD, NET OF TAX		<u>—</u>	<u>(193)</u>	<u>(513)</u>	<u>(161)</u>	<u>(284)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/ PERIOD		<u>23,877</u>	<u>38,391</u>	<u>76,558</u>	<u>62,523</u>	<u>51,126</u>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>						
Basic and diluted	12	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

*Consolidated Statements of Financial Position*

	Notes	As at 31 December			As at
		2016	2017	2018	31 August
		RMB'000	RMB'000	RMB'000	2019
				RMB'000	
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	13	35,499	48,334	73,541	89,096
Right-of-use assets	23	11,706	21,502	26,993	26,616
Prepayments	16	8,604	9,951	7,285	3,622
Total non-current assets		<u>55,809</u>	<u>79,787</u>	<u>107,819</u>	<u>119,334</u>
<b>CURRENT ASSETS</b>					
Inventories	14	25,918	75,673	162,722	90,104
Trade and bills receivables	15	55,149	71,235	68,684	148,112
Prepayments, deposits and other receivables	16	21,339	65,402	34,633	41,305
Amounts due from related companies	17	56,487	—	—	—
Financial asset at fair value through profit or loss	18	919	—	—	—
Cash and cash equivalents	19	<u>16,696</u>	<u>37,570</u>	<u>99,224</u>	<u>61,666</u>
Total current assets		<u>176,508</u>	<u>249,880</u>	<u>365,263</u>	<u>341,187</u>
<b>CURRENT LIABILITIES</b>					
Trade payables	20	6,325	20,343	39,558	4,610
Other payables and accruals	21	16,338	27,250	22,651	34,269
Interest-bearing bank borrowings	22	30,081	46,721	99,564	64,417
Amount due to a related company	17	40,669	—	—	—
Financial liabilities at fair value through profit or loss	18	—	753	80	—
Lease liabilities	23	335	352	979	1,215
Tax payable		<u>1,257</u>	<u>3,046</u>	<u>6,509</u>	<u>5,976</u>
Total current liabilities		<u>95,005</u>	<u>98,465</u>	<u>169,341</u>	<u>110,487</u>
NET CURRENT ASSETS		<u>81,503</u>	<u>151,415</u>	<u>195,922</u>	<u>230,700</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>137,312</u>	<u>231,202</u>	<u>303,741</u>	<u>350,034</u>
<b>NON-CURRENT LIABILITIES</b>					
Interest-bearing bank borrowings	22	—	55,300	48,509	43,648
Lease liabilities	23	<u>1,286</u>	<u>938</u>	<u>3,710</u>	<u>3,738</u>
Total non-current liabilities		<u>1,286</u>	<u>56,238</u>	<u>52,219</u>	<u>47,386</u>
Net assets		<u>136,026</u>	<u>174,964</u>	<u>251,522</u>	<u>302,648</u>
<b>EQUITY</b>					
Share capital	24	—	—	—	—
Reserves	25	<u>136,026</u>	<u>174,964</u>	<u>251,522</u>	<u>302,648</u>
Total equity		<u>136,026</u>	<u>174,964</u>	<u>251,522</u>	<u>302,648</u>

*Consolidated Statements of Changes in Equity*

	Share capital	Capital reserve	Merger reserve	Other reserve	Specific reserve	Exchange reserve	Retained profits	Total equity
Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	—	—	33,800	9	—	—	69,537	103,346
Profit for the year and total comprehensive income for the year	—	—	—	—	—	—	23,877	23,877
Deemed contribution by the controlling shareholder	30(a)	—	8,803	—	—	—	—	8,803
At 31 December 2016 and 1 January 2017	—	—*	42,603*	9*	—*	—*	93,414*	136,026
Profit for the year	—	—	—	—	—	—	38,584	38,584
Other comprehensive income/(loss) for the year:								
Exchange differences on translation of foreign operations	—	—	—	—	—	247	—	247
Exchange differences on translation of the Company's financial statements	—	—	—	—	—	(440)	—	(440)
Total comprehensive income for the year	—	—	—	—	—	(193)	38,584	38,391
Contribution by the controlling shareholder	30(b)	34,347	—	—	—	—	—	34,347
Deemed distribution to the controlling shareholder	—	—	(33,800)	—	—	—	—	(33,800)
At 31 December 2017 and 1 January 2018	—	34,347*	8,803*	9*	—*	(193)*	131,998*	174,964
Profit for the year	—	—	—	—	—	—	77,071	77,071
Other comprehensive loss for the year:								
Exchange differences on translation of foreign operations	—	—	—	—	—	(478)	—	(478)
Exchange differences on translation of the Company's financial statements	—	—	—	—	—	(35)	—	(35)
Total comprehensive income for the year	—	—	—	—	—	(513)	77,071	76,558
Transfer from retained profits	—	—	—	—	3,264	—	(3,264)	—
Utilisation of specific reserve	—	—	—	—	(442)	—	442	—
At 31 December 2018 and 1 January 2019	—	34,347*	8,803*	9*	2,822*	(706)*	206,247*	251,522
Profit for the period	—	—	—	—	—	—	51,410	51,410
Other comprehensive loss for the period:								
Exchange differences on translation of foreign operations	—	—	—	—	—	(59)	—	(59)
Exchange differences on translation of the Company's financial statements	—	—	—	—	—	(225)	—	(225)
Total comprehensive income for the period	—	—	—	—	—	(284)	51,410	51,126
Transfer from retained profits	—	—	—	—	2,849	—	(2,849)	—
Utilisation of specific reserve	—	—	—	—	(1,097)	—	1,097	—
At 31 August 2019	—	34,347*	8,803*	9*	4,574*	(990)*	255,905*	302,648
At 1 January 2018	—	34,347	8,803	9	—	(193)	131,998	174,964
Profit for the period (Unaudited)	—	—	—	—	—	—	62,684	62,684
Other comprehensive loss for the period: (Unaudited)								
Exchange differences on translation of foreign operations (Unaudited)	—	—	—	—	—	(123)	—	(123)
Exchange differences on translation of the Company's financial statements (Unaudited)	—	—	—	—	—	(38)	—	(38)
Total comprehensive income for the period (Unaudited)	—	—	—	—	—	(161)	62,684	62,523
Transfer from retained profits (Unaudited)	—	—	—	—	3,264	—	(3,264)	—
Utilisation of specific reserve (Unaudited)	—	—	—	—	(68)	—	68	—
At 31 August 2018 (Unaudited)	—	34,347	8,803	9	3,196	(354)	191,486	237,487

\* These reserve accounts comprise the consolidated reserves of RMB136,026,000, RMB174,964,000, RMB251,522,000 and RMB302,648,000 in the consolidated statement of financial position as at 31 December 2016, 2017 and 2018 and 31 August 2019, respectively.

*Consolidated Statements of Cash Flows*

	<i>Notes</i>	Year ended 31 December			Eight months ended 31 August	
		2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Profit before tax:						
From continuing operations		28,920	46,634	90,094	73,726	62,455
From a discontinued operation	8	(787)	—	—	—	—
Adjustments for:						
Finance costs	5	2,729	3,197	3,199	1,272	2,236
Depreciation of property, plant and equipment	6	5,763	5,506	5,263	3,264	6,167
Depreciation of right-of-use assets	6	437	636	794	523	1,132
Loss/(gain) on disposal of items of property, plant and equipment	6	101	(32)	319	—	241
Written down of inventories	6	—	—	651	—	1
Fair value (gain)/loss of derivative financial instruments	6	(1,737)	2,503	554	982	439
Interest income		(212)	(399)	(414)	(86)	(515)
		35,214	58,045	100,460	79,681	72,156
Decrease/(increase) in inventories		4,140	(49,755)	(87,700)	(65,871)	72,617
(Increase)/decrease in trade and bills receivables		(26,404)	(16,116)	(1,250)	(56,059)	(79,428)
Decrease/(increase) in prepayments, deposits and other receivables		56	(45,410)	33,435	(19,565)	(3,009)
(Increase)/decrease in amounts due from related companies		(15,878)	56,487	—	—	—
Decrease/(increase) in derivative financial instruments		818	(831)	—	(1,313)	(519)
(Decrease)/increase in trade payables		(3,510)	14,018	19,215	7,221	(37,798)
Increase/(decrease) in other payables and accruals		12,570	10,912	(4,599)	6,003	11,618
(Decrease)/increase in amount due to a related company		(3,879)	(40,669)	—	380	—
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 flows from/(used in) operating activities		15	(19,580)	50,001	(54,551)	24,059



	Year ended 31 December			Eight months ended 31 August		
	2016	2017	2018	2018	2019	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
				(Unaudited)		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Purchases of items of property, plant and equipment	(5,557)	(18,348)	(30,951)	(12,235)	(21,928)	
Proceeds from disposal of items of property, plant and equipment	32	39	162	—	—	
Additions of right-of-use assets	—	(10,432)	(2,541)	—	—	
Interest received	212	399	414	86	515	
Net cash flows used in investing activities	(5,313)	(28,342)	(32,916)	(12,149)	(21,413)	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
New bank loans	60,829	146,384	124,104	121,944	115,282	
Repayment of bank loans	(56,396)	(74,444)	(78,052)	(65,062)	(155,290)	
Repayment of lease liabilities	(279)	(409)	(405)	(269)	(644)	
Interest paid	(2,657)	(3,119)	(3,139)	(1,229)	(2,076)	
Deemed distribution to the controlling shareholder	—	(33,800)	—	—	—	
Deemed contribution by the controlling shareholder	30	8,352	34,347	—	—	
Net cash flows from/(used in) financing activities	9,849	68,959	42,508	55,384	(42,728)	
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>						
Cash and cash equivalents at beginning of year/period	12,145	16,696	37,570	37,570	99,224	
Effect of foreign exchange rate changes, net	—	(163)	2,061	755	2,524	
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD</b>	<b>16,696</b>	<b>37,570</b>	<b>99,224</b>	<b>27,009</b>	<b>61,666</b>	
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>						
Cash and bank balances	19	16,696	37,570	99,224	27,009	61,666

*Statement of Financial Position of the Company*

	<i>Notes</i>	<u>As at 31 December</u>		<u>As at</u>
		<u>2017</u>	<u>2018</u>	<u>31 August</u>
		<u>RMB'000</u>	<u>RMB'000</u>	<u>2019</u>
				<u>RMB'000</u>
NON-CURRENT ASSET				
Investment in a subsidiary	29	<u>33,898</u>	<u>33,898</u>	<u>33,898</u>
CURRENT ASSETS				
Cash and cash equivalents	19	<u>—</u>	<u>319</u>	<u>3,151</u>
Total current assets		<u>—</u>	<u>319</u>	<u>3,151</u>
CURRENT LIABILITY				
Amount due to a subsidiary	17	<u>214</u>	<u>1,111</u>	<u>19,009</u>
Total current liability		<u>214</u>	<u>1,111</u>	<u>19,009</u>
NET CURRENT LIABILITIES		<u>(214)</u>	<u>(792)</u>	<u>(15,858)</u>
Net assets		<u><u>33,684</u></u>	<u><u>33,106</u></u>	<u><u>18,040</u></u>
EQUITY				
Share capital	24	<u>—</u>	<u>—</u>	<u>—</u>
Reserves	25	<u>33,684</u>	<u>33,106</u>	<u>18,040</u>
Total equity		<u><u>33,684</u></u>	<u><u>33,106</u></u>	<u><u>18,040</u></u>

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

### 1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company. During the Relevant Periods, the Company's subsidiaries were principally engaged in the manufacture and sale of non-ferrous metal products and provision of processing service to customer.

The Company and its subsidiaries now comprising the Group underwent the Reorganisation as set out in the paragraph headed "Reorganisation" in the section headed "History, Reorganisation and Corporate Structure" in the Prospectus. Apart from the Reorganisation, the Company has not commenced any business or operation since its incorporation.

In the opinion of the directors, the ultimate and immediate holding company of the Company is Jiawei Resources Holding Limited ("Jiawei Resources Seychelles"), which is incorporated in the Republic of Seychelles ("Seychelles").

As at the date of this report, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name	Place and date of incorporation/ registration and place of operation	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangdong Zhiyuan New Material Co., Ltd. ("Zhiyuan New Material")* 廣東致遠新材料有限公司 <sup>(1)</sup>	People's Republic of China (the "PRC") 9 May 2006	RMB33,800,000	—	100	Manufacture and sale of non- ferrous metal products
Xinjia Group Limited ("Xinjia Seychelles") 新佳集團有限公司 <sup>(2)</sup>	Seychelles 21 June 2017	US\$1	100	—	Investment holding
Xite Group Limited ("Xite Hong Kong") 稀特集團有限公司 <sup>(3)</sup>	Hong Kong 29 June 2017	HK\$10,000	—	100	Sale of non-ferrous metal products

\* The English name of the company represents the best effort made by management of the Company to directly translate Chinese name of the company as it has not registered any official English name.

#### Notes:

- (1) Zhiyuan New Material is registered as a wholly-foreign-owned enterprise under the PRC law. The statutory financial statements for the year ended 31 December 2016 prepared under PRC Generally Accepted Accounting Principles ("PRC GAAP") were audited by 清遠市德信會計師事務所有限公司, certified public accountants registered in the PRC, and the statutory financial statements for the years ended 31 December 2017 and 2018 prepared under PRC GAAP were audited by 廣東中海粵會計師事務所有限公司.
- (2) No statutory financial statements have been prepared for this company since the dates of incorporation as it was not subject to any statutory auditing requirement under relevant rules and regulations in its jurisdictions of incorporation.
- (3) The statutory financial statements for the period from 29 June 2017 (date of incorporation) to 31 December 2018 prepared under Hong Kong Financial Reporting Standards ("HKFRSs") were audited by SBC CPA Limited, certified public accountants registered in Hong Kong.

## 2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation, as more fully explained in the paragraph headed “Reorganisation” in the section headed “History, Reorganisation and Corporate Structure” in the Prospectus, the Company became the holding company of the companies now comprising the Group on 31 August 2017. As the Reorganisation only involved inserting new holding companies at the top of an existing company and has not resulted in any changes of economic substance, the Historical Financial Information for the Relevant Periods has been presented as a continuation of the existing company using the pooling of interests method.

Accordingly, the consolidated statements of profit or loss and other comprehensive income, statement of changes in equity and statements of cash flows are prepared as if the current group structure has been in existence throughout the Relevant Periods. The consolidated statements of financial position as at the end of each of the Relevant Periods present the assets and liabilities of the companies now comprising the Group, as if the current group structure had been in existence at those dates.

All intra-group transactions and balances have been eliminated on consolidation.

## 2.2 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2019, together with the relevant transitional provisions, have been consistently applied by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods.

The Historical Financial Information has been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value. The Historical Financial Information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

### *Basis of consolidation*

The Historical Financial Information includes the financial information of the Company and its subsidiaries (collectively referred to as the “Group”) for the Relevant Periods. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial information of the subsidiaries is prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the beginning of the Track Record Period or the date on which a subsidiary was incorporated, whichever is the later and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

### 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Historical Financial Information.

Amendments to HKFRS 3	<i>Definition of a Business</i> <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>3</sup>
HKFRS 17	<i>Insurance Contracts</i> <sup>2</sup>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2020

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>3</sup> No mandatory effective date yet determined but available for adoption

The Group is in process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact to the Group's consolidated financial statements.

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Fair value measurement*

The Group measures its 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 the 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.

The 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 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 financial statements on a recurring basis, the 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.

#### *Impairment of non-financial assets*

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each of the Relevant Periods as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

#### *Related parties*

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

***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, the 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.

***Research and development costs***

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 the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its 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.

***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 the 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.

*Investments and other financial assets***Initial recognition and measurement**

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value plus transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under HKFRS 15 *Revenue from Contracts with Customers* in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

**Subsequent measurement**

For purposes of subsequent measurement, financial assets are classified as follows.

*Financial assets at amortised cost (debt instruments)*

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate ("EIR") method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade receivables, financial assets included in prepayments, deposits and other receivables, amounts due from related companies and cash and cash equivalents.

*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.

#### *Derecognition of financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statements of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### *Impairment of financial assets*

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

#### **General approach**

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

- Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

#### **Simplified approach**

For trade receivables that do not contain a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

#### *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.

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

##### **Subsequent measurement of loans and borrowings**

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 the 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.

***Derecognition of financial liabilities***

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

***Offsetting of financial instruments***

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

***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.

***Cash and cash equivalents***

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

***Provisions***

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of each of the Relevant Periods of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

***Income tax***

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each of the Relevant Periods between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each of the Relevant Periods and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each of the Relevant Periods and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

#### ***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 statement 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 statement of profit or loss by way of a reduced depreciation charge.

#### ***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 the Group expects to be entitled in exchange for those goods or services.

**Sale of products**

Revenue from sales 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**

Processing service income 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 the Group.

**Other income**

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instruments or a shorter period, when appropriate, to the net carrying amount of the financial asset.

***Contract liabilities***

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

***Employee benefits***

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 10% to 20% of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Payments to state-managed retirement benefit schemes in jurisdictions other than the PRC are charged as expenses when employees have rendered service entitling them to the contributions.

***Borrowing costs***

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take substantial period of time to get ready for their intended use of sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use of sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate of 5.4% has been applied to the expenditure on the individual assets.

*Foreign currencies*

The Historical Financial Information is presented in RMB, which is different from the Company's functional currency, Hong Kong Dollars ("HK\$"). As the major revenues and assets of the Group are derived from operations in Mainland China, RMB is chosen as the presentation currency to present the Historical Financial Information. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of each of the Relevant Periods. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the Relevant Periods, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the Relevant Periods and their profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statements of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

## 2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. 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.

### *Estimation uncertainty*

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

#### **Useful lives and residual values of items of property, plant and equipment**

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in the production and provision of services, or from a change in the market demand for the product or service output of the asset, the expected usage of the asset, the expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Adjustment of depreciation is made if the estimated useful lives and/or residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed at the end of each of the Relevant Periods based on changes in circumstances.

#### **Write-down of inventories to net realisable value**

Management reviews the condition of inventories of the Group and writes down the carrying amounts of obsolete and slow-moving inventories items which are identified as no longer suitable for sale or use to their respective net realisable values. The Group estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions at the end of each of the Relevant Periods.

The identification of obsolete and slow-moving inventory items requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying values of inventories and the write-down of inventories recognised in the periods in which such estimates have been made. The carrying amounts of inventories at 31 December 2016, 2017 and 2018 and 31 August 2019 were RMB25,918,000, RMB75,673,000, RMB162,722,000 and RMB90,104,000, respectively.

#### **Provision for expected credit losses on trade receivables**

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by customer type and rating).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed. The information about the ECLs on the Group's trade receivables is disclosed in note 15 to the Historical Financial Information.

## 3. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of non-ferrous metal products and provision of processing service to customers. For the purpose of resource allocation and performance assessment, the Group's management focuses on the operating results of the Group. As such, the Group's resources are integrated and no discrete operating segment information is available. Accordingly, no operating segment information is presented.

*Geographical information*

## (a) Revenue from external customers

	Year ended 31 December			Eight months ended 31 August	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
The PRC	173,898	260,503	462,827	331,969	361,352
The United States	19,990	21,875	19,995	2,275	22,286
European countries	18,279	13,796	19,365	7,497	4,439
Others	5,274	11,186	12,531	6,074	12,709
	<u>217,441</u>	<u>307,360</u>	<u>514,718</u>	<u>347,815</u>	<u>400,786</u>

The revenue information of continuing operations above is based on the locations of the customers.

## (b) Non-current assets

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
The PRC	55,809	79,787	106,838	117,783
Others	—	—	981	1,551
	<u>55,809</u>	<u>79,787</u>	<u>107,819</u>	<u>119,334</u>

The non-current assets information of continuing operations above is based on the locations of the assets.

*Information about major customers*

Revenue of continuing operations derived from sale of non-ferrous metal products and provision of processing service to customers which accounted for 10% or more of the Group's revenue for the Relevant Periods, are set out below:

	Year ended 31 December			Eight months ended 31 August	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Customer A	31,530	23,863	72,990	63,330	110,269
Customer B	22,949	—	—	—	—
Customer F	5,613	66,162	139,192	105,664	29,007
Customer G	—	47,079	53,697	29,701	24,906
Customer K	10,103	—	9,655	—	51,429



## 4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Year ended 31 December			Eight months ended 31 August	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Revenue from contracts with customers</b>					
Sale of products	199,215	293,048	504,098	338,761	396,817
Provision of processing services	18,226	14,312	10,620	9,054	3,969
	<u>217,441</u>	<u>307,360</u>	<u>514,718</u>	<u>347,815</u>	<u>400,786</u>
<i>Revenue from contracts with customers</i>					
<b>(i) Disaggregated revenue information</b>					
<b>Types of goods or services</b>					
Sale of products	199,215	293,048	504,098	338,761	396,817
Provision of processing services	18,226	14,312	10,620	9,054	3,969
Total revenue from contracts with customers	<u>217,441</u>	<u>307,360</u>	<u>514,718</u>	<u>347,815</u>	<u>400,786</u>
<b>Timing of revenue recognition</b>					
Goods transferred at a point in time	199,215	293,048	504,098	338,761	396,817
Services transferred over time	18,226	14,312	10,620	9,054	3,969
Total revenue from contracts with customers	<u>217,441</u>	<u>307,360</u>	<u>514,718</u>	<u>347,815</u>	<u>400,786</u>

The following table shows the amounts of revenue recognised in the Relevant Periods that were included in the contract liabilities at the beginning of the Relevant Periods:

	Year ended 31 December			Eight months ended 31 August	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the Relevant Periods					
Sale of products	<u>169</u>	<u>1,294</u>	<u>2,892</u>	<u>2,892</u>	<u>1,873</u>

**(ii) Performance obligations***Sale of products*

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 30 days from delivery, except for new customers, where payment in advance is normally required.

*Provision of processing services*

The performance obligation is satisfied over time in which the services are rendered and payment is generally due within 30 days from delivery, except for new customers, where payment in advance is normally required.

No performance obligations were unsatisfied or partially unsatisfied as at the end of the Relevant Periods.

	Year ended 31 December			Eight months ended 31 August	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
<b>Other income</b>					
Bank interest income	207	399	414	86	515
Government subsidies*	2,006	1,386	2,580	1,208	3,698
Others	236	25	22	12	31
	2,449	1,810	3,016	1,306	4,244
<b>Gains</b>					
Gain on disposal of items of property, plant and equipment	—	32	—	—	—
Fair value gains on derivative financial instruments, net	1,737	—	—	—	—
	4,186	1,842	3,016	1,306	4,244

\* Government grants have been received from the PRC local government authorities to support a subsidiary's research and development activities. There are no unfulfilled conditions or contingencies relating to these grants.

**5. FINANCE COSTS**

An analysis of finance costs from continuing operations is as follows:

	Year ended 31 December			Eight months ended 31 August	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Interest on bank loans	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)
	2,729	3,197	3,199	1,272	2,236

## 6. PROFIT BEFORE TAX

The Group's profit before tax from continuing operations is arrived at after charging/(crediting):

	Notes	Year ended 31 December			Eight months ended 31 August	
		2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost of inventories sold		165,684	220,016	349,485	228,812	290,730
Depreciation of property, plant and equipment	13	5,763	5,506	5,263	3,264	6,167
Depreciation of right-of-use assets	23	437	636	794	523	1,132
Research and development costs		8,374	12,207	22,705	13,757	14,273
Auditors' remuneration		434	753	1,074	624	1,950
Employee benefit expense (including directors' and chief executive's remuneration (note 10))						
Wages and salaries		11,090	13,907	21,175	14,787	16,422
Pension scheme contributions		1,364	2,105	3,734	2,832	4,542
		<u>12,454</u>	<u>16,012</u>	<u>24,909</u>	<u>17,619</u>	<u>20,964</u>
Listing expenses		1,287	6,741	4,829	4,060	8,454
Loss/(gain) on disposal of items of property, plant and equipment		101	(32)	319	—	241
Written down of inventories		—	—	651	—	1
Fair value (gain)/loss on derivative financial instruments	18	(1,737)	2,503	554	982	439
Foreign exchange differences, net		<u>229</u>	<u>286</u>	<u>10,506</u>	<u>7,790</u>	<u>127</u>

## 7. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the Relevant Periods. Tax on profits assessable in the PRC has been calculated at the applicable PRC corporate income tax ("CIT") rate of 25% during the Relevant Periods. During the Relevant Periods, Zhiyuan New Material was qualified as high and new technology enterprise and enjoy a preferential income tax rate at 15%.

	Year ended 31 December			Eight months ended 31 August	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current — The PRC					
Charge for the year/period	<u>4,256</u>	<u>8,050</u>	<u>13,023</u>	<u>11,042</u>	<u>11,045</u>
Total tax charge for the year from continuing operations	<u>4,256</u>	<u>8,050</u>	<u>13,023</u>	<u>11,042</u>	<u>11,045</u>

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	Year ended 31 December						Eight months ended 31 August			
	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit before tax from continuing operations	28,920		46,634		90,094		73,726		62,455	
Loss before tax from a discontinued operation	(787)		—		—		—		—	
	<u>28,133</u>		<u>46,634</u>		<u>90,094</u>		<u>73,726</u>		<u>62,455</u>	
Tax at the statutory tax rate	7,033	25.0	11,658	25.0	22,524	25.0	18,431	25.0	15,614	25.0
Lower tax rate enacted by local authority	(2,892)	(10.3)	(5,334)	(11.4)	(9,562)	(10.6)	(7,748)	(10.5)	(7,404)	(11.9)
Expense not deductible for tax	1,460	5.2	3,389	7.3	2,555	2.8	2,203	3.0	5,170	8.3
Others	(1,345)	(4.8)	(1,663)	(3.6)	(2,494)	(2.8)	(1,844)	(2.5)	(2,335)	(3.7)
Tax charge at the Group's effective rate	<u>4,256</u>	<u>15.1</u>	<u>8,050</u>	<u>17.3</u>	<u>13,023</u>	<u>14.4</u>	<u>11,042</u>	<u>15.0</u>	<u>11,045</u>	<u>17.7</u>
Tax charge from continuing operations at effective rate	<u>4,256</u>	<u>15.1</u>	<u>8,050</u>	<u>17.3</u>	<u>13,023</u>	<u>14.4</u>	<u>11,042</u>	<u>15.0</u>	<u>11,045</u>	<u>17.7</u>

As at 31 December 2017 and 2018 and 31 August 2019, the Group has tax losses arising in Hong Kong of RMB26,000, RMB12,829,000 and RMB14,929,000, subject to the agreement by the Hong Kong Inland Revenue Department, which are available indefinitely for offsetting against future taxable profits of the company in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in the subsidiary that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised. As at 31 December 2016, the Group has no tax losses arising in Hong Kong.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

As at 31 December 2016, 2017 and 2018 and 31 August 2019, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings of RMB103.3 million, RMB148.5 million, RMB228.3 million and RMB289.5 million of a subsidiary of the Group established in the PRC. In the opinion of the directors, the Group will retain all of the distributable profits of the PRC's subsidiary in the PRC for its operation in Mainland China and no dividend will be declared in foreseeable future. Hence, no deferred tax for withholding tax was recognised.

## 8. DISCONTINUED OPERATION

During the year ended 31 December 2016, the Group had disposed a subsidiary, Guangdong Jiayuan Metal Co., Ltd ("Jiayuan Metal", "廣東佳遠金屬有限公司"). Jiayuan Metal was engaged in the trading of various metallurgical products. The Group had decided to cease its trading business of metallurgical products in order to reallocate its resources on the manufacture and sale of tantalum- and niobium- based metallurgical products. The disposal of Jiayuan Metal was completed on 1 July 2016. With Jiayuan Metal being classified as a discontinued operation, the trading business of various metallurgical products is not included in the note for operating segment information for the year ended 31 December 2016.

The results of Jiayuan Metal for the year ended 31 December 2016 are presented below:

	<b>Year ended 31 December 2016</b>
	<b>RMB'000</b>
Revenue	8,712
Cost of sales	(6,705)
Other income	50
Expenses	(2,844)
Loss before tax and loss for the year from the discontinued operation	<u>(787)</u>

The net cash flows incurred by Jiayuan Metal are as follows:

	<b>Year ended 31 December 2016</b>
	<b>RMB'000</b>
Operating activities	(7,879)
Investing activities	<u>5</u>
Net cash outflow	<u>(7,874)</u>
Earnings per share — basic and diluted, from the discontinued operation	<u>N/A</u>

## 9. DIVIDENDS

No dividend has been paid or proposed by the Company during the years ended 31 December 2016, 2017 and 2018 and the eight months ended 31 August 2019.

## 10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

### *Directors' and chief executive's remuneration*

Certain of the directors received remuneration from a subsidiary now comprising the Group for their appointment as directors or officers of the subsidiary. The remuneration of each of these directors recorded in the financial statements of the subsidiary is set out below:

	<b>Year ended 31 December</b>			<b>Eight months ended 31 August</b>	
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2018</b>	<b>2019</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Fees	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Other emoluments:				<b>(Unaudited)</b>	
Salaries, allowances and benefits in kind	860	898	867	570	672
Pension scheme contributions	45	60	43	27	37
	<u>905</u>	<u>958</u>	<u>910</u>	<u>597</u>	<u>709</u>

### *Independent non-executive directors*

Mr. Lau Kwok Fai Patrick, Mr. Zhong Hui and Mr. Yin Fusheng were appointed as independent non-executive directors of the Company on 19 February 2020. There were no fees or other emoluments paid or payable to the independent non-executive directors of the Company during the Relevant Periods.

*Executive directors*

Mr. Wu Lijue, Mr. Zeng Min and Ms. Wu Shandan were appointed as executive directors of the Company on 26 May 2017. The remuneration of directors and the chief executive for each of the Relevant Periods is set out below:

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Year ended 31 December 2016</b>					
Executive directors:					
Mr. Wu Lijue*	—	610	—	20	630
Mr. Zeng Min	—	—	—	—	—
Ms. Wu Shandan	—	250	—	25	275
	—	860	—	45	905
<b>Year ended 31 December 2017</b>					
Executive directors:					
Mr. Wu Lijue*	—	610	—	22	632
Mr. Zeng Min	—	—	—	—	—
Ms. Wu Shandan	—	288	—	38	326
	—	898	—	60	958
<b>Year ended 31 December 2018</b>					
Executive directors:					
Mr. Wu Lijue*	—	422	—	4	426
Mr. Zeng Min	—	101	—	—	101
Ms. Wu Shandan	—	344	—	39	383
	—	867	—	43	910
<b>Eight months ended 31 August 2018</b>					
<b>(Unaudited)</b>					
Executive directors:					
Mr. Wu Lijue*	—	275	—	2	277
Mr. Zeng Min	—	66	—	—	66
Ms. Wu Shandan	—	229	—	25	254
	—	570	—	27	597
<b>Eight months ended 31 August 2019</b>					
Executive directors:					
Mr. Wu Lijue*	—	360	—	11	371
Mr. Zeng Min	—	72	—	—	72
Ms. Wu Shandan	—	240	—	26	266
	—	672	—	37	709

\* Mr. Wu Lijue is also the chief executive of the Company.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Relevant Periods.

During the Relevant Periods, no remuneration were paid by the Group to any of these directors as an inducement to join or upon joining the Group, or as a compensation for loss of office.

**11. FIVE HIGHEST PAID EMPLOYEES**

The five highest paid employees included 2, 2, 1 and 1 directors for the years ended 31 December 2016, 2017 and 2018 and the eight months ended 31 August 2019 respectively, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining 3, 3, 4 and 4 highest paid employees for the years ended 31 December 2016, 2017 and 2018 and the eight months ended 31 August 2019 respectively, who are neither a director nor chief executive of the Company are as follows:

	Year ended 31 December			Eight months ended 31 August	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind	857	884	1,831	1,221	1,388
Pension scheme contributions	83	155	120	95	88
	<u>940</u>	<u>1,039</u>	<u>1,951</u>	<u>1,316</u>	<u>1,476</u>

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees				
	Year ended 31 December			Eight months ended 31 August	
	2016	2017	2018	2018	2019
Nil to HK\$1,000,000	3	3	4	4	4
	<u>3</u>	<u>3</u>	<u>4</u>	<u>4</u>	<u>4</u>

During the Relevant Periods, no share option was granted to a non-director and non-chief executive highest paid employee in respect of his services to the Group.

During the Relevant Periods, no remuneration were paid by the Group to any of these non-director and non-chief executive highest paid employees as an inducement to join or upon joining the Group, or as a compensation for loss of office. There was no arrangement under which any of these non-director and non-chief executive highest paid employees waived or has agreed to waive any emoluments during the Relevant Periods.

**12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT**

No earnings per share information is presented as its inclusion, for the purpose of the report, is not considered meaningful due to the preparation of the Historical Financial Information for the Relevant Periods, the preparation basis of which as disclosed in note 2.2 above.

## 13. PROPERTY, PLANT AND EQUIPMENT

*Group*

	<b>Buildings</b>	<b>Plant and machinery</b>	<b>Office equipment</b>	<b>Motor vehicles</b>	<b>Construction in progress</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
At 1 January 2016, net of accumulated depreciation	24,461	10,659	285	712	686	36,803
Additions	147	622	147	721	2,955	4,592
Transfers	86	1,859	—	—	(1,945)	—
Depreciation provided during the year	(1,991)	(3,411)	(127)	(234)	—	(5,763)
Disposals/write-off	—	(88)	(10)	(35)	—	(133)
At 31 December 2016 and 1 January 2017, net of accumulated depreciation	22,703	9,641	295	1,164	1,696	35,499
Additions	1,018	1,406	65	433	15,426	18,348
Transfers	627	2,900	—	—	(3,527)	—
Depreciation provided during the year	(2,024)	(3,060)	(120)	(302)	—	(5,506)
Disposals/write-off	—	—	—	(7)	—	(7)
At 31 December 2017 and 1 January 2018, net of accumulated depreciation	22,324	10,887	240	1,288	13,595	48,334
Additions	—	97	150	1,896	28,808	30,951
Transfers	16,163	18,949	—	—	(35,112)	—
Depreciation provided during the year	(2,167)	(2,671)	(87)	(338)	—	(5,263)
Disposals/write-off	—	(322)	(1)	—	(158)	(481)
At 31 December 2018 and 1 January 2019, net of accumulated depreciation	36,320	26,940	302	2,846	7,133	73,541
Additions	—	2	24	—	21,902	21,928
Transfers	829	10,977	—	—	(11,806)	—
Depreciation provided during the period	(2,102)	(3,574)	(62)	(429)	—	(6,167)
Disposals/write-off	(9)	(220)	(12)	—	—	(241)
Exchange realignment	—	—	—	35	—	35
At 31 August 2019, net of accumulated depreciation	<u>35,038</u>	<u>34,125</u>	<u>252</u>	<u>2,452</u>	<u>17,229</u>	<u>89,096</u>
At 31 December 2016:						
Cost	31,962	22,436	678	1,667	1,696	58,439
Accumulated depreciation	(9,259)	(12,795)	(383)	(503)	—	(22,940)
Net carrying amount	<u>22,703</u>	<u>9,641</u>	<u>295</u>	<u>1,164</u>	<u>1,696</u>	<u>35,499</u>
At 31 December 2017:						
Cost	33,607	26,742	743	1,998	13,595	76,685
Accumulated depreciation	(11,283)	(15,855)	(503)	(710)	—	(28,351)
Net carrying amount	<u>22,324</u>	<u>10,887</u>	<u>240</u>	<u>1,288</u>	<u>13,595</u>	<u>48,334</u>
At 31 December 2018:						
Cost	49,770	44,088	875	3,894	7,133	105,760
Accumulated depreciation	(13,450)	(17,148)	(573)	(1,048)	—	(32,219)
Net carrying amount	<u>36,320</u>	<u>26,940</u>	<u>302</u>	<u>2,846</u>	<u>7,133</u>	<u>73,541</u>
At 31 August 2019:						
Cost	50,576	49,675	494	3,893	17,229	121,867
Accumulated depreciation	(15,538)	(15,550)	(242)	(1,441)	—	(32,771)
Net carrying amount	<u>35,038</u>	<u>34,125</u>	<u>252</u>	<u>2,452</u>	<u>17,229</u>	<u>89,096</u>



As at 31 December 2016 and 2017, included in the Group's buildings were eight buildings with aggregate carrying amounts of approximately RMB3,024,000 and RMB2,886,000, respectively, for which no building ownership certificates were obtained. The building ownership certificates of four of these buildings were obtained in the beginning of 2018. As at 31 December 2018 and 31 August 2019, included in the Group's buildings were six buildings with aggregate carrying amounts of approximately RMB6,814,000 and RMB6,837,000 for which no building ownership certificates were obtained. The building ownership certificates of these buildings are expected to be obtained by the end of 2020. Based on the PRC legal opinion, the Group is eligible to use these buildings though the formal title of these buildings has not yet been obtained by the Group.

#### 14. INVENTORIES

##### *Group*

	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
	<u>25,918</u>	<u>75,673</u>	<u>162,722</u>	<u>90,104</u>

#### 15. TRADE AND BILLS RECEIVABLES

##### *Group*

	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
	<u>55,149</u>	<u>71,235</u>	<u>68,684</u>	<u>148,112</u>

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month, extending up to three months. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade and bills receivables relate to a large number of customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade and bills receivables are non-interest-bearing.

An ageing analysis of the trade and bills receivables as at the end of each of the Relevant Periods, based on the invoice date and net of loss allowance, is as follows:

	As at 31 December			As at
				31 August
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 month	34,097	63,040	47,348	84,099
1 to 2 months	1,876	5,754	1,540	30,390
2 to 3 months	11,920	600	2,265	26,364
Over 3 months	7,256	1,841	17,531	7,259
	<u>55,149</u>	<u>71,235</u>	<u>68,684</u>	<u>148,112</u>

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 Relevant Periods, the expected credit loss rate for the Group's trade and bills receivables is minimal for all the above bands of trade and bills receivables.

#### 16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

##### Group

	As at 31 December			As at
	2016	2017	2018	31 August
	RMB'000	RMB'000	RMB'000	2019
<b>Non-current</b>				
Prepayments	8,604	9,951	7,285	3,622
<b>Current</b>				
Prepayments	19,570	59,469	30,367	30,146
Deposits and other receivables	1,769	5,933	4,266	11,159
	<u>21,339</u>	<u>65,402</u>	<u>34,633</u>	<u>41,305</u>

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default. The expected credit loss rate for these financial assets is minimal.

#### 17. AMOUNTS DUE FROM/TO RELATED COMPANIES/A SUBSIDIARY

##### Group

Particulars of the amounts due from/to related companies are as follows:

	As at	Maximum	As at	Maximum	As at	Maximum	As at	Maximum
	31 December	amount	31 December	amount	31 December	amount	31 August	amount
	2016	during the	2017	during the	2018	during the	2019	during the
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Due from related companies</b>								
Jiayuan Metal*	4,028	4,028	—	4,028	—	—	—	—
Guangdong Jiana Energy Technology Co., Ltd. ("Jiana")* 廣東佳納能源科技有限公司	52,459	52,459	—	52,459	—	—	—	—
	<u>56,487</u>		<u>—</u>		<u>—</u>		<u>—</u>	
<b>Due to a related company</b>								
Fogang Jiata Metal Co., Ltd. ("Fogang Jiata")* 佛岡佳特金屬有限公司	40,669		—		—		—	

\* The above related companies are controlled by Mr. Wu Lijue, the controlling shareholder and director of the Company.

The balances with the related companies were non-trade nature, non-interest-bearing, unsecured and repayable on demand. The balances were fully settled during the year ended 31 December 2017.

*Company*

The balance with the subsidiary was non-interest-bearing, unsecured and repayable on demand.

**18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

*Group*

	As at 31 December			As at
	2016	2017	2018	31 August
	RMB'000	RMB'000	RMB'000	2019
Forward currency contracts:				RMB'000
Assets	919	—	—	—
Liabilities	—	753	80	—

The Group has entered into various forward currency contracts to manage its exchange rate exposures. These forward currency contracts are not designated for hedge accounting purposes and are measured at fair value through profit or loss. Gain arising from changes in the fair value of non-hedging derivatives amounting to RMB1,737,000 was credited to profit or loss during the year ended 31 December 2016. Losses arising from changes in the fair value of non-hedging derivatives amounting to RMB2,503,000, RMB554,000 and RMB439,000 were charged to profit or loss during the years ended 31 December 2017 and 2018 and the eight months ended 31 August 2019, respectively.

**19. CASH AND CASH EQUIVALENTS**

*Group*

The cash and cash equivalents of the Group are denominated in HK\$, RMB and US\$.

At 31 December 2016, 2017 and 2018 and 31 August 2019, the Group's cash and bank balances denominated in RMB amounted to RMB12,661,000, RMB36,174,000, RMB87,899,000 and RMB50,426,000, respectively. The RMB is not freely convertible into other currencies, however, under PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

*Company*

The cash and cash equivalents of the Company are denominated in HK\$ and US\$.

**20. TRADE PAYABLES**

An ageing analysis of the trade payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

*Group*

	As at 31 December			As at
				31 August
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 month	5,958	5,042	20,251	4,111
1 to 2 months	143	14,358	16,679	387
2 to 3 months	5	5	322	23
Over 3 months	219	938	2,306	89
	<u>6,325</u>	<u>20,343</u>	<u>39,558</u>	<u>4,610</u>

Trade payables are non-interest-bearing and are normally settled with terms of 60 days.

**21. OTHER PAYABLES AND ACCRUALS***Group*

		As at 31 December			As at
					31 August
		2016	2017	2018	2019
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
Contract liabilities	(i)	1,294	2,892	1,873	2,136
Other payables	(ii)	1,672	1,211	2,093	7,821
Accruals		6,297	16,508	13,204	15,323
Deferred income	(iii)	7,075	6,639	5,481	8,989
		<u>16,338</u>	<u>27,250</u>	<u>22,651</u>	<u>34,269</u>

*Notes:*

(i) Details of contract liabilities as at 1 January 2016, 31 December 2016, 2017 and 2018 and 31 August 2019 are as follows:

	1 January	31 December	31 December	31 December	31 August
	2016	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Short-term advances received from customers</i>					
Sale of products	<u>169</u>	<u>1,294</u>	<u>2,892</u>	<u>1,873</u>	<u>2,136</u>

Contract liabilities include short-term advances received to deliver goods. The increase in contract liabilities from 1 January 2016 to 31 December 2017 was mainly due to the increase in short-term advances received from customers in relation to the sale of products at 31 December 2016 and 2017. The decrease in contract liabilities from 31 December 2017 to 31 December 2018 was mainly due to the decrease in short-term advances received from customers in relation to the sale of products at 31 December 2018. The increase in contract liabilities from 31 December 2018 to 31 August 2019 was mainly due to the increase in short-term advances received from customers in relation to the sale of products at 31 August 2019.

(ii) Other payables are non-interest bearing and have an average term of three months.

(iii) Deferred income represents government grants received from the PRC local government authorities to support a subsidiary's research and development activities and acquisition of property, plant and equipment. The government grants received for acquisition of property, plant and equipment are recognised as deferred income, which is amortised to match against the depreciation charge of the property, plant and equipment in accordance with their estimated useful lives.



## 23. RIGHT-OF-USE ASSETS/LEASE LIABILITIES

*Group as a lessee*

The Group has lease contracts for land and offices. Leases of land have lease terms of 50 years, while offices have lease terms between 2 and 4 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the years/period:

	<u>Land</u>	<u>Offices</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000
As at 1 January 2016	11,132	—	11,132
Additions	—	1,011	1,011
Depreciation provided during the year	(240)	(197)	(437)
As at 31 December 2016 and 1 January 2017	10,892	814	11,706
Additions	10,432	—	10,432
Depreciation provided during the year	(299)	(337)	(636)
As at 31 December 2017 and 1 January 2018	21,025	477	21,502
Additions	2,541	3,744	6,285
Depreciation provided during the year	(457)	(337)	(794)
As at 31 December 2018 and 1 January 2019	23,109	3,884	26,993
Additions	—	748	748
Depreciation provided during the period	(334)	(798)	(1,132)
Exchange realignment	—	7	7
As at 31 August 2019	<u>22,775</u>	<u>3,841</u>	<u>26,616</u>

Set out below are the carrying amounts of lease liabilities and the movements during the years/period:

	<u>As at 31 December</u>			<u>As at</u>
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>31 August</u>
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	817	1,621	1,290	4,689
Additions	1,011	—	3,744	748
Accretion of interest	72	78	60	160
Payments	(279)	(409)	(405)	(644)
Net carrying amount	<u>1,621</u>	<u>1,290</u>	<u>4,689</u>	<u>4,953</u>
Current	335	352	979	1,215
Non-current	1,286	938	3,710	3,738

The maturity analysis of lease liabilities are disclosed in note 34 to the Historical Financial Information.

The following are the amounts recognised in profit of loss:

	<u>As at 31 December</u>			<u>As at</u>
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>31 August</u>
	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation expense of right-of-use assets	437	636	794	1,132
Interest expense on lease liabilities	72	78	60	160
Total amount recognised in profit of loss	<u>509</u>	<u>714</u>	<u>854</u>	<u>1,292</u>

The Group had total cash outflows for leases of RMB279,000, RMB409,000, RMB405,000 and RMB644,000 for the year ended 31 December 2016, 2017 and 2018 and the eight months ended 31 August 2019, respectively. The Group has also had non-cash additions to right-of-use assets and lease liabilities of RMB1,011,000, RMB3,744,000 and RMB748,000 for the years ended 31 December 2016 and 2018 and the eight months ended 31 August 2019, respectively. No non-cash additions was recognised for the year ended 31 December 2017.

#### 24. SHARE CAPITAL

The Company is a limited liability company incorporated in the Cayman Islands on 26 May 2017.

The authorised and issued share capital of the Company were HK\$380,000 and HK\$0.1, respectively, divided into 38,000,000 and 10 shares of HK\$0.01 each, respectively.

	<b>31 December 2017 and 2018 and 31 August 2019</b>	
	<b>Equivalent to</b>	
	<b>HK\$</b>	<b>RMB</b>
Issued and fully paid:		
10 ordinary shares of HK\$0.01 each	<u>0.1</u>	<u>0.09</u>

During the year ended 31 December 2017, the movement in the Company's share capital is as follows:

- (a) The Company was incorporated on 26 May 2017 with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. On the same date, 1 ordinary share of HK\$0.01 was allotted, issued and credited as fully paid to Sertus Nominees (Cayman) Limited ("Sertus"), the Company's initial subscribers, and subsequently, Sertus transferred the 1 ordinary share to Jiawei, the Company's immediate and ultimate holding company, at a consideration of HK\$0.01. On the same date, 6 and 3 ordinary shares of HK\$0.01 were allotted, issued and credited as fully paid to Jiawei, the Company's immediate and ultimate holding company and Macro-Link International Mining Limited, respectively.

#### 25. RESERVES

##### *Group*

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity on page I-7.

The Group's merger reserve mainly represents the deemed contribution and distribution by the controlling shareholder pursuant to the Group Reorganisation set out in note 2.1.

The Group's capital reserve is a capital contribution from Mr. Wu by the Company for the Group Reorganisation set out in note 2.1.

The Group's specific reserve represent safety production fund according to relevant PRC regulations. The Group is required to transfer an amount to specific reserve for the safety production fund. Safety production fund should be accrued and recognised in profit or loss with a corresponding credit in reserve. Such reserve is reduced for expenses incurred for safety production purposes or when safety production related equipment is purchased.

*Company*

	<u>Capital reserve</u>	<u>Exchange reserve</u>	<u>Accumulated losses</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
At 1 January 2017	—	—	—	—
Loss for the year	—	—	(223)	(223)
Other comprehensive loss for the year:				
Exchange differences on translation of financial statements/ information	—	(440)	—	(440)
Total comprehensive loss for the year	—	(440)	(223)	(663)
Contribution by the controlling shareholder	34,347	—	—	34,347
At 31 December 2017 and 1 January 2018	34,347	(440)	(223)	33,684
Loss for the year	—	—	(543)	(543)
Other comprehensive loss for the year:				
Exchange differences on translation of financial statements/ information	—	(35)	—	(35)
Total comprehensive loss for the year	—	(35)	(543)	(578)
At 31 December 2018 and 1 January 2019	34,347	(475)	(766)	33,106
Loss for the period	—	—	(14,841)	(14,841)
Other comprehensive loss for the period:				
Exchange differences on translation of financial statements/ information	—	(225)	—	(225)
Total comprehensive loss for the period	—	(225)	—	(15,066)
At 31 August 2019	<u>34,347</u>	<u>(700)</u>	<u>(15,607)</u>	<u>18,040</u>

**26. PLEDGE OF ASSETS**

Details of the Group's assets pledged for the Group's bank loan are included in note 22 to the Historical Financial Information.

**27. COMMITMENTS***Group*

The Group had the following capital commitments at the end of each of the Relevant Periods:

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

*Company*

As at the end of each of the Relevant Periods, the Company had no capital commitments.



## 28. RELATED PARTY TRANSACTIONS

(a) The Group had the following transactions with related parties during the Relevant Periods:

		Year ended 31 December			Eight months ended 31 August	
		2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Loan guarantee fee:						(Unaudited)
MACRO-LINK Holding Co., Ltd.	Note	995	995	380	250	95

Note: The loan guarantee fee was incurred for the guarantee provided by MACRO-LINK Holding Co., Ltd., which is a shareholder of the Company. The loan guarantee fee was charged pursuant to the terms in the agreements signed between the subsidiary of the Group and MACRO-LINK Holding Co., Ltd. on 21 May 2015 and 28 November 2016.

## (b) Other transactions with a related party

On 1 July 2016, the Group entered into an equity transfer agreement pursuant to which the Group transferred a 100% equity interest in Jiayuan Metal to Fogang Jiata, a related company controlled by Mr. Wu, the controlling shareholder of the Group, at a total consideration of RMB10,010,000.

## (c) Balances with related parties

Details of the Group's amounts due from/to related companies as at the end of each of the Relevant Periods are included in note 17 to the Historical Financial Information.

## (d) Guarantee by related parties

As at 31 December 2016, 2017, 2018 and 31 August 2019, the Company's shareholder, Mr. Wu has guaranteed certain of the Group's bank loans up to RMB300,000,000, RMB397,000,000, RMB487,000,000 and RMB437,000,000, respectively. As at 31 December 2016, 2017 and 2018, the Company's shareholder, MACRO-LINK Holding Co., Ltd. ("MACRO-LINK Holding") has guaranteed certain of the Group's bank loans up to RMB215,000,000, RMB215,000,000 and RMB38,000,000, respectively. As at 31 December 2018, Mr. Wu and a related company controlled by Mr. Wu, Guangdong Yuanwei Investment Co., Ltd. have jointly guaranteed certain of the Group's bank loans up to RMB50,000,000. As at 31 August 2019, Mr. Wu and Ms. Ruan Xiaomei, being his spouse, have jointly guaranteed certain of the Group's bank loans up to RMB50,000,000.

## (e) Compensation of key management personnel of the Group:

	Year ended 31 December			Eight months ended 31 August	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Short term employee benefits	1,717	1,782	2,698	1,725	2,402
Post-employment benefits	170	252	158	122	169
Total compensation paid to key management personnel	1,887	2,034	2,856	1,847	2,571

Further details of directors' and the chief executive's emoluments are included in note 10 to the Historical Financial Information.

## 29. INVESTMENT IN A SUBSIDIARY

*Company*

	As at 31 December 2017	As at 31 December 2018	As at 31 August 2019
	RMB'000	RMB'000	RMB'000
Investment, at cost	33,898	33,898	33,898

The amount due to a subsidiary is unsecured, interest-free and repayable on demand.

Particulars of the subsidiaries are disclosed in note 1 to the Historical Financial Information.

## 30. DEEMED CONTRIBUTION BY THE CONTROLLING SHAREHOLDER

- (a) Pursuant to the equity transfer agreement signed with Fogang Jiata, as part of the Reorganisation, Zhiyuan New Material transferred a 100% equity interest in Jiayuan Metal to Fogang Jiata (the "Transfer") at a total consideration of RMB10,010,000. The transaction was completed on 1 July 2016 (the "Transfer Completion Date").

	RMB'000
Net assets disposed of:	
Property, plant and equipment	1,130
Inventories	4,479
Trade and other receivables	2,904
Cash and bank balances	1,658
Trade and other payables	(5,472)
Amounts due to related companies	(3,492)
	1,207
Deemed contribution by the controlling shareholder	8,803
	10,010
Satisfied by cash	10,010

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	RMB'000
Cash consideration	10,010
Cash and bank balances disposed of	(1,658)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	8,352

- (b) Pursuant to the equity transfer agreement signed with Seraphim BVI, as part of the Reorganisation, Xinjia Seychelles acquired a 100% equity interest in Zhiyuan New Material from Seraphim BVI at a total consideration of RMB33,800,000. The transaction was completed on 31 August 2017. The consideration was settled by additional capital provided by Mr. Wu, the controlling shareholder of the Group, amounted to approximately RMB34,347,000, which was recognised as deemed contribution by the controlling shareholder.

## 31. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

## (a) Major non-cash transactions

During the years ended 31 December 2016 and 2018 and the eight months period ended 31 August 2019, the Group entered into lease arrangements in respect of office lease with amounts upon initial recognition of RMB1,011,000, RMB3,744,000 and RMB748,000, respectively. During the year ended 31 December 2017, the Group did not enter into any lease arrangement.

## (b) Changes in liabilities arising from financing activities:

	<b>Interest-bearing bank borrowings</b>	<b>Lease liabilities</b>
	<b>RMB'000</b>	<b>RMB'000</b>
As at 1 January 2016	25,648	817
Changes from financing cash flows	4,433	(279)
Interest on lease liabilities	—	72
New lease	—	1,011
As at 31 December 2016	30,081	1,621
Changes from financing cash flows	71,940	(409)
Interest on lease liabilities	—	78
As at 31 December 2017	102,021	1,290
Changes from financing cash flows	46,052	(405)
Interest on lease liabilities	—	60
New lease	—	3,744
As at 31 December 2018	148,073	4,689
Changes from financing cash flows	(40,008)	(644)
New lease	—	748
Interest on lease liabilities	—	160
As at 31 August 2019	<u>108,065</u>	<u>4,953</u>

## 32. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

*As at 31 December 2016***Financial assets**

	<b>Financial asset at amortised cost</b>	<b>Financial asset at fair value through profit or loss</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Trade and bills receivables	55,149	—	55,149
Financial assets included in prepayments, deposits and other receivables	1,513	—	1,513
Financial asset at fair value through profit or loss	—	919	919
Amounts due from related companies	56,487	—	56,487
Cash and cash equivalents	16,696	—	16,696
	<u>129,845</u>	<u>919</u>	<u>130,764</u>

**Financial liabilities**

	<b>Financial liabilities at amortised cost</b>
	<b>RMB'000</b>
Trade payables	6,325
Financial liabilities included in other payables and accruals	1,993
Interest-bearing bank borrowings	30,081
Lease liabilities	1,621
Amount due to a related company	40,669
	<u>80,689</u>

*As at 31 December 2017***Financial assets**

	<b>Financial asset at amortised cost</b>
	<b>RMB'000</b>
Trade and bills receivables	71,235
Financial assets included in prepayments, deposits and other receivables	5,933
Cash and cash equivalents	37,570
	<u>114,738</u>

**Financial liabilities**

	<b>Financial liabilities at amortised cost</b>	<b>Financial liability at fair value through profit or loss</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Trade payables	20,343	—	20,343
Financial liabilities included in other payables and accruals	17,719	—	17,719
Interest-bearing bank borrowings	102,021	—	102,021
Lease liabilities	1,290	—	1,290
Financial liabilities at fair value through profit or loss	—	753	753
	<u>141,373</u>	<u>753</u>	<u>142,126</u>

*As at 31 December 2018***Financial assets**

	<b>Financial asset at amortised cost</b>
	<b>RMB'000</b>
Trade and bills receivables	68,684
Financial assets included in prepayments, deposits and other receivables	4,266
Cash and cash equivalents	99,224
	<u>172,174</u>

**Financial liabilities**

	<b>Financial liabilities at amortised cost</b>	<b>Financial liability at fair value through profit or loss</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Trade payables	39,558	—	39,558
Financial liabilities included in other payables and accruals	15,298	—	15,298
Interest-bearing bank borrowings	148,073	—	148,073
Lease liabilities	4,689	—	4,689
Financial liabilities at fair value through profit or loss	—	80	80
	<u>207,618</u>	<u>80</u>	<u>207,698</u>

*As at 31 August 2019***Financial assets**

	<b>Financial asset at amortised cost</b>
	<b>RMB'000</b>
Trade and bills receivables	148,112
Financial assets included in prepayments, deposits and other receivables	1,646
Cash and cash equivalents	61,666
	<u>211,424</u>

**Financial liabilities**

	<b>Financial liabilities at amortised cost</b>
	<b>RMB'000</b>
Trade payables	4,610
Financial liabilities included in other payables and accruals	23,144
Interest-bearing bank borrowings	108,065
Lease liabilities	4,953
	<u>140,772</u>

**33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS**

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	<b>Carrying amounts</b>			
	<b>As at 31 December</b>			<b>As at 31 August</b>
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Financial liability</b>				
Interest-bearing bank borrowings	<u>30,081</u>	<u>102,021</u>	<u>148,073</u>	<u>108,065</u>

	Fair values			
	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Financial liability</b>				
Interest-bearing bank borrowings	29,774	100,706	143,956	106,183

Management has assessed that the fair values of cash and cash equivalents, trade and bills receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, lease liabilities and balances with related companies approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the financial asset and liabilities at fair value through profit or loss are based on quoted market prices.

The fair values of the interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The fair values of other financial assets and financial liabilities carried at amortised cost approximate to their carrying amounts.

#### *Fair value hierarchy*

The following table illustrates the fair value measurement hierarchy of the Group's financial instruments:

#### **Assets measured at fair value**

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
	Financial asset at fair value through profit or loss			
— Fair value measurement using significant observable inputs (Level 2)	919	—	—	—

#### **Liabilities measured at fair value**

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
	Financial liabilities at fair value through profit or loss			
— Fair value measurement using significant observable inputs (Level 2)	—	753	80	—

During the Relevant Periods, there were no transfers of fair value measurement between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

### 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments other than derivatives comprise cash and cash equivalents and interest-bearing bank borrowings. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, other receivables, trade payables and other payables.

The Group also enters into derivative transactions, including forward currency contracts, to manage the transactional currency exposures arising from the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and other price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

#### *Interest rate risk*

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and bank balances and bank loans with a floating interest rate. The Group has not used any interest rate swaps to hedge its 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 the Group's profit before tax (through the impact on floating rate borrowings and cash and cash equivalents).

	Increase/ (decrease) in basis points	Increase/(decrease) in profit before tax				
		Year ended 31 December			Eight months ended 31 August	
		2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(Unaudited)
RMB	100	27	(240)	306	(337)	(15)
US\$	100	(160)	(408)	(810)	(1,395)	(484)
HK\$	100	—	—	16	5	34
RMB	(100)	(27)	240	(306)	337	15
US\$	(100)	160	408	810	1,395	484
HK\$	(100)	—	—	(16)	(5)	(34)

#### *Foreign currency risk*

The Group has transactional currency exposures. Such exposures arise from sales by operating units in currencies other than the units' functional currencies. During the years ended 31 December 2016, 2017 and 2018 and the eight months ended 31 August 2019 approximately 20.0%, 15.2%, 10.1% and 9.9% of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, respectively.

The following table demonstrates the sensitivity at the end of the Relevant Periods to a reasonably possible change in the foreign currency exchange rate, with all other variables held constant, of the Group's profit before tax.

	Increase/ (decrease) in foreign currency rate	Increase/(decrease) in profit before tax				
		Year ended 31 December			Eight months ended 31 August	
		2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	%				(Unaudited)	
If RMB weakens against US\$	1	(11)	(374)	(797)	(1,375)	(474)
If RMB weakens against HK\$	1	—	—	16	5	34
If RMB strengthens against US\$	(1)	11	374	797	1,375	474
If RMB strengthens against HK\$	(1)	—	—	(16)	(5)	(34)

#### Credit risk

Credit risk of the Group's other financial assets, which comprise 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 the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

At the end of each of the Relevant Periods, the Group had certain concentration of credit risk as 25.1%, 32.4%, 27.6% and 42.7% of the Group's trade and bills receivables were due from a major customer of the Group for the years ended 31 December 2016, 2017 and 2018 and the eight months ended 31 August 2019, respectively. Concentrations of credit risk are managed by establishing credit verification procedures. The management determines there are minimal concentrations of credit risk within the Group as the customers of the Group's trade and bills receivables are creditworthy.

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2016, 2017 and 2018 and 31 August 2019. The amounts presented are gross carrying amounts for the financial assets.

#### Group

##### As at 31 December 2016

	12 months	Lifetime ECLs			RMB'000
	ECLs	Simplified approach			
	Stage 1	Stage 2	Stage 3	RMB'000	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables*	—	—	—	39,186	39,186
Bills receivables**					
— Normal	15,963	—	—	—	15,963
Financial assets included in prepayments, deposits and other receivables**					
— Normal	1,513	—	—	—	1,513
Amounts due from related companies**					
— Normal	56,487	—	—	—	56,487
Cash and cash equivalents					
— Not yet past due	16,696	—	—	—	16,696
	90,659	—	—	39,186	129,845



## As at 31 December 2017

	12 months				RMB'000
	ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables*	—	—	—	37,679	37,679
Bills receivables*					
— Normal	33,556	—	—	—	33,556
Financial assets included in prepayments, deposits and other receivables**					
— Normal	5,933	—	—	—	5,933
Cash and cash equivalents					
— Not yet past due	37,570	—	—	—	37,570
	<u>77,059</u>	<u>—</u>	<u>—</u>	<u>37,679</u>	<u>114,738</u>

## As at 31 December 2018

	12 months				RMB'000
	ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables*	—	—	—	31,691	31,691
Bills receivables*					
— Normal	36,993	—	—	—	36,993
Financial assets included in prepayments, deposits and other receivables**					
— Normal	4,266	—	—	—	4,266
Cash and cash equivalents					
— Not yet past due	99,224	—	—	—	99,224
	<u>140,483</u>	<u>—</u>	<u>—</u>	<u>31,691</u>	<u>172,174</u>

## As at 31 August 2019

	12 months				RMB'000
	ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables*	—	—	—	96,915	96,915
Bills receivables*					
— Normal	51,197	—	—	—	51,197
Financial assets included in prepayments, deposits and other receivables**					
— Normal	1,646	—	—	—	1,646
Cash and cash equivalents					
— Not yet past due	61,666	—	—	—	61,666
	<u>114,509</u>	<u>—</u>	<u>—</u>	<u>96,915</u>	<u>211,424</u>

*Company*

As at 31 December 2018

	12 months	Lifetime ECLs			RMB'000
	ECLs			Simplified	
	Stage 1	Stage 2	Stage 3	approach	
	RMB'000	RMB'000	RMB'000	RMB'000	
Cash and cash equivalents					
— Not yet past due	319	—	—	—	319
	<u>319</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>319</u>

As at 31 August 2019

	12 months	Lifetime ECLs			RMB'000
	ECLs			Simplified	
	Stage 1	Stage 2	Stage 3	approach	
	RMB'000	RMB'000	RMB'000	RMB'000	
Cash and cash equivalents					
— Not yet past due	3,151	—	—	—	3,151
	<u>3,151</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,151</u>

\* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 15 to the Historical Financial Information.

\*\* The credit quality of the bills receivables, financial assets included in prepayments, deposits and other receivables and amounts due from related companies are considered to be “normal” when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be “doubtful”.

*Liquidity risk*

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of long term bank loans and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

	<b>On demand or no later than</b>			
	<b>1 year</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b>As at 31 December 2016</b>				
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
	<u>79,950</u>	<u>556</u>	<u>1,877</u>	<u>82,383</u>
<b>As at 31 December 2017</b>				
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
	<u>89,403</u>	<u>45,971</u>	<u>21,491</u>	<u>156,865</u>
<b>As at 31 December 2018</b>				
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
	<u>160,549</u>	<u>51,191</u>	<u>15,058</u>	<u>226,798</u>
<b>As at 31 August 2019</b>				
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
	<u>90,726</u>	<u>49,605</u>	<u>12,633</u>	<u>152,964</u>

*Capital management*

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made to the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is total debt divided by total equity. Total debt represents interest-bearing bank borrowings and amount due to a related company. The gearing ratios as at the end of each of the Relevant Periods were as follows:

*Group*

	As at 31 December			As at
	2016	2017	2018	31 August
	RMB'000	RMB'000	RMB'000	RMB'000
Total debt	70,750	102,021	148,073	108,065
Total equity	136,026	174,964	251,522	302,648
Gearing ratio	52.0%	58.3%	58.9%	35.7%

**35. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 August 2019.