

金力永磁 JLMAG

江西金力永磁科技股份有限公司
JL MAG RARE-EARTH CO., LTD.

(A joint stock limited company incorporated in the People's
Republic of China with limited liability)

STOCK CODE : 6680

GLOBAL
OFFERING



Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



CITIC SECURITIES



BNP PARIBAS

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



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IMPORTANT

IMPORTANT: If you are in any doubt about any of the contents of this Prospectus, you should seek independent professional advice.

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JL MAG RARE-EARTH CO., LTD.
江西金力永磁科技股份有限公司

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GLOBAL OFFERING

Number of Offer Shares under the Global Offering	: 125,466,000 H Shares (subject to adjustment and the Over-allotment Option)
Number of Hong Kong Offer Shares	: 12,546,800 H Shares (subject to adjustment)
Number of International Offer Shares	: 112,919,200 H Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price	: HK\$40.30 per H Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027%, FRC transaction levy of 0.00015% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong Dollars and subject to refund)
Nominal Value	: RMB1.00 per H Share
Stock Code	: 6680

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CITIC SECURITIES



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Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



Joint Lead Managers

富途證券



利弗莫尔证券

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Prospectus, make no representation as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus.

A copy of this Prospectus, having attached thereto the documents specified in "Appendix VI – Documents Delivered to the Registrar of Companies and Available on Display" to this Prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this Prospectus or any other document referred to above.

The Offer Price is expected to be determined by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or about Friday, January 7, 2022 and, in any event, not later than Tuesday, January 11, 2022. The Offer Price will be not more than HK\$40.30 and is currently expected to be not less than HK\$33.80. Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK\$40.30 for each Hong Kong Offer Share together with brokerage of 1.0%, SFC transaction levy of 0.0027%, FRC transaction levy of 0.00015% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price should be lower than HK\$40.30. If, for any reason, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us are unable to reach an agreement on the Offer Price, the Global Offering will not proceed and will lapse.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters, and with our consent) may reduce the number of Offer Shares and/or the indicative Offer Price range stated in this Prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, a notice of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be published on the websites of our Company at www.jlmag.com.cn and on the website of the Stock Exchange at www.hkexnews.com as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Further details are set forth in the sections entitled "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this Prospectus. Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this Prospectus, including the risk factors set out in "Risk Factors."

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure applicants for the subscription for, the Hong Kong Offer Shares, are subject to termination by the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the day that trading in the Shares commences on the Hong Kong Stock Exchange. Such grounds are set out in the section headed "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Grounds for termination" in this Prospectus. It is important that you refer to that section for further details.

We are incorporated, and a majority part of our businesses are located, in China. Potential investors should be aware of the differences in the legal, economic and financial systems between China and Hong Kong and that there are different risk factors relating to investment in businesses incorporated in China. Potential investors should also be aware that the regulatory framework in China is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of our H Shares. Such differences and risk factors are set out in the sections headed "Risk Factors," "Regulatory Overview," "Appendix III – Summary of the Articles of Association" and "Appendix IV – Summary of Principal Legal and Regulatory Provisions" in this prospectus.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons, except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares are being offered and sold outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

ATTENTION

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this prospectus or printed copies of any application forms to the public in relation to the Hong Kong Public Offering.
This prospectus is available at the websites of our Company at www.jlmag.com.cn and the Stock Exchange at www.hkexnews.hk. If you require a printed copy of this prospectus, you may download and print from the website addresses above.

December 31, 2021

IMPORTANT

IMPORTANT NOTICE TO INVESTORS: FULLY ELECTRONIC APPLICATION PROCESS

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this prospectus or printed copies of any application forms to the public in relation to the Hong Kong Public Offering.

This prospectus is available at the website of the Stock Exchange at www.hkexnews.hk under the “*HKEXnews > New Listings > New Listing Information*” section, and our website at www.jlmag.com.cn. If you require a printed copy of this prospectus, you may download and print from the website addresses above.

To apply for the Hong Kong Offer Shares, you may:

- (1) apply online via the **White Form eIPO** service at www.eipo.com.hk; or
- (2) apply through **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf, including by:
 - (i) instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf; or
 - (ii) (if you are an existing **CCASS Investor Participant**) giving **electronic application instructions** through the CCASS Internet System (<https://ip.ccass.com>) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC’s Customer Service Center at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

If you have any question about the application for the Hong Kong Offer Shares, you may call the enquiry hotline of our H Share Registrar and **White Form eIPO** Service Provider, Computershare Hong Kong Investor Services Limited, at +852 2862 8558 on the following dates:

Friday, December 31, 2021 – 9:00 a.m. to 9:00 p.m.
Saturday, January 1, 2022 – 9:00 a.m. to 6:00 p.m.
Sunday, January 2, 2022 – 9:00 a.m. to 6:00 p.m.
Monday, January 3, 2022 – 9:00 a.m. to 9:00 p.m.
Tuesday, January 4, 2022 – 9:00 a.m. to 9:00 p.m.
Wednesday, January 5, 2022 – 9:00 a.m. to 9:00 p.m.
Thursday, January 6, 2022 – 9:00 a.m. to 9:00 p.m.
Friday, January 7, 2022 – 9:00 a.m. to 12:00 noon

We will not provide any physical channels to accept any application for the Hong Kong Offer Shares by the public. The contents of the electronic version of this prospectus are identical to the printed document as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

If you are an **intermediary, broker** or **agent**, please remind your customers, clients or principals, as applicable, that this prospectus is available online at the website addresses above.

Please refer to the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus for further details of the procedures through which you can apply for the Hong Kong Offer Shares electronically.

IMPORTANT

Your application through the **White Form eIPO** service or by giving **electronic application instructions** to HKSCC must be for a minimum of 200 Hong Kong Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

JL MAG RARE-EARTH CO., LTD.

(HK\$40.30 per Hong Kong Offer Share)

NUMBER OF HONG KONG OFFER SHARES THAT MAY BE APPLIED FOR AND PAYMENTS

No. of Hong Kong Offer Shares applied for	Amount payable on application <i>HK\$</i>	No. of Hong Kong Offer Shares applied for	Amount payable on application <i>HK\$</i>	No. of Hong Kong Offer Shares applied for	Amount payable on application <i>HK\$</i>	No. of Hong Kong Offer Shares applied for	Amount payable on application <i>HK\$</i>
200	8,141.23	4,000	162,824.65	60,000	2,442,369.82	600,000	24,423,698.13
400	16,282.47	5,000	203,530.82	70,000	2,849,431.45	800,000	32,564,930.84
600	24,423.70	6,000	244,236.98	80,000	3,256,493.09	1,000,000	40,706,163.55
800	32,564.93	7,000	284,943.15	90,000	3,663,554.72	2,000,000	81,412,327.10
1,000	40,706.17	8,000	325,649.30	100,000	4,070,616.36	3,000,000	122,118,490.65
1,200	48,847.40	9,000	366,355.47	120,000	4,884,739.62	4,000,000	162,824,654.20
1,400	56,988.62	10,000	407,061.63	140,000	5,698,862.89	5,000,000	203,530,817.75
1,600	65,129.86	20,000	814,123.27	160,000	6,512,986.17	6,000,000	244,236,981.30
1,800	73,271.10	30,000	1,221,184.90	180,000	7,327,109.44	6,273,400 ⁽¹⁾	255,366,046.42
2,000	81,412.33	40,000	1,628,246.54	200,000	8,141,232.71		
3,000	122,118.49	50,000	2,035,308.18	400,000	16,282,465.42		

(1) Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

EXPECTED TIMETABLE⁽¹⁾

Hong Kong Public Offering commences 9:00 a.m. on
Friday, December 31, 2021

Latest time for completing electronic applications
under the **White Form eIPO** service through
the designated website at www.eipo.com.hk 11:30 a.m. on
Friday, January 7, 2022

Application lists open⁽³⁾ 11:45 a.m. on
Friday, January 7, 2022

Latest time for (a) completing payment for
the White Form eIPO applications by effecting
internet banking transfer(s) or PPS payment transfer(s)
and (b) **giving electronic application instructions**
to HKSCC⁽⁴⁾ 12:00 noon on
Friday, January 7, 2022

If you are instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your **broker** or **custodian** for the latest time for giving such instructions which may be different from the latest time as stated above.

Application lists close⁽³⁾ 12:00 noon on
Friday, January 7, 2022

Expected Price Determination Date⁽⁵⁾ Friday, January 7, 2022

Announcement of the Offer Price, the level of indications
of interest in the International Offering, the level of
applications in the Hong Kong Public Offering and the
basis of allocations of the Hong Kong Offer Shares to
be published on the websites of our Company at
www.jlmag.com.cn and the Stock Exchange
at www.hkexnews.hk on or before⁽⁶⁾⁽⁷⁾ Thursday, January 13, 2022

EXPECTED TIMETABLE⁽¹⁾

Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels, including:⁽⁷⁾

- (1) in the announcement to be posted on our website at www.jlmag.com.cn⁽⁶⁾ and the website of the Stock Exchange at www.hkexnews.hk, respectively from Thursday, January 13, 2022

- (2) from the results of allocations on designated website at www.iporeresults.com.hk (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a "search by ID" function from 8:00 a.m. on Thursday, January 13, 2022 to 12:00 midnight on Wednesday, January 19, 2022

- (3) from the allocation results telephone enquiry by calling +852 2862 8555 between 9:00 a.m. and 6:00 p.m. on Thursday, January 13, 2022, Friday, January 14, 2022, Monday, January 17, 2022 and Tuesday, January 18, 2022

Dispatch/collection of H Share certificates or deposit of the H Share certificates into CCASS in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before⁽⁷⁾⁽¹⁰⁾ Thursday, January 13, 2022

White Form e-Refund payment instructions/refund checks in respect of wholly or partially successful applications if the final Offer Price is less than the maximum Offer Price per Offer Share initially paid on application (if applicable) or wholly or partially unsuccessful applications to be dispatched/collected on or before⁽⁷⁾⁽⁹⁾⁽¹⁰⁾ Thursday, January 13, 2022

Dealings in the H Shares on the Stock Exchange expected to commence at⁽⁷⁾⁽⁸⁾ 9:00 a.m. on Friday, January 14, 2022

EXPECTED TIMETABLE⁽¹⁾

The application for the Hong Kong Offer Shares will commence on Friday, December 31, 2021 through Friday, January 7, 2022, being longer than normal market practice of four days. The application monies (including the brokerage fees, SFC transaction levy, FRC transaction levy and the Stock Exchange trading fee) will be held by the receiving banks and on behalf of the Company and the refund monies, if any, will be returned to the applicant(s) without interest on Thursday, January 13, 2022. Investors should be aware that the dealings in the H Shares on the Stock Exchange are expected to commence on Friday, January 14, 2022.

Notes:

- (1) All dates and times refer to Hong Kong dates and times.
- (2) You will not be permitted to submit your application under the **White Form eIPO** service through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of the application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a “black” rainstorm warning signal, a tropical cyclone warning signal number 8 or above and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, January 7, 2022, the application lists will not open or close on that day. See the section headed “How to Apply for Hong Kong Offer Shares – (C) Effect of Bad Weather and/or Extreme Conditions on the Opening and Closing of the Application Lists” in this prospectus. If the application lists do not open and close on Friday, January 7, 2022, the dates mentioned in this section may be affected. A press announcement will be made by us in such event.
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS or instructing your broker or custodian to apply on your behalf via CCASS should refer to the section headed “How to Apply for Hong Kong Offer Shares – (A) Applications for Hong Kong Offer Shares – 6. Applying By Giving Electronic Application Instructions to HKSCC via CCASS” in this prospectus.
- (5) The Price Determination Date is expected to be on or about Friday, January 7, 2022, and in any event, not later than Tuesday, January 11, 2022. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us on or before Tuesday, January 11, 2022, the Global Offering will not proceed and will lapse.
- (6) None of the websites or any of the information contained on the websites forms part of this prospectus.
- (7) If there is a “black” rainstorm warning signal, a tropical cyclone warning signal number 8 or above and/or Extreme Conditions in force in Hong Kong from Friday, December 31, 2021 to Friday, January 14, 2022 then the day of (i) announcement of the results of allocations under the Hong Kong Public Offering; (ii) dispatch of H Share certificates/e-Refund payment instructions/refund checks; and (iii) dealings in the H Shares on the Stock Exchange may be postponed and an announcement may be made in such event.
- (8) The H Share certificates will only become valid at 8:00 a.m. on the Listing Date, which is expected to be Friday, January 14, 2022, provided that (i) the Global Offering has become unconditional in all respects and (ii) none of the Underwriting Agreements has been terminated in accordance with its terms at or before that time. Investors who trade H Shares on the basis of publicly available allocation details or prior to the receipt of the H Share certificates or prior to the H Share certificates becoming valid do so entirely at their own risk.

EXPECTED TIMETABLE⁽¹⁾

- (9) e-Refund payment instructions/refund checks will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and in respect of successful applicants in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant's Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund check, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant's Hong Kong identity card number or passport number before cashing the refund check. Inaccurate completion of an applicant's Hong Kong identity card number or passport number may lead to delays in encashment of, or may invalidate, the refund check.
- (10) Applicants who have applied on **White Form eIPO** for 1,000,000 or more Hong Kong Offer Shares may collect any refund checks (where applicable) and/or H Share certificates in person from our H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, January 13, 2022 or such other date as notified by us as the date of dispatch/collection of H Share certificates/e-Refund payment instructions/refund checks. Applicants being individuals who are eligible for personal collection may not authorize any other person to collect on their behalf. Individuals must produce evidence of identity acceptable to our H Share Registrar at the time of collection.

Applicants who have applied for Hong Kong Offer Shares through **CCASS EIPO** service should refer to the section headed "How to Apply for Hong Kong Offer Shares – Personal Collection – (b) If you apply through the CCASS EIPO service" for details.

Applicants who have applied through the **White Form eIPO** service and paid their applications monies through single bank accounts may have refund monies (if any) dispatched to the bank account in the form of e-Refund payment instructions. Applicants who have applied through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions in the form of refund checks by ordinary post at their own risk.

H Share certificates and/or refund checks for applicants who have applied for less than 1,000,000 Hong Kong Offer Shares and any uncollected H Share certificates and/or refund checks will be dispatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications.

Further information is set out in the sections headed "How to Apply for Hong Kong Offer Shares – Refund of Application Monies" and "How to Apply for Hong Kong Offer Shares – (G) Dispatch/Collection of H Share Certificates/e-Refund Payment Instructions/Refund Checks".

The above expected timetable is a summary only. For details of the structure of the Global Offering, including its conditions, and the procedures for applications for Hong Kong Offer Shares, see the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares", respectively, in this prospectus.

If the Global Offering does not become unconditional or is terminated in accordance with its terms, the Global Offering will not proceed. In such a case, we will make an announcement as soon as practicable thereafter.

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IMPORTANT NOTICE TO INVESTORS

This Prospectus is issued by JL MAG RARE-EARTH CO., LTD. solely in connection with the Hong Kong Public Offering and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this Prospectus pursuant to the Hong Kong Public Offering. This Prospectus may not be used for the purpose of, and does not constitute, an offer or a solicitation of an offer to subscribe for or buy, any security in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this Prospectus in any jurisdiction other than Hong Kong. The distribution of this Prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this Prospectus and the relevant application form(s) to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this Prospectus. Any information or representation not made in this Prospectus must not be relied on by you as having been authorized by us, the Joint Sponsors, Joint Representatives, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers, any of the Underwriters, any of our or their respective directors, officers or representatives, or any other person or party involved in the Global Offering. Information contained in our website, located at www.jlmag.com.cn, does not form part of this Prospectus.

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SUMMARY

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

OVERVIEW

We are a leading producer of high-performance rare earth permanent magnets (“**REPMs**”). We ranked first in the world by high-performance REPM production volume in 2020 with a market share of approximately 14.5%, according to Frost & Sullivan. In particular, we applied grain boundary diffusion (“**GBD**”) technology in producing 4,111 tonnes of high-performance REPMs in 2020, ranking first in the world’s GBD REPM market with a market share of approximately 21.3%, according to Frost & Sullivan. Since our establishment, we have focused on the R&D, production and sales of high-performance NdFeB rare earth permanent magnets (“**NdFeB PMs**”) used globally in the fields of new energy, energy conservation and environmental protection. Our products have a wide array of applications in new energy vehicles (“**NEVs**”) and automotive parts, permanent magnetic wind turbine generators (“**PM wind turbine generators**”), energy-saving variable-frequency air-conditioners (“**Energy-saving VFACs**”) and other sectors. We believe that, by leveraging our large production capacity, high-quality product offerings, outstanding R&D capabilities, proprietary technologies and strong product delivery capability, we are able to effectively address the needs of, and forge cooperative relationships with, our customers, including global leaders in their respective industries. Our Company was listed on NEEQ from December 2015 to January 2018. The A Shares of our Company have been listed on the ChiNext Market of the Shenzhen Stock Exchange (stock code: 300748) since September 2018. We are seeking to list our H Shares on the Main Board of the Stock Exchange as a dual primary listing alongside our A Shares on the Shenzhen Stock Exchange.

We believe that we are well-positioned in a booming industry to capitalize on the strong growth prospects in the downstream industries as the world consensus on global climate change leads to carbon reduction as a key dimension of environmental protection. In response to climate change, governments in the world are taking active actions to promote new energy and reduce carbon emission. Specifically, China plans to reach carbon peak by 2030 and carbon neutrality by 2060. REPMs embody an inherent advantage in reducing carbon emission. According to Frost & Sullivan, over 50% of the global electricity is consumed by electric motors, and REPM electric motors could save up to 15% to 20% of energy compared with

SUMMARY

traditional electric motors. Moreover, the application of REPMs enables variable-frequency household appliances, NEVs and automotive parts and 3C intelligent electronic products to be more lightweight and miniaturized, which is in line with consumers' preference. According to Frost & Sullivan, the global consumption of REPMs, mostly comprising NdFeB PMs, increased from approximately 146,600 tonnes in 2015 to 209,500 tonnes in 2020 and is expected to further increase to 305,200 tonnes in 2025.

We started the R&D and production of high-performance NdFeB PMs for use in wind power generators in 2009 and 2010, respectively, and have since expanded our business in emerging sectors that have achieved robust growth in recent years and still hold significant potential for future growth. We are committed to facilitating the pursuit of carbon peak and carbon neutrality both in China and around the world through our production and provision of high-performance NdFeB PMs, guided by our mission of "Employing rare earth to create better life". We uphold our core value of "Customer Orientation and Value Co-creation" and aim to achieve "leading technology, reliable quality, on-time delivery, upgraded management (service), capital facilitation and transformational development". Under the leadership of our management team with deep industry background and extensive management and operational experience, we have become a critical supplier in the supply chain systems of leading companies in multiple carbon-reduction sectors. We are striving to reinforce our established market presence and become the No. 1 global leader in the REPM market, according to Frost & Sullivan.

We produce customized high-performance NdFeB PMs based on purchase orders from our customers. Our production capabilities cover the entire production cycle of high-performance NdFeB PMs including R&D, mold development and manufacturing, blank production, finished product processing, surface treatment, magnetization, testing, manufacturing of magnetic component parts and packaging, which enables us to carry out comprehensive control and management of the entire process flow. In anticipation of the substantial growth of our downstream sectors, we have strategically scaled up our production capacity during the Track Record Period. Our annual production capacity of high-performance NdFeB PM blanks increased from 7,000 tonnes in 2018 to 8,800 tonnes in 2019, and further to 12,800 tonnes in 2020, representing a CAGR of 35.2% from 2018 to 2020.

We have secured the supply of raw materials through forging long-term and stable strategic cooperations with major rare earth suppliers. Among our suppliers, China Southern Rare Earth was the second largest rare earth mining group in China by annual rare earth mining quota which was 42,450 tonnes in 2021, accounting for approximately 25.3% of the national mining quota in the same year. Its output mainly comprises medium and heavy rare earth. China Southern Rare Earth was among our five largest suppliers during the Track Record Period.

SUMMARY

We have strong R&D capabilities for production optimization and global-leading proprietary technologies. We optimize product formulations to help our customers in the wind power sector reduce their production costs through lowering the medium and heavy rare earth added in the production of high-performance NdFeB PMs. On the other hand, our GBD technology, which is one of the most advanced technologies in global REPM industry and is currently applied by less than ten REPM manufacturers in the world, according to Frost & Sullivan, can significantly reduce the use of medium and heavy rare earth in the production of high-performance NdFeB PMs used in NEVs, energy-saving VFACs and other downstream products, thereby reducing raw material costs while maintaining high performance at high working temperatures. GBD technology is widely applied in the production of our high-performance NdFeB PM finished products in energy-saving VFACs sector and NEVs and automotive parts sector as production of high-performance NdFeB PMs in these sectors requires higher usage of medium and heavy rare earth as compared to production of high-performance NdFeB PMs in other sectors, and is also applied in the production of certain high-performance NdFeB PM finished products in 3C sector. In 2020, we applied GBD technology in producing 4,111 tonnes of high-performance REPMs, ranking first in the world's GBD REPM market with a market share of approximately 21.3%, according to Frost & Sullivan.

During the Track Record Period, we achieved rapid financial growth and high levels of ROE. Our revenue increased from RMB1,282.0 million in 2018 to RMB1,630.1 million in 2019 and further to RMB2,288.7 million in 2020, representing a CAGR of 33.6% from 2018 to 2020. In 2020, our weighted ROE was 17.1%.

OUR BUSINESS MODEL

We primarily engage in the manufacture and sales of high-performance NdFeB PMs. As of the Latest Practicable Date, we operated a production base located in Ganzhou City, Jiangxi Province, China. We design high-performance NdFeB PMs and develop procurement and production plans based on customer requirements. We purchase rare earth from, and have maintained long-term and firm strategic cooperation with, major rare earth suppliers in China. Leveraging our facilities and technologies, we carry out mass production of customized high-performance NdFeB PMs and generally store such products at our warehouses for delivery to our customers. Our customers mainly include leading NEV and automotive part producers, wind turbine generator producers, VFAC manufacturers, 3C manufacturers and elevator manufacturers. We primarily adopt a cost-plus pricing mechanism for our high-performance NdFeB PMs.

SUMMARY

We manufacture our products in our Ganzhou Production Base. The Ganzhou Production Base has an aggregate site area of approximately 189,158.0 sq.m. and total gross floor area of approximately 120,308.6 sq.m. We have maintained high utilization rates during the Track Record Period. The following table sets forth certain details of our Ganzhou Production Base during the Track Record Period:

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
NdFeB PM blanks					
Annual production capacity (tonnes/annum)	7,000	8,800	12,800	5,500	7,500
Production volume (tonnes)	6,731	9,167	12,564	5,037	7,034
Utilization rate (%)	96.2	104.2 ⁽¹⁾	98.2	91.6 ⁽¹⁾	93.8
High-performance NdFeB PM finished products⁽¹⁾					
Production volume (tonnes)	4,801	6,632	9,613	3,804	5,457
Percentage over NdFeB PM blank production volume ⁽¹⁾ (%)	71.3	72.3	76.5	75.5	77.6

Note:

(1) For details, please refer to “Business – Production – Production Facilities” in this prospectus.

We are in the process of further expanding our production capacity. The completion-based check and acceptance of construction for our Baotou Production Base was completed in December 2021 and our Baotou Production Base is expected to commence operation by the end of 2021 with a designed production capacity of 8,000 tonnes per annum of high-performance NdFeB PM blanks. We also plan to commence the construction of our Ningbo Production Base by the end of 2021, which is expected to commence operation by the end of 2023 with a designed production capacity of 3,000 tonnes of high-performance NdFeB PM blanks and 100 million units/sets of high-performance NdFeB PM component parts per annum. These two new production bases are expected to help us further strengthen our production capabilities, enrich our products portfolio and improve our overall competitiveness and profitability.

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OUR PRODUCTS

Our products mainly include high-performance NdFeB PM finished products, which accounted for 93.1%, 98.5%, 98.0% and 98.3% of our revenue in 2018, 2019, 2020 and the first half of 2021, respectively. We also sell NdFeB PM blanks to our customers. The following table sets forth a breakdown of our revenue by product category and downstream application for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2018		2019		2020		2020		2021	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
	<i>(unaudited)</i>									
High-performance NdFeB PM										
finished products	1,193,019	93.1	1,605,012	98.5	2,243,354	98.0	903,409	98.7	1,736,227	98.3
– NEVs and automotive parts	317,781	24.8	219,871	13.5	325,557	14.2	127,024	13.9	317,088	18.0
– PM wind turbine generators	386,269	30.1	855,212	52.5	879,019	38.4	375,509	41.0	489,542	27.7
– Energy-saving VFACs	371,466	29.0	422,287	25.9	878,295	38.4	339,491	37.1	776,654	43.9
– Energy-saving elevators	44,491	3.5	59,112	3.6	70,284	3.1	30,591	3.3	42,408	2.4
– Robotics and intelligent manufacturing	73,012	5.7	48,530	3.0	49,077	2.1	29,880	3.3	58,254	3.3
– 3C	–	–	–	–	41,122	1.8	914	0.1	52,281	3.0
NdFeB PM blanks	88,985	6.9	25,105	1.5	45,310	2.0	12,125	1.3	30,232	1.7
Total	1,282,004	100.0	1,630,117	100.0	2,288,664	100.0	915,534	100.0	1,766,459	100.0

NdFeB PMs are permanent magnets mainly made from an alloy of neodymium, iron and boron. We produce customized high-performance NdFeB PM finished products with various parameters, such as composition, shape, size, coating, remanence, coercive force, maximum energy product, temperature coefficient and magnetizing method, based on customer requirements. The key performance indicators of our high-performance NdFeB PM finished products are remanence, coercive force and maximum service temperature. Leveraging our GBD technology, we are able to conduct mass production of high-performance NdFeB PM finished products that achieve various performance indicators with reduced amounts of medium and heavy rare earth ingredients.

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We also produce and sell some customized NdFeB PM blanks to manufacturers in the REPM industry based on customer orders. Compared with our high-performance NdFeB PM finished products, our NdFeB PM blanks are generally of larger size and rougher, as they are not required to undergo fine processing. In 2018, 2019, 2020 and the first half of 2021, we generated 6.9%, 1.5%, 2.0% and 1.7% of our revenue from sales of NdFeB PM blanks, respectively.

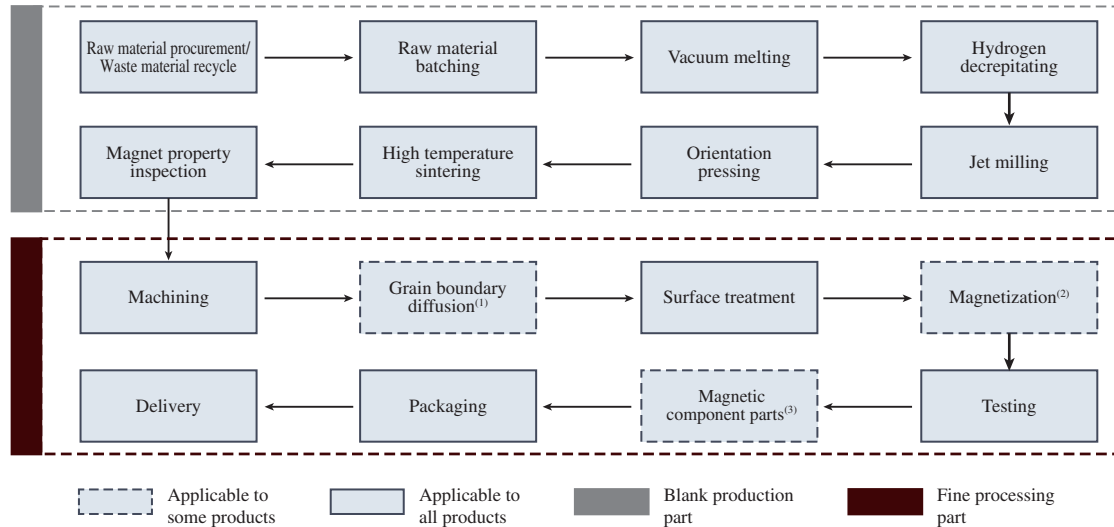
The following table sets forth a breakdown of our sales volumes and ASPs by product category and downstream application for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2018		2019		2020		2020		2021	
	Sales volume	ASP	Sales volume	ASP	Sales volume	ASP	Sales volume	ASP	Sales volume	ASP
	<i>tonnes</i>	<i>RMB/tonne</i>	<i>tonnes</i>	<i>RMB/tonne</i>	<i>tonnes</i>	<i>RMB/tonne</i>	<i>tonnes</i>	<i>RMB/tonne</i>	<i>tonnes</i>	<i>RMB/tonne</i>
High-performance NdFeB										
PM finished product	4,097.0	291,193.3	6,132.8	261,709.5	8,544.5	262,549.5	3,416.0	264,464.0	5,320.3	326,340.1
- NEVs and automotive parts	858.1	370,331.0	570.7	385,265.5	824.8	394,710.2	320.8	395,960.1	765.0	414,494.1
- PM wind turbine generators	1,738.4	222,198.0	3,788.6	225,733.0	4,247.9	206,930.2	1,706.5	220,046.3	2,086.7	234,601.0
- Energy-saving VFACs	1,166.5	318,444.9	1,448.5	291,534.0	3,004.0	292,375.2	1,204.2	281,922.4	2,098.6	370,082.0
- Energy-saving elevators	154.0	288,902.6	208.3	283,783.0	258.2	272,207.6	113.2	270,238.5	130.7	324,468.2
- Robotics and intelligent manufacturing	180.0	405,622.2	116.7	415,852.6	127.7	384,314.8	69.9	427,467.8	133.1	437,670.9
- 3C	-	-	-	-	81.9	502,100.1	1.4	652,857.1	106.2	492,288.1
NdFeB PM blank	508.9	174,857.5	148.9	168,603.1	273.8	165,485.8	79.0	153,481.0	126.6	238,799.4
Total sales volume/ Average selling price	<u>4,605.9</u>	<u>278,339.5</u>	<u>6,281.7</u>	<u>259,502.5</u>	<u>8,818.3</u>	<u>259,535.7</u>	<u>3,495.0</u>	<u>261,955.4</u>	<u>5,446.9</u>	<u>324,305.4</u>

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OUR PRODUCTION WORKFLOW

We conduct substantially the entire manufacturing process in-house. Our production is mainly divided into two major parts, namely blank production and fine processing. For illustrative purpose, the chart below sets out our major workflow for the manufacture of our products:



Notes:

- (1) Certain products need to go through GBD process for the addition of a limited amount of medium and heavy rare earth ingredients to achieve certain performance indicators based on customer needs. GBD technology is widely applied in the production of our high-performance NdFeB PM finished products in energy-saving VFACs sector and NEVs and automotive parts sector as production of high-performance NdFeB PMs in these sectors requires higher usage of medium and heavy rare earth as compared to production of high-performance NdFeB PMs in other sectors, and is also applied in the production of certain high-performance NdFeB PM finished products in 3C sector.
- (2) We conduct magnetization either before testing or after the delivery of our products to our customers.
- (3) We add attachments to our products according to customer requirements.

SALES AND CUSTOMERS

We sell our products directly to our downstream customers. In 2018, 2019 and 2020 and the first half of 2021, we sold approximately 4,097.0, 6,132.8, 8,544.5 and 5,320.3 tonnes of high-performance NdFeB PM finished products, respectively. For the same periods, the ASP of such finished products was RMB291,193.3 per tonne, RMB261,709.5 per tonne, RMB262,549.5 per tonne and RMB326,340.1 per tonne, respectively. The ASP of our high-performance NdFeB PM finished products was higher in the first half of 2021, which was primarily attributable to (i) a higher percentage of revenue generated from the energy-saving VFAC sector for which we generally record a higher ASP per tonne as the finished products

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are smaller and require more fine processing compared with the same tonnage of other finished products such as for the wind power sector; and (ii) the increase in the market price of rare earths as our main raw materials, which is in turn reflected in the prices of our finished products.

During the Track Record Period, most of our sales were conducted in the PRC. We sell a small portion of our products to overseas customers. The following table sets out a breakdown of our revenue by geographical region for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2018		2019		2020		2020		2021	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
	<i>(unaudited)</i>									
China	1,104,780	86.2	1,349,249	82.8	1,947,860	85.1	722,074	78.9	1,590,460	90.0
Overseas	177,224	13.8	280,868	17.2	340,804	14.9	193,460	21.1	175,999	10.0
Total	1,282,004	100.0	1,630,117	100.0	2,288,664	100.0	915,534	100.0	1,766,459	100.0

We have established long-term and stable business relationships with our major customers. In particular, three customers remained among our top five customers throughout the Track Record Period. We had maintained business relationships ranging from three to ten years as of June 30, 2021 with our five largest customers during the Track Record Period. In 2018, 2019, 2020 and the first half of 2021, sales to our top five customers represented approximately 68.1%, 73.4%, 67.6%, and 69.6% of our revenue, respectively. Sales to our largest customer represented approximately 23.3%, 37.3%, 26.2%, and 25.3% of our revenue for the same periods, respectively.

PROCUREMENT AND SUPPLIERS

The key materials for our high-performance NdFeB PM production are rare earths, including both heavy rare earths such as Dy-Fe and Tb, and light rare earths such as Pr-Nd. The rare earths are subject to strict production volume controls in China. See “Industry Overview – Analysis of Global and China Rare Earth Market”, “Business – Procurement” and “Risk Factors – Risks Relating to Our Business and Industry – We rely on a stable supply of quality raw materials. Any decrease in the supply or increase in the prices of these raw materials could have a material and adverse impact on our business” for details.

We have established stable and long-term business relationships with our suppliers. As of June 30, 2021, we had four to ten years of business relationship with our top five suppliers during the Track Record Period. In 2018, 2019 and 2020, and the first half of 2021, purchases

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from our top five suppliers accounted for approximately 72.4%, 67.7%, 64.4% and 75.8% of our total purchases for the same periods, respectively. Purchases from our largest supplier represented approximately 27.5%, 24.4%, 24.2% and 25.6% of our total purchases for the same periods, respectively.

OUR COMPETITIVE STRENGTHS

We believe that the following strengths contribute to our growth and differentiate us from our competitors:

- We are a global leading producer of high-performance REPMs with fast growth;
- We have in-depth cooperation with top player customers in new energy and energy saving industries that enables us to capture growing downstream demand;
- We have first-mover advantage in the REPM industry characterized by customer stickiness and high entry barriers;
- We have strong R&D capabilities for production optimization and global-leading GBD technologies;
- We have established long-term and stable strategic cooperation with major rare earth suppliers; and
- We have highly experienced and committed management team with visionary leadership and proven execution capabilities.

OUR STRATEGIES

Our strategic goal is to become the global leader in the REPM industry. We intend to achieve this goal by implementing the following strategies:

- Further scale up production capacity;
- Industry chain expansion;
- Strengthen our R&D efforts and broaden our product offering; and
- Expand our global business footprint.

SUMMARY

MARKET OPPORTUNITIES

NEVs and Automotive Parts

In the future, governments all over the world are expected to optimize the industrial and energy structure, accelerate the development of green and low-carbon industries such as energy conservation and environmental protection, new energy equipment, and new energy vehicles. In particular, they have devoted their efforts to achieve carbon neutrality in the future, as set out below:

- China: The PRC government expects to hit peak carbon emissions before 2030 and aims to achieve carbon neutrality by 2060;
- United States: The United States government has formally committed to cutting its carbon pollution by 50 to 52 percent from its 2005 level by 2030;
- United Kingdom: The United Kingdom government's official advisers, the Committee on Climate Change, claimed that the United Kingdom's net greenhouse gas emissions should fall to zero by 2050;
- Canada: The Canadian Senate adopted the net zero emissions accountability act in June 2021, making Canada's 2050 net zero target official. The law requires the Canada government to create carbon targets and a plan to meet them every five years from 2030 to 2050;
- Japan: Japan will strive to cut its emissions by 46% from its 2013 level by 2030 and to achieve carbon neutrality by 2050.

Besides, governments all over the world have implemented policies to facilitate the development of NEV market. The PRC government implemented *Notice on Improving the Financial Subsidy Policy for the Promotion and Application of New Energy Vehicles* (《關於完善新能源汽車推廣應用財政補貼政策的通知》) in 2020 and issued *New Energy Automobile Industry Development Plan (2021-2035)* (《新能源汽車產業發展規劃(2021-2035年)》) in 2020. For details, see "Industry Overview – Analysis of Global and China REPM Market – Future Opportunities – New energy vehicles segment". We expect to continue to benefit from the growth in the NEV sector driven by favorable government policies in the long run.

PM Wind Turbine Generator

The State Council issued *China's Energy Development in the New Era* (《新時代的中國能源發展》) in 2020, which is expected to stimulate the demand for our products used in wind turbine generators. For details, see "Industry Overview – Analysis of Global and China REPM Market – Future Opportunities – Wind turbine generators segment". In May 2021, the National Energy Administration issued *Notice on Matters Concerning the Development and Construction of Wind Power and Photovoltaic Power Generation in 2021* (《關於2021年風

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電、光伏發電開發建設有關事項的通知》) (the “**Notice**”) stipulates that the proportion of non-fossil energy consumption will reach around 25% in 2030. Moreover, the Notice aims to ensure non-fossil energy consumption will account for around 20% of primary energy consumption in China in 2025. In addition, in October 2021, PRC government issued the *Working Guidance for Carbon Dioxide Peak and Carbon Neutrality in Full and Faithful Implementation of the New Development Philosophy* (《關於完整準確全面貫徹新發展理念做好碳達峰碳中和工作的意見》) (the “**Guidance**”), which stipulates the priorities of developing clean energy, which will in turn benefit certain clean energy industries, such as photovoltaic and wind power.

Energy-saving VFACs

Favorable government policies in relation to the energy-saving VFAC market has fueled our business growth. The promulgation of *Notice on the Issuance of the Green and Efficient Refrigeration Action Plan* (《關於印發〈綠色高效製冷行動方案〉的通知》) by relevant PRC authorities in June 2019, which led to an increasing demand for high-performance NdFeB PMs from the energy-saving VFAC sector. For details, see “Industry Overview – Analysis of Global and China REPM Market – Future Opportunities – Energy-saving VFACs segment”. In December 2019, *Minimum Allowable Values of the Energy Efficiency and Energy Efficiency Grades for Room Air Conditioners* (《房間空氣調節器能效限定值及能效等級》), the new national standard on room air conditioners in China, unified the energy efficiency evaluation method and adopted the annual performance factor (“**APF**”) method, which classifies the cooling capacity per kWh over one year of use under prescribed conditions to evaluate the energy efficiency of fixed-frequency air conditioners and variable frequency air conditioners. Pursuant to this standard, fixed-frequency air conditioners can typically only meet Grade 4 or Grade 5 requirements for now and will be completely phased out in 2022.

The sectors in relation to the abovementioned downstream applications are exposed to government regulations from time to time, which may in turn affect our sales into such related sectors. For a detailed discussion on the historical fluctuations in our sales into different downstream sectors, see “Financial Information – Description of Selected Components of Statement of Profit or Loss – Revenue”. For related risks, see “Risk Factors – Risks Relating to Our Business and Industry – New legislations or changes in the PRC and global regulatory requirements and policies regarding the end markets of our products and retreats in renewable energy subsidy may affect our business operations and prospects.”

SUMMARY OF FINANCIAL INFORMATION AND RATIOS

The following is a summary of financial information of our Company as of the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021. The summary below should be read in conjunction with the financial information in Appendix I to this prospectus, including the accompanying notes and the information set out in the section headed “Financial Information” in this prospectus. Our financial information has been prepared in accordance with IFRS.

SUMMARY

Summary of Results of Operations

The following table sets forth a summary of our results of operations for the periods indicated. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	Years ended December 31,			Six Months ended June 30,	
	2018	2019	2020	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Revenue	1,282,004	1,630,117	2,288,664	915,534	1,766,459
Cost of sales	(997,893)	(1,285,956)	(1,745,679)	(707,372)	(1,336,655)
Gross Profit	284,111	344,161	542,985	208,162	429,804
Other income and gains ⁽¹⁾	52,316	31,723	63,178	22,171	40,156
Selling and distribution expenses	(19,694)	(17,793)	(17,053)	(7,822)	(12,558)
Administrative expenses	(60,403)	(61,818)	(104,336)	(34,113)	(88,214)
Research and development expenses	(55,120)	(63,196)	(103,175)	(37,271)	(78,099)
Impairment losses on inventories	(5,304)	(3,875)	(5,444)	(2,137)	(3,183)
Impairment losses on financial assets, net	(942)	(7,328)	(6,953)	(703)	(322)
Other expenses	(922)	(1,238)	(4,323)	(3,365)	(757)
Finance costs	(32,460)	(42,099)	(73,859)	(35,790)	(34,991)
Foreign exchange differences, net	354	851	(10,564)	(4,532)	(2,451)
Share of loss of associates	(2,924)	(647)	(1,739)	(890)	(2,271)
PROFIT BEFORE TAX	159,012	178,741	278,717	103,710	247,114
Income tax expenses	(12,665)	(22,144)	(34,017)	(12,156)	(26,531)
PROFIT FOR THE YEAR/PERIOD	<u>146,347</u>	<u>156,597</u>	<u>244,700</u>	<u>91,554</u>	<u>220,583</u>
Attributable to:					
Owners of the parent	147,019	156,889	244,502	91,632	220,342
Non-controlling interests	(672)	(292)	198	(78)	241
	<u>146,347</u>	<u>156,597</u>	<u>244,700</u>	<u>91,554</u>	<u>220,583</u>

Note:

- (1) Primarily include government grants, bank interest income and proceeds from sale of used rare earth and others.

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Revenue

Our revenue increased from RMB915.5 million for the six months ended June 30, 2020 to RMB1,766.5 million for the six months ended June 30, 2021, mainly because (i) the new national standard, Minimum Allowable Values of the Energy Efficiency and Energy Efficiency Grades for Room Air Conditioners (《房間空氣調節器能效限定值及能效等級》) (GB 21455-2019) (the “**New AC Standard**”) implemented by the NSAC in July 2020, requires the overall energy efficiency standard of air-conditioner industry to increase by 30% by 2022, while only energy-saving VFACs using high-performance sintered NdFeB PMs can meet the requirements of the new standard, according to Frost & Sullivan, which resulted in the growth in demand for NdFeB PMs from the energy-saving VFAC sector; and (ii) the growth in both domestic and overseas NEV sector drove an increase in demand of our products. In particular, revenue generated from NEV sector significantly increased from RMB127.0 million for the six months ended June 30, 2020 to RMB317.1 million for the six months ended June 30, 2021, and revenue generated from energy-saving VFAC sector increased significantly from RMB339.5 million for the six months ended June 30, 2020 to RMB776.7 million for the six months ended June 30, 2021.

Our revenue increased by 40.4% from RMB1,630.1 million in 2019 to RMB2,288.7 million in 2020, mainly attributable to (i) a significant increase in revenue generated from domestic energy-saving VFAC sector from RMB422.3 million in 2019 to RMB878.3 million in 2020, as a result of the New AC Standard implemented by the NSAC in July 2020, driving the energy-saving VFAC value chain participants to use sintered NdFeB PMs in their products. According to Frost & Sullivan, although it takes time for the market to respond to such policy, the domestic production of energy-saving VFACs increased from 69.4 million units in 2019 to 83.1 million units in 2020, driving a 20.1% increase in the domestic consumption of high-performance NdFeB PMs in the energy-saving VFAC sector for the same period; (ii) the establishment of our cooperation with customers in 3C sector in 2020 and revenue of RMB41.1 million recorded from such sector accordingly; (iii) an increase in revenue generated from NEV sector from RMB219.9 million in 2019 to RMB325.6 million in 2020, mainly attributable to the development of both domestic and overseas NEV markets. In 2020, the PRC government promulgated a series of policies to stimulate NEV consumption, including extension of the NEV purchase subsidy until the end of 2022, which led to a rebound in the domestic NEV consumption in 2020.

Our revenue increased by 27.2% from RMB1,282.0 million in 2018 to RMB1,630.1 million in 2019, mainly because (i) our revenue generated from wind power sector increased from RMB386.3 million in 2018 to RMB855.2 million in 2019, primarily because market players in such sector increased their investments in newly installed capacity with a view to benefiting from government subsidies that are available if certain milestone is achieved within a specified period; (ii) our revenue generated from energy-saving VFAC sector increased from RMB371.5 million in 2018 to RMB422.3 million in 2019, as a result of favorable PRC government policies. Such increase was partially offset by (i) a decrease in revenue generated from NEV sector from RMB317.8 million in 2018 to RMB219.9 million in 2019, as a result of the slowdown in the development of NEV sector in 2019 led by a reduction in the

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government subsidies granted to the NEV sector; and (ii) a decrease in our revenue generated from robotics and intelligent manufacturing sector from RMB73.0 million in 2018 to RMB48.5 million in 2019, primarily due to the changes in demand of our products from a major customer.

Any changes in the government policies might lead to decrease in our revenue in the short run. To be specific, our revenue increase in PM wind turbine generators sector in 2019 as compared to that in 2018 was primarily driven by government subsidy. However, there is no assurance that our revenue generated from PM wind turbine generators sector will continue to increase upon the expiry of the government subsidy, which may adversely affect our financial performance. In addition, our revenue decrease in NEVs and automotive parts sector in 2019 as compared to that in 2018 was primarily due to the slowdown in the development of NEV sector in 2019 led by a reduction in the government subsidies granted to the NEV sector, and our significant revenue increase in the energy-saving VFAC sector in 2020 and the six months ended June 30, 2021 was driven by favorable government policies in China promoting energy-saving VFACs, namely the New AC Standard.

For a detailed discussion of our revenue during the Track Record Period, see “Financial Information – Description of Selected Components of Statement of Profit or Loss – Revenue”.

Gross Profit and Gross Profit Margin

For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, our gross profit was RMB284.1 million, RMB344.2 million, RMB543.0 million, RMB208.2 million, and RMB429.8 million, respectively. Our gross profit margin was 22.2%, 21.1%, 23.7%, 22.7% and 24.3% for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, respectively.

Our gross profit margin increased from 21.1% for the year ended December 31, 2019 to 23.7% for the year ended December 31, 2020 and increased from 22.7% for the six months ended June 30, 2020 to 24.3% for the six months ended June 30, 2021, primarily because our revenue increase outran the increase in our cost of sales for the same periods, which was primarily attributable to (i) our effort to reduce average cost of rare earth by (a) improving our production technology to reduce the amount of medium and heavy rare earth used in our production without undermining the performance of NdFeB PMs; and (b) establishing long-term relationships with large rare earth suppliers, which enables us to purchase adequate rare earth to satisfy our needs, thereby enabling us to maintain a safety inventory of rare earth with competitive price based on our anticipation of increases in market price of rare earth; and (ii) the slowdown in the increase in our labor costs and other manufacturing overheads due to the economies of scale as we gradually expanded our production volume of NdFeB PMs.

SUMMARY

Summary of Financial Position

The following table sets forth a summary of our financial position as of the dates indicated:

	As of December 31,			As of June 30,
	2018	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets				
Current assets	1,706,040	2,314,481	2,759,783	3,675,215
Non-current assets	437,545	545,705	762,345	1,089,606
Total assets	<u>2,143,585</u>	<u>2,860,186</u>	<u>3,522,128</u>	<u>4,764,821</u>
Liabilities				
Current liabilities	926,118	961,368	1,272,315	1,954,765
Non-current liabilities	109,838	568,612	682,337	549,410
Total liabilities	<u>1,035,956</u>	<u>1,529,980</u>	<u>1,954,652</u>	<u>2,504,175</u>
Net current assets	<u>779,922</u>	<u>1,353,113</u>	<u>1,487,468</u>	<u>1,720,450</u>
Total assets less current liabilities	<u>1,217,467</u>	<u>1,898,818</u>	<u>2,249,813</u>	<u>2,810,056</u>
Equity attributable to owners				
of the parent				
Share capital	413,424	413,424	415,977	690,733
Equity component of convertible bonds	–	107,464	107,343	107,286
Reserves	697,891	809,295	1,043,981	1,462,179
	1,111,315	1,330,183	1,567,301	2,260,198
Non-controlling interests	(3,686)	23	175	448
Total equity	<u>1,107,629</u>	<u>1,330,206</u>	<u>1,567,476</u>	<u>2,260,646</u>

During the Track Record Period, the increase in non-current assets was primarily due to the continued increase in our property, plant and equipment and right-of-use assets.

SUMMARY

During the Track Record Period, the substantial increase in current assets was primarily attributable to (i) the increase in inventories along with the expansion of our production scale; (ii) the increase in our trade receivables, which was in line with the increase in our sales; and (iii) the increase in cash and cash equivalents mainly resulting from our financing activities.

During the Track Record Period, the substantial increase in current liabilities was primarily due to (i) the increase in trade and notes payables, driven by the increased purchases of raw materials along with the increased market demand of our products; and (ii) the increase in interest-bearing bank borrowings to support our business expansion.

For further details on our financial position, please refer to “Financial Information – Discussion of Certain Selected Items from the Consolidated Statements of Financial Position” in this prospectus.

Summary of Cash Flows

The following table sets forth a summary of our cash flows for the Track Record Period:

	Year ended December 31,			Six Months ended June 30,	
	2018	2019	2020	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Operating cash flows before movements in working capital	237,740	279,907	419,995	168,663	316,428
Changes in working capital	(180,796)	(193,653)	(237,161)	(130,199)	(363,677)
Income tax paid	(23,041)	(5,424)	(24,799)	(12,052)	(29,410)
Net cash flow from/(used in) operating activities	33,903	80,830	158,035	26,412	(76,659)
Net cash flow used in investing activities	(108,534)	(120,239)	(208,138)	(46,203)	(295,781)
Net cash flow from/(used in) financing activities	262,107	285,585	(203)	(61,972)	836,196
Net increase/(decrease) in cash and cash equivalents	187,476	246,176	(50,306)	(81,763)	463,756
Cash and cash equivalents at beginning of year/period	205,315	396,686	644,305	644,305	593,012
Effect of foreign exchange rate changes, net	3,895	1,443	(987)	1,158	(1,555)
Cash and cash equivalents at end of year/period	396,686	644,305	593,012	563,700	1,055,213

SUMMARY

We derive our cash inflow from operating activities principally from the receipt of payments for the sales of our high-performance NdFeB PMs. Our cash outflow from operating activities is principally for our purchases of rare earth used for the manufacture of our high-performance NdFeB PMs.

For the years ended December 31, 2018, 2019 and 2020, we recorded net cash flow from operating activities of RMB33.9 million, RMB80.8 million and RMB158.0 million, respectively. Such increases were primarily attributable to the increases in our profit before tax. Please see “Financial Information – Liquidity and Capital Resources – Cash Flow” in this prospectus for further details.

For the six months ended June 30, 2021, our net cash used in operating activities was RMB76.7 million, which was primarily attributable to our profit before tax of RMB247.1 million, adjusted for non-cash and non-operating items. Positive adjustments for non-cash and non-operating items primarily included (i) finance costs of RMB35.0 million and (ii) depreciation of property, plant and equipment of RMB29.0 million. The amount was then adjusted for the changes in working capital, which primarily included (i) an increase in trade receivables of RMB422.0 million; (ii) an increase in inventories of RMB182.1 million; (iii) an increase in other payables and accruals of RMB106.1 million; (iv) a decrease in notes receivables of RMB62.7 million; and (v) a decrease in prepayments, other receivables and other assets of RMB55.2 million.

In view of our net operating cash outflow for the six months ended June 30, 2021, we plan to improve our operating cash flow position by (i) generating additional cash inflows by expanding our business scale, such as continuing to expand our production volume of high-performance NdFeB PMs and expand our customer base; (ii) adopting measures to control costs and operating expenses to improve our cost efficiency by, among others, improving our production technology; and (iii) improving our working capital management efficiency by enhancing the management of trade and notes receivables and inventories, e.g. improving our credit assessment mechanism and enhancing our communication with customers regarding settlement of trade receivables.

Based on the interim condensed consolidated financial information for the nine months ended September 30, 2021 of the Group reviewed by the Reporting Accountant as set out in Appendix IA of this prospectus, we recorded net operating cash inflow for the nine months ended September 30, 2021. Such improved operating cash flow position as compared to the six months ended June 30, 2021 was primarily due to our effort in collection of trade receivables.

For further details on our cash flow position, please refer to “Financial Information – Liquidity and Capital Resources – Cash Flow” in this prospectus.

SUMMARY

Key Financial Ratios

The following table sets forth certain of the key financial ratios of our Company for the periods or as of the dates indicated:

	As of / for the year ended December 31,			As of/for the six months ended June 30,
	2018	2019	2020	2021
Gearing ratio ⁽¹⁾ (%)	53.7	74.7	68.9	70.0
Current ratio ⁽²⁾	1.8	2.4	2.2	1.9
Quick ratio ⁽³⁾	1.2	1.7	1.4	1.3
Return on equity ⁽⁴⁾ (%)	16.2	13.4	17.1	20.7
Return on total assets ⁽⁵⁾ (%)	8.1	6.3	7.7	10.6

Notes:

- (1) calculated by dividing total debts, i.e. our borrowings by total equity as of the end of respective year/period.
- (2) calculated by dividing our current assets by our current liabilities as of the end of the respective year/period.
- (3) calculated by dividing our current assets minus inventories by our current liabilities as of the end of the respective year/period.
- (4) equals our net profit for each of the year/period attributable to owners of the parent divided by the weighted average total equity as of the end of the respective year/period, multiplied by 100% (annualized where applicable).
- (5) equals our net profit for the year/period attributable to owners of the parent divided by the average of the total assets as of the beginning and the end of the respective year/period, multiplied by 100% (annualized where applicable).

Our gearing ratio increased from 53.7% as of December 31, 2018 to 74.7% and 68.9% as of December 31, 2019 and 2020, primarily due to the Convertible Bond issued in 2019 and the addition of net bank borrowing to support our business expansion. Our gearing ratio remained relatively stable at 68.9% as of December 31, 2020 and 70.0% as of June 30, 2021.

Our return on equity was 16.2%, 13.4% and 17.1% for the years ended December 31, 2018, 2019 and 2020, respectively. The annualized return on equity for the six months ended June 30, 2021 was 20.7%. Changes in our return on equity during the Track Record Period was primarily due to a continuously increase in profit while we distributed dividends from our retained profits for certain periods.

Please see “Financial Information – Key Financial Ratios” in this prospectus for further details of our key financial ratios.

SUMMARY

OUR CONTROLLING SHAREHOLDERS

As of November 30, 2021, Mr. Cai Baogui, Mr. Hu Zhibin and Mr. Li Xinnong (through Ruide Venture, Ganzhou Geshuo, Ganzhou Xinsheng and their respective direct shareholding) are collectively interested in approximately 34.25% of the total issued share capital of our Company. Immediately after the completion of the Global Offering, assuming the Over-allotment Option is not exercised, our ultimate Controlling Shareholders, Mr. Cai Baogui, Mr. Hu Zhibin and Mr. Li Xinnong, are acting in concert with each other, will be entitled to exercise voting rights of approximately 33.52% of the issued share capital of our Company. Accordingly, Mr. Cai Baogui, Mr. Hu Zhibin and Mr. Li Xinnong and the investment holding entities controlled by them, namely Ruide Venture, Ganzhou Geshuo and Ganzhou Xinsheng, which constitute a group of controlling shareholders of our Company, will hold approximately 33.52% (32.78% if Over-allotment Option is fully exercised) of the issued share capital of our Company and remain our Controlling Shareholders upon the Listing.

RISK FACTORS

Our business operations and the Global Offering are subject to various risks, many of which are beyond our control. Such risks can be divided into: (i) risks relating to our business and industry; (ii) risks relating to conducting business in the PRC; and (iii) risks relating to the Global Offering.

We believe that the main risk factors we are exposed to include, without limitation:

- We rely on a stable supply of quality raw materials. Any decrease in the supply or increase in the prices of these raw materials could have a material and adverse impact on our business.
- Our financial conditions, results of operations and business may be adversely affected if we are unable to enhance our production capacities.
- Our customer concentration is high, and a loss of our major customers may adversely affect our business operations and financial results.
- If we are unable to compete effectively, our business, financial condition and results of operations would be materially and adversely affected.
- Our operations depend on our research and development capabilities, which may not always produce positive results.

For further information on the risks relating to our business and investing in our H Shares, see “Risk Factors”.

SUMMARY

IMPACT OF THE OUTBREAK OF COVID-19 ON OUR BUSINESS

An outbreak of a respiratory disease COVID-19 was first reported in December 2019. The World Health Organization, which has been closely monitoring and assessing the situation, declared the outbreak a public health emergency of international concern on January 30, 2020 and a global pandemic on March 11, 2020, respectively. With quarantine measures taken by the PRC government, there has been a significant decrease in the number of existing confirmed COVID-19 cases in China since mid-February 2020. The Chinese government has gradually lifted domestic travel restrictions and other quarantine measures, and economic activities have begun to restore during the second quarter of 2020.

The outbreak of the COVID-19 has impacted our business in many aspects, including:

- *Impact on our daily operations.* Due to the extension of the Chinese New Year holidays and a delay in the resumption of work in the PRC in early 2020 to curb the spread of COVID-19 pandemic, we experienced a downtime of our production from late-January to early-February 2020, which led to a slight decrease in our production volume for the first quarter of 2020. With the resumption of work in mid-February, our capacity utilization rate had been gradually restored and reached the same level as prior to the COVID-19 outbreak by the end of February 2020. We have issued guidelines to remind our employees to take preventive measures to avoid the spread of COVID-19 within our premises.
- *Impact on the sales of our products.* The transportation restrictions, delay in the resumption of work of downstream factories and decrease in our production volume slowed down the increase in the sales volume of our high-performance NdFeB PMs in the first quarter of 2020. With the resumption of work of downstream factories and the lifting of transportation restrictions, the sales volume of our high-performance NdFeB PMs continued to increase with a faster pace. Our sales revenue increased from RMB915.5 million for the first half of 2020 to RMB1,766.5 million for the first half of 2021. The COVID-19 outbreak also caused a delay in our customers' settlement with us in 2020. As the COVID-19 has gradually been contained, as of the Latest Practicable Date, the settlement period between our customers and us had been restored to the same level as prior to the COVID-19 outbreak.
- *Impact on our staff.* Since the COVID-19 outbreak and up to the Latest Practicable Date, we were not aware of any suspected or confirmed case of COVID-19 among our staff.
- *Impact on the supply of raw materials.* Since the COVID-19 outbreak and up to the Latest Practicable Date, we had not experienced any material disruption in the supply of raw materials.

SUMMARY

Based on the above, our Directors are of the view that the COVID-19 outbreak is not expected to bring any permanent or material interruption to our continuing business operations and sustainability. As of the Latest Practicable Date, the outbreak of COVID-19 in the PRC had been largely contained. The extent to which the COVID-19 pandemic affects our financial condition, results of operations and cash flows in the future will depend on the future developments of the pandemic, including the duration and severity of the pandemic, the extent and severity of new waves of outbreak in China and other countries, the development and progress of distribution of COVID-19 vaccine and other medical treatment, and the effectiveness of such vaccine and other medical treatment, and the actions taken by government authorities to contain the outbreak, all of which are highly uncertain, unpredictable and beyond our control. In addition, our financial condition, results of operations, and cash flows could be adversely affected to the extent that the pandemic harms the Chinese economy in general. As of June 30, 2021, we had a total of RMB1,166.1 million in cash and cash equivalents, and restricted cash. We believe that this level of liquidity is sufficient for us to successfully navigate an extended period of uncertainty.

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

To the knowledge of our Directors, since June 30, 2021 and up to the date of this prospectus, there has been no changes in the overall economic and market conditions in China or in the market conditions in the industries where we operate that will bring material adverse effect on our business, results of operations or financial condition. Subsequent to the Track Record Period and up to the Latest Practicable Date, there were no significant changes to the general business model of the Group, and our business maintained a stable growth which was in line with the historical record. Based on the interim condensed consolidated financial information for the nine months ended September 30, 2021 of the Group reviewed by the Reporting Accountant as set out in Appendix IA of this prospectus, our revenue increased by 77.1% from RMB1,559.0 million for the nine months ended September 30, 2020 to RMB2,761.3 million for the nine months ended September 30, 2021, primarily fueled by our business growth in NEVs and automotive parts sector, PM wind turbine generators sector and energy-saving VFACs sector. Our net profit increased significantly from RMB148.4 million for the nine months ended September 30, 2020 to RMB329.1 million for the nine months ended September 30, 2021. The increase in our net profit outran the increase in our revenue, primarily because (i) our selling and distribution expenses remained relatively stable for the nine months ended September 30, 2020 and 2021; and (ii) we maintained relatively stable finance expenses primarily through low-cost financing, such as issuance of A Shares to specified investors. Our Directors have confirmed that, since June 30, 2021 and up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects and no event has occurred that would materially and adversely affect the information shown in the consolidated financial statements included in the Accountant's Report set forth in Appendix I to this prospectus. Moreover, there has been no material change in respect of the utilization rate of our production facilities, raw material costs and selling prices of our products up to the date of this prospectus. Since June 30, 2021 and up to the Latest Practicable Date, we had continued to receive new purchase orders for our products.

SUMMARY

Syndicated Loan

On July 14, 2021, JL MAG Baotou entered into a five-year syndicated loan facility with a principal of RMB340.0 million and an interest rate of PRC inter-bank lending one-year base rate as of drawdown plus five basis points in relation to the construction of our Baotou Production Base. Such syndicated loan is guaranteed by our Company. The principal is required to be fully drawn down by December 31, 2023. As of the Latest Practicable Date, we had drawn down RMB105.0 million with respect to the syndicated loan.

Redemption of Convertible Bonds

On July 29, 2021, the Board resolved to exercise the redemption right to redeem all the outstanding Convertible Bonds at redemption price of RMB100.83 per Convertible Bond after close of market on August 30, 2021. Nonetheless, the bondholders are entitled to convert their Convertible Bonds at the conversion price of RMB25.3 per A Share before close of market on August 30, 2021. As of August 30, 2021, a total of 4,274,634 Convertible Bonds had been converted into 16,886,127 A Shares. As of August 31, 2021, 75,366 Convertible Bonds were redeemed by our Company at redemption price of RMB100.83. See “History, Development and Corporate Structure – Major Shareholding Changes of Our Company – Our Incorporation and Controlling Shareholders – 5. The issuance of Convertible Bonds in November 2019” for further details of the key terms of Convertible Bonds. As a result of the redemption, we recorded RMB0.9 million as finance costs in our consolidated statement of profit or loss for the nine months ended September 30, 2021.

Increase of Registered Capital

On December 8, 2021, in light of the conversion of the Convertible Bonds in August 2021, the repurchase and cancellation of 8,960 Type I Restricted Shares in September 2021, and the subscription of 3,372,800 Type II Restricted Shares in November 2021, our Board resolved to increase our Company’s registered capital from RMB690.7 million to RMB711.0 million. Such increase in the registered capital is subject to the approval by our Shareholders’ meeting which is expected to be held on December 24, 2021. See the section headed “History, Development and Corporate Structure” in this prospectus for further details of our registered capital.

Expected Equity Investment in a Fund

On July 29, 2021, the Board resolved to make a RMB57.0 million equity investment into JL MAG Ningbo Investment, a wholly-owned subsidiary of our Company. JL MAG Ningbo Investment will in turn use such capital to invest in a fund as a limited liability partner. Such fund is expected to be managed by Tianjin CCB International Jinhe Equity Investment Management Co., Ltd (天津建銀國際金禾股權投資管理有限公司) and will invest in projects in the REPM industry. It is expected to have a seven-year term and a fund size of approximately RMB300.0 million, subject to the actual amount of fund raised. CCB International Capital Management (Tianjin) Co., Ltd. (建銀國際資本管理(天津)有限公司) and JL MAG Ningbo

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Investment shall each invest no more than RMB57.0 million into the fund and each account for 19.0% of the fund while the remaining 62.0% of the fund shall be raised from qualified investors. We believe that our investment in such fund may present opportunities to us in the future to facilitate our industry chain expansion. As of the Latest Practicable Date, we had entered into agreements in respect of such equity investment, and the amount we had committed to invest did not exceed the aforementioned RMB57.0 million. On December 21, 2021, the initial filing of such fund with the Asset Management Association of China (AMAC) was completed. The fund was named as Ningbo Jinci Lvneng equity Investment Partnership (LLP)* (寧波金磁綠能股權投資合夥企業(有限合夥)) and managed by Tianjin CCB International Jinhe Equity Investment Management Co., Ltd. Our Group will account for our investment in such fund as an investment in an associate using the equity method of accounting, and will record a cash outflow for investing activities as a result of performance of our obligations under the investment agreement. There can be no assurance that the investment in this fund will achieve the results intended, and we may be subject to liquidity risk. See “Risk Factors – Risks Relating to Our Business and Industry – We may face risk regarding investment in a fund” for details.

Cooperation with Goldwind Technology

To better implement the concept of low-carbon development, actively fulfill our social responsibility of sustainable development, and to address our increasing demand for green power, our Board announced in October 2021 that we intend to cooperate with Goldwind Technology in a green power initiative on, amongst others, construction of no more than 15 MW photovoltaic power plants in our production sites, including, among others, spare areas in Ganzhou Production Base, Baotou Production Base and Ningbo Production Base. As of the Latest Practicable Date, we were in the process of negotiating details of the aforementioned cooperation with Goldwind Technology.

Cooperation with Nidec Corporation

On December 4, 2021, we received a notice from the Automotive Motor & Electronic Control (AMEC) Business Unit of Nidec Corporation (“Nidec”), which states that we have become its designated supplier of REPMs. We will cooperate with Nidec on the development and massive production of high-performance REPMs for downstream sectors including the NEV sector.

Completion of the Completion-based Check and Acceptance of Construction for our Baotou Production Base

The completion-based check and acceptance of the construction for our Baotou Production Base was completed in December 2021 and our Baotou Production Base is expected to commence operation by the end of 2021 with a designed production capacity of 8,000 tonnes per annum of high-performance NdFeB PM blanks.

SUMMARY

Resurgence of the COVID-19 in China

Since late July 2021, there had been a resurgence of the COVID-19 in several provinces in China. Our Directors are of the view that the resurgence of the COVID-19 did not have any material adverse effect on our business operations and financial performance. For the nine months ended September 30, 2021, we applied GBD technology in producing 4,336 tonnes of high-performance REPMs, representing an increase of 53.0% as compared with that for the nine months ended September 30, 2020. In addition, our revenue and net profit both increased significantly for the nine months ended September 30, 2021 as compared to that for the nine months ended September 30, 2020.

Power Outage and Power Restrictions in China

Since September 2021, as a result of the shortage of coal supply combined with high electricity demand from manufacturers, China has experienced widespread power outages. The PRC government has imposed power curbs, including imposing power restrictions on factories in more than 20 provinces, including Jiangxi Province, in China to deal with an imbalance in energy supply and demand. As a result, a broad range of manufacturing sectors have been affected by the power cuts. See “Risk Factors – Risks relating to Our Business and Industry – Any power outage, mechanical failure, disruption in utility supply, fire outbreak or other calamities at or near our production plants may affect our business operations”. Our Directors are of the view that the aforementioned power shortage and power restrictions do not have a material impact on our business operations because: (i) we were not included in the list of enterprises with high energy consumption issued by Jiangxi Provincial Development and Reform Commission on October 19, 2021, through which Jiangxi Provincial Government ordered enterprises included therein to suspend and/or limit business operations on a revolving basis; (ii) despite the governmental imposition of power restrictions in Jiangxi Province and Ganzhou, as of the Latest Practicable Date, our Ganzhou Production Base had neither been ordered by any government agency to suspend or limit its production activities, nor experienced any difficulty in production; and (iii) as of the Latest Practicable Date, construction plans for our Baotou Production Base and Ningbo Production Base had not been affected by the aforementioned power shortage and power restrictions and were both being implemented as previously planned.

The Section 232 Investigation

In September 2021, U.S. Department of Commerce announced that it has initiated the Section 232 investigation (the “**232 Investigation**”) to determine the effects on U.S. national security from imports of NdFeB PMs. As of the Latest Practicable Date, the 232 Investigation was still ongoing. See “Risk Factors – Risks relating to Our Business and Industry – We face risks associated with our international sales and operations”.

SUMMARY

We are of the view that the 232 Investigation did not and will not have a material impact on our business operations and financial performance, considering that:

- (i) our revenue generated from customers in the U.S. accounted for less than 1.5% of our total revenue for each of the period during the Track Record Period. In addition, the purpose of the 232 Investigation is to determine the effect of “imports” on the U.S. national security. We are of the view that our delivery of high-performance NdFeB PMs to production sites of our U.S. customers in China does not constitute “import” because such delivery does not involve sending merchandise to a foreign country for sale;
- (ii) we generated a majority of our revenue from customers in China and sourced all of our rare earths from suppliers in China during the Track Record Period; and
- (iii) there is strong market demand for our products in China and other overseas markets, such as Europe.

Recent Regulatory Developments

On November 14, 2021, the Cyberspace Administration of China (國家互聯網信息辦公室) (the “CAC”) initiated a public consultation on the Regulations on the Administration of Cyber Data Security (Draft for Comments) (《網絡數據安全管理條例(徵求意見稿)》) (the “**Draft Data Security Regulations**”). According to the Draft Data Security Regulations, data processors shall, in accordance with relevant state provisions, apply for cyber security review when carrying out the following activities: (1) the merger, reorganization or separation of Internet platform operators that have acquired a large number of data resources related to national security, economic development or public interests, which affects or may affect national security; (2) data processors that handle the personal information of more than one million people seeking a listing abroad; (3) data processor seeking a listing in Hong Kong, which affects or may affect national security; and (4) other data processing activities that affect or may affect national security. However, the Draft Data Security Regulations provide no further explanation or interpretation as to what amounts to what “affects or may affect national security”. As advised by our PRC Legal Advisor, the PRC government authorities may adopt a wide discretion in such interpretation.

As advised by our PRC Legal Advisor, the Draft Data Security Regulations have not been formally adopted and are subject to further guidance. As of the date of this prospectus, we had not been involved in any investigations on cyber security review made by the CAC and had not received any inquiry, notice, warning, or sanctions from the CAC in this respect. As advised by our PRC Legal Advisor, (i) we are not a “data processor” as stipulated in the Draft Data Security Regulations; and (ii) our business operations do not involve “using the Internet to conduct data processing activities within the PRC” as stipulated in the Draft Data Security Regulations. After consulting our PRC Legal Advisor, we are of the view that the Draft Data Security Regulations are not expected to have any material adverse impacts on our business

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operations and financial performance, and are not expected to affect our compliance with laws and regulations in any aspects, considering: (i) our business scope does not and is not expected to include data processing; and (ii) our business does not and is not expected to generate a large amount of data.

LISTING EXPENSES

The listing expenses in connection with the Global Offering consist primarily of underwriting commission and other expenses assuming an Offer Price of HK\$37.05 per Offer Share, being the mid-point of the indicative Offer Price range are estimated to be approximately RMB170.8 million (including (i) underwriting commissions of approximately RMB125.3 million, and (ii) non-underwriting related expenses of approximately RMB45.5 million, which consist of fees paid and payable to legal advisers and Reporting Accountants of approximately RMB27.6 million and other fees and expenses of approximately RMB17.9 million), of which nil and RMB1.2 million was charged to the consolidated statements of profit or loss during the three years ended December 31, 2020 and the six months ended June 30, 2021, respectively. We expect that approximately RMB8.8 million will be charged to the consolidated statements of profit or loss after the Track Record Period, and approximately RMB160.8 million will be deducted from the share premium. The listing expenses are expected to represent approximately 4.5% of the gross proceeds of the Global Offering, assuming an Offer Price of HK\$37.05 per Offer Share (being the mid-point of the indicative Offer Price range) and the Over-allotment Option is not exercised. The listing expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate.

OFFERING STATISTICS

All statistics in the following table are based on the assumptions the Global Offering has been completed and 125,466,000 new H Shares are issued pursuant to the Global Offering; and the Over-allotment Option is not exercised:

	Based on an Offer Price of HK\$33.80 per H Share	Based on an Offer Price of HK\$40.30 per H Share
Market capitalization of our H Shares ⁽¹⁾	HK\$4,240.8 million	HK\$5,056.3 million
Unaudited pro forma adjusted net tangible asset per Share ⁽²⁾⁽³⁾	HK\$8.86	HK\$9.82

Notes:

- (1) The calculation of market capitalization of our H Shares is based on 125,466,000 H shares expected to be in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised).

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- (2) The unaudited pro forma adjusted net tangible asset per Share as of September 30, 2021 is calculated after making the adjustments referred to in “Appendix II – Unaudited Pro Forma Financial Information” in this prospectus.
- (3) No adjustment has been made to reflect any trading results or other transactions entered into by our Group subsequent to September 30, 2021. The redemption of the convertible bonds, as disclosed in Note 47 (2) to the Accountants’ Report in Appendix I to this prospectus, which was recorded in the consolidated net assets of our Group attributable to owners of our Company as at September 30, 2021, has been taken into account in the unaudited pro forma adjusted consolidated net tangible assets per Share.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$4,439.5 million after deducting the underwriting fees and expenses payable by us in the Global Offering, assuming the Over-allotment Option is not exercised and an Offer Price of HK\$37.05 per Share, being the mid-point of the indicative Offer Price range of HK\$33.80 to HK\$40.30 per Share in this prospectus. We intend to use the net proceeds we will receive from the Global Offering for the following purposes:

- approximately 35.0% of the net proceeds, or approximately HK\$1,553.8 million, is expected to be used for the construction of our Ningbo production base.
- approximately 25.0% of the net proceeds, or approximately HK\$1,109.9 million, is expected to be used for potential acquisitions for the expansion of our global industry chain layout.
- approximately 20.0% of the net proceeds, or approximately HK\$887.9 million, is expected to be used for our research and development.
- approximately 10.0% of the net proceeds, or approximately HK\$443.9 million, will be allocated to repayment of our loans for construction of Baotou Production Base project.
- approximately 10.0% of the net proceeds, or approximately HK\$443.9 million, is expected to be used for our working capital and general corporate purposes.

For more details about the use of the net proceeds from the Global Offering, see “Future Plans and Use of Proceeds”.

SUMMARY

DIVIDEND POLICY

For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, we declared and paid dividends of RMB40.9 million, RMB45.5 million, RMB45.5 million and RMB86.3 million, respectively.

Subject to our constitutional documents and the Company Law, we have adopted a general annual dividend policy, according to which we may declare dividend by way of cash dividends, stock dividends, or a combination of cash and stock dividends. We prioritize cash dividends over stock dividends. We shall declare and pay cash dividends of no less than 10% of our total net profit attributable to the owners of the parent for any particular year going forward in which we record profits and positive retained earnings and the retained earnings after distribution will satisfy our ordinary working capital needs (the ratio of audited net cash flows from operating activities divided by net profit for the year shall remain no less than 10.0%), unless our Directors foresee any events that will materially and adversely affect our business operations. The declaration, payment and the amount of dividends will be subject to our discretion and will depend on the results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that we may consider relevant. Dividends may be paid only out of our distributable profits as permitted under the relevant laws.

There is no guarantee, representation or indication that our Directors must or will recommend and that our Company must or will declare and pay dividends at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

DEFINITIONS

In this Prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below. Certain other terms are explained in the section headed “Glossary” in this Prospectus.

“A Shares”	domestic shares of our Company, with a nominal value of RMB1.00 each, which are listed on the ChiNext Market of the Shenzhen Stock Exchange and traded in RMB
“Articles” or “Articles of Association”	the articles of association of our Company, as amended, which shall become effective on the Listing Date, a summary of which is set out in “Appendix III – Summary of the Articles of Association” to this Prospectus
“Baotou Production Base”	our production base located in Baotou, Inner Mongolia
“Board,” “our Board”	the board of Directors
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS EIPO”	the application for the Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant’s stock account through causing HKSCC Nominees to apply on your behalf, including by (i) instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, or (ii) if you are an existing CCASS Investor Participant, giving electronic application instructions through the CCASS Internet System (https://ip.ccass.com) or through the CCASS Phone System (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input electronic application instructions for CCASS Investor Participants through HKSCC’s Customer Service Centre by completing an input request

DEFINITIONS

“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual, joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CCB Capital”	CCB International Capital Management (Tianjin) Co., Ltd. (建銀國際資本管理(天津)有限公司), a limited liability company incorporated in the PRC on September 17, 2008 which is wholly-owned by CCB International (China) Limited (建銀國際(中國)有限公司)
“CCBI Asset Management”	CCB International Asset Management Limited (建銀國際資產管理有限公司), a company with limited liability incorporated in Hong Kong on November 29, 2004
“Chairman”	the chairman of our Board
“Cheku Hongcha”	Nanjing Cheku Black Tea Venture Capital Co., Ltd (南京車庫紅茶創業投資有限公司), a limited liability company incorporated in the PRC on July 3, 2015 which is wholly-owned by Zhang Jin (張瑾), an Independent Third Party
“Chengfa Investment”	Jiangxi Nanchang Chengfa Investment Co., Ltd. (江西南昌城發投資有限公司), a limited liability company incorporated in the PRC on February 21, 2005 which is owned as to 44% by Wangjin (汪進), 20% by Wang Qing (汪慶), 16% by Liu Chang (劉昶), 6% by Li Qin (李勤), 4% by Wang Xiaobing (王小兵), 4% by Wu Xiaochun (巫曉春), 4% by Xu Guanlian (徐觀蓮) and 2% by Tu Jihong (涂繼紅), all of them are Independent Third Parties
“China Northern Rare Earth”	China Northern Rare Earth Group High-Tech Co., Ltd. (中國北方稀土(集團)高科技股份有限公司), a state-owned limited liability company incorporated in the PRC on September 12, 1997
“China Southern Rare Earth”	China Southern Rare Earth Group Co., Ltd. (中國南方稀土集團有限公司), a state-owned limited liability company incorporated in the PRC on March 13, 2015

DEFINITIONS

“Chitai Xinfu Investment Fund”	Chi Tai Xin Fu Ding Zeng No. 1 Private Securities Investment Fund (馳泰鑫富定增一號私募證券投資基金), a fund established in 2020 and managed by Shanghai Chi Tai Asset Management Co., Ltd. (上海馳泰資產管理有限公司)
“CICC”	China International Capital Corporation Limited (中國國際金融股份有限公司), a joint stock company incorporated in the PRC under the laws of the People’s Republic of China with limited liability on July 31, 1995
“CITIC Securities”	CITIC Securities Company Limited (中信證券股份有限公司), a joint stock company incorporated in the PRC under the laws of the People’s Republic of China with limited liability on October 25, 1995
“close associate(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”, “our Company”, “Issuer”	JL MAG RARE-EARTH CO., LTD. (江西金力永磁科技股份有限公司), which was incorporated in the PRC on August 19, 2008 and converted into a joint-stock company with limited liability on June 26, 2015
“Controlling Shareholders”	has the meaning ascribed to it under the Listing Rules and, unless the context requires otherwise, means, a group of controlling shareholders of our Company comprising of Mr. Cai Baogui (蔡報貴), Mr. Hu Zhibin (胡志濱), Mr. Li Xinnong (李忻農), Ruide Venture, Ganzhou Geshuo and Ganzhou Xinsheng
“COVID-19”	Coronavirus disease 2019, an infectious disease caused by severe acute respiratory syndrome coronavirus 2, which has resulted in an ongoing global pandemic since December 2019
“Director(s)”	the director(s) of the Company or any one of them

DEFINITIONS

“Employee Incentive Platforms”	Qianyi Investment, Ganzhou Benhui, Ganzhou Huirui and Qianrui Investment
“Extreme Conditions”	extreme conditions caused by a super typhoon as announced by the government of Hong Kong
“FRC”	Financial Reporting Council
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., a global market research and consulting company, which is an Independent Third Party
“Galaxy Securities”	China Galaxy Securities Co., Ltd. (中國銀河證券股份有限公司), a joint stock company incorporated in the PRC under the laws of the People’s Republic of China with limited liability on January 26, 2007 which is controlled by China Galaxy Finance Holding Co., Ltd. (中國銀河金融控股有限責任公司)
“Ganzhou Benhui”	Ganzhou Benhui Investment Management Center (limited partnership) (贛州本匯投資管理中心(有限合夥)), a limited partnership established in the PRC on November 27, 2020. Mr. Mao Huayun (毛華雲) is the general partner and the Mr. Huang Changyuan (黃長元) is the limited partner
“Ganzhou Geshuo”	Ganzhou Geshuo Investment Management Center (limited partnership) (贛州格碩投資管理中心(有限合夥)), a limited partnership established in the PRC on November 27, 2020. Mr. Li Xinnong (李忻農) is the general partner and the Mr. Hu Zhibin (胡志濱) is the limited partner
“Ganzhou Huirui”	Ganzhou Huirui Investment Management Center (limited partnership) (贛州匯瑞投資管理中心(有限合夥)), a limited partnership established in the PRC on November 27, 2020. Mr. Lyu Feng (呂鋒) is the general partner and the Mr. Lu Ming (鹿明) is the limited partner
“Ganzhou Production Base”	our production base located in Ganzhou, Jiangxi, China

DEFINITIONS

“Ganzhou Qianchang”	Ganzhou Qianchang Enterprise Consulting Management Centre (limited partnership) (贛州虔昌企業諮詢管理中心(有限合夥)), formerly known as Xinjiang Qianshi Equity Investment Management Limited Partnership (新疆虔石股權投資管理有限合夥企業) a limited partnership established in the PRC under the laws of the People’s Republic of China on August 15, 2011
“Ganzhou Rare Earth”	Ganzhou Rare Earth Group Co., Ltd (贛州稀土集團有限公司), a state-owned limited liability company and controlled by Ganzhou State-owned Assets Supervision and Administration Commission (贛州市國有資產監督管理委員會), including its subsidiaries from time to time, unless the context requires otherwise
“Ganzhou Xinsheng”	Ganzhou Xinsheng Investment Management Center (limited partnership) (贛州欣盛投資管理中心(有限合夥)), a limited partnership established in the PRC on December 4, 2020. Mr. Cai Baogui (蔡報貴) is the general partner and the Mr. Hu Zhibin (胡志濱) is the limited partner
“Global Offering”	the Hong Kong Public Offering and the International Offering
“Goldwind Holdings”	Goldwind Investment Holding Co., Ltd. (金風投資控股有限公司), a limited liability company incorporated in the PRC on August 2, 2010 which is wholly-owned by Goldwind Technology
“Goldwind Technology”	Xinjiang Goldwind Science And Technology Co., Ltd. (新疆金風科技股份有限公司), a limited liability company incorporated in the PRC on March 26, 2001
“Gree”	Zhuhai Gree Electric Appliances. Inc. (珠海格力電器股份有限公司), a joint stock company incorporated in the PRC under the laws of the People’s Republic of China with limited liability on December 13, 1989
“GREEN Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited

DEFINITIONS

“Group,” “our Group,” “we” or “us”	our Company and all of our subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the businesses operated by such subsidiaries or their predecessors (as the case may be)
“H Share(s)”	overseas listed shares in the share capital of our Company with a nominal value of RMB1.00 each, which are to be subscribed for and traded in HK dollars and for which an application will be made for listing and permission to trade of the Hong Kong Stock Exchange
“H Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hengli Hengying Investment Fund”	Hengli Hengying No. 1 Private Equity Investment Fund (恒力恒盈1號私募股權投資基金), a fund established in 2020 and managed by Hengli (Beijing) Equity Investment Co., Ltd. (恒力(北京)股權投資有限公司)
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Homwon Capital”	Homwon Capital Management Co., Ltd. (弘灣資本管理有限公司), a limited liability company incorporated in the PRC on March 5, 2013 which is wholly-owned by China Nanshan Development (Group) Inc. (中國南山開發(集團)股份有限公司)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules” or “Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Hong Kong Offer Shares”	the 12,546,800 H Shares initially offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offering (subject to reallocation as described in the section headed “Structure of the Global Offering” in this prospectus)

DEFINITIONS

“Hong Kong Public Offering”	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong (subject to reallocation as described in the section headed “Structure of the Global Offering” in this prospectus) at the Offer Price (plus brokerage, SFC transaction levy, FRC transaction levy and Stock Exchange trading fees), on and subject to the terms and conditions described in this prospectus and on the GREEN Application Form(s) as further described in the section headed “Structure of the Global Offering – the Hong Kong Public Offering” in this prospectus
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting – Hong Kong Underwriters” in this Prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated December 29, 2021 relating to the Hong Kong Public Offering and entered into by, among others, our Company, our Controlling Shareholders, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators and the Hong Kong Underwriters, as further described in “Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Hong Kong Underwriting Agreement” in this prospectus
“Huarong Securities”	Huarong Securities Co., Ltd. (華融證券股份有限公司), a joint stock company incorporated in the PRC under the laws of the People’s Republic of China with limited liability on September 7, 2007 which is controlled by China Huarong Asset Management Co., Ltd. (中國華融資產管理股份有限公司)
“Huatai Securities”	Huatai Securities Co., Ltd. (華泰證券股份有限公司), a joint stock company incorporated in the PRC under the laws of the People’s Republic of China with limited liability on April 9, 1991

DEFINITIONS

“Independent Third Party(ies)”	a person or persons or a company or companies which, to the best of our Directors’ knowledge, information and belief, having made all reasonable enquiries, is independent of and not connected with (within the meaning of the Hong Kong Listing Rules) any of the Directors, chief executive and substantial shareholders (within the meaning of the Hong Kong Listing Rules) of our Company, any of its subsidiaries or any of their respective associates (within the meaning of the Hong Kong Listing Rules)
“International Offer Shares”	the 112,919,200 H Shares initially offered by our Company pursuant to the International Offering together with, where relevant, any additional Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option (subject to reallocation as described in the section headed “Structure of the Global Offering” in this Prospectus)
“International Offering”	the offer of the International Offer Shares by our Company at the Offer Price outside the United States in offshore transactions in accordance with Regulation S under the U.S Securities Act as further described in the section headed “Structure of the Global Offering” in this Prospectus
“International Underwriters”	the group of international underwriters, led by the Joint Global Coordinators, that is expected to enter into the International Underwriting Agreement to underwrite the International Offering
“International Underwriting Agreement”	the underwriting agreement expected to be entered into on or around the Price Determination Date by, among others, our Company and the International Underwriters in respect of the International Offering, as further described in “Underwriting – International Offering” in this Prospectus
“Jiangtong Cicai”	Sichuan Jiangtong Rare Earth Magnetic Material Co., Ltd. (四川江銅稀土磁材有限公司), a limited liability company incorporated in the PRC on December 8, 2011 which is owned as to 60% by Sichuan JCC Rare Earth Metals Co., Ltd. (四川江銅稀土有限責任公司) and 40% by our Company

DEFINITIONS

“Jinhe Yongci”	Beijing JHJ Permanent Investment Management Center (limited partnership) (北京金禾永磁投資管理中心(有限合夥)), a limited partnership established in the PRC on July 21, 2015
“Jinli Magnetic Material”	Ganzhou Jinli Magnetic Material Processing Co., Ltd. (贛州勁力磁材加工有限公司), a limited liability company incorporated in the PRC on February 29, 2012 which is wholly-owned by our Company
“Jiumu Investment Fund”	Nanchang Jiumu New Century Industrial Investment Partnership (Limited Partnership) (南昌玖沐新世紀產業投資合夥企業(有限合夥)), a limited partnership established in the PRC on December 25, 2019
“JL MAG Baotou”	JL MAG (Baotou) Technology Co., Ltd. (金力永磁(包頭)科技有限公司), a limited liability company incorporated in the PRC on August 18, 2020 which is wholly-owned by our Company
“JL MAG Bonded Magnet”	JL MAG Bonded Magnet Co., Ltd. (江西金力粘結磁有限公司), a limited liability company incorporated in the PRC on January 12, 2017 which is owned as to 80% by our Company and 20% by You Zhenggang (游正崗), an Independent Third Party
“JL MAG Europe”	JL MAG Rare-earth Co (Europe) B.V., a private company with limited liability incorporated in Netherland on October 8, 2012 which is owned as to 85% by JL MAG HK and 15% by Hest B.V.
“JL MAG HK”	JL MAG Rare-Earth (Hong Kong) Co., Ltd. (金力稀土永磁(香港)有限公司), a limited liability company incorporated in Hong Kong on September 5, 2014 which is owned 100% by our Company
“JL MAG Japan”	JL MAG RARE-EARTH JAPAN 株式會社, a limited liability company incorporated in Japan on September 6, 2016 which is wholly-owned by JL MAG HK
“JL MAG Ningbo Investment”	JL MAG (Ningbo) Investment Co., Ltd. (金力永磁(寧波)投資有限公司), a limited liability company incorporated in the PRC on December 21, 2018 which is wholly-owned by our Company

DEFINITIONS

“JL MAG Ningbo Technology”	JL MAG (Ningbo) Technology Co., Ltd. (金力永磁(寧波) 科技有限公司), a limited liability company incorporated in the PRC on January 15, 2020 which is wholly-owned by our Company
“JL MAG USA”	JL MAG Rare-Earth (U.S.A.) Inc., a company with limited liability incorporated in the U.S. on November 29, 2018 which is a wholly-owned subsidiary of our Company
“Joint Bookrunners”	CLSA Limited, BNP Paribas Securities (Asia) Limited and DBS Asia Capital Limited
“Joint Global Coordinators”	CLSA Limited, BNP Paribas Securities (Asia) Limited and DBS Asia Capital Limited
“Joint Lead Managers”	CLSA Limited, BNP Paribas Securities (Asia) Limited, DBS Asia Capital Limited, Futu Securities International (Hong Kong) Limited and Livermore Holdings Limited
“Joint Representatives”	CLSA Limited and BNP Paribas Securities (Asia) Limited
“Joint Sponsors”	CLSA Capital Markets Limited and BNP Paribas Securities (Asia) Limited
“Latest Practicable Date”	December 21, 2021, being the latest practicable date for the purpose of ascertaining certain information in this Prospectus prior to its publication
“Listing”	the listing of our H Shares on the Main Board of the Hong Kong Stock Exchange
“Listing Date”	the date, expected to be on or around January 14, 2022, on which our H Shares are listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange
“MNC”	multinational corporation
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部), or its competent local branches

DEFINITIONS

“MSCI”	MSCI Inc., an American finance company serving as a global provider of equity, fixed income, hedge fund stock market indexes, multi-asset portfolio analysis tools and environmental, social and corporate governance responsibilities products
“Nanche Huasheng”	Beijing CSR Huasheng Venture Capital Corporation (limited partnership) (北京南車華盛創業投資企業(有限合夥)), a limited partnership established in the PRC on October 24, 2012
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國發展和改革委員會)
“NEEQ”	National Equities Exchange and Quotations (全國中小企業股份轉讓系統)
“Ningbo Jinci”	Ningbo Meishan Bonded Port District Jinci Investment Partnership (limited partnership) (寧波梅山保稅港區金磁投資合夥企業(有限合夥)), a limited partnership established in the PRC on December 7, 2016
“Ningbo Production Base”	our production base located in Ningbo, Zhejiang
“NSAC”	National Standardization Administration Committee (國家標準化管理委員會)
“Offer Price”	the final price per Offer Share in Hong Kong dollars (exclusive of brokerage fee of 1%, SFC transaction levy of 0.0027%, FRC transaction levy of 0.00015% and Stock Exchange trading fee of 0.005%) of not more than HK\$40.30 and expected to be not less than HK\$33.80 at which Hong Kong Offer Shares are to be subscribed for, to be determined in the manner further described in the section headed “Structure of the Global Offering – Pricing and Allocation” in this Prospectus
“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares

DEFINITIONS

“Over-allotment Option”	the option expected to be granted by our Company to the International Underwriters, exercisable by the Joint Representatives (for themselves and on behalf of the International Underwriters) pursuant to the International Underwriting Agreement, pursuant to which our Company may be required to allot and issue up to an aggregate of 18,744,000 additional H Shares at the Offer Price to cover over-allocations in the International Offering, if any, further details of which are described in “Structure of the Global Offering” in this prospectus
“PBOC”	People’s Bank of China (中國人民銀行)
“PRC” or “China”	the People’s Republic of China, which, for the purpose of this Prospectus, shall exclude the Hong Kong Special Administrative Region, the Macao Special Administrative Region and Taiwan
“PRC Legal Advisor”	China Commercial Law Firm, Guangdong
“PRC Securities Law”	the Securities Law of the PRC (中華人民共和國證券法), as amended, supplemented or otherwise modified from time to time
“Price Determination Date”	the date, expected to be on or about Friday, January 7, 2022 (Hong Kong time), when the Offer Price is determined and, in any event, no later than Tuesday, January 11, 2022
“Prospectus”	this prospectus being issued in connection with the Hong Kong Public Offering
“Qianrui Investment”	Ningbo Jiangbei District Qianrui Investment Management Partnership (limited partnership) (寧波江北區虔睿投資管理合夥企業(有限合夥)), a limited partnership established in the PRC on February 7, 2017. Mr. Wang Shuilong (王水龍) is the general partner and other 24 employees of the our Company are the limited partners

DEFINITIONS

“Qianyi Investment”	Ningbo Jiangbei District Qianyi Investment Management Partnership (limited partnership) (寧波江北區虔益投資管理合夥企業(有限合夥)), a limited partnership established in the PRC on February 7, 2017. Mr. Luo Muhua (羅穆華) is the general partner and other 25 employees of our Company are the limited partners
“Regulation S”	Regulation S under the U.S. Securities Act
“Restricted Share Incentive Plan”	a restricted share incentive plan adopted by our Company on August 26, 2020 and amended on September 8, 2020, for the purpose of incentivize eligible management and employees of our Group
“RMB”	Renminbi, the lawful currency of the PRC
“Ruide Venture”	Jiangxi Ruide Venture Investment Co., Ltd. (江西瑞德創業投資有限公司), our Controlling Shareholder and a limited liability company incorporated in the PRC on July 9, 2008 which is owned as to 40% by Mr. Cai Baogui (蔡報貴), 30% by Mr. Hu Zhibin (胡志濱) and 30% by Mr. Li Xinnong (李忻農)
“SAFE”	the State Administration of Foreign Exchange of PRC (中華人民共和國國家外匯管理局), and its branch(es)
“SAMR”	the State Administration for Market Regulation of the PRC (中華人民共和國國家市場監督管理總局)
“Sanying Investment”	Sanying (Beijing) Investment Consulting Co., Ltd. (三鷹(北京)投資諮詢有限公司), a limited liability company incorporated in the PRC on March 21, 2014 which is owned as to 86% by Wang Yan (王燕) and 14% by Guo Jianfeng (郭建峰)
“SAT”	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Law of Hong Kong), as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Shanghai Haili”	Shanghai Haili (Group) Co., Ltd (上海海立(集團)股份有限公司), a joint stock company incorporated in the PRC under the laws of the People’ Republic of China with limited liability on March 26, 1993
“Shangqi Delian”	Shanghai Shangqi Delian Investment Center (limited partnership) (上海尚頌德連投資中心(有限合夥)), a limited partnership established in the PRC under the laws of the People’s Republic of China on October 26, 2015
“Share(s)”	shares in the share capital of our Company, with a nominal value of RMB1.00 each, comprising our A Shares and our H Shares
“Shareholder(s)”	holder(s) of our Share(s)
“Shenzhen Stock Exchange” or “SZSE”	Shenzhen Stock Exchange (深圳證券交易所)
“Sino-Belgian Fund”	Sino-Belgian Direct Equity Investment Fund (中國—比利時直接股權投資基金)), a Sino-foreign joint venture limited liability company incorporated in the PRC on November 18, 2004
“Stabilization Manager”	CLSA Limited
“Track Record Period”	the period comprising the three financial years ended December 31, 2020 and the six months ended June 30, 2021
“Type I Restricted Share(s)”	A Share(s) issued to the grantees with certain restrictions stipulated under the Restricted Share Incentive Plan
“Type II Restricted Share(s)”	restricted share(s) granted to the grantees pursuant to which A Shares could be newly issued and subscribed for upon the satisfaction of certain vesting conditions under the Restrict Share Incentive Plan
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement

DEFINITIONS

“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“US\$” or “U.S. dollar(s)”	United States dollar(s), the lawful currency of the United States
“ White Form eIPO ”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO Service Provider at www.eipo.com.hk
“ White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Xiangtou Investment Fund”	Hunan Xiangtou Junrong Industrial Investment Fund Enterprise (Limited Partnership) (湖南湘投軍融產業投資基金企業(有限合夥)), a limited partnership established in the PRC under the laws of the People’s Republic of China on March 20, 2019
“Xiexin Chaoneng”	Ganzhou Poly-Max Magnetics Co., Ltd. (贛州協鑫超能磁業有限公司), a limited liability company incorporated in the PRC on September 7, 2017 which is owned as to 33.15% by Meng Jiahong (孟佳宏), 24.65% by Hu Yongjun (胡永軍), 17% by Lai Taoyin (賴陶穎), 15% by JL MAG (Ningbo) Investment Co., Ltd. (金力永磁(寧波)投資有限公司) and 10.20% by Grand Forest Technology Co., Ltd. (東莞市柏繁電子科技有限公司)
“Xinjiang Qianshi”	the predecessor of Ganzhou Qianchang
“Xitu Mining”	Ganzhou Rare Earth Mining Co., Ltd. (贛州稀土礦業有限公司), a limited liability company incorporated in the PRC on January 6, 2005 which is wholly-owned by Xitu Holdings
“Yancheng Shangqi”	Yancheng Shangqiwangshi Automobile Market Industry Investment Fund (limited partnership) (鹽城尚頊王獅汽車後市場產業投資基金(有限合夥)), a limited partnership established in the PRC on July 24, 2015

DEFINITIONS

“Yangzhou Shangqi”	Yangzhou Shangqi Mergers and Acquisition Growth Industrial Fund Partnership (limited partnership) (揚州尚頌併購成長產業基金合夥企業(有限合夥)), a limited partnership established in the PRC on July 6, 2016
“Yuanzhi Fuhai”	Shenzhen Yuanzhi Fuhai No. 9 Investment Enterprise (limited partnership) (深圳遠致富海九號投資企業(有限合夥)), a limited partnership established in the PRC on December 7, 2015 which is controlled by Shenzhen Fuhai Stock Toubang No. 1 Equity Investment Fund (limited partnership) (深圳富海股投邦一號股權投資基金(有限合夥))
“Zhongjin Lingnan Capital”	Shenzhen Zhongjin Lingnan Capital Operation Co., Ltd. (深圳市中金嶺南資本運營有限公司), a limited liability company incorporated in the PRC on September 18, 2020 which is wholly-owned by Shenzhen Zhongjin Lingnan Nonfemet Co., Ltd. (深圳市中金嶺南有色金屬股份有限公司)

* For identification purpose only

The English translation and/or transliteration of the names of PRC nationals, entities, enterprises, government authorities, departments, facilities, certificates, titles, laws and regulations included in this Prospectus is included for identification purposes only. In the event of any inconsistency between the English translation and/or transliteration and the Chinese versions, the Chinese versions shall prevail.

GLOSSARY

This glossary contains definitions of certain technical terms used in this prospectus in connection with our business. These terms and their given meanings may not correspond to industry standard definitions or usage of these terms.

“3C”	computers, communications and consumer electronics
“ASP”	acronym for average selling price and the ASP of our high-performance NdFeB PM finished products in this prospectus represents the VAT-exclusive average selling price of our high-performance NdFeB PM finished products, which is calculated as the revenue from the sale of high-performance NdFeB PM finished products divided by the sales volume, unless specified otherwise
“APP”	acronym for average purchase price and the APP of rare earths in this prospectus represents the VAT-exclusive average purchase price of rare earths, which is calculated as total purchase cost of rare earths divided by the purchase volume, unless specified otherwise
“alloy”	a compound of two or more elements, at least one of which is a metal, and where the resulting material has metallic properties
“CAGR”	compound annual growth rate
“coercivity”	a measure of the ability of a ferromagnetic material to withstand an external magnetic field without becoming demagnetized
“DDPMs”	direct-drive permanent magnets
“Dy-Fe”	Dysprosium-Ferrum, a rare earth alloy
“energy-saving VFACs”	energy-saving variable-frequency air-conditioners
“ERP”	enterprise resource planning, a management platform based on information technology that provides decision-making and operating tools for the decision-makers and employees of an enterprises in the light of systematic management

GLOSSARY

“grain boundary diffusion technology”	technology allows the Dysprosium or Terbium to penetrate into the magnet through its grain boundary when the heat treatment temperature is higher than the melting point of Nd-rich phase
“GW”	a unit of power, 1 GW equals 1,000 MW
“high-performance REPM”	the permanent material that the sum of its intrinsic coercivity (H _{cj} , K _{oe}) and magnetic energy product ((BH) _{max} , MGOe) is higher than 60*, and a high performance NdFeB PMs
“hydrogen decrepitating”	a process step used in the production of permanent magnets to create extremely small grains in the material
“IATF”	the International Automotive Task Force, an “ad hoc” group of automotive manufacturers and their respective trade associations, which aim to provide improved quality products to automotive customers worldwide
“IATF 16949”	a technical specification aimed at the development of a quality management system which provides for continual improvement, emphasizing defect prevention and the reduction of variation and waste in the automotive industry supply chain and assembly process
“ingot”	a mass of metal cast into a size and shape that is convenient for shipping, re-melting or refining
“installed capacity”	the capacity of wind turbines or power generators that have been completely assembled and erected and which have been commissioned and started producing electricity
“ISO”	the International Organization for Standardization, a non-government organization based in Geneva, Switzerland, for assessing the quality systems of business organizations
“ISO9001”	a standard for quality management systems enacted by the International Organization for Standardization (ISO)

* Source: National High-Tech Products Catalog 2006 (《國家高新技術產品目錄2006》)

GLOSSARY

“light rare earth”	rare earth elements that are light in atomic weight, which include lanthanum (La), cerium (Ce), praseodymium (Pr) and neodymium (Nd), as advised by Frost & Sullivan, which is consistent with the industry practice and classification
“medium and heavy rare earth”	rare earth elements that are medium and heavy in atomic weight, which include promethium (Pm), samarium (Sm), europium (Eu), gadolinium (Gd), terbium (Tb), dysprosium (Dy), holmium (Ho), erbium (Er), thulium (Tm), ytterbium (Yb), and lutetium (Lu) as advised by Frost & Sullivan, which is consistent with the industry practice and classification
“milling”	the process of scraping the outer layer of ingot blanks by ways of milling (generally hobbing) so as to remove the defects of the surface of ingots, such as cold shuts, blisters, impurity, crackles
“mining quota”	the limited quantity of rare earth resources which is officially allowed to mine
“mining right”	the licensed right of mining mineral resources and obtaining mineral products in areas where mining activities are legal
“Nd”	Neodymium, a rare earth element
“NdFeB PMs”	permanent magnets made from an alloy of neodymium, iron, and boron that are divided into two subcategories, namely sintered NdFeB magnets and bonded NdFeB magnets because of different manufacturing processes
“NEVs”	new energy vehicles
“OA”	office automation, a new office solution that combines modern office affairs with computer technology
“ore”	mineral aggregates from which metal or other products can be extracted on an industrial scale under modern technical and economic conditions
“permanent magnets” or “PM”	a material that retains its magnetic properties without external magnetic field

GLOSSARY

“production capacity”	the maximum quantity of product that can be produced by an equipment in a period of time on a normal sustainable long-term operating rate that is based on the operating parameters of such equipment, subject to certain assumptions
“Pr-Nd”	Neodymium-Praseodymium, a rare earth alloy
“rare earth”	a set of seventeen chemically similar metallic elements, comprising light rare earth, medium rare earth and heavy rare earth
“REPMs”	rare earth permanent magnets
“remanence”	magnetization left behind in a magnetic material (such as iron) after an external magnetic field is removed
“sintering”	a heat treatment for mineral powder that applies a temperature below the melting point, the purpose of which is to combine the component particles in order to increase size and strength
“smelting”	a refining technology which extracts metal from ores by such methods as roasting, smelting, electrolysis and the use of chemical reagents, reduce impurities contained in the metal, increase a certain composition of the metal and make the required metal
“sq.m.”	square meter(s)
“surface treatment”	a process which aims to artificially form a surface layer which differs with that of the substrate material in mechanical, physical and chemical properties
“Tb”	Terbium, a rare earth element
“tonne”	metric tonne

FORWARD-LOOKING STATEMENTS

This Prospectus contains certain forward-looking statements and information relating to us and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this Prospectus, the words “aim”, “anticipate”, “believe”, “could”, “expect”, “going forward”, “intend”, “may”, “might”, “ought to”, “plan”, “potential”, “predict”, “project”, “seek”, “should”, “will”, “would” and the negative of these words and other similar expressions, as they relate to us or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this Prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing our company which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our operations and business prospects;
- future developments, trends and conditions in the industry and markets in which we operate;
- our strategies, plans, objectives and goals and our ability to successfully implement these strategies, plans, objectives and goals;
- our ability to continue to maintain our leadership position in the industry;
- our ability to control or reduce costs;
- our ability to identify and integrate suitable acquisition targets;
- general economic conditions;
- changes to regulatory and operating conditions in the industry and markets in which we operate;
- our dividend policy;
- our capital expenditure plans;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- our future debt levels and capital needs;

FORWARD-LOOKING STATEMENTS

- the competitive environment of the industry and markets in which we operate;
- the actions and developments of our competitors;
- certain statements in the sections headed “Business” and “Financial Information” in this Prospectus with respect to trends in prices, operations, margins, overall market trends, and risk management; and
- other statements in this Prospectus that are not historical facts.

By their nature, certain disclosures relating to these and other risks are only estimates and should one or more of these uncertainties or risks materialize or should underlying assumptions prove to be incorrect, our financial condition and actual results of operations may be materially and adversely affected and may vary significantly from those estimated, anticipated or projected, as well as from historical results.

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this Prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Prospectus might not occur in the way we expect or at all. Accordingly, you should not place undue reliance on any forward-looking information. Moreover, the inclusion of forward-looking statements should not be regarded as representations by us that our plans and objectives will be achieved or realized. All forward-looking statements in this Prospectus are qualified by reference to the cautionary statements in this section.

In this Prospectus, statements of or references to our intentions or those of our Directors are made as of the date of this Prospectus. Any such information may change in light of future developments.

RISK FACTORS

You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our H Shares. These risks could materially and adversely affect our business, financial condition and operating results. The trading price of our H Shares could significantly decrease due to any of these risks, and you may lose all or part of your investment. You should pay particular attention to the fact that we are a company incorporated in the PRC and most of our operations are conducted in the PRC which is governed by a legal and regulatory environment that may differ from that of other countries. For more information concerning the PRC and certain related matters discussed below, see “Regulatory Overview,” “Appendix III – Summary of the Articles of Association” and “Appendix IV – Summary of Principal Legal and Regulatory Provisions”. You should seek professional advice from relevant advisors regarding your prospective investment in the context of your particular circumstances.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

We rely on a stable supply of quality raw materials. Any decrease in the supply or increase in the prices of these raw materials could have a material and adverse impact on our business.

Our business operations depend on the timely and sufficient supply of rare earth used for our products that are of adequate quality and at commercially acceptable prices. The supply of rare earth may be adversely affected by a variety of factors beyond our control, such as government regulations and restrictions, production capacity constraints of upstream suppliers, market supply and demand, price fluctuations and natural disasters.

Rare earth production is subject to strict government controls in China. Since 2011, China has tightened its regulation on rare earth production so as to protect the national interests and industry security and prevent, among others, illegal mining, destructive mining, and unplanned and over-planned production. On January 15, 2021, Ministry of Industry and Information Technology published the “Draft Regulations on Rare Earth Management” for public consultation (“*稀土管理條例(徵求意見稿)*”) to further strengthen the regulation on rare earth mining. The PRC government issues two batches of rare earth mining quotas and smelting and separation quotas each year to control the overall production volume of rare earth in China. In recent years, such quotas have been increasing. To ease the tight supply of rare earth, the Ministry of Industry and Information Technology raised the quota of rare earth mining, and smelting and separation, in 2021 to 168,000 tonnes and 162,000 tonnes, respectively, representing an increase of 20% compared with the same quota of rare earth mining and smelting and separation in 2020. However, there is no assurance that such quotas will continue to increase or will be adequate to satisfy market demand. In particular, governmental adjustments to production restrictions may lag behind increases in market demand. A shortage in supply may drive up the market prices of rare earth and thereby impact our procurement.

RISK FACTORS

In November 2016, the Ministry of Industry and Information Technology, the United Nations Ministry of Land and Resources, the Ministry of Environmental Protection, the Ministry of Public Security and other departments issued *the Letter on Requesting the Organization of Special Actions to Combat Rare Earth Violations* (《關於商請組織開展打擊稀土違法違規行為專項行動的函》). From January 2017 to April 2017, a special campaign to combat violations in relation to rare earth was carried out nationwide in China, which led to the short supply of rare earth and resulted in the increase in the rare earth's prices in 2017. In 2019 and 2020, with the strict supervision of rare earth industry, the output from domestic illegal rare earth production continued to shrink. Besides, in 2019 Myanmar announced that it would cease exporting rare earth to China, which collectively resulted in the short supply of medium and heavy rare earth in China. The short supply and the vast demand from downstream industries, such as that from the wind turbine generator industry, led to the increase in the price of rare earth since May 2020. Compared with the previous two major price increases in 2017 and 2019, respectively, each of which lasted for less than half a year, the price increase in 2020 lasted longer and was more substantial. Since 2021, as the global economy gradually recovers, especially in the context of Carbon Neutrality (碳中和), the demand from green and low-carbon industries such as NEV is expected to further stimulate the demand for rare earth. Therefore, the prices of rare earth metals and alloys in China, including Nd, Tb, Pr-Nd and Dy-Fe, are generally expected to increase from 2020 to 2025, according to Frost & Sullivan.

We purchase our raw materials from third-party suppliers, which exposes us to price fluctuations and supply shortages. We cannot assure you that our suppliers will continue to supply sufficient rare earth to us on terms and conditions commercially acceptable to us, or at all. Further, as we scale up our production capacity, there is no guarantee that our increasing demand for rare earth will be satisfied by sufficient and stable supplies from our suppliers. In the event of a significant increase in the prices of rare earth, we cannot assure you that we will be able to pass on any such increase to our customers. Any failure to pass on such increase would have a direct and negative impact on our profitability.

Our price adjustment mechanism has an impact on our results of operations, and may not enable us to promptly respond to the raw material price increase.

We place strong emphasis on establishing long term and solid business relationship with our customers. In order to establish a close cooperation relationship and enhance mutual benefit between our customers and us, the price adjustment mechanism had been increasingly adopted during the Track Record Period. Pursuant to this price adjustment mechanism, we are able to adjust the unit price of our products on annual, semi-annual, quarterly or monthly basis, as the case may be. Our price adjustment mechanism varies for customers in different downstream sectors. For details of our price adjustment mechanism, see “Business – Pricing – Price Adjustment Mechanism”. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, our revenue attributable to price adjustment mechanism as a percentage of our total revenue was 75.2%, 81.9%, 84.0% and 85.8%, respectively.

RISK FACTORS

Our price adjustment mechanism had an impact on our results of operations, especially on gross profit margins for our products in NEVs and automotive parts, PM wind turbine generators and energy-saving VFACs sectors during the Track Record Period. For downstream sectors with longer price adjustment period, we cannot promptly respond to the raw material price increase, leading to decreases in our gross profit margins in relevant sectors. For example, as a result of our longer price adjustment for price of products in NEVs and automotive parts sector, which was mainly adjusted on quarterly basis, while price with a small portion of customers was adjusted on annual or semi-annual basis during the Track Record Period, our gross profit margin of NEVs and automotive parts sector decreased in the first half of 2021 as compared to that in the first half of 2020, primarily due to the significant increase in rare earth price in the first half of 2021. In addition, gross profit margin of PM wind turbine generators sector decreased in the first half of 2021 as compared to that in the first half of 2020, primarily due to the significant increase in rare earth price in the first half of 2021. There is no assurance that our price adjustment mechanism with longer price adjustment period would be able to promptly respond to the significant raw material price increase in the future. As a result, our business, financial condition and results of operations may be materially and adversely affected.

Moreover, there is no assurance that our customers will continue to accept our price adjustment mechanism or cooperate with us in a price adjustment mechanism that is favorable to us. When rare earth prices experience significant increase, our price adjustment mechanism allows us to timely pass the risk of raw material price increase to our customers in downstream sectors with shorter price adjustment period. If our customers choose not to accept our price adjustment mechanism or extend the price adjustment period with us, we may not be able to pass the risk of raw material price increase or at all to our customers in a timely manner. As a result, our business, financial condition and results of operations may be materially and adversely affected.

We procure a significant portion of our raw materials from our top five largest suppliers. Any adverse change in business relationship with our major suppliers could materially and adversely affect our business, financial condition and results of operations.

We procure the majority of our raw materials from our five largest suppliers, all of which were rare earth producers. Our purchases from our five largest suppliers amounted to RMB770.7 million, RMB762.2 million, RMB1,172.8 million and RMB1,025.3 million in 2018, 2019, 2020 and the six months ended June 30, 2021, respectively, representing 72.4%, 67.7%, 64.4% and 75.8% of our total purchases for the corresponding periods, respectively. We maintain long-term relationships with our major rare earth suppliers including China Southern Rare Earth and China Northern Rare Earth, and entered into annual supply agreements with them. However, these agreements do not lock prices and we cannot assure you that our relationship with our rare earth suppliers will continue to be stable, or supply from them will not experience any disruptions in the future. For details on our suppliers, please see “Business – Suppliers” in this prospectus.

RISK FACTORS

In China, rare earth production is under strict government control and there are only a limited number of rare earth producers. Accordingly, it would be difficult for us to further diversify our rare earth procurement sources. We expect to continue to rely on a limited number of rare earth suppliers in the foreseeable future. Our major rare earth suppliers may cease to supply to us for a variety of reasons such as competition, disputes, failure to reach agreement on commercial terms, and a supplier's own operational or financial difficulties. In the event that a supplier ceases to supply to us, and we are unable to procure such raw materials from alternative suppliers on acceptable commercial terms and in a timely manner, our business, financial condition and results of operations may be materially and adversely affected.

Our financial conditions, results of operations and business may be adversely affected if we are unable to enhance our production capacities.

We believe that our future success, in part, depends on our ability to enhance our production capabilities, which include increasing our production utilization rate, improving our production efficiency, acquiring and upgrading equipment and production facilities and modifying our existing production processes. In order to meet demand for our products and achieve a desired level of economies of scale in our operation and to deliver high quality products at a competitive cost level, we are required to continue to expand our existing production capacity. We are in the process of further expanding our production capacity. The completion-based check and acceptance of construction for our Baotou Production Base was completed in December 2021 and our Baotou Production Base is expected to commence operation by the end of 2021 with a designed production capacity of 8,000 tonnes per annum of high-performance NdFeB PM blanks. We also plan to commence the construction of our Ningbo Production Base by the end of 2021, which is expected to commence operation by the end of 2023 with a designed production capacity of 3,000 tonnes of high-performance NdFeB PM blanks and 100 million units/sets of high-performance NdFeB PM component parts per annum.

We intend to fund such expansions by using cash generated from our operations, the net proceeds from the Global Offering and/or debt and/or equity financing in the future. Any adverse change in the general market conditions for financing activities, the prevailing economic and political conditions and our future financial position may affect our ability to obtain any necessary additional financing in time on reasonable terms or at all. If we are unable to finance the acquisition of the equipment we need or the construction projects, we may not be able to expand our production capacity or enhance our production capabilities to satisfy the demand from our customers. As a result, our growth prospects would be limited. In addition, we also cannot assure you that these plans will be implemented successfully on time, within budget or at all.

Furthermore, our efforts to enhance our production capabilities may not achieve the expected benefits. We cannot assure you that the demand for our products will continue to increase, or remain at the current levels, which is affected by various factors beyond our control, including underlying economic conditions and market competitiveness. If the demand for our products is weaker than anticipated, we may experience problems associated with overcapacity and under-utilization of headcounts and other resources, which may have an adverse effect on our financial conditions, results of operations and business.

RISK FACTORS

Delays in delivery by domestic and international third-party logistics providers may affect our sales and damage our reputation.

We engage domestic and international third-party logistics service providers to deliver the goods from our suppliers to us and deliver our orders to our customers and they may experience interruptions or failures to timely and properly deliver products. These interruptions or failures may be due to events that are beyond the control of us or these logistics service providers, such as inclement weather, natural disasters, accidents, transportation disruptions, including special or temporary restrictions or closings of facilities or transportation networks due to regulatory or political reasons, or labor unrest or shortages. These logistics services could also be affected or interrupted by business disputes, industry consolidation, insolvency or government shut-downs. We may not be able to find alternative logistics service providers to provide logistics services in a timely and reliable manner, or at all. If we encounter delays in receiving the raw materials from our suppliers or if the products sold by us are not delivered in proper conditions, on a timely basis or at shipping rates that are commercially acceptable to marketplace participants, our business and prospects, as well as our financial condition and results of operations could be materially and adversely affected.

Our customer concentration is high, and a loss of our major customers may adversely affect our business operations and financial results.

The percentage of our total revenue attributable to our five largest customers combined amounted to approximately RMB872.7 million, RMB1,197.0 million, RMB1,548.2 million and RMB1,229.2 million in 2018, 2019, 2020 and the six months ended June 30, 2021, representing 68.1%, 73.4%, 67.6% and 69.6% of our total revenue for the corresponding periods, respectively approximately. We cannot assure you that the aforementioned major customers will place orders with us according to the targeted purchase quantities in the binding sales contracts or we can continue to be able to meet the standard required by our major customers. If there is a reduction or cessation of purchase orders from our major customers for whatever reasons, such as failure to maintain their existing market share, and we are unable to obtain purchase orders of a comparable size and terms in substitution or our plan to diversify or expand our customer base does not succeed, our business, financial condition, results of operations and gross profit may be materially and adversely affected.

There is no assurance that we will be able to retain our customers, renew our existing contracts or secure new contracts upon expiry of the contract period or that they will maintain their current level of business with us in the future. As such, any loss of our major customers or significant decrease in the number or size of contracts with our major customers may materially and adversely affect our financial condition and operating results. Besides, if any of our top five customers experiences any liquidity issues, it may result in a delay or default in settling progress payments to us, which in turn will have an adverse impact on our cash flows and financial conditions. We cannot guarantee that we will be able to diversify our customer base by securing contracts with new customers or expand our cooperation with other customers.

RISK FACTORS

New legislations or changes in the PRC and global regulatory requirements and policies regarding the end markets of our products and retreats in renewable energy subsidy may affect our business operations and prospects.

At present, both in China and globally, our main business segment, as well as downstream wind power generation, NEV, energy-saving inverter household appliances (currently mainly energy-saving VFACs) and other fields, are industries promoted and supported by the government, for example, through subsidizing renewable energy development. No regulations or other negative factors that explicitly restrict the development of our business and downstream industries have been identified. However, there is no guarantee that the relevant policy environment will continue to be positive of the same level in the future. New legislation or changes in the PRC and global regulatory requirements that are less favorable or any retreats in subsidies could adversely affect our operation results and prospects.

In particular, in China's NEV industry, the change in the NEV subsidies from the government may have a significant impact on market demand for NEVs. According to the relevant policies of the PRC government, the NEV subsidies began to retreat from July 2019 and led to a decrease in the sales of NEVs in China. After the outbreak of COVID-19, the PRC government announced the extension of the NEV subsidies for two more years till the end of 2022. In May 2019, the NDRC promulgated the Notice on Improving the On-grid Tariff Policy for Wind Power Sector (《關於完善風電上網電價政策的通知》), which stated that onshore wind power generation projects approved before the end of 2018 will not be able to enjoy an on-grid tariff subsidy if they have not been connected to the grid before the end of 2020; onshore wind power generation projects approved in 2019 and 2020 will not be able to enjoy an on-grid tariff subsidy if they have not been connected to the grid before the end of 2021; and onshore wind power generation projects approved since January 1, 2021 will no longer enjoy an on-grid tariff subsidy.

During the Track Record Period, governmental policies has impacted our business and revenue. For NEVs and automotive parts sector, our revenue generated from this sector increased from RMB219.9 million in 2019 to RMB325.6 million in 2020, mainly attributable to the development of both domestic and overseas NEV markets. In 2020, the PRC government promulgated a series of policies to stimulate NEV consumption, including extension of the NEV purchase subsidy until the end of 2022, which led to a rebound in the domestic NEV consumption in 2020. Our revenue generated from NEVs and automotive parts sector decreased from RMB317.8 million in 2018 to RMB219.9 million in 2019, as a result of the slowdown in the development of NEV sector in 2019 led by a reduction in the government subsidies granted to the NEV sector. For PM wind turbine generators sector, our revenue generated from this sector increased from RMB386.3 million in 2018 to RMB855.2 million in 2019, primarily because market players in such sector increased their investments in newly installed capacity with a view to benefiting from government subsidies that are available if certain milestone is achieved within a specified period. In May 2019, the NDRC promulgated the Notice on Improving the On-grid Tariff Policy for Wind Power Sector (《關於完善風電上網電價政策的通知》), which stated that onshore wind power generation projects approved before the end of 2018 will not be able to enjoy an on-grid tariff subsidy if they have not been connected to the grid before the end of 2020; onshore wind power generation projects approved

RISK FACTORS

in 2019 and 2020 will not be able to enjoy an on-grid tariff subsidy if they have not been connected to the grid before the end of 2021; and onshore wind power generation projects approved since January 1, 2021 will no longer enjoy an on-grid tariff subsidy. However, we cannot guarantee that our revenue generated from PM wind turbine generators sector will continue to increase upon the expiry of the government subsidy, which may adversely affect our financial performance. For energy-saving VFACs sector, our revenue generated from this sector increased from RMB371.5 million in 2018 to RMB422.3 million in 2019, as the promulgation of Notice on the Issuance of the Green and Efficient Refrigeration Action Plan (《關於印發<綠色高效製冷行動方案>的通知》) by relevant PRC authorities in June 2019, which requires the overall energy efficiency of household air-conditioners, variable refrigerant volume air-conditioning system and other refrigeration products to increase by 30% by 2022, drove a significant increase in the demand for our products from energy-saving VFAC producers in 2019. In 2020, the new national standard, Minimum Allowable Values of the Energy Efficiency and Energy Efficiency Grades for Room Air Conditioners (《房間空氣調節器能效限定值及能效等級》) (GB 21455-2019) (the “New AC Standard”), implemented by the NSAC in July 2020 requires the overall energy efficiency standard of air-conditioner industry to increase by 30% by 2022, while only energy-saving VFACs using high-performance sintered NdFeB PMs can meet the requirements of the new standard, according to Frost & Sullivan, which resulted in the growth in demand for NdFeB PMs from the energy-saving VFAC sector. As a result, our revenue generated from domestic energy-saving VFAC sector increased from RMB422.3 million in 2019 to RMB878.3 million in 2020, primarily due to the New AC Standard implemented by the NSAC in July 2020, driving energy-saving VFAC value chain participants to use sintered REPMs in their products. For details of our results of operations during the Track Record Period, please refer to “Financial Information – Period-to-Period Comparison of Results of Operations” in this prospectus.

There is no assurance that the future retreat of government subsidies will not lead to decrease in the sales of products of our downstream customers in China, which may in turn reduce the demand of our products from our customers and lead to a material adverse impact on our business, financial condition and results of operations.

We may not be able to maintain or grow our revenue or our business.

We have achieved significant growth in revenue and in our business in recent years. Our ability to continue to grow our revenue depends on a number of factors, such as our ability to continue to grow our core businesses as well as expand our business in emerging industries. We are exploring and will continue to explore in the future new business initiatives, including in industries and markets in which we have limited or no experience, as well as new business models, that may be untested. Developing new businesses, initiatives and models requires significant investments of time and resources, and may present new and difficult technological, operational and compliance challenges. Many of these challenges may be specific to business areas we do not have sufficient experience in. We may encounter difficulties or setbacks in the execution of various growth strategies, which we expect to be an important driver of our future growth, and the growth strategies may not generate the returns we expect within the timeframe we anticipate, or at all.

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Our business performance is dependent on the general positive development of our downstream industries and our customers. Our downstream industries are generally promoted by a series of favorable policies at home and abroad. For example, as China has pledged to reach carbon neutrality by 2060 and most of the developed countries, such as U.S., Japan and UK, aim to achieve such goal by 2050, relevant supportive policies have been promulgated. Any slowdown or reverse in relevant international and national policies or the “double carbon” target may significantly impact the development of our downstream industries, causing decreases in demands for high-performance NdFeB PMs from our customers.

In addition, our revenue growth may slow or our revenue may decline for other reasons, including changes in the geopolitical landscape, government policies or general economic conditions. As our revenue grows to a higher base level, our revenue growth rate may slow in the future. Furthermore, due to the size and scale we have achieved, our customer base may not continue to grow as quickly or at all.

If we are unable to compete effectively, our business, financial condition and results of operations would be materially and adversely affected.

We face competitions from both domestic and global competitors. Existing and new competitors may leverage their established platforms or market positions to introduce innovative business models, to launch highly-engaging products or services that may attract a large customer base and achieve rapid growth, which may materially and adversely affect our business expansion and results of operations. Apart from domestic competitors, we also compete with international players operating in their local markets. If we are unable to compete effectively, the level of our customer’s loyalty may decrease and our market share and profitability may be negatively affected. Our competitors may employ price undercutting as well to prevent us from competing effectively without making losses. The aforementioned competition could materially and adversely affect our business, financial condition and results of operations, as well as our reputation and brand.

Any failure to maintain an effective quality control system for our production and a high production efficiency could have a material adverse effect on our reputation, business, financial condition and results of operations.

As the quality of our products is essential to the success of our businesses, we must maintain an effective quality control system for our production and other operational activities. The effectiveness of our quality control system depends significantly on a number of factors, including the design of the system and the related training programs, as well as our ability to ensure that our employees adhere to our quality control policies and guidelines. Any failure or deterioration of our quality control systems could result in defects in our projects or products, which in turn may subject us to contractual, product liability, warranty and other claims. Any such claims, regardless of whether they are ultimately successful, could cause us to incur significant costs, harm our business reputation and result in significant disruption to our operations.

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A number of factors, many of which are beyond our control, may adversely affect our productivity and increase our cost of production, including technological difficulties, supply disruptions and defects in raw materials or equipment. During the Track Record Period, our utilization rate of production capacity NdFeB PM blanks continued to approach the point of saturation, averaging more than 96.0% from 2018 to 2020. However, we cannot assure you that we will be able to maintain the high utilization rates that have allowed us to achieve cost effective production in the future. If we fail to maintain or improve our production efficiency, our business operations, competitiveness, financial conditions may be materially and adversely affected.

If we fail to effectively manage our inventories or estimate accurately based on the demand for our products, our business, financial condition and results of operation may be materially and adversely affected.

Maintaining an optimal level of inventories is important to our business. If we over-stock our inventories, our required working capital will increase and we may incur additional finance costs. Conversely, if we under-stock our inventories, we may be unable to meet customers' demand and consequently, our operating results may be adversely affected. If we fail to anticipate, identify or respond to changes in consumer preferences in a timely manner, we may experience a reduced demand for our products, a lower level of revenue and an increased level of inventory turnover days.

As of December 31, 2018, 2019, 2020 and the six months ended June 30, 2021, our closing balance of our inventories amounted to approximately RMB598.1 million, RMB637.3 million, RMB925.0 million and RMB1,107.3 million, respectively, which accounted for approximately 35.1%, 27.5%, 33.5% and 30.1% of our total current assets as of the same date, respectively. Our average inventory turnover days were approximately 174, 175, 163 and 137 days in 2018, 2019, 2020 and the six months ended June 30, 2021, respectively. For more details of our average inventory turnover days, please refer to the section headed "Business – Inventory Management" in this prospectus. We plan our purchase of raw materials and production based on our customers' purchase orders. During the Track Record Period, to reduce average cost of rare earth, we also maintained a safety inventory of rare earth with competitive price based on our anticipation of increases in market price of rare earth. If the customer orders cannot be executed, our estimation of market price of rare earth is inaccurate, or the market demand changes unfavorably, we may not be able to sell the products. If the customers' orders cannot be executed, we may be subject to a heightened risk of a decline in inventory values, and inventory write-downs or write-offs. In addition, we may be required to lower sale prices in order to reduce inventory level, which may lead to lower gross profit margins or a loss. High inventory levels may increase our inventory holding costs, preventing us from using that capital for other important purposes. As such, our results of operations, financial performance and business could be materially and adversely affected.

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Fluctuations in rare earth prices could have an adverse effect on our results of operations.

Rare earth, as the major component of our raw materials, made up over 70% of our cost of sales during the Track Record Period. We mainly adopt a cost-plus pricing mechanism for our products. As a result, fluctuations in prices of rare earth, which may be affected by a number of factors beyond our control, could adversely affect our gross profit margin and results of operations.

We are subject to risks associated with our debt financing terms which may limit or otherwise adversely affect our business, financial condition, results of operations and prospects.

Our business and operations require intensive capital investment. We have entered into a number of loan agreements with banks. We are subject to the fluctuations in debt interest rates. In case of any default under any of these loan agreements, the lenders may be entitled to accelerate payment of all or any part of the loans under such loan agreements. If we delay or default on our payments, we may have to incur additional legal costs which in turn may adversely affect our financial position and profitability. During the Track Record Period, we have not breached any financial covenants relating to bank loans and other borrowings. For more details of our bank loans and other borrowings, please refer to the section headed “Financial Information – Indebtedness – Interest-bearing bank and other borrowings”.

We may face risk regarding investment in a fund.

On July 29, 2021, the Board resolved to make a RMB57.0 million equity investment into JL MAG Ningbo Investment, a wholly-owned subsidiary of our Company. JL MAG Ningbo Investment will in turn use such capital to invest in a fund as a limited liability partner. Such fund will invest in projects in the REPM industry. However, if this fund does not perform as expected or is not able to invest in high-quality projects, our return of investment in this fund cannot be guaranteed. As a result, our financial condition or results of operations could be adversely affected.

There can be no assurance that the investment in this fund will achieve the results intended and we may be subject to liquidity risk. Our investment in this fund is not as liquid as other investments because there is no cash flow until investment returns are received. Therefore, the illiquidity of our investment in this fund may significantly limit our ability to respond to adverse changes in the performance of fund. In addition, if there is no investment return from this fund, we will also be subject to liquidity risk and our financial condition or result or operations could be adversely affected.

We recorded negative operating cash flows during the Track Record Period.

We recorded net cash used in operating activities of RMB76.7 million for the six months ended June 30, 2021. For details, please refer to “Financial Information – Liquidity and Capital Resources – Cash Flow – Net cash flow from/(used in) operating activities” in this prospectus. If, in the future, we are unable to generate sufficient cash flow for our operations or otherwise unable to obtain sufficient funds to finance our business, our liquidity and financial condition will be adversely affected.

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Our operations depend on our research and development capabilities, which may not always produce positive results.

Our ability to improve production capabilities and launch new products depends largely on our research and development capabilities. For example, the wind power industry evolves rapidly and technologies relating to wind turbines are subject to rapid changes and developments. Accordingly, our customers in wind power industry are demanding more technologically advanced REPM materials to improve the operational performance and electricity production of the wind turbines.

To maintain our market position, we need to design, develop and implement new and improved production methods and products on a timely and continuous basis and enhance our service offerings to keep pace with technological developments in order to meet the higher demands from our customers. Accordingly, we have devoted resources to our R&D efforts. During the Track Record Period, our “R&D expenses” were approximately RMB55.1 million, RMB63.2 million, RMB103.2 million and RMB78.1 million, respectively. However, we cannot assure you that our R&D efforts can be completed in the anticipated time frame and lead to new technology that is commercially successful. Even if such efforts are successful, we may be unable to apply our newly developed technologies to our products in ways that are accepted by our customers. If we are unable to maintain or enhance our research and development capabilities, we may encounter delays in production development and technology integration. If we fail to meet changing market demands, if we fail to successfully introduce new and competitive products to the market, or if our R&D research results and technologies fail to keep in line with or meet the changes in customers’ demands in a timely manner and if our competitors respond more rapidly than we do, our competitiveness may be undermined and our business, financial condition and results of operations may be materially and adversely affected.

We are exposed to foreign currency exchange fluctuations.

A substantial portion of our revenues and cost of sales is denominated in Renminbi. However, as we conduct part of our business in Hong Kong, Europe, Japan and USA, we are subject to significant risks associated with foreign currency exchange fluctuations.

Changes in the value of foreign currencies could increase our Renminbi costs for, or reduce our Renminbi revenues from, our foreign operations, or affect the prices of our exported products and the prices of our imported equipment and materials. Any increased costs or reduced revenues as a result of foreign currency exchange fluctuations could adversely affect our margins. The fluctuation of foreign exchange rates also affects the value of our monetary and other assets and liabilities denominated in foreign currencies, primarily U.S. dollar and Euro. To the extent that we need to convert U.S. dollar or Euro into Renminbi for capital expenditures, working capital and other business purposes, appreciation of Renminbi against U.S. dollar or Euro would have an adverse effect on the amount of RMB we would receive from the conversion and vice versa.

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The value of the Renminbi is subject to changes in the PRC's governmental policies and international economic and political environment. On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. On May 18, 2007, the PBOC enlarged, effective on May 21, 2007, the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against the U.S. dollar from 0.3% to 0.5%. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. The floating band was further widened to 1.0% on April 16, 2012. On August 11, 2015, the PBOC announced to improve the central parity quotations of Renminbi against the U.S. dollar by authorizing market-makers to provide central parity quotations to the China Foreign Exchange Trading Center daily before the opening of the interbank foreign exchange market with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign exchange as well as changes in major international currency exchange rates. Following the announcement by the PBOC on August 11, 2015, Renminbi depreciated significantly against the U.S. dollar. On December 11, 2015, the China Foreign Exchange Trade System ("CFETS"), a sub-institutional organization of the PBOC, published for the first time the CFETS Renminbi exchange rate index, which weighs the Renminbi based on 13 currencies, to guide the market in order to measure the Renminbi exchange rate from a new perspective. Since then, Renminbi experienced varying degrees of fluctuation in value against the U.S. dollar. In December 2016, the CFETS announced that starting on January 1, 2017, the number of currencies in the CFETS currency basket will be increased to 24 from 13. The 11 currencies to add, including the Korean won, the South African rand and the Mexican peso, will have a 21.1% weighting in the currency basket, while the U.S. dollar's weight in the basket will be 22.4%. On December 31, 2020, CFETS announced that, starting from January 1, 2021, the U.S. dollar's weight in the basket would be further decreased to 17.9% and the Euro's weight would be increased from 17.4% to 18.2%. The PRC government may adopt further reforms of PRC's exchange rate system in the future.

These changes in policy have resulted in fluctuations of the Renminbi against the U.S. dollar. There can be no assurance that such exchange rate will remain stable against the U.S. dollar or other foreign currencies in the market. At present, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in fluctuations in the exchange rates of the Renminbi against the U.S. dollar or other foreign currencies. Further appreciation of the Renminbi against these currencies may affect our overseas operations. Fluctuations in exchange rates may adversely affect the value, translated or converted into foreign currencies, of our net assets, earnings and any declared dividends.

In order to effectively hedge against and manage the risks related to foreign currency exchange, we have entered into a master agreement with Ganzhou Branch of China Merchants Bank for trading foreign exchange derivatives in November 2018. We recorded other gains on fair value changes of forward exchange agreements of RMB0.7 million, RMB1.2 million, RMB0.7 million, and RMB4.2 million in the Track Record Period; we recorded other expenses

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on fair value changes of forward exchange agreements of RMB1.2 million in the six months ended June 30, 2020. However, we cannot assure you of the availability and effectiveness of our forward foreign exchange agreements and we may not be able to adequately hedge our exposure.

We depend on key management as well as experienced and capable personnel generally, and any failure to attract, motivate, retain or recruit our staff could severely restrict our ability to maintain and grow our business.

Our future success is significantly dependent upon the continued service of our key management and other key employees, particularly in new business areas we are expanding into. Their industry experience, expertise and contributions are essential to our business operations. We will require an increasing number of experienced and competent employees in the future to implement our expansion plans. However, our various incentive initiatives may not be sufficient to retain or attract our management and employees. We may need to offer better remuneration and other benefits to attract and retain key personnel. However, we cannot assure you that we will have the resources to fully achieve our staffing needs or that our costs and expenses will not increase significantly as a result of increased talent acquisition and retention cost. Our failure to attract and retain competent personnel, and any increase in staffing costs to retain such personnel may have a negative impact on our ability to maintain our competitive position and grow our business. We may not be able to locate suitable or qualified replacements, and may incur additional expenses to recruit and train new staff. If this occurs, our businesses, financial condition and results of operations may be materially and adversely affected.

Failure to obtain, maintain or renew required government permits, licenses and approvals could materially and adversely affect our business, results of operations, financial position and growth prospects.

Our operations require certain government permits, licenses, approvals and certificates. For more details of the permits, licenses, and approvals required for our operations, please refer to the section headed “Regulatory Overview” in this prospectus. During the Track Record Period, we did not obtain the drainage permit for discharging sewage of our operations into urban drainage. In July 2021, we applied for the drainage permit for discharging sewage of our operations into urban drainage. The competent authority accepted our application in July 2021 and confirmed that during the Track Record Period and up to the date of such confirmation, we had neither committed any material breach of the laws and regulations in respect of urban management nor been subject to any penalty. For details, please refer to “Business – Legal Proceedings and Compliance – Non-compliance – Drainage permit for discharging sewage” in this prospectus. We have obtained the drainage permit for discharging sewage on September 2, 2021. We cannot assure you that we will not encounter delays or difficulties in fulfilling the necessary conditions to obtain and/or renew all necessary permits, licenses and approvals for our operations in a timely manner, or at all. Any failures by us to obtain, renew or abide by, or encounter delays in obtaining or renewing, such approvals may result in enforcement actions against us, including suspension or termination of licenses, approvals, assurances,

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accreditations, permits, registrations, and certificates, orders issued by the relevant regulatory authorities causing operations to cease, fines and other penalties, and may include corrective measures requiring capital expenditure or remedial actions. In the event that such enforcement action is taken, our business operations could be materially and adversely disrupted.

Our businesses and operations require significant capital resources on an ongoing basis and are subject to uncertainties.

Our businesses and operations are capital intensive. We have been undertaking, and may undertake in the future, capital intensive projects or businesses as part of our growth strategies, which could be delayed or otherwise adversely affected by a number of risks and uncertainties, including, among other things, those relating to market conditions, policies and regulations of the PRC and other relevant jurisdictions, availability of sufficient funding, disputes with business partners, technology and equipment suppliers and other contractors, employees, and local governments and communities, natural disasters, availability of power and other energy supplies, availability of technical or human resources, adverse changes in the relationships between China and relevant foreign countries, and war or other significant adverse developments in international relations.

There is no assurance that each project or business, either ongoing, planned or to be undertaken, will ultimately be implemented or will generate any profit. Moreover, actual costs for these projects or businesses may exceed the initial budgets due to factors such as delays, changes in scope, increases in funding costs due to foreign exchange and interest rate volatility and increases in raw material, equipment or labor costs. In addition, these projects or businesses may not be able to achieve the anticipated economic results and commercial viability due to various factors, including but not limited to adverse changes in market conditions, low capacity utilization in respect of production and manufacturing facilities, high construction and production costs and decreased demand for and prices of our products. In addition, we require significant capital resources to fund our research and development programs. If any of these projects businesses or programs is not completed as planned, exceeds our initial budgets or time limits, or fails to achieve the anticipated economic results or commercial viability, our business, financial condition and results of operations could be materially and adversely affected.

We currently fund our operations primarily through proceeds generated from operations, bank loans, the issuance of shares as well as bonds and debt and other borrowings. There is no assurance that the proceeds generated from our existing operations will be sufficient to fund our development and expansion. The availability of external funding is subject to various factors, including governmental approvals, market conditions, credit availability, interest rates and the performance of the businesses we operate. To the extent that additional financing proves to be unavailable or unaffordable when needed for a particular investment or acquisition, we may be compelled to restructure, delay or abandon the transaction and, as a result, our business, financial condition, results of operations, growth prospects and expansion plans may be materially and adversely affected.

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We may not be able to implement our strategies and our future plans.

We plan to ramp up our high-performance NdFeB PM production, realizing an annual production capacity of 23,000 tonnes of high-performance NdFeB PM blanks by 2022 and 40,000 tonnes of high-performance NdFeB PM blanks by 2025. To achieve such targets, we will upgrade our existing production bases and continue with our current construction plans. The construction of new production bases is affected by various factors, including the performance and efficiency of the construction contractors, changes in relevant regulations and government policies, construction accidents, adverse weather conditions, delays in obtaining the necessary licenses, permits or approvals from relevant authorities in the PRC and other unforeseen problems and circumstances, which may adversely affect the schedule, costs and the success of the construction work. Any delays in the construction schedule, deviation from our planned specifications, failure to control the costs within budget may affect the time when our production capacities could be enhanced. In particular, we made a deposit of RMB11.4 million to Ningbo (Jiangbei) High-Tech Industrial Park Management Committee to guarantee our construction, completion and commercial production of Ningbo Production Base. Refund of such deposit depends on the achievement of certain milestones. See “Financial Information – Discussion of Certain Selected Items from The Consolidated Statements of Financial Position – Prepayments, Other Receivables and Other Assets” for details. In the unlikely circumstances where we are unable to achieve such milestones, we will not be eligible to apply for a refund of such deposit, which may adversely affect our financial condition.

We intend to expand our industry chain to cover other businesses through selective acquisitions of, or strategic investments in, both upstream and downstream industries domestically and globally. See “Business – Development Strategies – Industry chain expansion” for details. We may encounter unexpected difficulties, such as unforeseen costs and delays, in relation to the acquisition. There is no assurance that we will successfully identify suitable acquisition or investment targets. Other large-scale market players may also compete with us for the acquisition targets, which imposes difficulties for us entering into acquisition agreements with counterparties on favorable terms, or at all. In addition, acquisitions of businesses may lead to material transaction expenses, and we may incur substantial amortization, depreciation and operating expenses for businesses we acquire, which could materially and adversely affect our financial condition and results of operations. Additionally, the integration and management of new businesses could divert management resources which would otherwise be available for the ongoing development of our business. Further, we may be exposed to the risk from contingent liabilities in relation to the acquired businesses and we may not be fully indemnified, or at all, if such contingent liabilities were to incur. As such, we cannot assure you that we will be able to implement our strategic investment successfully within the expected timetable or at all, or that we will be able to manage our growth effectively after the acquisition of businesses. If any of the aforesaid events were to happen, our business, financial condition, results of operations and prospects could be materially and adversely affected.

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Our strategies are based on our existing plans in light of the prevailing market conditions and possible industry developments, and are subject to inherent risks and uncertainties at different development and expansion stages. The formulation of our strategies is based on assumptions of future events which include, but are not limited to, no material change in existing political, geopolitical, legal, fiscal, foreign trade or economic conditions in major markets where the REPM materials are expected to be applied, no material change in technology used by the REPM industry, no material change in our business relationships with our existing customers and suppliers, and no change in regulatory and global trade and duty tax environment. These assumptions may not be correct, which could affect the commercial viability of our strategies. In such event, we may need to adjust our strategies in response to the changing market conditions.

Despite of our efforts, our development plan may not achieve desirable results. We cannot assure you that our strategies will be implemented in the manners as disclosed in this prospectus. In any of these events, our business, financial condition, and operating results could be adversely and materially affected.

We have limited insurance coverage which could expose us to significant costs and business disruption.

We face various operational risks in connection with our businesses, including production interruptions caused by operational errors, electricity outages, the failure of equipment and other risks, operating limitations imposed by environmental or other regulatory requirements, social, political and labor unrest, environmental or industrial accidents, catastrophic events such as fires, earthquakes, explosions, floods or other natural disasters.

We may not have adequate or any insurance coverage on the abovementioned operational risks. We have insurance coverage for our plant, machinery and the inventory. We generally purchase insurance for each batch of products to be delivered to our customers. We also maintain product liability insurance. For more details of our insurance, please refer to the section headed “Business – Insurance”. There can be no assurance that the insurance policies held by us will be sufficient to cover all risks we encounter in our operations. We maintain endowment insurance, medical insurance, unemployment insurance, work injury insurance and maternity insurance for our employees in China pursuant to the relevant PRC laws and regulations and in line with customary practices in the PRC.

We have established various insurance policies to safeguard against risks and unexpected events. Certain kinds of losses cannot be insured at all or insured at a commercially reasonable cost, and our existing insurance policies are subject to liability limits and exclusions. We cannot assure you that we will be able to successfully claim our losses under our current insurance policies on a timely basis or our losses incurred can be compensated on a timely manner. If we incur any loss that is not covered by our insurance policies, the compensated amount is significantly less than our actual loss or the compensation is significantly delayed for factors beyond our control, our business, financial condition and results of operations could be materially and adversely affect. In the event of a successful product liability claim against

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us, we will be liable for damages and may be ordered to suspend or cease production by the relevant government authorities. This may result in negative publicity and our reputation may be adversely affected which could lead to a reduction in sales, cancelation of major contracts or cessation of our business. Any claims by consumers, our employees or the government that our REPM products could have a material adverse effect on our reputation with existing and potential customers and on our business, results of operations and financial position.

We may suffer losses from our finished products stored at warehouses designated by independent third-party customers.

We store some finished products at warehouses designated by certain independent third-party customers (the “**Third-party Warehouses**”) upon request. Such customers are mainly NEV sector participants. They also include several VFAC and energy-saving elevator manufacturers. Such finished goods are generally stored at Third-party Warehouses at our own risk. Title and risk are passed to customers once the customers give us written notices in relation to their taking out of such finished goods from Third-party Warehouses for use. For more details of our products stored at Third-party Warehouses, please refer to section headed “Business – Inventory Management”.

During the Track Record Period, we did not encounter material losses of finished goods stored at Third-party Warehouses. However, we have limited control over the expected timeframe for the drawdown of the finished products stored at Third-party Warehouses, the storage conditions of the warehouses and the customers’ actual taking of finished goods and payment time. Our customers and us do not purchase insurance for the products stored at the Third-party Warehouses, which is in line with industry practice. In the event of any damage or deterioration caused by factors beyond our control including inadequate storage management or catastrophic events such as outbreak of fire or explosion, we may suffer from losses and such losses may not be compensated in a timely and adequate manner. Our performance and financial position may thereby be adversely affected.

The failure to maintain or protect our intellectual property rights, trade secrets, and proprietary technologies and processes could have an adverse effect on our business, financial condition and results of operations.

Our success depends on our ability to use, develop and protect our technology and know-how without infringing the intellectual property rights of third parties. We seek to protect our intellectual property rights, trade secrets and proprietary technology and processes. We maintain a combination of patent filings for our invention patents in the PRC and utility model patents. In addition, we maintain trademark registrations and patents in the PRC and may need to make filings with relevant authorities in order to maintain such trademark registrations and annual fees to maintain our authorized patents. Any failure to promptly make such filings or pay such fees may adversely affect our intellectual property rights, which may in turn have an adverse effect on our business, financial condition and operating results.

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We may be unable to obtain, maintain and protect our intellectual property rights and proprietary information or prevent third parties from any unauthorized use of our technologies. Our trade secrets, trademarks, copyrights, patents, and other intellectual property rights are critical to our success. Litigation may be required to enforce our intellectual property rights, protect our trade secrets and proprietary technologies or processes, or determine the validity and scope of proprietary rights of others. Our competitors and other third parties may, whether rightly or falsely, bring legal claims against us for infringing on their patents, copyrights, trademarks or other intellectual property rights. Any action we may take to protect our intellectual property rights could be costly and could absorb a significant amount of our time and attention. If any of the foregoing occurs, we may be unable to execute our business plan. There is no guarantee that we can obtain favorable judgment in all legal cases. An adverse determination in any such litigation or proceedings to which we are a party may subject us to significant liability to third parties, require us to seek licenses from third parties, pay ongoing royalties, redesign our products or subject us to injunctions prohibiting the manufacture and sale of our products or the use of our technologies. Protracted litigation may also result in our customers or potential customers deferring or limiting their purchase of our products until resolution of such litigations. The failure to protect our intellectual property rights may have an adverse effect on our business, financial condition and operating results.

We have also established a code of conduct for our employees. We enter into confidentiality agreements with our employees and any third parties who may access our proprietary information, and we rigorously control access to our proprietary technology and information. Our management above the supervisory level, core positions or core personnel in the technical and business departments have signed confidentiality agreements at the time of joining us, which are subsequently supplemented by non-compete agreements and post-employment non-competition agreements. Despite rigorous measures we take to protect our core technology, our intellectual property or core technology may be infringed or leaked for reasons that we have little or no control. Confidentiality agreements may be breached by counterparties, and there may not be adequate remedies available to us for these breaches. Accordingly, we may not be able to effectively protect our intellectual property rights or to enforce our contractual rights in China or elsewhere. In addition, policing any unauthorized use of our intellectual property is difficult, time-consuming and costly and the steps we have taken may be inadequate to prevent the misappropriation of our intellectual property. In the event that we resort to litigation to enforce our intellectual property rights, this litigation could result in substantial costs and a diversion of our managerial and financial resources. There can be no assurance that we will prevail in any litigation. In addition, our trade secrets may be leaked or otherwise become available to, or be independently discovered by, our competitors. As a result, we may lose our competitive advantages derived from such intellectual property. Significant impairments on our intellectual property rights may result in a material and adverse effect on our business, financial condition and results of operations.

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We are subject to litigation risks.

In the ordinary course of business, claims involving customers and suppliers may be brought against us in connection with our contracts. Claims may be brought against us for back charges for alleged defective or incomplete work, liabilities for defective products, personal injuries and deaths, damage to or destruction of property, breaches of warranty, delayed payments to our suppliers, late completion or other contractual disputes. The claims and back charges may involve actual damages and contractually agreed upon liquidated sums.

We have entered into confidentiality agreements with our customers and we have adopted rigorous measures and internal guidelines for the protection of the confidential information of our customers. Nevertheless, the efforts that we take to protect our customers' information may not always be sufficient or effective. Any improper handling or leakage of our customers' information as a result of any misconduct by our employees or external factors, such as unauthorized access to our database or cyberattacks, could harm our business reputation and our customers' confidence in us. Such failures to properly protect our customers' confidential information may constitute a breach of law and subject us to litigations.

We may face claims or disputes from third parties alleging ownership of certain intellectual property rights, trade secrets, and proprietary technologies and processes. As we continue to expand our international markets and gain greater market share in the global REPM industry, we face a higher risk of being the subject of claims for intellectual property infringement, invalidity or indemnification. Many of our current and potential competitors have made, and will continue to make, substantial investment in developing competing technologies, and have or may obtain patents that may prevent, limit or interfere with our ability to make, use or sell our existing or future products in China or overseas. Any of these factors could prevent or restrict us from pursuing some or all of our business and result in our existing or potential customers deferring or limiting their purchase or use of our products, which could adversely affect our financial condition and operating results. We cannot assure that our measures taken will be sufficient to protect our intellectual property rights, trade secrets, and proprietary technologies and processes. The validity and scope of any potential claims relating to our production technology and know-how involve complex scientific, legal and factual questions and analysis and, therefore, may be highly uncertain. If we lose any of such intellectual property rights, trade secrets and proprietary technologies and processes, we may lose our competitive advantage and may be prevented from marketing or licensing our intellectual properties to others. During the Track Record Period and up to the Latest Practicable Date, we did not infringe and were not alleged to infringe any intellectual property rights owned by third parties.

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If we are found liable on any of the claims, we would have to incur a charge against our current earnings to the extent that a reserve had not been established for the matter in our accounts, or to the extent the claims were not sufficiently covered by our insurance coverage. Claims brought by us against our customers may include claims for additional costs incurred in excess of current contract provisions arising out of delays and changes in the initial scope of work. Both claims brought against us and by us, if not resolved through negotiation, are often subject to lengthy and expensive litigation or arbitration proceedings. Amounts ultimately realized from our customers or other claims by us could differ materially from the balances included in our financial statements, resulting in a charge against earnings to the extent profit has already been accrued on a project or other contract. Charges associated with claims brought against us and write-downs associated with claims brought by us could have a material adverse impact on our businesses, financial condition, results of operations and cash flow. Moreover, legal proceedings resulting in judgments or findings against us may harm our reputation and damage our prospects to secure contracts in the future.

The outbreak of the COVID-19 may cause damage to the China's and global economy and as a result may adversely affect our business, results of operations and financial performance.

The occurrence of a disaster or a prolonged outbreak of an epidemic illness or other adverse public health developments in China or elsewhere in the world could materially disrupt our business and operations. These events could also significantly impact our industry and cause a temporary closure of the facilities we use for our operations, which would severely disrupt our operations and have a material adverse effect on our business, financial condition and results of operations.

COVID-19 is a highly contagious disease that emerges and spreads globally. The PRC government announced certain measures including travel restrictions in certain major cities in the PRC in an effort to contain the outbreak of the COVID-19. We cannot assure you that we will successfully maintain our business operations and growth in face of each of such unfavorable events in the future and that such pandemic will not cause us to incur additional expenses in cleaning and sanitation as part of infection control or prevention.

If the outbreak of the COVID-19 continues, it may affect the sales of our products, our financial performance and our expansion plan, either domestically and globally. Even though none of our employee was infected since the outbreak of COVID-19, such outbreak may disrupt our Group's ability to adequately staff our business and may generally disrupt our Group's operations. As of the Latest Practicable Date, our Group has resumed work and none of our employees has been laid off due to the outbreak of the COVID-19. However, our operations could be disrupted if any of our employees or employees of our business partners were suspected of contracting an epidemic disease, since this could require us or our business partners to quarantine some or all of these employees or disinfect the facilities used for our operations. Since late July 2021, there had been a resurgence of the COVID-19 in several provinces in China. We cannot predict whether the resurgence of the outbreak will deteriorate or whether the outbreak will continue to recur from time to time.

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In addition, our revenue and profitability could be materially reduced to the extent that a natural disaster, health epidemic or other outbreak harms the global or PRC economy in general. Our operations could also be severely disrupted if our suppliers or customers were affected by natural disasters, health epidemics or other outbreaks.

Failure in our information technology systems could adversely affect our operations.

The satisfactory performance, reliability and availability of our information technology systems is critical to business operations. Any failure in our IT systems due to faulty interaction with systems of other industry players, viruses, unauthorized access, wear and tear, failures on the part of internet service providers or other vendors or other factors could have adverse impact on our results of operations. Our information technology system is also subject to hacking or other cyberattacks. We cannot assure you that our current security mechanisms can successfully block and prevent all hackings or other cyberattacks. As a result, failure to meet our customers' demand or to protect against technological disruptions of our operations or operations of our customers could materially and adversely affect our business, financial condition and results of operations.

Any power outage, mechanical failure, disruption in utility supply, fire outbreak or other calamities at or near our production plants may affect our business operations.

We rely on our production machinery and equipment to achieve mass production of our products. Any mechanical failure or breakdown may materially disrupt our production and cause us to incur additional costs to repair or replace the affected mechanical system. We cannot assure you that our production machinery and equipment will be foolproof, or that we will be able to address any such problems or obtain replacements in a timely manner. Problems with key production machinery and equipment at one or more of our production plants may affect our ability to produce our products or cause us to incur significant expense to repair or replace the affected production machinery or equipment. Any of these may have a material adverse effect on our business, results of operations and financial condition. The operation of our production facilities depends on stable and continuous supply of utilities such as electricity. Any disruption to the supply of electricity at our production facilities may disrupt our production, or cause deterioration or loss of our inventories or products. This could adversely affect our ability to fulfill our sales orders and consequently may have a material adverse effect on our business, operation results, financial results and our reputation. As a result of the shortage of coal supply combined with high electricity demand from manufacturers, China has experienced widespread power outages since September 2021. The PRC government has imposed power curbs, including imposing power restrictions on factories in more than 20 provinces, including Jiangxi Province, in China to deal with an imbalance in energy supply and demand. As a result, a broad range of manufacturing sectors have been affected by the power cuts. We cannot predict whether the power outage will deteriorate or whether the PRC government will continue to impose power restrictions on factories across China, and whether our suppliers and customers will be materially and adversely affected by the power outage or power restrictions imposed by the PRC government. If the power outage deteriorates or the PRC government continues to impose power restriction, our business, operation results and financial results may be materially and adversely affected.

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Furthermore, we are subject to operational risks, such as interruption by fire, earthquake, floods, hardware and software failure, computer viruses, equipment obsolescence, explosion caused by mechanical malfunction or failure of our employees to comply with operation specifications, labor disputes, industrial accidents and other events beyond our control which may adversely affect our production. We cannot assure you that the safety measures we take would be sufficient to prevent any outbreak of fire, damage or losses to our assets in the future. In the event of any unanticipated or prolonged interruption of our production facilities, we may suffer significant loss and our business, results of operations and financial position may be materially and adversely affected.

Our workers are subject to risks of serious injury caused by the use of machinery, production equipment and tools and other production-related risks.

We use machinery and equipment such as boilers, mixers, molding equipment, coolers and packaging equipment, which are potentially dangerous in our operations. Any significant accident caused by the use of such equipment or machinery or malfunctions of such equipment or machinery or other reason could interrupt our operations and result in legal and regulatory liabilities. Despite our efforts to protect our employees' health through executing safety measures, we cannot rule out such risks caused by factors beyond our control. We may also be subject to business interruptions caused by equipment shutdowns for government investigation or implementation or imposition of safety measures as a result of the accident. In addition, there is no guarantee that the insurance we maintain related to accidents resulting from the use of such equipment or machinery is sufficient to offset losses arising from claims related to such accidents. In such event, our business, results of operations and financial position may be adversely affected.

We are subject to stringent environmental laws and regulations and may incur substantial costs in complying with such laws and regulations and resolving relevant risks.

Our production generates sewage and other industrial waste at different stages of the production process. As a result, our operations are subject to various environmental laws and regulations and administrative adjudications. The environmental laws and regulations impose stringent standards on our handling and disposal of waste and emission of sewage. If we fail to comply with any of the regulations or to satisfy any of the conditions required for the maintenance of our licenses and certificates, such licenses and certificates could be temporarily suspended, revoked, or rejected upon renewal or delayed for renewal upon expiry of their original terms. This could materially and adversely affect our business, financial condition and results of operations.

Given the magnitude, complexity and continuous amendments to these laws and regulations, compliance therewith may be onerous and may cost substantial financial and other resources to establish efficient compliance and monitoring systems. The liabilities, costs, obligations and requirements associated with these laws and regulations may therefore be substantial and may delay the commencement of, or cause interruptions to, our operations. Non-compliance with the laws and regulations applicable to our operations may even result in

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substantial penalties or fines, suspension or revocation of our relevant licenses, termination of government contracts or suspension of their operations. Such events could impact on our results of operations, financial condition and reputation, all of which could adversely affect our ability to stay profitable and attract new customers.

In addition, the environmental, chemical manufacturing, health and safety laws and regulations, administrative adjudications and court decisions in China and other jurisdictions which we are subject to continue to evolve, which may lead to stricter standards and enforcement trends, increased fines and penalties for non-compliance and remedial measures, as well as increased liability exposure for us and our officers, directors and employees. Any changes or amendments to such laws or regulations may cause us to incur additional capital expenditures, costs that may not be able to be passed on to our customers, or other obligations or liabilities, which could decrease our capital and our ability to pursue developments in other areas.

Shutdown of our operations to curtail pollution may also be ordered by authorities and such actions will result in unexpected business interruptions or suspension of our operations at our production facilities and may lead to significant financial and reputational loss if we cannot find suitable alternatives to fulfill orders in time. It could result in material and adverse impact on our business, financial condition and results of operations.

There can be no assurance that we will be able to comply with the relevant environmental laws or able to maintain or renew our existing licenses and certificates or obtain future licenses and certificates required for our continued operations on a timely basis or at all. In the event that we fail to comply with applicable laws and regulations or fail to maintain, renew or obtain the necessary licenses or certificates, our qualification to conduct our various businesses may be adversely affected, which may adversely affect our business, financial condition and results of operations.

The timing of our payment to suppliers may not match our receipt from customers.

To remain competitive in the market, we need to retain adequate level of working capital to guarantee smooth business operation and support the growth of our business. Most of our purchase orders require us to commit a certain amount of cash and/or other resources, such as raw materials, packaging materials and inventories, prior to receiving any payments from our customers.

We generally grant credit periods ranging from 30 to 90 days to our customers and are therefore subject to credit risks of our customers. Our liquidity depends on our customers making prompt payments to us. For more details of the trade receivables, please refer to the section headed “Financial Information – Discussion of Certain Selected Items from the Consolidated Statements of Financial Position – Trade Receivables” in this prospectus. During the Track Record Period, we recorded trade receivables of RMB369.9 million, RMB704.8 million, RMB743.1 million, and RMB1,166.1 million as of December 31, 2018, 2019 and 2020 and June 30, 2021, respectively. Our average trade receivable turnover days as of December 31, 2018, 2019 and 2020 and six months ended June 30, 2021 were 103 days, 120 days, 115 days

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and 98 days, respectively. If our customers delay or default in their payments to us, we may have to make impairment provisions and write-off the relevant receivables and hence our liquidity may be adversely affected. This may in turn materially and adversely affect our business, financial condition and results of operation.

The credit period offered by suppliers to us is generally shorter than the credit period offered to customers by us ranging from 5 to 75 days. As of December 31, 2018, 2019 and 2020 and June 30, 2021, our trade payables amounted to approximately RMB236.0 million, RMB241.6 million, RMB363.6 million and RMB510.7 million, respectively. Our average trade and notes payable turnover days for the years ended December 31, 2018, 2019 and 2020 and six months ended June 30, 2021 were 95, 104, 108 and 87 days, respectively. With our revenue continuously growing, the mismatch between trade receivables turnover days and trade and notes payable turnover days would raise our liquidity risk. The gap between trade receivables turnover days and trade and notes payable turnover days can result in high gearing ratio when we rely on bank borrowings to ease the pressure of our cash flow. Moreover, any default or delay in payment by our customers or our failure to collect trade receivables from them may broaden our cash flow mismatch, which may result in significant cash flow shortcomings in the future and adversely affect our cash position and results of operations. Even where we are able to recover any losses incurred, the process of such recovery is usually time-consuming and requires financial and other resources to settle the disputes. Furthermore, there can be no assurance that any outcome will be in our favor or that any dispute will be resolved in a timely manner. Failure to secure adequate payments in time or to manage bad debt effectively could have a material adverse effect on our business, financial position, results of operations and prospects.

We are subject to credit risk from our customers, and our inability to collect on our trade receivables and note receivables measured at amortized cost from our customers may materially and adversely affect our cash flows and operations.

As we sell our products to the customers, we record trade receivables and note receivables measured at amortized cost. We recorded trade receivables of RMB369.9 million, RMB704.8 million, RMB743.1 million, and RMB1,166.1 million as of December 31, 2018, 2019 and 2020 and June 30, 2021, respectively. In addition, we recorded note receivables measured at amortized cost of RMB123.1 million, RMB57.0 million, RMB118.6 million, and RMB156.8 million as of December 31, 2018, 2019 and 2020 and June 30, 2021, respectively.

Our customers may fail to settle trade receivables and note receivables measured at amortized cost in a timely manner, or at all, and we may not properly assess and respond in a timely manner to changes in their credit profiles and financial condition. As of December 31, 2018, 2019 and 2020 and June 30, 2021, we incurred impairment of trade receivables of RMB5.1 million, RMB13.0 million, RMB19.2 million and RMB18.1 million, respectively. In addition, as of December 31, 2018, 2019 and 2020 and June 30, 2021, we incurred impairment of note receivables measured at amortized cost of RMB0.5 million, RMB0.2 million, RMB1.2 million and RMB1.6 million, respectively.

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Adverse changes in our customers' financial condition may negatively affect the time to collect associated trade receivables and note receivables measured at amortized cost or reduce the likelihood of ultimate collection, which would in turn materially and adversely affect our business, financial condition and results of operations. As we grow our business, the amount of trade receivables and note receivables measured at amortized cost we record may increase, which may negatively impact our cash flow.

If we fail to fulfill our obligations in respect of contract liabilities, we could be exposed to legal liability, loss of reputation, reduced revenue, or liquidity challenges.

During the Track Record Period, our contract liabilities represented the obligations to transfer goods to customers for which we have received short-term advances. Such contract liabilities are reduced when we perform such obligations to customers. For details, see "Financial Information – Discussion on Certain Selected Items from the Consolidated Statements of Financial Position – Contract Liabilities".

As of December 31, 2018, 2019 and 2020 and June 30, 2021, we had contract liabilities of approximately RMB13.6 million, RMB5.6 million, RMB18.0 million and RMB19.8 million, respectively. If we fail to honor our obligations in respect of our contract liabilities, customers may exercise their rights to terminate a contract, exposing us to legal liability, damage to our reputation, reduced revenue or liquidity challenges.

Our notes receivables at fair value through other comprehensive income are subject to uncertainties in accounting estimates, and fair value changes of our notes receivables at fair value through other comprehensive income would affect our financial performance.

We recorded notes receivables at fair value through other comprehensive income ("FVOCI") of RMB101.7 million, RMB116.3 million, RMB127.2 million and RMB25.9 million as of December 31, 2018, 2019, 2020 and June 30, 2021, respectively. Our notes receivables at FVOCI represent our receivables from bank acceptance notes. See "Financial Information – Discussion of Certain Selected Items from the Consolidated Statements of Financial Position – Notes Receivables" for more details.

We use unobservable inputs, such as expected volatility, discount for lack of marketability, expected rate of return and discount rate, in valuing notes receivables at fair value through other comprehensive income. Using such unobservable inputs requires judgment and assumptions that are inherently uncertain. Factors beyond our control can influence and cause adverse changes to the estimates we use and thereby affect the fair value of such assets. These factors include, but not limited to, general economic condition, changes in market interest rates and stability of the capital markets. Any of these factors, as well as others, could cause our estimates to vary from actual results, which could adversely affect our financial performance and financial position.

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The changes in fair value of our notes receivables at FVOCI are reflected in our other comprehensive income. Such financial assets are measured at fair value and the changes of fair value are recorded in our consolidated statements of other comprehensive income, therefore directly affecting our financial performance. There is no assurance that we will not incur any fair value losses in the future. If we incur significant fair value losses on the notes receivables, our financial performance and financial position may be adversely affected.

Our investment in wealth management products may adversely affect our financial performance and financial position.

During the Track Record Period, we purchased wealth management products as a supplemental mean to improve the utilization of our cash on hand on a short-term basis. Such wealth management products were generally redeemable at any time. For the years ended December 31, 2018, 2019 and 2020 and six months ended June 30 2021, we recorded gains on wealth management products of nil, RMB0.6 million, RMB5.7 million and RMB4.6 million, respectively. Based on the interim condensed consolidated financial information for the nine months ended September 30, 2021 of the Group reviewed by the Reporting Accountant as set out in Appendix IA of this prospectus, we recorded cash outflows of RMB333.0 million for purchases of wealth management products and cash inflows of RMB342.2 million as proceeds from sale of wealth management products. We intend to purchase low-risk wealth management products with good liquidity for treasury management purpose in the future. There is no assurance that we will not record a loss from wealth management products. As a result, our financial performance and financial position may be adversely affected.

We typically redeemed our investments in wealth management products upon their maturities before the end of each reporting period and thus did not record any material asset for such as of December 31, 2018, 2019 and 2020 and June 30, 2021, respectively. Going forward, if we record wealth management products at the end of a reporting period, we will need to measure our financial assets at fair value through profit or loss using unobservable inputs, which are expected rate of return rate and discount rate. Changes in any of the unobservable inputs could result in changes of the fair value of our equity investment. For example, the banks that issued wealth management products may not perform their contractual obligations. Furthermore, factors beyond our control can influence and cause adverse changes to the estimates we use and thereby affect the fair value of wealth management products. These factors include, but not limited to, general economic condition, changes in market foreign exchange rates. Any of these factors, as well as others, could cause our estimates to vary from actual results, which could adversely affect our financial performance and financial position.

Advance payment for engineering equipment may be subject to impairment.

Advance payment for engineering equipment primarily represented prepayments for equipment specific tailored for our plants and production process. As of December 31, 2018, 2019 and 2020 and June 30, 2021, our advance payment for engineering equipment was RMB44.5 million, RMB56.1 million, RMB87.0 million and RMB120.4 million, respectively, among which nil, nil, RMB8.3 million and RMB8.3 million had aging over three years. Certain

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factors, including industry and macroeconomic conditions, might negatively impact financial condition of engineering equipment suppliers, which in turn subject advance payment for engineering equipment to impairment. As a result, our business, financial condition and results of operations may be adversely affected.

The discontinuation of the preferential tax treatment currently available to us in the PRC or other unfavorable changes in tax law could result in additional tax obligations and expenses.

According to the Notice on the Implementation of Tax Policies for Western Development in Ganzhou (Cai Shui [2013] No. 4) (《關於贛州市執行西部大開發稅收政策問題的通知》(財稅[2013]4號)), from January 1, 2012 to December 31, 2020, and Announcement on Renewing the Enterprise Income Tax Policy for Western Development (Announcement of MOF, SAT, NDRC [2020] No. 23) (《關於延續西部大開發企業所得稅政策的公告》(財政部、稅務總局、國家發展改革委公告2020年第23號)), effective from January 1, 2021 to December 31, 2030, enterprises and foreign-invested enterprises located in Ganzhou in the encouraged industries are entitled to a reduced corporate income tax rate of 15%. We enjoyed the reduced corporate income tax rate of 15% during the Track Record Period, and the amount of tax benefits enjoyed were RMB16.1 million, RMB19.1 million, and RMB29.6 million in 2018, 2019 and 2020, respectively, which accounted for 10.9%, 12.1%, and 12.2% of the our net profit attributable to owners of the parent in the consolidated statement in 2018, 2019 and 2020, respectively. We were also entitled to export tax rebates regarding our exports of REPMs. We enjoyed an export tax rebate rate of 13% during the Track Record Period, and the amount of tax benefits enjoyed were RMB10.0 million, RMB31.5 million, and RMB18.5 million in 2018, 2019 and 2020, respectively. Our business and financial performance could be adversely affected by unfavorable changes in or interpretation of existing, or promulgation of new tax laws or regulations applicable to our business, which could result in additional tax obligations and expenses.

The loss of or a reduction in government grants could reduce our profits.

In addition, we recognized government grants of approximately RMB46.4 million, RMB9.8 million and RMB17.1 million for the years ended December 31, 2018, 2019 and 2020, respectively, and RMB8.3 million for the six months ended June 30, 2021. The government grants decreased from 2018 to 2019 because we were rewarded RMB17.9 million for “refined processing and application of rare earth tungsten” and RMB21.0 million for our listing on SZSE in 2018 while there were no such policies or rewards granted to us in 2019. The amounts of and conditions attached to such government grants were determined at the sole discretion of the relevant PRC authorities. We cannot assure you that we will continue to receive such government grants at the same level or at all or secure new grants. Even if we continue to be eligible to receive such government grants, we cannot guarantee that any conditions attached to the grants will be as favorable to us as they have historically been or the government grants would be awarded to us on a timely manner. Any unfavorable changes in government grant policy or reduction or discontinuation of these government grants could adversely affect our financial condition and results of operations.

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Share-based payments may cause shareholding dilution to our existing Shareholders and have a material and adverse effect on our financial performance.

We operate a share incentive plan for the purpose of providing incentives and rewards to eligible grantees who contribute to the success of our operations. Our employees (including directors) receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments. We have granted to our employees certain Type I and Type II restricted shares. Upon satisfaction of certain conditions, our employees shall be entitled to receive newly issued A Shares of the Company or subscribe for new shares under the share incentive plan. See note 37 of the Accountant Report set out in Appendix I to this prospectus for further details. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, we incurred equity-settled share award expenses for our Directors and employees of nil, nil, RMB37.5 million and RMB45.5 million, respectively. To further incentivize our Directors and employees to contribute to us, we may grant additional share-based compensation in the future. Issuance of additional Shares with respect to such share-based payment may dilute the shareholding percentage of our existing Shareholders. Expenses incurred with respect to such share-based payment may also increase our operating expenses and therefore have a material and adverse effect on our financial conditions.

We are subject to risks beyond our control relating to acts of terrorism, wars and other disasters in the PRC and globally.

Natural disasters, epidemics, acts of terrorism, wars or other factors beyond our control may adversely affect the economy, infrastructure and livelihood of the people in markets where we have, or plan to have, business operations. Some of these markets are situated in geographic regions of the PRC that are affected by or susceptible to the threat of floods, earthquakes, sandstorms, snowstorms, fires or droughts, power shortages or failures, as well as potential wars, terrorist attacks or epidemics such as the COVID-19, Ebola, and severe acute respiratory syndrome (SARS). Serious natural disasters may result in a tremendous loss of lives, injuries and the destruction of assets, as well as disruptions to our business operations. Severe communicable disease outbreaks could result in widespread health crises that materially and adversely affect economic systems and financial markets. Acts of terrorism or wars may also injure our employees, cause loss of life, disrupt our business operations and adversely affect the financial well-being of our customers.

Any of these and other factors beyond our control may create uncertainties within the overall business environment in the PRC and globally, thereby causing our domestic and overseas business operations to suffer in ways that we cannot predict and may materially and adversely impact our business, results of operations and financial position.

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Work stoppage and other labor related issues may have an adverse effect on our businesses.

We believe that we have a good working relationship with our employees and have not experienced any material work stoppages, strikes or other major labor problems during the Track Record Period. However, there is no assurance that any of such events will not arise in the future. If our employees were to engage in a strike or other work stoppage, we could experience significant disruption to our operations and/or incur higher on-going labor costs, which may have an adverse effect on our businesses and results of operations.

In addition, labor costs in regions where we operate have been increasing in recent years and could potentially continue to increase. If labor costs in these regions continue to increase, our production costs will increase. We may not be able to pass on these increased costs to customers by increasing the selling prices of our products in light of competitive pressure in the markets where we operate. In such circumstances, our profit margin may decrease, which could have an adverse effect on our results of operations.

Our non-compliance with certain laws and regulations regarding social insurance and housing provident funds in the PRC could lead to the imposition of fines and penalties on us.

According to the Social Insurance Law of the PRC (中華人民共和國社會保險法) and the Administrative Regulations on the Housing Provident Fund of the PRC (住房公積金管理條例), we are required to make social insurance and housing provident fund contributions for the benefit of our employees. However, during the Track Record Period, certain PRC operating entities in our Group did not make full contribution to the social insurance and housing provident funds for our employees. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, the outstanding amount of social insurance and housing provident funds was RMB0.4 million, RMB1.7 million, RMB4.6 million and RMB4.4 million, respectively, which was lower than 0.5% of our revenue for each period of the Track Record Period, respectively. For more details of our non-compliance with contributions of social insurance premium and housing provident funds, see “Business – Legal Proceedings and Compliance” in this prospectus.

We have obtained written confirmations from the competent authorities in Ganzhou in July 2021, which stated that (i) our operating entities in Ganzhou had made adequate social insurance contributions and housing provident funds payments in accordance with local standards for our employees during the Track Record Period and up to the date of these confirmations; and (ii) we were not and would not be required to pay for any outstanding social insurance contributions, housing provident fund payment obligations or overdue charges, or be subject to any penalty in relation to our historical social insurance contribution and housing provident funds payment for our employees. We have also obtained written confirmations from the competent authorities in Ningbo and Baotou in July 2021, which stated that our operating entities in Ningbo and Baotou had made social insurance contributions and housing provident fund payments for our employees and were not subject to any penalty during the Track Record Period and up to the respective dates of these confirmations.

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However, there is no assurance that non-compliance of our entities in Ganzhou, Ningbo and Baotou with national laws in relation to social insurance and housing provident fund will not result in fines and administrative penalties, which may have a material adverse impact on our business operation. In addition, there is no assurance that our future practice with respect to the contribution of social insurance plans will be deemed in full compliance with relevant PRC laws and regulations. Furthermore, on July 20, 2018, the General Office of the Communist Party of China and the General Office of the State Council of the PRC issued the Reform Plan of the State Tax and Local Tax Collection Administration System (《國稅地稅徵管體制改革方案》) (the “**Reform Plan**”). Pursuant to the Reform Plan, starting from January 1, 2019, tax authorities shall be responsible for the collection of social insurance contributions in the PRC. However, no specific implementing rules for the Reform Plan have been issued, and the effect of the Reform Plan is uncertain at the current stage. We cannot guarantee that the amount of contributions of social insurance premium and housing provident funds we would be required to pay will not increase. In the event of any regulatory actions, we may be required to pay any shortfall in social insurance contributions within a prescribed time period and to pay penalties and be subject to other legal or administrative sanctions, if we fail to do so, which may have a material adverse impact on our business operation, financial position and reputation.

We face risks associated with our international sales and operations.

As of the latest practicable date, we operate overseas subsidiaries in Hong Kong, Europe, Japan and USA under different legal frameworks and government policies. In addition, our business could be impacted by international economic and financial sanctions. Therefore, our business, financial condition and results of operations are subject to risks and uncertainties relating to the relevant countries in which we operate or have investments, including but not limited to:

- exposure to risks associated with changes in international, regional and local economic, trade, financial conditions;
- exposure to risks associated with changes in political, geopolitical and regulatory policies;
- exposure to different legal standards and limitation on ability to enforce contracts in some jurisdictions;
- control of foreign exchange and fluctuations in foreign exchange rate;
- developments in labor law and increase in staff cost;
- failure to negotiate the collective labor agreements on satisfactory terms with trade unions;
- restrictions or requirements relating to foreign investments;

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- limitations on repatriation of earnings, including withholding and other taxes on remittances and other payments by subsidiaries;
- compliance with the requirements of applicable sanctions, anti-bribery and related laws and regulations;
- exposure to risk of government enforcement actions, civil or criminal penalties, loss of business, or other adverse effects as a result of failure to comply with, or becoming targeted by, sanctions;
- exposure to tax duty and import restrictions in countries we operate in;
- U.S. application of tax duty on imported PM materials;
- various foreign trade regulation measures, including anti-dumping, anti-subsidy and other related restrictive measures imposed on us;
- encumbrances on our foreign assets;
- failure to protect our reputation from negative publicity against us; and
- limitation on ability of non-nationals to reside and work in such countries.

In September 2021, U.S. Department of Commerce announced that it has initiated the Section 232 investigation (the “**232 Investigation**”) to determine the effects on U.S. national security from imports of NdFeB PMs. U.S. Department of Commerce is inviting interested parties to submit written comments, data, analyses, or other pertinent information to the investigation no later than November 12, 2021.

Section 232 of the Trade Expansion Act of 1962 (19 U.S.C. §1862, as amended) allows any department, agency head, or any “interested party” to request that U.S. Department of Commerce investigate to ascertain the effect of specific imports on U.S. national security. Commerce may self-initiate an investigation. Once a Section 232 investigation is requested in writing, U.S. Department of Commerce must “immediately initiate an appropriate investigation to determine the effects on the national security” of the subject imports. After consulting with the Secretary of U.S. Department of Defense, other “appropriate officers of the United States”, and the public, if appropriate, U.S. Department of Commerce has 270 days from the initiation date to prepare a report advising the president of U.S. on whether the targeted product is being imported “in certain quantities or under such circumstances” to impair U.S. national security, and to provide recommendations based on the findings.

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As of the Latest Practicable Date, the 232 Investigation was still ongoing. There is no guarantee that whether U.S. Department of Commerce may determine imports of NdFeB PMs could affect U.S. national security. Negative findings of the 232 Investigation may lead U.S. government to impose additional tariffs or restrictions on the imports of NdFeB PMs, which may in turn have an adverse impact on our future business plans and business operations.

RISK RELATING TO CONDUCTING BUSINESS IN THE PRC

Changes in the PRC's economic, political and social conditions as well as governmental policies could affect our business, financial condition and results of operations.

The Chinese economy differs from the economies of most developed countries in many respects, including the structure of the economy, level of government involvement, level of development, growth rate, control of capital investment, control of foreign exchange and allocation of resources. The Chinese economy has been undergoing transformation. For the past four decades, the PRC government has implemented economic reform measures to emphasize the utilization of market forces in economic development. Economic reform measures, however, may be adjusted, modified or applied inconsistently from industry to industry or across different regions of the country. As a result, we may not continue to benefit from all, or any, of these measures. In addition, we cannot predict whether changes in China's political, economic and social conditions, laws, regulations and policies will have any adverse effect on our current or future business, financial condition and results of operations.

China has been one of the world's fastest growing economies as measured by GDP in recent years. However, China has also displayed signs of a slowdown as evidenced by a decrease in the growth rate of its GDP in recent years. In 2020, China's economic growth rate slowed to 2.3%, negatively affected by the national lockdown during COVID-19 pandemic, compared to the growth rate of GDP of 6.1% in 2019. Despite that China's economy recorded its best ever GDP growth in post-Covid bounce-back, there is no assurance that China's economy has completely shaken off the drag caused by coronavirus and will continue its robust growth. Our businesses, financial conditions and results of operations could be adversely affected by the PRC government's inability to effect timely economic reforms.

Our labor costs may increase for various reasons including the implementation of the PRC Labor Contract Law or inflation in the PRC.

The PRC Labor Contract Law (《中華人民共和國勞動合同法》) was issued on June 29, 2007 and became effective on January 1, 2008 in the PRC and was amended on December 28, 2012 and became effective on July 1, 2013. It imposes stringent requirements on employers in relation to entry into fixed-term employment contracts and dismissal of employees. For example, pursuant to the PRC Labor Contract Law, an employer is required to make a compensation payment to a fixed-term contract employee when the term of their employment contract expires, unless the employee does not agree to renew the contract even though the conditions offered by the employer for renewal are the same or better than those stipulated in the current employment contract. In general, the amount of compensation payment is equal to the monthly wage of the employee multiplied by the number of full years that the employee has

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worked for the employer. A minimum wage requirement has also been incorporated into the PRC Labor Contract Law. In addition, under some circumstances, unless objected to by the employees themselves, the employer is required to enter into open-ended employment contracts with employees. Furthermore, an employer is deemed to have concluded an open-ended employment contract with an employee who has worked for the employer for more than one year without concluding a written employment contract.

In addition, under the Regulations on Paid Annual Leave for Employees (《職工帶薪年休假條例》), which was issued on December 14, 2007 and became effective on January 1, 2008, employees who have worked continuously for more than one year are entitled to paid annual leave ranging from 5 to 15 days, depending on the length of the employees' service. Employees who consent to waive such vacation at the request of employers shall be paid an amount equal to three times their normal daily salaries for each vacation day being waived. Under the National Leisure and Tourism Outline 2013–2020 (《國民旅遊休閒綱要2013–2020》) which became effective on February 2, 2013, all workers may receive paid annual leave by 2020.

As a result of the PRC Labor Contract Law, the Regulations on Paid Annual Leave for Employees and the National Leisure and Tourism Outline 2013–2020, our labor costs (inclusive of those incurred by contractors) may increase. Further, under the PRC Labor Contract Law, when an employer terminates its PRC employees' employment, the employer may be required to compensate them for such amount which is determined based on their length of service with the employer, and the employer may not be able to efficiently terminate open-ended employment contracts under the PRC Labor Contract Law without cause. In the event we decide to significantly change or decrease our workforce, the PRC Labor Contract Law could adversely affect our ability to effect these changes in a cost-effective manner or in the manner that we desire, which could result in an adverse impact on our businesses, financial condition and results of operations.

Further, if there is a shortage of labor or for any reason the labor cost in the PRC rises significantly, our production costs are likely to increase. This may in turn affect the selling prices of products, which may then affect the demand of such products and thereby adversely affect our sales and financial condition. Increase in costs of other components required for production of the products may cause similar adverse effects, particularly if we are unable to identify and employ other appropriate means to reduce the costs of production. In such circumstances, the profit margin may decrease and the financial results may be adversely affected.

In addition, inflation in the PRC has increased in recent years. According to the National Bureau of Statistics of the PRC, the annual growth rate of consumer price inflation in the PRC was 1.47%, 1.74% and 5.38% in 2018, 2019 and 2020, respectively. Inflation in the PRC increases the costs of labor and other costs for production. Rising labor costs may increase our operating costs and partially erode the cost advantage of our operations and therefore negatively impact our profitability.

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The PRC legal system is continuously evolving and has uncertainties, and the legal protections available to the investors in our H Shares may be limited.

As we are incorporated under PRC laws and most of our businesses are conducted in the PRC, our operations are principally governed by PRC laws and regulations. The PRC legal system is based on written statutes. Since 1979, the PRC government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade with a view to developing a comprehensive system of commercial laws. However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases and their non-binding nature, the interpretation of PRC laws and regulations still involves a significant degree of uncertainty. In addition, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all, and which may have a retroactive effect. As a result, we may not be aware of its violation of these policies and rules until sometime after the violation.

Our Articles of Association provide that disputes between holders of H Shares and our Company, our directors, supervisors or senior officers or holders of Domestic Shares arising out of any rights or obligations concerning our affairs conferred or imposed thereupon by our Articles of Association or the PRC Company Law and related rules and regulations are to be resolved through arbitration. Our Articles of Association further provide that any arbitral award will be final, conclusive and binding on all parties. A claimant may elect to submit a dispute to an arbitration organization in Hong Kong or the PRC. Awards that are made by PRC arbitral authorities recognized under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong. Hong Kong arbitration awards may be recognized and enforced by PRC courts, subject to the satisfaction of certain PRC legal requirements.

Any administrative and court proceedings in the PRC may be protracted, resulting in substantial costs and diversion of resources and management attention. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to predict the outcome of administrative and court proceedings and the level of legal protection we might enjoy than it is in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into and could materially and adversely affect our businesses and results of operations.

The PRC Company Law (《中華人民共和國公司法》) came into effect on July 1, 1994 and the PRC Securities Law (《中華人民共和國證券法》) came into effect on July 1, 1999. Since then, the PRC Company Law was further amended on December 25, 1999, August 28, 2004, October 27, 2005, December 28, 2013, October 26, 2018 (and implemented on the same day), and the PRC Securities Law was further amended on August 28, 2004, October 27, 2005, June 29, 2013, August 31, 2014 and December 28, 2019 (and implemented on March 1, 2020). However, the Special Provisions of the State Council on Stock Floatation and Listing Abroad by Limited Stock Companies (Order of the SC [1994] No. 160) (《國務院關於股份有限公司境外募集股份及上市的特別規定》(國務院令[1994]第160號)) was issued on August 4, 1993,

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and became effective on the same date. As a result, the State Council and the CSRC may revise the Special Provisions of the State Council on Stock Floatation and Listing Abroad by Limited Stock Companies and other special regulations and the mandatory provisions and adopt new rules and regulations to implement and to reflect the amendments to the PRC Company Law and the PRC Securities Law. There can be no assurance that any revision of the current rules and regulations or the adoption of new rules and regulations by the State Council and the CSRC will not have an adverse effect on the rights of the holders of our H Shares.

Changes in tax regulations and failure to comply with such tax regulations in the PRC may adversely affect our businesses and financial results.

The EIT Law is effective in 2008, as amended in 2017 and 2018 imposed a tax rate of 25% on business enterprises.

We are entitled to preferential tax treatment in accordance with the EIT Law. To the extent there are any changes in, non-renewal or withdrawals of, our preferential tax treatment, or increases in the effective tax rate, our tax liability would increase correspondingly. In addition, the PRC government from time to time adjusts or changes its policies on value-added, business, resources, fuel and oil, and other taxes. Non-compliance with the PRC tax laws and regulations may also result in penalties or fines imposed by relevant tax authorities. Adjustments or changes to PRC tax laws and regulations and tax penalties or fines could have an adverse effect on our businesses, financial condition and results of operations.

We also operate overseas and are subject to various taxes. Due to the facts that the tax environment is different in different regions and that the regulations regarding various taxes, including corporate income tax, foreign contractor tax, personal income tax and poll tax, are complex, our overseas operations may expose us to the risks associated with the overseas tax policy changes. In the meantime, we may need to make corresponding judgments to deal with the uncertainties with respect to tax treatment of certain operating activities.

Payment of dividends or gains from the sale or other disposition of H Shares is subject to restrictions under PRC law.

Under applicable PRC tax laws, regulations and statutory documents, non-PRC resident individuals and enterprises are subject to taxes with respect to dividends received from us or gains realized upon the sale or other disposition of our H Shares. Non-PRC individuals are generally subject to PRC individual income tax under the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》) with respect to PRC source income or gains at a rate of 20% unless specifically exempted by the tax authority of the State Council or reduced or eliminated by an applicable tax treaty. We are required to withhold related tax from dividend payments.

Pursuant to applicable regulations, domestic non-foreign-invested enterprises issuing shares in Hong Kong may generally, when distributing dividends, withhold individual income tax at the rate of 10%. However, withholding tax on distributions paid by us to non-PRC

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individuals may be imposed at other rates pursuant to applicable tax treaties (and up to 20% if no tax treaty is applicable) if we know the identity of the individual shareholder and the tax rate applicable thereto. There is uncertainty as to whether gains realized upon disposition of Shares listed on an overseas stock exchange by non-PRC individuals are subject to PRC individual income tax.

Non-PRC resident enterprises that do not have establishments or premises in the PRC, or that have establishments or premises in the PRC but their income is not related to such establishments or premises, are subject to PRC enterprise income tax at the rate of 10% on dividends received from PRC companies and gains realized upon disposition of equity interests in the PRC companies pursuant to the EIT Law and other applicable PRC tax regulations and statutory documents. Taxes may be reduced or eliminated under special arrangements or applicable treaties between the PRC and the jurisdiction where the non-resident enterprise resides.

Pursuant to applicable regulations, we intend to withhold tax at a rate of 10% from dividends paid to non-PRC resident enterprise holders of our H Shares (including HKSCC Nominees). Non-PRC resident enterprises that are entitled to be taxed at a reduced rate under an applicable income tax treaty will be required to apply to the PRC tax authorities for a refund of any amount withheld in excess of the applicable treaty rate, and payment of such refund will be subject to verification by PRC tax authorities.

There remains significant uncertainties as to the interpretation and application of the relevant PRC tax laws by the PRC tax authorities, including whether and how individual income tax on gains derived by holders of our H Shares from their disposition of our H Shares on the overseas stock exchange may be collected. If any such tax is collected, the value of our H Shares may be materially and adversely affected.

The PRC government's control over foreign currency conversion may limit our foreign exchange transactions, including dividend payment to holders of our H Shares.

Currently, the Renminbi cannot be freely converted into any foreign currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. There is no assurance that, under a certain exchange rate, we will have sufficient foreign exchange to meet our foreign exchange requirements. Therefore, shortages in the availability of foreign currency may restrict our ability to remit sufficient foreign currency to pay dividends or other payments, or otherwise satisfy our foreign currency denominated obligations.

Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends following the completion of the Global Offering, do not require prior approval from SAFE, but we are required to comply with certain procedural requirements regarding such transactions and conduct such transactions at designated foreign exchange banks within the PRC that have the requisite licences to carry out such foreign exchange business and other procedural

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requirements. Under existing foreign exchange regulations, following the completion of the Global Offering, we will be able to pay dividends in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, we could not rule out the possibility that the PRC government may, at its own discretion, take measures to restrict relevant foreign exchange policies regarding payment of dividends in the future. In addition, any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments to our Shareholders or to satisfy any other foreign exchange requirements. Further, there is no assurance that new regulations will not be promulgated in the future that would have the effect of further restricting the remittance of Renminbi into or out of China.

You may experience difficulties in effecting service of legal process and enforcing judgments obtained from non-PRC courts against us and our management who reside in the PRC.

A majority of our assets are located in China. Mr. Xu Feng, our Independent non-executive Director, resides in Hong Kong and all the rest of our executive Directors and senior management reside in China. Therefore, there is no assurance that you will be able to effect service of process within Hong Kong or elsewhere outside of China upon us or our management.

On July 14, 2006, the Supreme People's Court of the PRC and the Hong Kong government signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (《最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) (the “**Arrangement**”). Under such Arrangement, where any designated people's court of the PRC or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing by the parties, any party concerned may apply to the relevant people's court of the PRC or Hong Kong court for recognition and enforcement of the judgment. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong or PRC court is expressly designated as the court having sole jurisdiction for the dispute. It may not be possible to enforce a judgment rendered by a Hong Kong court in China if the parties in the dispute do not agree to enter into a choice of court agreement in writing.

On January 18, 2019, China and Hong Kong signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region (《關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排》) (the “**New Arrangement**”). The New Arrangement seeks to establish a bilateral legal mechanism with greater clarity and certainty for recognition and enforcement of judgments in wider range of civil and commercial matters between the two places.

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The New Arrangement will be implemented by local legislation in Hong Kong. It will take effect after both China and Hong Kong have completed the necessary procedures to enable implementation and will apply to judgments made on or after the commencement date. The Arrangement will be abolished upon the effectiveness of the New Arrangement.

However, it is unclear as to when the implementations of the New Arrangement in both places will be completed. To the extent that the Arrangement is still in force, it remains difficult or impossible for investors to enforce a Hong Kong court judgment against our assets or our Directors or senior management who reside in China.

Moreover, China has not entered into treaties for the reciprocal recognition and enforcement of court judgments with Japan, the United Kingdom, the United States and many other countries. Hence, recognition and enforcement in China of a court judgment obtained in any of these jurisdictions in relation to matters that are not subject to a binding arbitration provision may be difficult or impossible.

Inflation in China could negatively affect our growth and profitability.

The Chinese economy has experienced rapid growth in recent years. Such growth can lead to growth in money supply and rising inflation. If prices for our products rise at a rate that is insufficient to compensate for the rise in our costs due to inflation, our business and financial performance may be materially and adversely affected.

The PRC government has imposed controls on bank credit, limits on loans for fixed assets and restrictions on state-owned banks' lending in the past in order to control inflation. Such austerity policies can lead to a slowing of economic growth and could materially and adversely affect our businesses, growth and profitability.

RISKS RELATING TO THE GLOBAL OFFERING

We will be concurrently subject to Hong Kong and China listing and regulatory requirements.

As we are listed on the ChiNext Market of the Shenzhen Stock Exchange and will be listed on the Main Board of the Stock Exchange, we will be required to comply with the listing rules (where applicable) and other regulatory regimes of both jurisdictions, unless otherwise agreed by the relevant regulators. Accordingly, we may incur additional costs and resources in complying with the requirements of both jurisdictions.

The characteristics of the A share and H share markets may differ.

Our A Shares were listed on the Shenzhen Stock Exchange in 2018. Following the Global Offering, our A Shares will continue to be traded on the Shenzhen Stock Exchange and our H Shares will be traded on the Hong Kong Stock Exchange. Under current PRC laws and regulations, without approval from the relevant regulatory authorities, our H Shares and A

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Shares are neither interchangeable nor fungible, and there is no trading or settlement between the H share and A share markets. With different trading characteristics, the H share and A share markets have divergent trading volumes, liquidity and investor bases, as well as different levels of retail and institutional investor participation. As a result, the trading performance of our H Shares and A Shares may not be comparable. Nonetheless, fluctuations in the price of our A Shares may adversely affect the price of our H Shares, and vice versa. Due to the different characteristics of the H share and A share markets, the historical prices of our A Shares may not be indicative of the performance of our H Shares. You should therefore not place undue reliance on the prior trading history of our A Shares when evaluating an investment in our H Shares.

There has been no prior public market for our H Shares and an active trading market for our H Shares may not develop after the Global Offering.

Prior to the Global Offering, there has not been a public market for our H Shares. While we have applied to list and deal in the H Shares on the Stock Exchange, we cannot assure you that an active or liquid public market for our H Shares will develop or be sustained if developed. The Offer Price of the H Shares will be determined through negotiations between us and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), and it may not necessarily be indicative of the market price of the H Shares after the Global Offering is complete. An investor who purchases H Shares in the Global Offering may not be able to resell such H Shares at or above the Offer Price and, as a result, may lose all or part of the investment in such H Shares.

Since there will be a gap of several days between pricing and trading of our H Shares, holders of our H Shares are subject to the risk that the price of our H Shares could fall during the period before trading of our H Shares begins.

The Offer Price of our H Shares is expected to be determined on the Price Determination Date, which is expected to be on or around Friday, January 7, 2022. However, our H Shares will not commence trading on the Stock Exchange until the Listing Date, which is expected to be Friday, January 14, 2022. As a result, investors may not be able to sell or deal in our H Shares during that period. Accordingly, holders of our H Shares are subject to the risk that the price of our H Shares could fall before trading begins as a result of adverse market conditions or other adverse developments, that could occur between the Price Determination Date and the Listing Date.

The liquidity, trading volume and trading price of our H Shares may be volatile, which could result in substantial losses for Shareholders. The price at which our H Shares will trade after the Global Offering will be determined by the marketplace, which may be influenced by many factors, some of which are beyond our control, including:

- our financial results;
- changes in securities analysts' estimates, if any, of our financial performance;

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- the history of, and the prospects for, us and the industry in which we compete;
- an assessment of our management, our past and present operations, and the prospects for and timing of, our future revenues and cost structures such as the views of independent research analysts, if any;
- the present state of our development;
- the trading price of our A shares;
- the valuation of publicly traded companies that are engaged in business activities similar to ours;
- changes in laws and regulations in China;
- our inability to compete effectively in the market; and
- political, economic, financial and social developments in China and worldwide.

In addition, the Stock Exchange has from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of companies quoted on the Stock Exchange. As a result, investors in our H Shares may experience volatility in the market price of their H Shares and a decrease in the value of their H Shares regardless of our operating performance or prospects.

You will incur immediate and significant dilution and may experience further dilution if we issue additional Shares in the future.

The Offer Price of the Offer Shares is higher than the net tangible asset value per H Share immediately prior to the Global Offering. Therefore, purchasers of the Offer Shares in the Global Offering will experience an immediate dilution in pro forma consolidated net tangible asset value to HK\$8.86 per Share, based on the low end of the Offer Price range of HK\$33.80 per H Share. There can be no assurances that if we were to immediately liquidate after the Global Offering, any assets will be distributed to Shareholders after the creditors' claims. In order to expand our business, we may consider offering and issuing additional Shares in the future. Purchasers of the Offer Shares may experience dilution in the net tangible asset value per H Share of their H Shares if we issue additional Shares in the future at a price which is lower than the net tangible asset value per Share at that time.

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Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings.

We may from time to time distribute rights to our Shareholders, including rights to acquire our securities. However, we cannot make such rights available to persons in the U.S. unless we register both the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective and we may not be able to establish a necessary exemption from registration under the U.S. Securities Act. Accordingly, you may be unable to participate in our rights offerings in the future and may experience dilution in your holdings.

Future sale or major divestment of the H Shares by any of our investors could materially and adversely affect the prevailing market price of our H Shares.

The future sale of a significant number of our H Shares in the public market after the Global Offering, or the possibility of such sales, could materially and adversely affect the market price of our H Shares and could materially impair our future ability to raise capital through offerings of our H Shares. As the investors subscribing for our H Shares in the Global Offering are not subject to any restrictions on the disposal of the H Shares they subscribe for (except as disclosed in this prospectus (if any)), they may dispose of part or all of the H Shares they hold within a short period or any time or period after the Listing Date for legal and regulatory, business and market, or other reasons. Any sale of a significant number of H Shares subscribed by our investors (or the perception that such sales may occur) may cause the prevailing market price of our H Share to fall, which could negatively impact our ability to raise equity capital in the future.

Prior dividend distributions, if any, are not an indication of our future dividend policy.

Any future dividend declaration and distribution by our Company will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors deem relevant. Any declaration and payment as well as the amount of dividends will also be subject to our Articles of Association and the PRC laws, including (where required) the approvals from our shareholders and our Directors. In addition, our future dividend payments will depend upon the availability of dividends received from our subsidiaries. As a result of the above, we cannot assure you that we will make any dividend payments on our H Shares in the future with reference to our historical dividends. For further details of the dividend policy of our Company, see the section headed “Financial Information – Dividend Policy” in this prospectus.

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We cannot guarantee the accuracy of facts and other statistics with respect to certain information contained in this prospectus.

The information and statistics set out in the “Industry Overview” section and other sections of this prospectus were extracted from different official government publications, available sources from public market research and other sources from independent suppliers, and from the independent industry report prepared by Frost & Sullivan.

We engaged Frost & Sullivan to prepare an independent industry report in connection with the Global Offering. The information from official government sources has not been independently verified by the Group, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any of their respective directors and advisers, or any other persons or parties involved in the Global Offering, and no representation is given as to its accuracy. Accordingly, the information from official government sources contained herein may not be accurate and should not be unduly relied upon.

Forward-looking statements contained in this prospectus are subject to risks and uncertainties.

This prospectus contains certain statements and information that are forward-looking and uses forward-looking terminology such as “anticipate”, “believe”, “could”, “going forward”, “intend”, “plan”, “project”, “seek”, “expect”, “may”, “ought to”, “should”, “would” or “will” and similar expressions. You are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. Subject to the requirements of the Listing Rules, we do not intend to update or otherwise revise the forward-looking statements in this prospectus to the public, whether as a result of new information, future events or otherwise. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

You should not place any reliance on any information released by us in connection with the listing of our A Shares on the Shenzhen Stock Exchange.

Following the listing of our A Shares on the Shenzhen Stock Exchange, we have been subject to periodic reporting and other information disclosure requirements in the PRC. As a result, from time to time we publicly release information, including financial statements and financial data, relating to us on the Shenzhen Stock Exchange or other media outlets designated by the Shenzhen Stock Exchange or the CSRC or other regulatory bodies. However, the information announced by us in connection with our A Shares is based on regulatory

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requirements of the securities authorities and market practices in the PRC which are different from those applicable to the Global Offering. Such information does not and will not form a part of this prospectus. As a result, prospective investors in our H Shares are reminded that, in making their investment decisions as to whether to purchase our H Shares, they should rely only on the financial, operating and other information included in this prospectus. By applying to purchase our H Shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than that contained in this prospectus and any formal announcements made by us in Hong Kong with respect to the Global Offering.

You should read the entire prospectus carefully, and we strongly caution you not to place any reliance on any information contained in press articles or other media regarding us or the Global Offering.

There may be, subsequent to the date of this prospectus but prior to the completion of the Global Offering, press and media coverage regarding us and the Global Offering, which contained, among other things, certain financial information, projections, valuations and other forward-looking information about us and the Global Offering. We have not authorized the disclosure of any such information in the press or media and do not accept responsibility for the accuracy or completeness such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with, or conflict with, the information contained in this prospectus, we disclaim responsibility for them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained this prospectus only and should not rely on any other information.

You should rely solely upon the information contained in this prospectus and any formal announcements made by us in Hong Kong in making your investment decision regarding our H Shares. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding our H Shares, the Global Offering or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such data or publication. Accordingly, prospective investors should not rely on any such information, reports or publications in making their decisions as to whether to invest in our Global Offering.

**WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND
EXEMPTION FROM STRICT COMPLIANCE WITH THE COMPANIES
(WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

In preparation for the Global Offering, our Company has applied for the following waivers and exemption from strict compliance with the relevant provisions of the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance:

WAIVER IN RELATION TO MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rules 8.12 and 19A.15 of the Listing Rules, our Company must have a sufficient management presence in Hong Kong. This normally means that at least two of our Company's executive Directors must be ordinarily resident in Hong Kong. Since our Company's head office, principal business and operations are located, managed and operated in the PRC, and the Company's executive Director ordinarily resides in the PRC, our Company does not have, and for the foreseeable future will not have, sufficient management presence in Hong Kong for the purpose of satisfying the requirements of Rules 8.12 and 19A.15 of the Listing Rules. Accordingly, the Company has applied for, and the Hong Kong Stock Exchange has granted the Company, a waiver from strict compliance with the requirements of Rules 8.12 and 19A.15 of the Listing Rules on the condition that the following arrangements be made for maintaining regular communication with the Hong Kong Stock Exchange:

- (a) Our Company has appointed Mr. Cai Baogui (蔡報貴), the chairman of our Board, executive Director and general manager, and Ms. Zhang Xiao (張瀟), one of the joint company secretaries of the Company who is ordinarily resident in Hong Kong, as the authorized representatives under Rule 3.05 of the Listing Rules to serve as our Company's principal channel of communication with the Hong Kong Stock Exchange. Our Company has provided the Hong Kong Stock Exchange with contact details of the authorized representatives. They can be readily contactable to deal promptly with inquiries from the Hong Kong Stock Exchange, and will also be available to meet with the Hong Kong Stock Exchange to discuss any matters on short notice. As and when the Hong Kong Stock Exchange wishes to contact the Directors on any matter, each of our Company's authorized representatives will have the means to contact all of the Directors promptly at all times.
- (b) Our Company has implemented the following measures: each Director must provide the authorized representatives with (i) their respective mobile phone numbers, office phone numbers, fax numbers and email addresses; and (ii) the phone number of the place of their accommodation if they expect to travel or otherwise be out of the office.
- (c) Our Company has provided the Hong Kong Stock Exchange with the contact details of each Director (including their respective mobile phone numbers, office phone numbers, fax numbers and email addresses) (if applicable) to facilitate the communication with the Hong Kong Stock Exchange. Furthermore, each Director who does not ordinarily reside in Hong Kong possesses or is able to apply for valid travel documents to visit Hong Kong and is able to meet with the Hong Kong Stock Exchange within a reasonable period of time.

**WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND
EXEMPTION FROM STRICT COMPLIANCE WITH THE COMPANIES
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- (d) In accordance with Rules 3A.19 and 19A.05 of the Listing Rules, our Company has appointed Red Solar Capital Limited as the compliance adviser, to act as an additional channel of communication with the Hong Kong Stock Exchange for the period commencing on the Listing Date and ending on the date on which the Company publishes the financial results for the first full financial year commencing after the Listing Date. Our Company's compliance adviser will have access at all times to the authorized representatives, Directors and other senior officers to ensure that it is in a position to respond promptly to any inquiries or requests from the Hong Kong Stock Exchange concerning the Company.
- (e) Our Company will also appoint other professional advisers (including legal advisers and accountants) after the Listing Date to assist us in handling any questions or inquiries from the Hong Kong Stock Exchange to ensure effective communication between our Company and the Hong Kong Stock Exchange.

WAIVER IN RELATION TO JOINT COMPANY SECRETARIES

Rules 3.28 and 8.17 of the Listing Rules require the Company's company secretaries to be individuals who by virtue of their academic or professional qualifications or relevant experience are, in the opinion of the Hong Kong Stock Exchange, capable of discharging the functions of a company secretary. Note 1 to Rule 3.28 of the Listing Rules provides that the Hong Kong Stock Exchange considers the following academic or professional qualifications to be acceptable:

- (a) a member of The Hong Kong Institute of Chartered Secretaries;
- (b) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); or
- (c) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

Note 2 to Rule 3.28 of the Listing Rules further sets out the factors that the Stock Exchange will consider in assessing an individual's "relevant experience":

- (a) length of employment with the issuer and other issuers and the roles he/she played;
- (b) familiarity with the Listing Rules and other relevant laws and regulations including the SFO, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code;

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- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (d) professional qualifications in other jurisdictions.

Our Company has appointed Mr. Lu Ming (鹿明), a deputy general manager and secretary to the Board of the Company, as one of our Company's joint company secretaries. For more details of Mr. Lu's biography, please refer to "Directors, Supervisors and Senior Management – Senior Management".

Our Company has also appointed Ms. Zhang Xiao (張瀟), who possesses such qualifications and meets the requirements under Rule 3.28 of the Listing Rules, to act as the other joint company secretary of the Company and to assist Mr. Lu for a period of three years from the Listing Date to enable Mr. Lu to acquire the "relevant experience" under Note 2 to Rule 3.28 of the Listing Rules so as to fully comply with the requirements set out under Rules 3.28 and 8.17 of the Listing Rules.

The following arrangements have been, or will be, put in place to assist Mr. Lu in acquiring the qualifications and experience as the company secretary of our Company required under Rule 3.28 of the Listing Rules:

- (a) Ms. Zhang, one of the joint company secretaries who meets all the requirements under Rule 3.28 of the Listing Rules, will assist Mr. Lu so that he is able to acquire the relevant knowledge and experience as required under the Listing Rules in order to discharge his functions as a joint company secretary. Our Company has also appointed Ms. Zhang as an authorized representative of the Company under Rule 3.05 of the Listing Rules.
- (b) Our Company undertakes to re-apply to the Stock Exchange for a waiver in the event that Ms. Zhang ceases to meet the requirements under Rule 3.28 of the Listing Rules or otherwise ceases to serve as a joint company secretary of our Company.
- (c) Our Company will further ensure that Mr. Lu has access to the relevant training and support to enable him to familiarize himself with the Listing Rules and the duties required of a company secretary of an issuer listed on the Stock Exchange. The Company's Hong Kong legal advisors have provided training to Mr. Lu on the principal requirements of the Listing Rules and the Hong Kong laws and regulations applicable to our Company after its Listing. In addition, Mr. Lu will endeavor to familiarize himself with the Listing Rules, including any updates thereto, during the three-year period from the Listing Date.

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- (d) Mr. Lu has confirmed that he will be attending a total of no less than 15 hours of training courses on the Listing Rules, corporate governance, information disclosure, investor relations as well as the functions and duties of a company secretary of a Hong Kong listed issuer during each financial year as required under Rule 3.29 of the Listing Rules.
- (e) Our Company expects that Mr. Lu, having had the benefit of Ms. Zhang's assistance during the three-year period, will acquire the qualifications and relevant experience required under Rule 3.28 of the Listing Rules prior to the end of the three-year period after the Listing.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with Rules 3.28 and 8.17 of the Listing Rules on the following conditions:

- (a) Mr. Lu must be assisted by a person who possesses the qualifications or experience as required under Rule 3.28 of the Listing Rules and is appointed as a joint company secretary throughout the three-year period; and
- (b) the waiver will be revoked immediately if there are material breaches of the Listing Rules by the Company or if Ms. Zhang, during the three-year period, ceases to provide assistance to Mr. Lu.

Before the end of the three-year period, we shall liaise with the Stock Exchange to revisit the situation in the expectation that we should then be able to demonstrate to the Stock Exchange's satisfaction that Mr. Lu, having had the benefit of Ms. Zhang's assistance for three years, would then have acquired the relevant experience within the meaning of Note 2 to Rule 3.28 of the Listing Rules so that a further waiver would not be necessary.

WAIVER AND EXEMPTION IN RELATION TO THE TYPE II RESTRICTED SHARES

Under paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance, the prospectus of the Company is required to include, among other things, details of the number, description and amount of any shares in or debentures of the Company which any person has, or is entitled to be given, an option to subscribe for, together with certain particulars of each option, namely the period during which it is exercisable, the price to be paid for the Shares or debentures subscribed for under it, the consideration (if any) given or to be given for it or for the right to it, and the names and addresses of the persons to whom it or the right to it was given.

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Under Rule 17.02(1)(b) of the Listing Rules, a new listing applicant must disclose in the prospectus full details of all outstanding options. Paragraph 27 of Part A of Appendix 1 to the Listing Rules also requires the disclosure of particulars of any capital of any member of the Group which is under option, or agreed conditionally or unconditionally to be put under option, including the consideration for which the option was or will be granted and the price and duration of the option, and the name and address of the grantees.

According to the Guidance Letter HKEX-GL11-09 (July 2009) (Updated in March 2014), the Stock Exchange would normally grant waivers from disclosing the names and addresses of certain grantees if the issuer could demonstrate that such disclosures would be irrelevant and unduly burdensome, subject to certain conditions specified therein.

As of the date of this Prospectus, our Company had granted 5,818,800 Type II Restricted Shares under the Restricted Share Incentive Plan to 224 grantees to subscribe for an aggregate of 9,100,800 A Shares, representing approximately 1.09% of our Company's issued share capital immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised) for which the grantees include one Director (with respect to 732,800 underlying A Shares), six senior management members (with respect to 2,944,000 underlying A Shares) and 217 other grantees (the "**Other Grantees**") (with respect to an aggregate of 5,424,000 underlying A Shares). No Type II Restricted Shares were granted to other connected persons (as defined under Listing Rules) of the Company.

The principal terms of the Restricted Share Incentive Plan are set out in the section headed "Appendix V – Statutory and General Information – 4. Restricted Share Incentive Plan" in this Prospectus.

We have applied to (i) the Stock Exchange for a waiver from strict compliance with the requirements under Rule 17.02(1)(b) of, and paragraph 27 of Appendix 1A to, the Listing Rules and (ii) the SFC for a certificate of exemption from strict compliance with paragraph 10(d) of Part I of the Third Schedule pursuant to section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in connection with the disclosure of certain details relating to the Type II Restricted Shares and certain grantees in this prospectus on the ground that the waiver and the exemption will not prejudice the interests of the investing public and strict compliance with the above requirements would be unduly burdensome for our Company for the following reasons:

- (a) given that 224 grantees are involved, strict compliance with such disclosure requirements in setting out full details of all the grantees of Type II Restricted Shares under the Restricted Share Incentive Plan in the prospectus would be costly and unduly burdensome for our Company in light of a significant increase in cost and timing for information compilation and prospectus preparation;

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- (b) as of the date of this Prospectus, among all the grantees, seven grantees were Director or the senior management of our Company and the Other Grantees are only employees of our Group, and strict compliance with such disclosure requirements to disclose names, addresses, and entitlements on an individual basis in this prospectus will therefore require about 15 pages of additional disclosure that does not provide any material information to the investing public;
- (c) the grant and vest in full of the Type II Restricted Shares under the Restricted Share Incentive Plan will not cause any material adverse impact to the financial position of our Company;
- (d) non-compliance with the above disclosure requirements would not prevent our Company from providing its potential investors with an informed assessment of the activities, assets, liabilities, financial position, management and prospects of our Company; and
- (e) material information relating to the Type II Restricted Shares under the Restricted Share Incentive Plan will be disclosed in this prospectus, including the total number of underlying A Shares subject to the Type II Restricted Shares under the Restricted Share Incentive Plan, the grant price, the potential dilution effect on the shareholding and impact on earnings per Share upon full allotment and issuance of underlying A Shares pursuant to the Type II Restricted Shares under the Restricted Share Incentive Plan. Our Directors consider that the information that is reasonably necessary for potential investors to make an informed assessment of our Company in their investment decision making process has been included in this prospectus.

In light of the above, our Directors are of the view that the grant of the waiver and exemption sought under this application will not prejudice the interests of the investing public.

The Stock Exchange has agreed to grant to the Company the requested waiver subject to the conditions that:

- (a) full details of the Type II Restricted Shares granted by our Company under the Restricted Share Incentive Plan to each of our Directors and senior management of our Company and grantees who were each granted Type II Restricted Shares to subscribe for more than 200,000 A Share are disclosed in the section headed “Appendix V – Statutory and General Information – 4. the Restricted Share Incentive Plan” in this Prospectus, such details to include all the particulars required under Rule 17.02(1)(b) of, and paragraph 27 of Appendix 1A to, the Listing Rules, and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;

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- (b) in respect of the Type II Restricted Shares granted by the Company under the Restricted Share Incentive Plan to the employees other than those referred to in point (a) above, the following details are disclosed in this prospectus: (1) aggregate number of grantees and number of A Shares underlying the Type II Restricted Shares under the Restricted Share Incentive Plan, (2) the consideration paid for the grant of the Type II Restricted Shares granted under the Restricted Share Incentive Plan (if any), and (3) the vesting period¹ and the grant price of the Type II Restricted Shares granted under the Restricted Share Incentive Plan;
- (c) the aggregate number of A Shares underlying the Type II Restricted Shares granted under the Restricted Share Incentive Plan and the percentage of our Company's total issued share capital represented by such number of A Shares are disclosed in this prospectus;
- (d) the potential dilution effect on the shareholding and impact on earnings per Share upon the full issuance of underlying A Shares pursuant to the Type II Restricted Shares under the Restricted Share Incentive Plan are disclosed in the section headed "Appendix V – Statutory and General Information – 4. Restricted Share Incentive Plan" in this prospectus;
- (e) a summary of the major terms of the Restricted Share Incentive Plan are disclosed in the section headed "Appendix V – Statutory and General Information – 4. Restricted Share Incentive Plan" in this prospectus;
- (f) the particulars of the waiver are disclosed in this prospectus;
- (g) a full list of all the grantees (including the persons referred to in point (a) above) who have been granted Type II Restricted Shares under the Restricted Share Incentive Plan will be made available for public inspection in accordance with the section headed "Appendix VI – Documents Delivered to the Registrar of Companies and Available on Display – 3. Document Available for Inspection" in this Prospectus; and
- (h) the grant of certificate of exemption under the Companies (Winding Up and Miscellaneous Provisions) Ordinance from the SFC exempting our Company from the disclosure requirements provided in paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

¹ vesting period(s) shall have the same meaning as exercise period(s) under the Restricted Share Incentive Plan.

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The SFC has agreed to grant to our Company the certificate of exemption under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance exempting the Company from strict compliance with paragraph 10(d) subject to the conditions that:

- (a) full details of the Type II Restricted Shares granted by our Company under the Restricted Share Incentive Plan to each of our Directors and senior management of our Company and grantees who were each granted Type II Restricted Shares to subscribe for more than 200,000 A Share are disclosed in the section headed “Appendix V – Statutory and General Information – 4. the Restricted Share Incentive Plan” in this Prospectus, such details to include all the particulars required under Rule 17.02(1)(b) of, and paragraph 27 of Appendix 1A to, the Listing Rules, and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;
- (b) in respect of the Type II Restricted Shares granted by the Company under Restricted Share Incentive Plan to the employees other than those referred to in point (a) above, the following details are disclosed in this prospectus: (1) aggregate number of grantees and number of A Shares underlying the Type II Restricted Shares granted under the Restricted Share Incentive Plan, (2) the consideration paid for the grant of the Type II Restricted Shares under the Restricted Share Incentive Plan (if any), and (3) the vesting period¹ and the grant price for the Type II Restricted Shares granted under the Restricted Share Incentive Plan;
- (c) a full list of all the grantees (including the persons referred to in point (a) above) who have been granted Type II Restricted Shares under the Restricted Share Incentive Plan will be made available for public inspection in accordance with the section headed “Appendix VI – Documents Delivered to the Registrar of Companies and Available on Display – 3. Document Available for Inspection” in this Prospectus; and
- (d) the particulars of the exemption are disclosed in this Prospectus, and this Prospectus will be issued on or before December 31, 2021.

**ALLOCATION OF OUR H SHARES TO EXISTING MINORITY SHAREHOLDERS
AND THEIR CLOSE ASSOCIATES UNDER RULE 10.04 AND PARAGRAPH 5(2) OF
APPENDIX 6 TO THE LISTING RULES**

Rule 10.04 of the Listing Rules provides that a person who is an existing shareholder of the issuer may only subscribe for or purchase securities for which listing is sought if (i) no securities will be offered to them on a preferential basis and no preferential treatment will be given to them in the allocation of the securities and (ii) the minimum prescribed percentage of public shareholders required by Rule 8.08(1) of the Listing Rules is achieved. Paragraph 5(2)

¹ vesting period(s) shall have the same meaning as exercise period(s) under the Restricted Share Incentive Plan.

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of Appendix 6 to the Listing Rules provides, among other things, that, without the prior written consent of the Hong Kong Stock Exchange, no allocations will be permitted to existing shareholders or their close associates, whether in their own names or through nominees, unless certain conditions are fulfilled.

Prior to the Listing, our Company's share capital comprises entirely A Shares listed on the Shenzhen Stock Exchange. We have a large and widely dispersed public A Share shareholder base.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with the requirements under Rule 10.04 and consent under Paragraph 5(2) of Appendix 6 to the Listing Rules to permit H Shares in the International Offering to be placed to certain existing minority Shareholders who (i) hold less than 5% in the issued share capital of our Company prior to the completion of the Global Offering; and (ii) are not and will not become (upon the completion of the Global Offering) core connected persons (as defined in the Listing Rules) of our Company or the close associates of any such core connected person (together, the "**Existing Minority Shareholders**") on the following conditions:

- (i) each Existing Minority Shareholder to whom our Company may allocate the H Shares in the International Offering holds less than 5% of our Company's voting rights prior to the completion of the Global Offering;
- (ii) none of the Existing Minority Shareholders is or will be a core connected person of our Company or any close associate of a core connected person of our Company immediately prior to or following the Global Offering;
- (iii) none of the Existing Minority Shareholders have the right to appoint any Director or have any other special right;
- (iv) allocation to the Existing Minority Shareholders and/or their close associates will not affect our ability to satisfy the public float requirement as prescribed under Rule 8.08 of the Listing Rules; and
- (v) each of our Company, the Joint Bookrunners and the Joint Sponsors (based on their discussions with and confirmations from our Company and the Joint Bookrunners) will confirm to the Stock Exchange in writing that no preferential treatment has been, nor will be, given to the Existing Minority Shareholders by virtue of their relationship with our Company in any allocation in the International Offering, and details of the allocation will be disclosed in the allotment results of our Company.

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DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors (including any proposed director who is named as such in this prospectus) collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

CSRC APPROVAL

The CSRC issued an approval letter on November 25, 2021 for the Global Offering and our application to list the H Shares on the Stock Exchange. In granting such approval, the CSRC accepts no responsibility for our financial soundness, nor for the accuracy of any of the statements made or opinions expressed in this prospectus. No other approvals are required to be obtained for the listing of the H Shares on the Stock Exchange.

THE HONG KONG PUBLIC OFFERING AND THIS PROSPECTUS

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. The Global Offering comprises the Hong Kong Public Offering of initially 12,546,800 Offer Shares and the International Offering of initially 112,919,200 Offer Shares (subject, in each case, to reallocation on the basis as set out in the section headed "Structure of the Global Offering" in this prospectus). For applicants under the Hong Kong Public Offering, this prospectus set out the terms and conditions of the Hong Kong Public Offering.

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisors or any other party involved in the Global Offering.

Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the H Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

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OFFER SHARES FULLY UNDERWRITTEN

The listing of our H Shares on the Stock Exchange is sponsored by the Joint Sponsors and the Global Offering is managed by the Joint Global Coordinators. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to us and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) agreeing on the Offer Price on or before the Price Determination Date. An International Underwriting Agreement relating to the International Offering is expected to be entered into on or around the Price Determination Date, subject to the Offer Price being agreed. The International Offering will be fully underwritten by the International Underwriters under the terms of the International Underwriting Agreement to be entered into.

If, for any reason, the Offer Price is not agreed between us and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on or before Tuesday, January 11, 2022, the Global Offering will not proceed and will lapse. For full information about the Underwriters and the underwriting arrangements, see the section headed “Underwriting” in this prospectus.

PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedures for applying for Hong Kong Offer Shares are set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.

OVER-ALLOTMENT OPTION AND STABILIZATION

Details of the arrangements relating to the Over-allotment Option and stabilization are set out in the section headed “Structure of the Global Offering” in this prospectus.

RESTRICTIONS ON OFFER AND SALE OF H SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his or her acquisition of the Hong Kong Offer Shares to, confirm that he or she is aware of the restrictions on offers and sales of the Hong Kong Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the H Shares in any jurisdiction other than Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or

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invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been publicly offered or sold, directly or indirectly, in the PRC or the U.S.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, our H Shares to be issued pursuant to the Global Offering (including any additional H Shares that may be issued pursuant to the exercise of the Over-allotment Option).

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, if the permission for the H Shares to be listed on the Stock Exchange pursuant to this prospectus has been refused before the expiration of three weeks from the date of the closing of the Global Offering or such longer period not exceeding six weeks as may, within the said three weeks, be notified to us by or on behalf of the Stock Exchange, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void.

COMMENCEMENT OF DEALINGS IN THE H SHARES

Dealings in the H Shares on the Stock Exchange are expected to commence at 9:00 a.m. on Friday, January 14, 2022. Except for the A Shares that have been listed on the Shenzhen Stock Exchange and our pending application to the Stock Exchange for the listing of, and permission to deal in, the H Shares, no part of our share or debt securities is listed on or dealt in on the Stock Exchange or any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the H Shares on the Stock Exchange and our compliance with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second settlement day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangements as such arrangements may affect their rights and interests. All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

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H SHARE REGISTER AND STAMP DUTY

All Offer Shares will be registered on the H Share register of our Company maintained by our H Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong. Our register of members will also be maintained by us at our legal address in the PRC.

Dealings in the H Shares registered on the H Share register of our Company in Hong Kong will be subject to Hong Kong stamp duty. The stamp duty is charged to each of the seller and purchaser at the ad valorem rate of 0.13% of the consideration for, or (if greater) the value of, the H Shares transferred. In other words, a total of 0.26% is currently payable on a typical sale and purchase transaction of the H Shares. In addition, a fixed duty of HK\$5 is charged on each instrument of transfer (if required).

Unless determined otherwise by our Company, dividends payable in respect of our H Shares will be paid to the Shareholders listed on the H Share register of our Company in Hong Kong, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder of our Company.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

We have instructed the H Share Registrar, and the H Share Registrar has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless the holder delivers a signed form to the H Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

- (i) agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the PRC Company Law, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Special Regulations and our Articles of Association;
- (ii) agrees with us, each of our Shareholders, Directors, Supervisors, managers and officers, and we, acting for ourselves and for each of our Directors, Supervisors, managers and officers agree with each Shareholder, to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive;
- (iii) agrees with us and each of our Shareholders that our H Shares are freely transferable by the holders thereof; and
- (iv) authorizes us to enter into a contract on his or her behalf with each of our Directors, Supervisors, managers and officers whereby such Directors, Supervisors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Articles of Association.

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PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisors as to the taxation implications of subscribing for, purchasing, holding or disposing of, and/or dealing in the H Shares or exercising rights attached to them. None of us, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective affiliates, directors, supervisors, officers, employees, agents or representatives or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding, disposition of, or dealing in, or the exercise of any rights in relation to, the H Shares.

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations among certain amounts denominated in Renminbi, Hong Kong dollars and U.S. dollars. Unless indicated otherwise, the translation of Renminbi into Hong Kong dollars, of Renminbi into U.S. dollars and of U.S. dollars into Hong Kong dollars, and vice versa, in this prospectus was made at the following rates:

- RMB0.8170 to HK\$1.00 (being the most recent exchange rate available as of the Latest Practicable Date);
- RMB6.3729 to US\$1.00 (being the most recent exchange rate available as of the Latest Practicable Date); and
- US\$1.00 to HK\$7.8004 (being the most recent exchange rate available as of December 23, 2021).

No representation is made that any amounts in Renminbi, Hong Kong dollars or U.S. dollars can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

LANGUAGE

Translated English names of Chinese laws and regulations, governmental authorities, departments, entities (including certain members of our Group), institutions, natural persons, facilities, certificates, titles and the like included in this prospectus and for which no official English translation exists are unofficial translations for identification purposes only. In the event of any inconsistency, the Chinese name shall prevail.

If there is any inconsistency between the English version of this prospectus and the Chinese translation of this prospectus, the English version of this prospectus shall prevail unless otherwise stated. However, if there is any inconsistency between the names of any of the entities mentioned in this English document which are not in the English language and their English translations, the names in their respective original languages shall prevail.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

ROUNDING

Unless otherwise stated, all the numerical figures are rounded to one or two decimal places. Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding.

OTHER

Unless otherwise specified, all references to any shareholdings in our Company following the completion of the Global Offering assume that the Over-allotment Option is not exercised.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. Cai Baogui (蔡報貴)	Room 2903, Unit 2 Building No. 2, Huafujing Garden No. 99 Hong Gu Zhong Avenue Honggutan New District, Nanchang Jiangxi Province PRC	Chinese
Mr. Lyu Feng (呂鋒)	Room 1605, Building 11 Xianglu International Garden No. 61, Lufeng Road, Yuelu District Changsha Hunan Province PRC	Chinese
Non-executive Directors		
Mr. Hu Zhibin (胡志濱)	7E, Building 2 Donghai Garden Fuluju Futian District Shenzhen PRC	Chinese
Mr. Li Xinnong (李忻農)	Room 403, Unit 2, Building 11 Hengda Yayuan, Saiwei Avenue Yushui District, Xinyu Jiangxi Province PRC	Chinese
Mr. Li Fei (李飛)	Room 1002, Unit 3, Building 2 Dinghaiyuan Economic Technology Development Zone Beijing PRC	Chinese
Mr. Huang Weixiong (黃偉雄)	Room 703, Unit 2, Building 1 Longjiang Garden, No. 80, Zhangjiang North Road Zhanggong District, Ganzhou Jiangxi Province PRC	Chinese

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Address	Nationality
-------------	----------------	--------------------

Independent non-executive Directors

Mr. You Jianxin (尤建新)	Room 1102 No. 16, 59 Lane, Chifeng Road Yangpu District Shanghai PRC	Chinese
Mr. Xu Feng (徐風)	Flat H 11/F Marigold Mansion Taikoo Shing Harbor View Gardens 10 Taikoo Wan Road Hong Kong	Chinese
Mr. Yuan Taifang (袁太芳)	Room 404, Unit 2 No. 15, Nanhe Road Zhanggong District, Ganzhou Jiangxi Province PRC	Chinese

SUPERVISORS

Name	Address	Nationality
-------------	----------------	--------------------

Mr. Su Quan (蘇權)	Room 306, Building 6 Jinpeng Yihe Garden No. 12, Changzheng Avenue Zhanggong District, Ganzhou Jiangxi Province PRC	Chinese
Mr. Li Hua (李華)	Room 2801, Building 12, Rongxitai Ganxian District, Ganzhou Jiangxi Province PRC	Chinese
Ms. Sun Yixia (孫益霞)	Room 1703, Xingfu Lane, Building 1 Zone A Huarun Center No. 8 Qinjiang Road, Ganzhou Jiangxi Province PRC	Chinese

Please see “Directors, Supervisors and Senior Management” in this Prospectus for further details of our Directors and Supervisors.

PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Sponsors

CLSA Capital Markets Limited

18/F, One Pacific Place, 88 Queensway
Hong Kong

BNP Paribas Securities (Asia) Limited

60/F-63/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

Joint Global Coordinators

CLSA Limited

18/F, One Pacific Place, 88 Queensway
Hong Kong

BNP Paribas Securities (Asia) Limited

60/F-63/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

DBS Asia Capital Limited

73/F, The Center
99 Queen's Road Central
Central
Hong Kong

Joint Bookrunners

CLSA Limited

18/F, One Pacific Place, 88 Queensway
Hong Kong

BNP Paribas Securities (Asia) Limited

60/F-63/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

DBS Asia Capital Limited

73/F, The Center
99 Queen's Road Central
Central
Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Lead Managers**CLSA Limited**

18/F, One Pacific Place, 88 Queensway
Hong Kong

BNP Paribas Securities (Asia) Limited

60/F-63/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

DBS Asia Capital Limited

73/F, The Center
99 Queen's Road Central
Central
Hong Kong

**Futu Securities International
(Hong Kong) Limited**

Unit C1-2 13/F, United Centre
No. 95 Queensway
Admiralty
Hong Kong

Livermore Holdings Limited

Unit 1214A, 12/F
Tower II Cheung Sha Wan Plaza
833 Cheung Sha Wan Road
Kowloon
Hong Kong

Legal Advisers to Our Company

As to Hong Kong and the United States law:

Herbert Smith Freehills

23/F, Gloucester Tower
15 Queen's Road Central
Hong Kong

As to the PRC law:

**China Commercial Law Firm,
Guangdong**
Floor 21A-3, 22A, 23A, 24A, 25A
Hong Kong CTS Tower
No. 4011 Shennan Avenue
Futian District
Shenzhen
PRC

**Legal Advisers to the Underwriters and
the Joint Sponsors**

As to Hong Kong and the United States law:

Allen & Overy
9th Floor, Three Exchange Square
Central
Hong Kong

As to the PRC law:

Jingtian & Gongcheng
34th Floor, Tower 3
China Central Place
No. 77 Jianguo Road
Chaoyang District
Beijing
PRC

**Reporting Accountant and Independent
Auditor**

Ernst & Young
*Certified Public Accountants
Registered Public
Interest Entity Auditor*
27/F, One Taikoo Place
979 King's Road, Quarry Bay
Hong Kong

Industry Consultant

**Frost & Sullivan (Beijing) Inc.,
Shanghai Branch Co.**
Suite 2504, Wheelock Square
1717 Nanjing West Road
Shanghai
PRC

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Compliance Adviser**Red Solar Capital Limited**

Unit 402B, 4/F
China Insurance Group Building
No. 141 Des Voeux Road Central
Central
Hong Kong

Receiving Banks**Bank of China (Hong Kong) Limited**

Bank of China Tower
1 Garden Road
Central
Hong Kong

China CITIC Bank International Limited

61-65 Des Voeux Road Central
Hong Kong

CORPORATE INFORMATION

Registered Office and Headquarter in the PRC	Industrial Area, Economic and Technological Development Zone Ganzhou Jiangxi Province PRC
Principal Place of Business in Hong Kong	40/F, Dah Sing Financial Centre 248 Queen's Road East Wanchai Hong Kong
Company's Website	<u>http://www.jlmag.com.cn</u> <i>(The information on the website does not form part of this Prospectus)</i>
Joint Company Secretaries	Mr. Lu Ming (鹿明) Room 2004, Unit 2 Building No. 9 No. 63 West Da Wang Road Chaoyang District, Beijing PRC Ms. Zhang Xiao (張瀟) <i>(Associate member of The Hong Kong Chartered Governance Institute and The Chartered Governance Institute)</i> 40/F, Dah Sing Financial Centre 248 Queen's Road East Wanchai Hong Kong
Authorized Representatives	Mr. Cai Baogui Room 2903, Unit 2 Building No. 2 No. 99 Hong Gu Zhong Road Honggutan district, Nanchang Jiangxi Province PRC Ms. Zhang Xiao <i>(Associate member of The Hong Kong Chartered Governance Institute and The Chartered Governance Institute)</i> 40/F, Dah Sing Financial Centre 248 Queen's Road East Wanchai Hong Kong

CORPORATE INFORMATION

Audit Committee	Mr. Yuan Taifang (<i>chairman</i>) Mr. You Jianxin Mr. Hu Zhibin
Nomination Committee	Mr. Xu Feng (<i>chairman</i>) Mr. Yuan Taifang Mr. Cai Baogui
Remuneration and Appraisal Committee	Mr. You Jianxin (<i>chairman</i>) Mr. Xu Feng Mr. Lyu Feng
Strategy Committee	Mr. Cai Baogui (<i>chairman</i>) Mr. You Jianxin Mr. Xu Feng
H Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East Wan Chai Hong Kong
Principal Banks	The Export-Import Bank of China Jiangxi Branch 2, 3 and 6/F, Zhongjiang International Plaza No. 1198 Feng He Zhong Road Honggutan District Nanchang Jiangxi Province PRC Industrial and Commercial Bank of China Ganzhou Economic and Technological Development Zone Branch No. 48 Ying Bin Da Dao Jin Xiu Xin Tian Di Commercial Street Zhanggong District Ganzhou Jiangxi Province PRC China Merchants Bank Ganzhou Branch No. 66 Hong Qi Road Zhanggong District Ganzhou Jiangxi Province PRC

INDUSTRY OVERVIEW

The information and statistics set out in this section and other sections of this prospectus were extracted from different official government publications, available sources from public market research and other sources from independent suppliers, and from the independent industry report prepared by Frost & Sullivan. We engaged Frost & Sullivan to prepare an independent industry report in connection with the Global Offering. The information from official government sources has not been independently verified by the Group, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any of their respective directors and advisers, or any other persons or parties involved in the Global Offering, and no representation is given as to its accuracy. Accordingly, the information from official government sources contained herein may not be accurate and should not be unduly relied upon.

SOURCES OF INFORMATION

We have commissioned Frost & Sullivan, an independent market researcher and consultant, to analyze and report on the global and Chinese REPM market. Frost & Sullivan is an independent global consulting firm founded in 1961 in New York. Frost & Sullivan offers industry research and market strategies services and provides growth consulting and corporate training. Its industry coverage in China includes chemicals, materials and food, commercial aviation, consumer products, environment and building technologies, healthcare, industrial automation and electronics, industrial and machinery, and technology, media and telecommunications. We commissioned Frost & Sullivan for a total fee of RMB550,000. We are of the view that the payment of such fee does not affect the fairness of the conclusions drawn in the F&S Report.

F&S Report

Our Company has included certain information from the F&S Report in this prospectus because our Directors believe that such information facilitates an understanding of the relevant market for potential investors. The market research process for the F&S Report has been undertaken through detailed primary research which involves discussing the status of the global and China's REPM market with leading industry participants and industry experts. Secondary research involved reviewing company reports, independent research reports in addition to the group's key competitors and data based on Frost & Sullivan's own research database. Except otherwise noted, all of the data and forecasts contained in this sector are derived from the Frost & Sullivan Report. Source of the information extracted from the Frost & Sullivan Report are also referred to in the sections headed "Summary", "Risk factors", "Business" and "Financial Information" in this prospectus. The directors confirm that after taking reasonable care, there is no adverse change in the market information since the date of the Frost & Sullivan Report, which may qualify, contradict or have an impact on the information in this section.

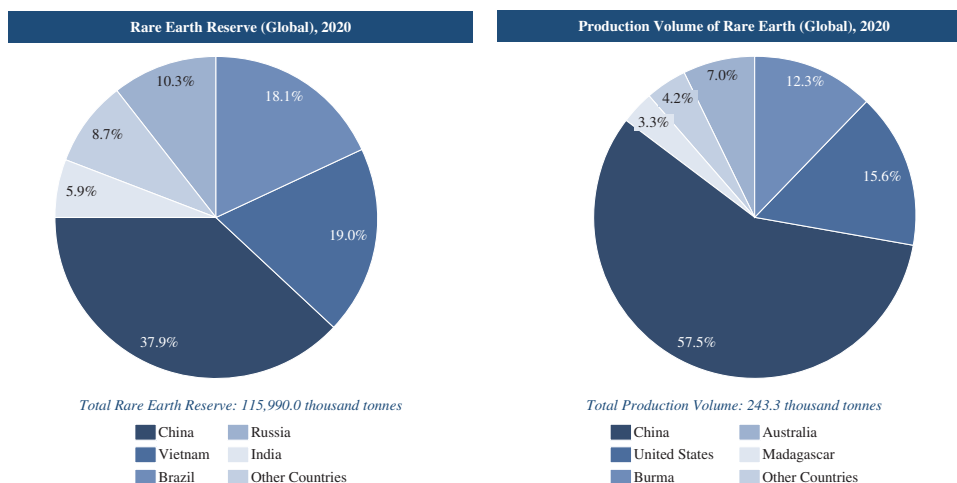
INDUSTRY OVERVIEW

Analysis and forecasts contained in the Frost & Sullivan Report are based on the following major assumptions:

- Global and China’s economy is likely to maintain steady growth in the next decade;
- Global and China’s social, economic, and political environment is likely to remain stable in the forecast period.

ANALYSIS OF GLOBAL AND CHINA RARE EARTH MARKET

China has the largest reserve of rare earth. In 2020, global rare earth reserves reached approximately 116.0 million tonnes, and rare earth reserves in China amounted to approximately 44.0 million tonnes, representing approximately 37.9% of the global rare earth reserves. Most of the major heavy rare earth elements, including the components of some of our major raw materials such as holmium, dysprosium and terbium, are located in the southern part of China such as Jiangxi Province, Fujian Province, Hunan Province and Guangdong. In 2020, the global production volume of rare earth reached approximately 243,300.0 tonnes, and the production volume of rare earth in China accounted for approximately 57.5% of the global rare earth production. In China, the rare earth market is dominated by six rare earth manufacturing groups. Ganzhou Rare Earth, located in Jiangxi Province, is the parent company of China Southern Rare Earth, whose extraction quota accounted for approximately 30% of total rare earth extraction quota in China in 2020.

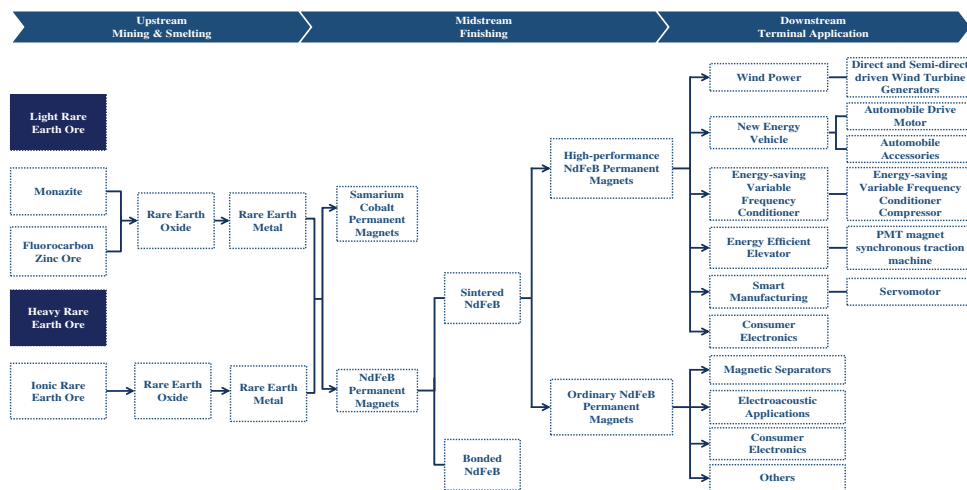


Source: State Council; U.S. Geological Survey

INDUSTRY OVERVIEW

ANALYSIS OF GLOBAL AND CHINA REPM MARKET

Definition and Value Chain



Source: Frost & Sullivan Analysis

A permanent magnet is an object made from a material that is magnetized and creates its own persistent magnetic field. There are various types of permanent materials. Rare earth permanent magnet is one type of permanent magnet made from alloys of the lanthanide group of rare earth elements.

NdFeB PMs, can be regarded as the most widely used type of REPMs. Generally, an NdFeB PM is a permanent magnet that is mainly made from an alloy of neodymium, iron, and boron to form the Nd₂Fe₁₄B tetragonal crystalline structure. A neodymium magnet's basic structure is composed of a rectangular prism that has a high potential for storing magnetic energy. Besides, NdFeB PMs are based on the same principle as any other permanent magnet. NdFeB PMs are spinning electrons that align themselves in order to spread apart and gain more potential energy. As the electrons move around a nucleus in an aligned manner, they create a magnetic field. NdFeB PMs can be classified into sintered NdFeB PMs and bonded NdFeB PMs. Sintered NdFeB PMs can be further classified into high-performance NdFeB PMs and ordinary NdFeB PMs. In China, only a few manufacturers have the capability of manufacturing high-performance NdFeB PMs. In the downstream, high-performance NdFeB PMs are mainly used in energy saving and environmental protection products, such as wind generators and new energy vehicles, while other NdFeB PMs are mainly used in magnetic separators, electroacoustic applications, and others. Apart from NdFeB permanent materials, the other form of REPMs is samarium cobalt magnetic materials which only account for approximately 1% of the entire REPMs and are mainly used for military application. Theoretically, samarium cobalt magnets can be used as alternatives in NdFeB PMs' downstream applications. Practically, they cannot be widely used due to the scarcity and the extremely high price of the raw materials of samarium cobalt magnets, such as Co (Cobalt), which is the strategic material

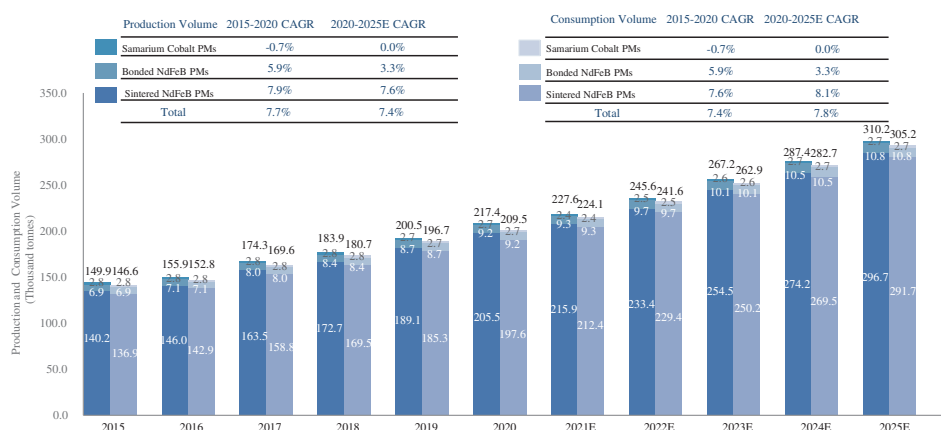
INDUSTRY OVERVIEW

in China and are mainly used for military and aerospace applications. High-performance NdFeB PMs, which are more cost-effective as compared with samarium cobalt magnets and with higher efficiency, lower energy consumption, as well as stronger thermal stability as compared with ordinary NdFeB PMs, are more attractive and widely used as compared to other types of REPMs.

Compared with other REPMs, NdFeB PMs have several advantages. NdFeB PMs are much more powerful than other REPMs and can therefore be used on a smaller scale to produce the same magnetic fields. Moreover, they have a higher resistance to losing magnetic properties, while weaker REPMs can sometimes become demagnetized under certain conditions. The benefit of moderate temperature stability enables NdFeB PMs to work in relatively high-temperature environments. With the advantages of high efficiency and low energy consumption, good control performance and strong stability, as well as small size, light weight and diversified structure, NdFeB magnetic motors are widely used in various industries such as wind generator and new energy vehicle manufacturing industry.

Market Size

Production and Consumption Volume of REPMs by Type (Global), 2015-2025E



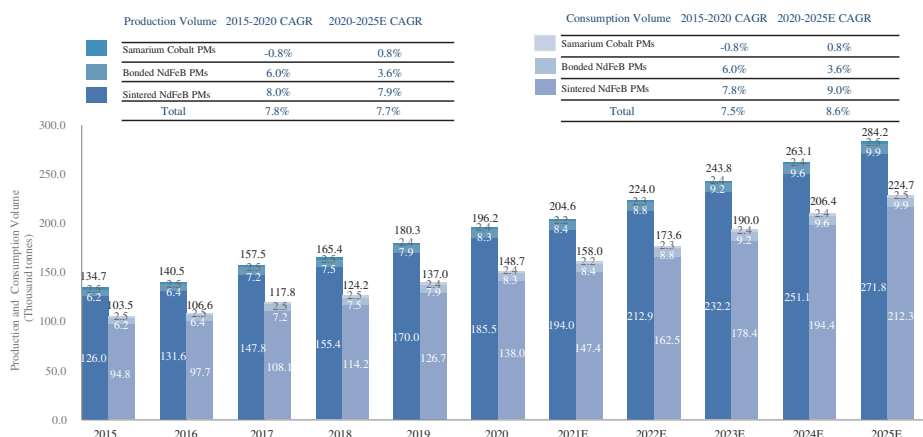
Source: Frost & Sullivan Analysis

From 2015 to 2020, global production volume of REPMs increased from approximately 149,900.0 tonnes to approximately 217,400.0 tonnes, with a CAGR of approximately 7.7%. In the future, the global production volume of REPMs is expected to reach approximately 310,200.0 tonnes in 2025, representing a CAGR of approximately 7.4% from 2020 to 2025.

From 2015 to 2020, the global consumption of REPMs increased from approximately 146.6 thousand tonnes to approximately 209,500.0 tonnes, with a CAGR of approximately 7.4%. In the future, the consumption of REPMs is likely to grow at a CAGR of approximately 7.8%, reaching approximately 305,200.0 tonnes in 2025.

INDUSTRY OVERVIEW

Production and Consumption Volume of REPMs by Type (China), 2015-2025E



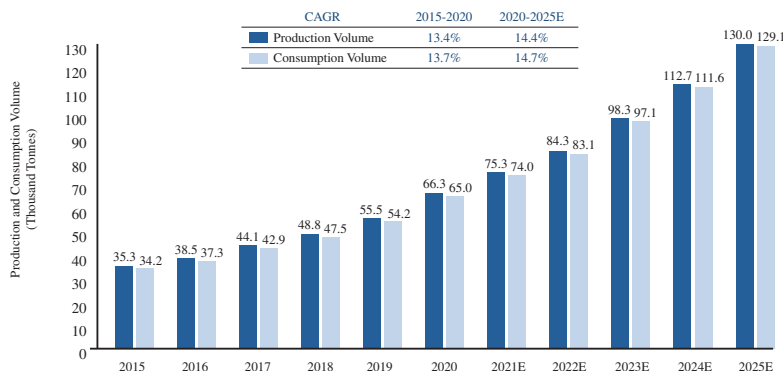
Source: Frost & Sullivan Analysis

China is not only the largest producer of REPMs but also the largest consumer and a net exporter. The surplus production after consumption was exported. In 2015, the export quota of REPMs in China was officially canceled. With the increasing demand from other countries, the export volume of REPMs is expected to increase. From 2015 to 2020, production volume of REPMs in China increased from approximately 134,700.0 tonnes to approximately 196,200.0 tonnes, with a CAGR of approximately 7.8%. In the future, the production volume of REPMs in China is expected to reach approximately 284,200.0 tonnes in 2025, representing a CAGR of approximately 7.7% from 2020 to 2025.

Stimulated by the increasing demand from downstream industries, the consumption of REPMs in China showed rapid growth in recent years. From 2015 to 2020, the consumption of REPMs in China increased from approximately 103,500.0 tonnes to approximately 148,700.0 tonnes, with a CAGR of approximately 7.5%. In the future, the consumption of REPMs is likely to grow at a CAGR of approximately 8.6%, reaching approximately 224,700.0 tonnes in 2025. The consumption of REPMs in China has historically grown in line with global market but is now expected to grow faster than global consumption over the next five years because of the increasing demand of high-performance NdFeB PMs in China.

INDUSTRY OVERVIEW

Production and Consumption Volume of High-performance NdFeB PMs (Global), 2015-2025E



Note: The production and consumption volume are based on the finished products

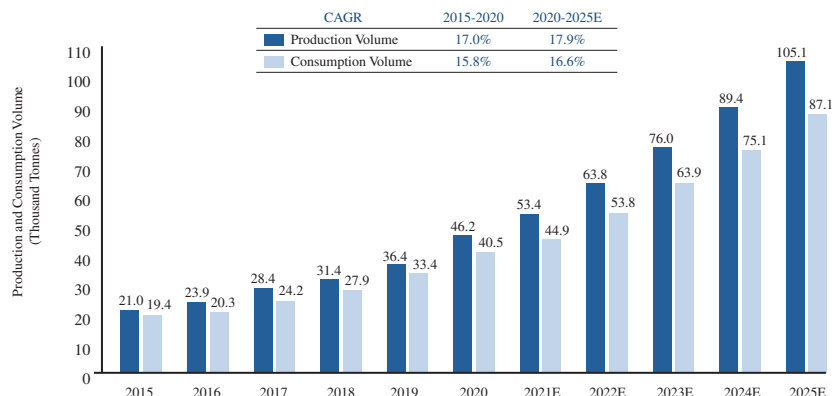
Source: Frost & Sullivan Analysis

High-performance NdFeB PMs refer to permanent materials in which the sum of its intrinsic coercivity (H_{cj}, K_{oe}) and magnetic energy product ((BH) max, MGOe) is higher than 60. High-performance NdFeB PMs are mainly used in wind turbine generators, energy-saving VFACs, energy-saving elevators, NEVs, industrial robots and others. From 2015 to 2020, The global production volume of high-performance NdFeB PMs increased from approximately 35,300.0 tonnes in 2015 to approximately 66,300.0 tonnes in 2020, with a CAGR of approximately 13.4%. In the future, with the increasing demand from downstream industries, the global production volume of high-performance NdFeB PMs is expected to reach approximately 130,000.0 tonnes in 2025, representing a CAGR of approximately 14.4% from 2020 to 2025.

The global consumption volume of high-performance NdFeB PMs increased from approximately 34,200.0 tonnes in 2015 to approximately 65,000.0 tonnes in 2020, with a CAGR of approximately 13.7% from 2015 to 2020. Going forward, the global consumption of high-performance NdFeB PMs is likely to grow at a CAGR of approximately 14.7%, reaching 129,100.0 tonnes in 2025. High-performance NdFeB PM market is expected to grow much faster than REPM market overall due to the strong growth in end markets. In 2020, the consumption of high-performance NdFeB PMs accounted for approximately 31.0% of the consumption of REPMs in 2020 and is expected to account for approximately 42.3% in 2025. The slight difference between production and consumption globally is caused by the inventory.

INDUSTRY OVERVIEW

Production and Consumption Volume of High-performance NdFeB PMs (China), 2015-2025E



Note: The production and consumption volume are based on the finished products

Source: Frost & Sullivan Analysis

From 2015 to 2020, The production volume of high-performance NdFeB PMs in China increased from approximately 21,000.0 tonnes in 2015 to approximately 46,200.0 tonnes in 2020, with a CAGR of approximately 17.0%. In the future, with the increasing demand from downstream industries, the production volume of high-performance NdFeB PMs in China is expected to reach approximately 105,100.0 tonnes in 2025, representing a CAGR of approximately 17.9% from 2020 to 2025.

The consumption volume of high-performance NdFeB PMs increased from approximately 19,400.0 tonnes in 2015 to approximately 40,500.0 tonnes in 2020, with a CAGR of approximately 15.8%. In order to achieve the goal of carbon neutrality, governments all over the world are taking various measures to increase the penetration rate of energy-saving and environmental protection products, including, but not limited to, wind generators, energy-saving elevator, energy-saving VFACs, NEVs, which are all downstream applications of NdFeB PMs, especially high-performance NdFeB PMs. The demand for those energy-saving products is expected to stimulate the demand for high-performance NdFeB PMs and the consumption of high-performance NdFeB PMs in China is expected to grow at a CAGR of approximately 16.6%, reaching approximately 87,100.0 tonnes in 2025. Apart from the higher global growth rate in consumption for high-performance NdFeB PMs compared with REPMs, the consumption of high-performance NdFeB PMs in China in particular, is expected to grow faster than global consumption.

Market Drivers

Goal of carbon neutrality increases the demand of REPM: In 2020, Chinese government has announced the aim to hit peak emissions before 2030 and to reach carbon neutrality by 2060. To achieve this goal, the Chinese government put forward specific goals in the “14th Five Year Plan”, such as decreasing carbon emission per GDP by 18%. Besides China, most developed countries, such as U.S., Japan, UK, Germany, Canada and Singapore are aiming to cut carbon emissions drastically around 2030 and finally achieve net-zero emissions by 2050. In order to achieve the goal, governments all over the world are taking various measures to increase the penetration rate of energy-saving and environmental protection products so as to reduce carbon emission and better protect the environment in the coming years. Therefore, popularization of products such as wind generators, energy-saving elevator, energy-saving VFACs, NEVs etc., which are all downstream applications of NdFeB PMs, especially high-performance NdFeB PMs, are expected to increase the demand for sintered NdFeB magnets. For example, the global consumption volume of high-performance NdFeB PMs in new energy vehicles grew at a CAGR of approximately 45.9% from 2015 to 2020 and is expected to grow at a CAGR of approximately 30.9% from 2020 to 2025.

Abundant resource of rare earth: As main raw materials of sintered NdFeB PMs, rare earth play an essential role in the manufacturing of sintered NdFeB PMs. For the high-performance sintered NdFeB PMs, the content of heavy rare earth even determines the properties and downstream applications of sintered NdFeB PMs. In 2020, China has the largest proportion of rare earth reserves in the world and almost 60% of global rare earth was produced in China. The abundant resources of rare earth, especially heavy rare earth, could ensure a stable supply of rare earth and relatively stable raw material price for Chinese NdFeB PM manufacturers compared with foreign manufacturers. Moreover, on December 23, 2021, a new rare earth giant, namely, China Rare Earth Group Co., Ltd, was established through a merger of top state-owned operations. China Rare Earth Group Co., Ltd was jointly founded by Aluminum Corporation of China, China Minmetals Corporation, Ganzhou Rare Earth, China Iron & Steel Research Institute Group and Grinm Group Corporation Ltd. Moreover, the newly-established China Rare Earth Group Co., Ltd will operate under the direct supervision of SASAC. The establishment of China Rare Earth Group Co., Ltd is conducive to integrating resources, improving applications of new technologies and materials and promoting the long-term sound development of the rare earth industry.

Government regulation and policy supports the development of REPM market: As the main production center of REPMs in the global market, China has a number of regulations and policies to support and drive the development of this industry. For example, the “Development Guideline of New Material Industry” 《新材料產業發展指南》 issued in 2017 emphasized that high-performance REPMs, as key strategic materials, should be promoted in the application of high-speed rail permanent magnet motors, REPM energy-saving motors, and servomotors and other fields. In 2020, Jiangxi province, the main production area of rare earth in China, issued the “Implementation Opinions on Promoting the High-quality Development of the Rare Earth Industry” 《關於促進稀土產業高質量發展的實施意見》, which is aiming at cultivating a batch of rare earth deep processing enterprises and accelerating the transformation and upgrade of rare earth industry as well as promoting the integrative development of REPM industry, permanent magnet motor industry and energy-saving equipment industry.

Future Opportunities

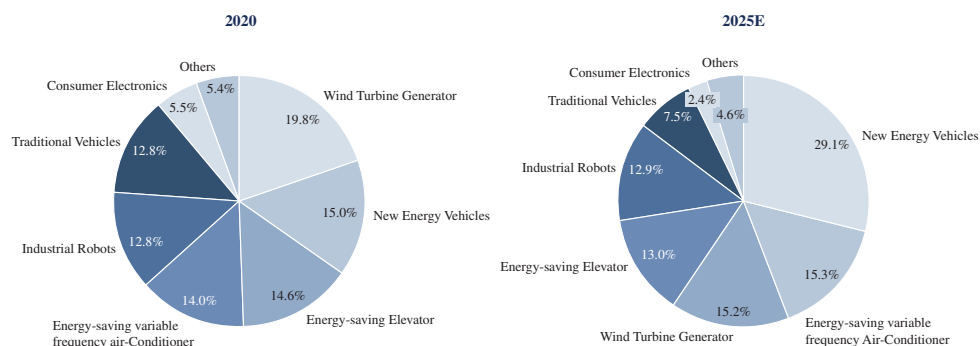
Further Development of Downstream Industries: In the future, governments all over the world are expected to optimize the industrial and energy structure, accelerate the development of green and low-carbon industries such as energy conservation and environmental protection, new energy equipment, and new energy vehicles. In particular, they have devoted their efforts to achieve carbon neutrality in the future, as set out below:

- China: The PRC government expects to hit peak carbon emissions before 2030 and aims to achieve carbon neutrality by 2060;
- United States: The United States government has formally committed to cutting its carbon pollution by 50 to 52 percent from its 2005 level by 2030;
- United Kingdom: The United Kingdom government's official advisers, the Committee on Climate Change, claimed that the United Kingdom's net greenhouse gas emissions should fall to zero by 2050;
- Canada: The Canadian Senate adopted the net zero emissions accountability act in June 2021, making Canada's 2050 net zero target official. The law requires the Canada government to create carbon targets and a plan to meet them every five years from 2030 to 2050;
- Japan: Japan will strive to cut its emissions by 46% from its 2013 level by 2030 and to achieve carbon neutrality by 2050.

The increasing awareness of energy conservation, environmental protection and technological progress is expected to stimulate the demand for new energy vehicles, promote the large-scale development of wind generators and accelerate the penetration rate of energy-saving VFACs. NEVs are becoming the largest segment for high-performance NdFeB PMs followed by energy-saving VFACs and wind turbine generators which was traditionally the largest end-use segment and is expected to be relegated to the third place. Together these three segments which accounted for approximately 37.6% of total consumption in 2015, grew to approximately 48.8% in 2020 and are expected to continue to grow and account for approximately 59.6% of total consumption in 2025. The development of downstream industries is anticipated to stimulate the consumption of REPMs, especially high-performance NdFeB PMs.

INDUSTRY OVERVIEW

Consumption of High-performance NdFeB PMs by Applications (Global), 2020 vs 2025



Source: Frost & Sullivan Analysis

– New Energy Vehicles Segment

Governments all over the world have implemented policies to facilitate the development of NEV market. The PRC government implemented *Notice on Improving the Financial Subsidy Policy for the Promotion and Application of New Energy Vehicles* (《關於完善新能源汽車推廣應用財政補貼政策的通知》) in 2020 and issued *New Energy Automobile Industry Development Plan (2021-2035)* (《新能源汽車產業發展規劃(2021–2035年)》) in 2020. Those policies aim to promote further development of the NEV industry. By 2025, the competitiveness of NEV will be significantly enhanced, with major breakthroughs in key technologies such as power batteries, drive motors, vehicle operating systems, and an overall improvement in safety. With the popularization of NEVs, the demand for high-performance NdFeB PMs is expected to increase. In addition, the United States government issued *Safer Affordable Fuel Efficient (SAFE) Vehicles Rule* in 2020, which requires automakers to improve fuel efficiency by 1.5 percent annually from 2021 to 2026. Moreover, the European Union issued *European Emission Standards (Euro 7)* in 2020, which focuses on real-world emissions in order to improve air quality.

To ensure national energy supply security, China has been taking actions including industrial structure adjustment and reduction of fuel consumption in the automobile industry. Promoting the development and use of NEV is a major strategy responding to this trend. Chinese government has promulgated a number of policies to support the growth of NEV and targets to achieve a 20% NEV penetration rate by 2025.

The global sales volume of new energy passenger vehicles grew from approximately 458,000.0 in 2015 to approximately 2,944,100.0 in 2020, with a CAGR of approximately 45.1%. In 2025, the global sales volume of NEVs is expected to reach approximately 11,297,700.0, with a CAGR of approximately 30.9% from 2020 to 2025.

The sales volume of new energy passenger vehicles in China grew from approximately 208,000.0 in 2015 to approximately 1,245,700.0 in 2020, with a CAGR of approximately 43.0%. In 2025, the sales volume of NEVs in China is expected to reach approximately 4,679,900.0, with a CAGR of approximately 30.3% from 2020 to 2025.

INDUSTRY OVERVIEW

The global consumption volume of high-performance NdFeB PMs in NEVs increased from approximately 1,480.0 tonnes in 2015 to approximately 9,760.0 tonnes in 2020, with a CAGR of approximately 45.9%. In 2025, it is expected that the global consumption volume of high-performance NdFeB PMs in new energy vehicles will arrive at approximately 37,510.0 tonnes with a CAGR of approximately 30.9% from 2020 to 2025.

The consumption volume of high-performance NdFeB PMs in NEVs increased from approximately 700.0 tonnes in 2015 to approximately 4,060.0 tonnes in 2020, with a CAGR of approximately 42.3% in China. In 2025, it is expected that the consumption volume of high-performance NdFeB PMs in new energy vehicles is likely to arrive at approximately 16,300.0 tonnes with a CAGR of approximately 32.1% from 2020 to 2025.

– Wind Turbine Generators Segment

From 2015 to 2020, the global newly installed electricity generation capacity of wind power increased from approximately 63.8 GW to approximately 93.0 GW, with a CAGR of approximately 7.8%. In 2025, the global newly installed electricity generation capacity of wind power is expected to reach approximately 112.2 GW, with a CAGR of approximately 3.8% from 2020 to 2025. From 2015 to 2020, the newly installed electricity generation capacity of wind power in China increased from approximately 33.0 GW to approximately 52.0 GW, with a CAGR of approximately 9.5%. In 2020, the European Union issued Offshore Renewable Energy Strategy, which aims to increase its offshore wind capacity from 12 GW to 300 GW by 2050. In 2025, the newly installed electricity generation capacity of wind power in China is expected to reach approximately 62.3 GW, with a CAGR of approximately 3.7% from 2020 to 2025.

The State Council issued the China's Energy Development in the New Era (《新時代的中國能源發展》) in 2020, which aimed to give the priority to non-fossil and promote the substitution of fossil energy with renewable energy. Wind power, as an important source of clean energy, is expected to play an important role in achieving the target of carbon neutrality, and future investment in and development of wind power are expected to stimulate the demand for wind turbine generators.

From 2015 to 2020, the global consumption volume of high-performance NdFeB PMs in wind turbine generators increased from approximately 7,170.0 tonnes to approximately 12,880.0 tonnes, with a CAGR of approximately 12.4%. In 2025, the global consumption volume of high-performance NdFeB PMs in wind turbine generators is expected to reach approximately 19,620.0 tonnes, with a CAGR of approximately 8.8%.

From 2015 to 2020, the consumption volume of high-performance NdFeB PMs in wind turbine generators in China increased from approximately 4,870.0 tonnes to approximately 9,100.0 tonnes, with a CAGR of approximately 13.3%. In 2025, the consumption volume of high-performance NdFeB PMs in wind turbine generators is expected to reach approximately 16,820.0 tonnes, with a CAGR of approximately 13.1%.

– Energy-saving VFACs Segment

Favorable governmental policies in relation to the energy-saving VFAC market has facilitated our business growth. The promulgation of Notice on the Issuance of the Green and Efficient Refrigeration Action Plan (《關於印發<綠色高效製冷行動方案>的通知》) by relevant PRC authorities in June 2019, which requires the overall energy efficiency of household air-conditioners, variable refrigerant volume air-conditioning system and other refrigeration products to increase by 30% by 2022, drove a significant increase in the demand for our products from energy-saving VFAC producers in 2019. The new national standard Minimum Allowable Values of the Energy Efficiency and Energy Efficiency Grades for Room Air Conditioners (《房間空氣調節器能效限定值及能效等級》) (GB 21455-2019) (the “New AC Standard”) implemented by the NSAC in July 2020, which requires the overall energy efficiency standard of air-conditioner industry to increase by 30% by 2022, while only energy-saving VFACs using high-performance sintered NdFeB PMs can meet the requirements of the new standard, according to Frost & Sullivan, resulted in the growth in demand for NdFeB PMs from the energy-saving VFAC sector.

From 2015 to 2020, the global production volume of energy-saving VFACs increased from approximately 44.8 million to approximately 99.3 million, with a CAGR of approximately 17.3%. In 2025, the global production volume of energy-saving VFACs is expected to reach approximately 214.5 million, with a CAGR of approximately 16.6% from 2020 to 2025. From 2015 to 2020, the production volume of energy-saving VFACs in China increased from approximately 38.6 million to approximately 83.4 million, with a CAGR of approximately 16.7%. In 2025, the production volume of energy-saving VFACs in China is expected to reach approximately 177.3 million, with a CAGR of approximately 16.3% from 2020 to 2025.

The global consumption volume of high-performance NdFeB PMs in energy-saving VFACs increased from approximately 4,200.0 tonnes in 2015 to approximately 9,120.0 tonnes in 2020, with a CAGR of approximately 16.8%. It is expected that in 2025, the global consumption volume of high-performance NdFeB PMs in energy-saving VFACs is likely to arrive at approximately 19,700.0 tonnes with a CAGR of approximately 16.6% from 2020 to 2025.

The consumption volume of high-performance NdFeB PMs in energy-saving VFACs in China increased from approximately 3,860.0 tonnes in 2015 to approximately 8,340.0 tonnes in 2020, with a CAGR of approximately 16.7%. It is expected that in 2025, the consumption volume of high-performance NdFeB PMs is likely to arrive at approximately 17,730.0 tonnes with a CAGR of approximately 16.3% from 2020 to 2025 in China.

Improved Technology in Manufacturing Process: The REPM market is a typical technology-intensive industry, and the technical level is crucial to the future development of the participants in this industry. In the future, grain boundary penetration technology, as the core technology of high-performance REPM manufacturing, is expected to become the important development direction of manufacturing technology in the REPM market. Besides, surface treatment technology and equipment will be explored in a more environmentally friendly and efficient direction.

INDUSTRY OVERVIEW

Accelerated Industry Concentration: Currently, high-performance REPMs accounted for less than 50% of the total production volume of REPMs in China. In the future, manufacturers who lack the core competitiveness and only focus on products of low-performance REPMs are likely to be eliminated due to the fierce competition in this industry, while the established participants who master the core technologies and can provide high quality products are expected to gain more market share.

Challenges

Shortage of High-end Professionals: The REPM market has high requirements on the capability of innovative talents in developing new products, process design and production equipment manufacturing. Compared with some international REPM companies, high-end professionals are still in short supply in China, which is likely to become a bottleneck restricting the rapid development of the REPM market.

Entry Barriers

Technology and Raw Material Formula: Key technologies and raw material formula have a great influence on the performance and the quality of REPMs. For example, the grain boundary penetration technology is used in the manufacturing process of high-performance NdFeB PMs. This technology enables manufacturers to decrease the consumption of heavy rare earth, reduce the cost of raw materials and increase the coercivity and the performance of NdFeB PMs. Additionally, the formula adopted in processing raw material is usually very confidential to each manufacturer and often determines their product quality. Thus, the key technologies and raw material processing formula resulted in higher technical barriers for new enterprises to enter into the REPM market.

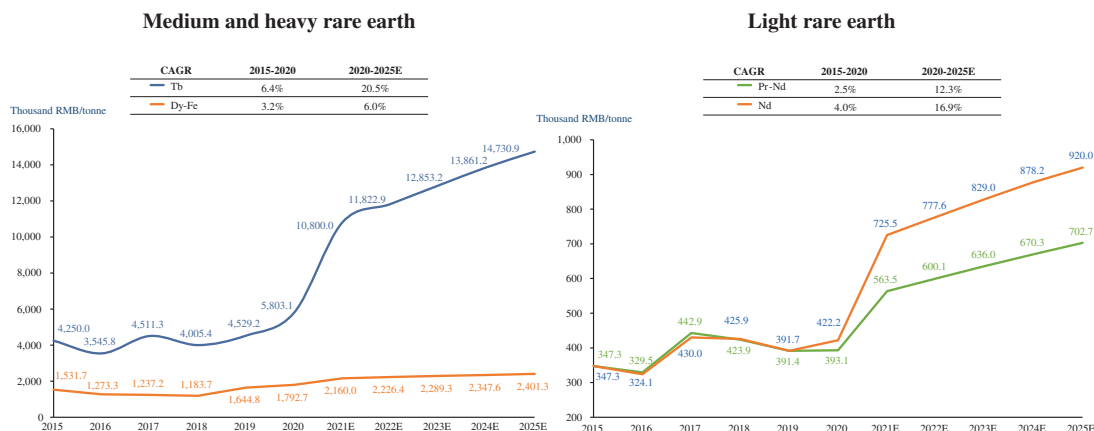
Trust in Product Quality and Networking with Downstream Users: As main significant functional materials, the quality of NdFeB PMs plays an important role in affecting the performance of products for the end users. In order to gain trusts from customers, NdFeB PM manufacturers need to offer corresponding longer period of time of operational records to prove its stability, reliability and follow-up service capabilities. Thus, manufacturers always cooperate with the downstream customers for a long period of time. On the other hand, once the capabilities of NdFeB PM manufacturers and their products' performances are recognized by these downstream customers, they would not easily replace manufacturers so as to maintain the stability of product performance. Therefore, it is difficult for the new entrants to establish long-term and interdependent relationship with the leading participants in downstream industries.

Rare Earth Supply: The rare earth reserves in China is highly concentrated. Light rare earth elements are mainly concentrated in the northern China, such as Inner-Mongolia and Shandong province, while heavy rare earth elements are generally located in the southern China, such as Jiangxi, Fujian, Hunan and Guangdong. The imbalanced resource distribution makes it difficult for a new entrant outside of those regions to obtain stable supply of rare earth, especially during the period when the rare earth prices grow rapidly.

INDUSTRY OVERVIEW

Raw Material Price Analysis

Average Price Trend of Rare Earth Metals (China), 2015-2025E



Source: China Rare Earth Association; Frost & Sullivan Analysis

With the rapid increase in new energy vehicle production and the recovery of the global economy, the demand for REPMs and rare earth has increased continuously in the first half of 2021. The prices of major rare earth species praseodymium, terbium, and dysprosium have increased significantly. Besides, The Ministry of Industry and Information Technology issued “Rare Earth Management Regulations” (Draft for Comments) 《稀土管理條例(徵求意見稿)》, which defined the penalty clauses for companies that violate the regulations for the first time and demonstrated that China attaches great importance to the healthy development of rare earth industry. With the strong support from Chinese government and the sharp increase of new energy vehicle production as well as the recovery of other downstream industries of rare earth, the price of rare earth grew rapidly in the first half of 2021.

Competitive Landscape of Global and China REPM Market

Top Three REPM Producers by Production Volume (Global), 2020

Ranking	Company	Market Share (%)
1	Company A	5.9
2	Our Group	5.8
3	Company B	3.7
Top Three		15.4
Others		84.6
Total		100.0

Top Three REPM Producers by CAGR of Sales Revenue (Global), 2020

Ranking	Company	CAGR (%)
1	Our Group	33.6
2	Company C	10.4
3	Company B	8.8

Source: Annual Report, Frost & Sullivan Analysis

INDUSTRY OVERVIEW

The global REPM market is relatively fragmented, with the top three REPM producers accounting for approximately 15.4%. Among all REPM producers worldwide, our Group ranked second in 2020, in terms of the production volume of REPMs.

In 2020, among all global REPM producers in terms of the CAGR of sales revenue between 2018 and 2020, our Group ranked first with a CAGR of approximately 33.6% from 2018 to 2020.

**Top Three REPM Producers by
Sales Revenue (Global), 2020**

Ranking	Company	Market Share (%)
1	Company A	9.9%
2	Company E	6.6%
3	Our Group	5.1%
Top Three		21.6%
Others		78.4%
Total		100.0%

**Top Three REPM Producers by
Sales Revenue (China), 2020**

Ranking	Company	Market Share (%)
1	Company A	12.4%
2	Our Group	6.4%
3	Company B	5.7%
Top Three		24.5%
Others		75.5%
Total		100.0%

Among all REPM producers worldwide, our Group ranked third in 2020, in terms of sales revenue of REPMs. Among all REPM producers in China, our Group ranked second in 2020, in terms of sales revenue of REPMs.

Notes:

- (1) Company A is a listed company that is one of the largest global REPM manufacturers.
- (2) Company B is a national high-tech company specialized in R&D, manufacturing and sales of REPMs.
- (3) Company C is one of the national high-tech companies that integrates R&D, production and sales of magnetic materials.
- (4) Company D is a listed company that committed to R&D and manufacturing of high-end REPMs.
- (5) Company E is a listed company in Japan that focuses on producing advanced metal products, components and materials.

INDUSTRY OVERVIEW

Top Three REPM Producers by Production Volume of High-performance REPMs (Global), 2020

Ranking	Company	Market Share (%)
1	Our Group	14.5
2	Company A	8.3
3	Company D	7.7
Top Three		30.5

Note: The production volume are based on the finished products

Source: Annual Report, Frost & Sullivan Analysis

In 2020, among all global REPM producers in terms of production volume of high-performance REPMs, our Group ranked first with the market share of approximately 14.5%.

Top Three REPM Producers by Sales Revenue of High-performance REPMs (Global), 2020

Ranking	Company	Market Share (%)
1	Company A	17.8%
2	Company E	12.9%
3	Our Group	11.7%
Top Three		42.4%
Others		57.6%
Total		100.0%

Top Three REPM Producers by Sales Revenue of High-performance REPMs (China), 2020

Ranking	Company	Market Share (%)
1	Company A	25.5%
2	Our Group	16.9%
3	Company B	14.2%
Top Three		56.6%
Others		43.4%
Total		100.0%

Among all global REPM producers in terms of sales revenue of high-performance REPMs in 2020, our Group ranked third with the market share of approximately 11.7%. Among all REPM producers in China in terms of sales revenue of high-performance REPMs in 2020, our Group ranked second with the market share of approximately 16.9%.

INDUSTRY OVERVIEW

Top Three REPM Producers by Production Volume of REPMs Based on Grain Boundary Penetration Technology (Global), 2020

Ranking	Company	Market Share (%)
1	Our Group	21.3%
2	Company D	12.9%
3	Company A	12.1%
Top Three		46.3%
Others		53.7%
Total		100.0%

Top Three REPM Producers by Production Volume of REPMs Based on Grain Boundary Penetration Technology (China), 2020

Ranking	Company	Market Share (%)
1	Our Group	34.0%
2	Company D	20.6%
3	Company A	19.3%
Top Three		73.9%
Others		26.1%
Total		100.0%

In 2020, our Group applied grain boundary diffusion (“GBD”) technology in producing 4,111 tonnes of REPMs, ranking first in the world’s GBD REPM market with a market share of approximately 21.3% and 34.0% respectively in the world and in China.

Top Three REPM Producers by Sales Revenue of REPMs Based on Grain Boundary Penetration Technology (Global), 2020

Ranking	Company	Market Share (%)
1	Company A	18.7%
2	Our Group	15.9%
3	Company D	13.0%
Top Three		47.6%
Others		52.4%
Total		100.0%

Top Three REPM Producers by Sales Revenue of REPMs Based on Grain Boundary Penetration Technology (China), 2020

Ranking	Company	Market Share (%)
1	Company A	29.6%
2	Our Group	25.1%
3	Company D	20.6%
Top Three		75.3%
Others		24.7%
Total		100.0%

In 2020, our Group’s sales revenue of REPMs based on grain boundary penetration technology ranked second in the global GBD REPM market with a market share of approximately 15.9% and 25.1% respectively in the world and in China.

The concentration of REPMs in downstream new energy passenger vehicle industry is relatively high. In 2020, among all global REPM producers in terms of number of equipping new energy passenger vehicles, our Group ranked second with the market share of approximately 14.5%.

The concentration of REPMs in downstream wind power sector is relatively high. In 2020, among all global REPM producers in terms of installed capacity of PM wind turbine generators, our Group ranked first with the market share of approximately 40.3%.

Although the global REPM market is relatively fragmented, the application of REPMs in downstream compressor of energy-saving VFAC market is relatively concentrated. In 2020, among all global REPM producers in terms of the number of equipping compressors of energy-saving VFACs, our Group ranked first with the market share of approximately 31.5%.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

OVERVIEW

We are a global leading producer of high-performance rare earth permanent magnets. The history of our Group can be traced back to 2008 when our ultimate Controlling Shareholders, namely Mr. Cai Baogui (蔡報貴), Mr. Hu Zhibin (胡志濱) and Mr. Li Xinnong (李忻農), incorporated our Company in Ganzhou, Jiangxi Province. Our Company started the R&D and production of high-performance NdFeB PMs for use in wind power generators in 2009 and 2010 respectively and has since expanded our business in emerging sectors. On June 3, 2015, in preparation for the proposed listing on the NEEQ, the then Shareholders resolved to convert our Company into a joint stock company with limited liability.

During the period from December 2015 to January 2018, the shares of our Company were listed on the NEEQ. Having considered our future business strategy and opportunities that can be offered by Shenzhen Stock Exchange, we de-listed our Company from the NEEQ in January 2018. In the same year, our A Shares were listed on the Shenzhen Stock Exchange.

MILESTONES

The following table summarizes various key milestones in our corporate and business development.

Month/Year	Event
August 2008	We were incorporated as a limited liability company in the PRC under the name of “Jiangxi Jinli Yongci Technology Co., Ltd.” (江西金力永磁科技有限公司).
June 2009	We started trial production of REPM materials and the R&D of wind power products.
September 2009	We passed the ISO9001:2008 quality management system certification.
March 2010	We became a supplier for Goldwind Technology and became involved in the wind power field.
April 2010	We passed the ISO14001:2004 environmental management system certification.
September 2011	We were awarded the title of “High-tech Enterprise” (高新技術企業) of Jiangxi Province by the Jiangxi government.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Month/Year	Event
December 2011	We became a supplier for Shanghai Haili's energy-saving variable frequency air conditioners, and became involved in the energy-saving variable frequency air conditioner field.
July 2012	We became a supplier of Bosch, and became involved in the automobile field.
October 2013	We were awarded the title of "Key High-tech Enterprise of the National Torch Program" (國家火炬計劃重點高新企業) by the Ministry of Science and Technology of the PRC.
June 2014	We were awarded the second prize of "Jiangxi Science and Technology Progress Award" (江西省科學技術進步獎二等獎) by the Jiangxi government.
June 2015	We were converted into a joint stock company.
December 2015	We became listed on the NEEQ.
January 2018	We de-listed from the NEEQ.
September 2018	We were listed on the ChiNext Market of the Shenzhen Stock Exchange (stock code: 300748).
June 2019	We were selected as the sample stocks of Shenzhen Stock Exchange constituent index (深證成份指數) and ChiNext Market index (創業板指數), and were included in the Shenzhen-Hong Kong Stock Connect (深港通).
September 2019	We were selected as the sample stocks of FISE Russell Index.
November 2019	We issued 4,350,000 Convertible Bonds and raised approximately RMB435 million.
January 2021	We issued 15,725,922 A Shares to specified investors and raised approximately RMB521 million.
July 2021	We scored A in the 2020 listed company information disclosure assessment of Shenzhen Stock Exchange (深交所2020年度上市公司信息披露考核).
November 2021	We were selected as a constituent stock of the China A-share Onshore Index by MSCI.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

OUR SUBSIDIARIES

Our Company has five subsidiaries in the PRC and four subsidiaries overseas. During the Track Record Period, the revenue contributed by our subsidiaries amounted to 1.2%, 0.5%, 0.3% and 0.2% of the total revenue of the Group. We consider that the following subsidiaries are of strategic importance to us:

Name of subsidiary	Place of incorporation	Date of incorporation and commencement of business	Principal business activities
JL MAG Europe	Netherlands	October 8, 2012	Sales and import and export of REPM product, technical service and consulting
JL MAG Ningbo Technology	PRC	January 15, 2020	Development, production and sales of magnetic material and component
JL MAG Baotou	PRC	August 18, 2020	Development, production and sales of magnetic material and component

MAJOR SHAREHOLDING CHANGES OF OUR COMPANY

Our Incorporation and Controlling Shareholders

Our Company was incorporated in the PRC on August 19, 2008 as a limited liability company with an initial registered share capital of RMB20,000,000. At the time of incorporation, our Company was wholly-owned by Ruide Venture, which was in turn owned as to 40%, 30% and 30% by our ultimate Controlling Shareholders, namely Mr. Cai Baogui, Mr. Hu Zhibin and Mr. Li Xinnong, respectively.

Ruide Venture is the holding company of our ultimate Controlling Shareholders. In June 2009, as a family arrangement, Mr. Li Xinnong transferred all of his equity interest in Ruide Venture to his brother Mr. Li Shinong (李恃農). In December 2009, Mr. Li Shinong transferred back all of his equity interest in Ruide Venture to Mr. Li Xinnong, and Ruide Venture's shareholding structure has remained unchanged since then.

Our ultimate Controlling Shareholders have been acting in concert with each other and collectively controlled, managed and supervised the entire business, operation, financial and other material key functions of our Group since the inception. From the inception to December 29, 2009, although our ultimate Controlling Shareholders had not entered into any written acting in concert agreement, our ultimate Controlling Shareholders were, in fact, acting in concert. In light of the trust and confidence they have in each other, our ultimate Controlling

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Shareholders have formalized the acting in concert arrangement since December 30, 2009. Please refer to “Our Ultimate Controlling Shareholders and Parties Acting in Concert – Parties Acting in Concert” in this section for details.

Since the incorporation, our Company has undertaken a series of capital increases to raise funds for the development of our business and to bring in new Shareholders to the Company. The major shareholding changes of our Company are set out below.

1. Equity transfers and increases of registered share capital between 2008 and 2015

Between 2008 and 2015, we underwent several equity transfers and increases of registered capital.

Before the incorporation of our Company, our ultimate Controlling Shareholders have reached an investment agreement with Goldwind Technology and Xitu Mining. In February 2009, to reflect such investment agreement, Ruide Venture transferred 34% and 10% of the equity interest of our Company at considerations of RMB34,000,000 and RMB10,000,000 to Goldwind Technology and Xitu Mining, respectively. The considerations were determined with reference to the then registered capital and was fully settled on May 24, 2010.

On November 8, 2010, Goldwind Technology transferred all of the equity interest in our Company to its wholly-owned subsidiary, Goldwind Holdings at the consideration of RMB34,000,000. Upon completion of the aforementioned share transfers, our Company was held as to 56%, 34% and 10% by Ruide Venture, Goldwind Holdings and Xitu Mining, respectively.

On August 17, 2011, one of our employee shareholding platforms, Xinjiang Qianshi (the predecessor of Ganzhou Qianchang), subscribed for 10% of the equity interest in our Company at the consideration of RMB20,379,407, of which RMB11,110,000 was credited into increased registered capital and RMB9,269,407 was credited into the capital reserves.

On June 1, 2015, Xitu Mining transferred all of the equity interest in our Company to its holding company, Ganzhou Rare Earth at nil consideration. Upon completion of these equity transfers, the shareholding structure of our Company was as follows:

Name of Shareholder	% of equity interest of our Company
1. Ruide Venture	50.40%
2. Goldwind Holdings	30.60%
3. Xinjiang Qianshi	10.00%
4. Ganzhou Rare Earth	9.00%
Total	100.00%

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

2. Listing on the NEEQ

In order to improve our Company's management, corporate governance and brand awareness as well as to obtain alternative financing, in June 2015, our Company decided to apply for the listing on the NEEQ. In preparation for the proposed listing, on June 3, 2015, the then shareholders of our Company agreed to convert its net assets into 150,000,000 issued shares at a nominal value of RMB1.0 each attributable to the then Shareholders in proportions to their original shareholdings and the remaining net assets was credited into capital reserves. On June 26, 2015, our Company was converted into a joint stock company and was renamed as JL MAG RARE-EARTH CO., LTD. (江西金力永磁科技股份有限公司). The conversion was completed on June 26, 2015. On December 18, 2015, all of the 150,000,000 issued shares of our Company were listed on the NEEQ.

With a view to enhancing the liquidity of the shares of our Company and further developing our Group's business, during our Company's listing on the NEEQ, our Company underwent four rounds of private placements, details of which are set forth below.

First round private placement

On October 26, 2015, the then Shareholders resolved to offer a total of 16,670,000 shares of our Company to three institutional investors by way of private placement, all of which are Independent Third Parties. The consideration was determined based on arm's length negotiation between the relevant parties with reference to the market value of our Company and was legally and irrevocably settled on November 6, 2015. The following table sets out the details of the first round private placement.

	Name of the investor	Number of shares subscribed	Price per Share	Consideration
1.	Jinhe Yongci	8,543,375	RMB4.799	RMB41,000,000
2.	Shangqi Delian	7,084,750	RMB4.799	RMB34,000,000
3.	Nanche Huasheng	1,041,875	RMB4.799	RMB5,000,000
	Total	16,670,000	–	RMB80,000,000

Second round private placement

On February 19, 2016, the then Shareholders resolved to offer a total of 5,000,000 shares of our Company to seven institutional investors by way of private placement, all of which are Independent Third Parties. The consideration was determined based on arm's length negotiation between the relevant parties with reference to the market value of our Company and was legally and irrevocably settled on February 26, 2016. The following table sets out the details of the second round private placement.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

	Name of the investor	Number of shares subscribed	Price per Share	Consideration
1.	CITIC Securities	1,800,000	RMB9.00	RMB16,200,000
2.	Huarong Securities	1,300,000	RMB9.00	RMB11,700,000
3.	Cheku Hongcha	928,222	RMB9.00	RMB8,353,998
4.	Sanying Investment	515,680	RMB9.00	RMB4,641,120
5.	CICC	200,000	RMB9.00	RMB1,800,000
6.	Chengfa Investment	156,098	RMB9.00	RMB1,404,882
7.	Huatai Securities	100,000	RMB9.00	RMB900,000
	Total	<u>5,000,000</u>	<u>–</u>	<u>RMB45,000,000</u>

Third round private placement

On September 13, 2016, the then Shareholders resolved to offer a total of 10,387,094 shares of our Company to five institutional investors by way of private placement, all of which are Independent Third Parties. The consideration was determined based on arm's length negotiation between the relevant parties with reference to the market value of our Company and was legally and irrevocably settled on September 22, 2016. The following table sets out the details of the third round private placement.

	Name of the investor	Number of shares subscribed	Price per Share	Consideration
1.	Sino-Belgian Fund	3,870,996	RMB15.50	RMB59,999,973
2.	CCB Capital	3,225,806	RMB15.50	RMB49,999,993
3.	Homwon Capital	1,290,322	RMB15.50	RMB19,999,991
4.	Yancheng Shangqi	1,000,000	RMB15.50	RMB15,500,000
5.	Yangzhou Shangqi	1,000,000	RMB15.50	RMB15,500,000
	Total	<u>10,387,094</u>	<u>–</u>	<u>RMB160,999,957</u>

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Fourth round private placement

On November 25, 2016, the then Shareholders resolved to offer a total of 3,855,000 shares of our Company to our certain director, senior management and key employees by way of private placement, to recognize their contribution and offer share incentive. The consideration was determined based on arm's length negotiation between the relevant parties with reference to the market value of our Company and was legally and irrevocably settled on December 2, 2016. The following table sets out the details of the fourth round private placement.

	Name of the investor	Position	Number of shares subscribed	Price per share	Consideration
1.	Mr. Mao Huayun (毛華雲)	Deputy general manager	900,000	RMB4.599	RMB4,139,100
2.	Mr. Lyu Feng (呂鋒)	Director and vice general manager	550,000	RMB4.599	RMB2,529,450
3.	Mr. Lu Ming (鹿明)	Deputy general manager and the secretary of the Board	350,000	RMB4.599	RMB1,609,650
4.	Ms. Xie Hui (謝輝)	Chief financial officer	350,000	RMB4.599	RMB1,609,650
5.	Mr. Huang Changyuan (黃長元)	Vice general manager	300,000	RMB4.599	RMB1,379,700
6.	Mr. Yu Han (于涵)	Vice general manager	300,000	RMB4.599	RMB1,379,700
7.	20 key employees	—	1,105,000	RMB4.599	RMB5,081,895
	Total	—	3,855,000	—	RMB17,729,145

After the completion of the four rounds of private placements and on March 21, 2017, the then Shareholders resolved to increase registered capital with capital reserves. Upon the completion of the increase of registered capital, the registered capital of our Company increased from RMB185,912,094 to RMB371,824,188.

3. *De-listing from the NEEQ*

In consideration of future strategy and the desire to pursue listing on the Shenzhen Stock Exchange, on January 25, 2018, our Company was de-listed from the NEEQ.

Since the date of our listing on the NEEQ and up to our de-listing from the NEEQ, we had not received any notice from the NEEQ alleging any non-compliance incidents on the part of our Company, and our Directors confirm that we had no instances of non-compliance with the rules or regulations of the NEEQ or the relevant laws and regulations in the PRC in all material respects, and to the best knowledge of our Directors after having made all reasonable enquiries, there is no matter that should be brought to investors' attention in relation to our compliance record on the NEEQ.

Further, as advised by our PRC Legal Advisor, our Company (including our subsidiaries) or our Directors (for the performance of their duties as our Directors) had not been subject to administrative penalty, administrative supervision measures or self regulatory measures by the NEEQ, the CSRC or other competent securities regulatory authorities during the period of our listing on the NEEQ up to our de-listing from the NEEQ.

Based solely on the facts known to the Joint Sponsors through conducting reasonable due diligence in the circumstances, namely: (a) a review of relevant filings and announcements published on the website of the NEEQ during the period of our listing on the NEEQ up to our de-listing from the NEEQ with the assistance of Jingtian & Gongcheng, the PRC legal advisors to the Joint Sponsors; (b) the Joint Sponsors' involvement in the CSRC approval process for the proposed Listing based on the information and documents made available to them; and (c) the due diligence interview with our PRC Legal Advisor, who has confirmed, from PRC legal perspective, that our Company (including our subsidiaries) or our Directors (for the performance of their duties as our Directors) had not been subject to administrative penalty, administrative supervision measures or self-regulatory measures by the NEEQ, the CSRC or other competent securities regulatory authorities during the period of our listing on the NEEQ up to our de-listing from the NEEQ, the Joint Sponsors (on the basis that there were no misrepresentations or omissions to the Joint Sponsors' due diligence enquiries) concur with our Directors' confirmation that (i) we have been in compliance with all applicable PRC securities laws and regulations in all material respects during the period of our listing on the NEEQ up to our de-listing from the NEEQ; and (ii) there are no other material due diligence findings in relation to our listing on the NEEQ that need to be brought to the attention of the regulators or our Shareholders.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

4. Listing of A Shares on the Shenzhen Stock Exchange

On September 21, 2018, we completed the initial public offering of our A Shares and listing on the Shenzhen Stock Exchange (stock code: 300748), involving an issue of 41,600,000 new A Shares. Immediately after the listing of A Shares, the shareholding structure of our Company was as follows:

Name of Shareholder	% of equity interest of the Company
1. Ruide Venture	36.58%
2. Goldwind Holdings	14.51%
3. Xinjiang Qianshi	7.26%
4. Ganzhou Rare Earth	6.53%
5. Yuanzhi Fuhai	6.14%
6. Shangqi Delian	3.43%
7. Jinhe Yongci	2.54%
8. Sino-Belgian Fund	1.87%
9. Ningbo Jinci	1.30%
10. CITIC Securities	1.04%
11. Other A Share Shareholders	18.8%
Total	100.00%

Since the listing of our A Shares on the Shenzhen Stock Exchange and up to the Latest Practicable Date, we had not received any notification from the Shenzhen Stock Exchange indicating that we were involved in any non-compliance issues.

Since the date of our listing on the Shenzhen Stock Exchange and up to the Latest Practicable Date, we had not received any notice from the Shenzhen Stock Exchange alleging any non-compliance incidents on the part of our Company, and our Directors confirm that we had no instances of non-compliance with the rules or regulations of the Shenzhen Stock Exchange or the relevant laws and regulations in the PRC in all material respects, and to the best knowledge of our Directors after having made all reasonable enquiries, there is no matter that should be brought to investors' attention in relation to our compliance record on the Shenzhen Stock Exchange.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Further, as advised by our PRC Legal Advisor, our Company (including our subsidiaries) or our Directors (for the performance of their duties as our Directors) had not been subject to administrative penalty, administrative supervision measures or self regulatory measures by the Shenzhen Stock Exchange, the CSRC or other competent securities regulatory authorities during the period of our listing on the Shenzhen Stock Exchange up to the Latest Practicable Date.

Based solely on the facts known to the Joint Sponsors through conducting reasonable due diligence in the circumstances, namely: (a) a review of relevant filings and announcements published on the website of the Shenzhen Stock Exchange during the period of our listing on the Shenzhen Stock Exchange up to the Latest Practicable Date with the assistance of Jingtian & Gongcheng, the PRC legal advisors to the Joint Sponsors; (b) the Joint Sponsors' involvement in the CSRC approval process for the proposed Listing based on the information and documents made available to them; and (c) the due diligence interview with our PRC Legal Advisor, who has confirmed, from PRC legal perspective, that our Company (including our subsidiaries) or our Directors (for the performance of their duties as our Directors) had not been subject to administrative penalty, administrative supervision measures or self-regulatory measures by the Shenzhen Stock Exchange, the CSRC or other competent securities regulatory authorities during the period of our listing on the Shenzhen Stock Exchange up to the Latest Practicable Date, the Joint Sponsors (on the basis that there were no misrepresentations or omissions to the Joint Sponsors' due diligence enquiries) concur with our Directors' confirmation that (i) we have been in compliance with all applicable PRC securities laws and regulations in all material respects during the period of our listing on the Shenzhen Stock Exchange up to the Latest Practicable Date; and (ii) there are no other material due diligence findings in relation to our listing on the Shenzhen Stock Exchange that need to be brought to the attention of the regulators or our Shareholders.

5. The issuance of Convertible Bonds in November 2019

In order to further optimize the debt structure, broaden financing channels and satisfy funding needs of our Company, on November 1, 2019, we completed the public issuance of convertible bonds of RMB435,000,000 (the “**Convertible Bonds**”). On November 25, 2019, the Convertible Bonds were listed on Shenzhen Stock Exchange (bond code: 123033). The principal terms of the Convertible Bonds are set out as follows:

Issuer	Our Company
Subscriber	The then Shareholders of our Company and public investors
Offering size	RMB435,000,000
Denomination	RMB100

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Interest rate	First year: 0.4%; second year: 1.0%; third year: 1.5%; fourth year: 2.0%; fifth year: 3.0%; and sixth year: 4.0%
Maturity date	October 31, 2025
Conversion period	From May 7, 2020 to October 31, 2025
Conversion price	RMB41.20 per A Share and not lower than (i) the average trading price of the A Shares of the twenty trading days before the date of the Convertible Bonds offering document and (ii) the average trading price of the trading day before conversion date. Such conversion price shall be adjusted in the event of increase of share capital, issuance of new shares and distribution of cash dividend.
Conversion shares	A Shares
Redemption at maturity	Unless otherwise converted, each Convertible Bond will be redeemed by the Issuer at 114% of its principal amount together with accrued and unpaid interest thereon on the maturity date
Redemption at the option of the issuer	During the conversion period, the issuer has the right to redeem part or all of the Convertible Bonds at its principal amount together with accrued and unpaid interest if either situation occurred: (i) during the conversion period, if at least twenty trading day in thirty consecutive trading days the closing price of the A Shares is not lower to the 130% of the conversion price; or (ii) when the total outstanding amount of the unconverted Convertible Bond is less than RMB30,000,000
Use of proceeds	RMB309,000,000 shall be used in the upgrade of intelligent manufacturing factory, and RMB126,000,000 shall be used for supplementing working capital.
Voting	A holder of the Convertible Bonds will be entitled to attend and vote at meetings of bondholders
Guarantee	No guarantee

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

On July 29, 2021, the Board resolved to exercise the redemption right to redeem all the outstanding Convertible Bonds at redemption price of RMB100.83 per Convertible Bond after close of market on August 30, 2021. Nonetheless, the bondholders are entitled to convert their Convertible Bonds at the conversion price of RMB25.3 per A Share before close of market on August 30, 2021. As of August 30, 2021, a total of 4,274,634 Convertible Bonds had been converted into 16,886,127 A Shares. Upon full redemption of all the outstanding Convertible Bonds after close of market on August 30, 2021, 75,366 Convertible Bonds were redeemed by our Company at redemption price of RMB100.83.

6. Adoption of the Restricted Share Incentive Plan

With a view of formalizing our proposal to grant share incentives to eligible management and employees of our Group, we approved and adopted the Restricted Share Incentive Plan on August 26, 2020 which was further amended on September 8, 2020. On August 26, 2020 and September 8, 2020, we approved (i) the grant of 2,541,600 Type I Restricted Shares (representing 4,066,560 A Shares after the increase of share capital in May 2021) to 218 grantees; (ii) the grant of 5,292,400 Type II Restricted Shares (representing 8,467,840 A Shares that could be issued and subscribed for) to 219 grantees; and (iii) the reservation of 418,000 Type II Restricted Shares (representing 668,800 A Shares that could be issued and subscribed for). On October 29, 2020, our Board approved the grant of 200,000 Type II Restricted Shares (representing 320,000 A Shares that could be issued and subscribed for) (out of the reserved Type II Restricted Shares as mentioned in (iii) above) to five grantees. On August 26, 2021, our Board further approved the grant of 348,800 Type II Restricted Shares (representing 348,800 A Shares that could be issued and subscribed for) (out of the reserved Type II Restricted Shares as mentioned in (iii) above) to seven grantees. The grant price of each of the restricted shares (including Type I Restricted Shares and Type II Restricted Shares) is RMB21.62. The grantees are entitled to purchase the restricted shares at such grant price upon the satisfaction of the granting conditions. As of the Latest Practicable Date, the adjusted grant price is RMB13.3875 per A share.

The 2,541,600 Type I Restricted Shares are subject to different lock-up periods, starting from September 22, 2020, being the registration date of the restricted shares under the first grant, which shall be 12 months, 24 months and 36 months. Accordingly, the Type I Restricted Shares shall be unlocked and available for disposal during three unlocking periods. Excluding certain unlocking restrictions under the Restricted Share Incentive Plan, the first unlocking period shall be from the first trading day after the 12 months anniversary of the registration date to the last trading day before the 24 months anniversary of the registration date; the second unlocking period shall be from the first trading day after the 24 months anniversary of the registration date to the last trading day before the 36 months anniversary of the registration date; the third unlocking period shall be from the first trading day after the 36 months anniversary of the registration date to the last trading day before the 48 months anniversary of the registration date. Please refer to “Appendix V – Statutory and General Information – 4. Restricted Share Incentive Plan – F. Lock-up period and unlocking arrangement (Type I Restricted Shares)” for details.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

The 5,292,400 Type II Restricted Shares granted on August 26, 2020 and 200,000 Type II Restricted Shares granted on October 29, 2020 shall be vested during three vesting periods. Excluding certain vesting restrictions under the Restricted Share Incentive Plan, the first vesting period shall be from the first trading day after the 12 months anniversary of the grant date to the last trading day before the 24 months anniversary of the grant date; the second vesting period shall be from the first trading day after 24 months anniversary of the grant date to the last trading day before the 36 months anniversary of the grant date; and the third vesting period shall be from the first trading day after the 36 months anniversary of the grant date to the last trading day before the 48 months anniversary of the grant date. Please refer to “Appendix V – Statutory and General Information – 4. Restricted Share Incentive Plan – G. Vesting period and arrangement (initially granted Type II Restricted Shares)” for details.

The 348,800 Type II Restricted Shares granted on August 26, 2021 shall be vested during two vesting periods. Excluding certain vesting restrictions under the Restricted Share Incentive Plan, the first vesting period shall be from the first trading day after the 12 months anniversary of the grant date to the last trading day before the 24 months anniversary of the grant date; the second vesting period shall be from the first trading day after 24 months anniversary of the grant date to the last trading day before the 36 months anniversary of the grant date. Please refer to “Appendix V – Statutory and General Information – 4. Restricted Share Incentive Plan – H. Vesting period and arrangement (reserved Type II Restricted Shares)” for details.

As of November 30, 2021 and pursuant to the Restricted Share Incentive Plan, a total of 4,066,560 restricted A Shares had been issued to the grantees of Type I Restricted Shares, and a total of 9,100,800 A Shares could be subscribed by and issued to the grantees of Type II Restricted Shares. As of November 30, 2021, all the restricted shares (including Type I Restricted Shares and Type II Restricted Shares) under the Restricted Share Incentive Plan were granted and no restricted shares under the Restricted Share Incentive Plan will be granted to any grantees after the Listing.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

7. Issuance of A Shares to specified investors

On January 8, 2021, our Company issued an additional 15,725,922 A Shares to eight institutional investors and three individual investors at RMB33.13 per A Share, all of which are Independent Third Parties.

On January 11, 2021, the total raised fund received by our Company was RMB520,999,796, before deducting transaction cost, of which RMB15,725,922 was credited into increased registered share capital and RMB495,911,254 was credited into capital reserves. On January 27, 2021, all of such 15,725,922 A Shares were registered and listed on the Shenzhen Stock Exchange.

The following table sets out the details of the aforementioned A Shares issuance:

Name of the investor	Number of A Shares subscribed	Price per A Share	Consideration	Lock-up period ^(Note)
1. Galaxy Securities	6,036,824	RMB33.13	RMB199,999,979.12	Six months
2. CCBI Asset Management	1,811,047	RMB33.13	RMB59,999,987.11	Six months
3. Jiumu Investment Fund	1,358,285	RMB33.13	RMB44,999,982.05	Six months
4. CITIC Securities	1,237,548	RMB33.13	RMB40,999,965.24	Six months
5. Mr. Liu Shisheng (劉世生)	1,207,364	RMB33.13	RMB39,999,969.32	Six months
6. Chitai Xinfu Investment Fund	1,116,812	RMB33.13	RMB36,999,981.56	Six months
7. Hengli Hengying Investment Fund	814,971	RMB33.13	RMB26,999,989.23	Six months
8. Mr. Zhen Guozhen (甄國振)	603,682	RMB33.13	RMB19,999,984.66	Six months
9. Zhongjin Lingnan Capital	603,682	RMB33.13	RMB19,999,984.66	Six months
10. Xiangtou Investment Fund	603,682	RMB33.13	RMB19,999,984.66	Six months
11. Mr. Zhang Chunyang (張春陽)	332,025	RMB33.13	RMB10,999,988.25	Six months
Total	15,725,922	–	RMB520,999,795.86	–

Note: Such lock-up had already expired as of the Latest Practicable Date.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

8. *Increase in registered capital in May 2021*

On April 23, 2021, our Shareholders resolved to distribute cash dividend and increase share capital with capital reserves. The cash dividend of RMB2.00 for every 10 Shares (total of RMB86,340,985) was distributed to all Shareholders, and an increase of 6 Shares for every 10 Shares (total of 259,022,953 Shares) was issued pro rata to all Shareholders with capital reserves in May 2021. As a result of the foregoing events and taking into consideration of the conversion of Convertible Bonds, on July 19, 2021, our Shareholders resolved to amend our articles of association and to increase our Company's registered capital from RMB431,703,964 to RMB690,727,955.

As of the Latest Practicable Date, all of our issued shares were A Shares and were traded on the Shenzhen Stock Exchange.

As confirmed by our PRC Legal Advisor, the shareholding changes of our Company as discussed above, including the increases of our registered share capital, the increase of registered share capital with capital reserves and share issuance and transfers complied with all applicable PRC laws and regulations.

MAJOR ACQUISITIONS, DISPOSALS AND MERGERS

As of the Latest Practicable Date, our Group did not have any major acquisitions, disposals or mergers.

OUR ULTIMATE CONTROLLING SHAREHOLDERS AND PARTIES ACTING IN CONCERT

Parties acting in concert

Our ultimate Controlling Shareholders, namely Mr. Cai Baogui, Mr. Hu Zhibin and Mr. Li Xinnong, have been acting in concert with each other and collectively controlled, managed and supervised the entire business, operation, financial and other material key functions of our Group since the inception. From the inception to December 29, 2009, although our ultimate Controlling Shareholders did not enter into any written acting in concert agreement, our ultimate Controlling Shareholders were, in fact, acting in concert. In light of the trust and confidence they have in each other, our ultimate Controlling Shareholders have formalized the acting in concert arrangement and signed four acting in concert agreements (the "**Acting in Concert Agreements**") successively upon expiration since December 30, 2009. The Acting in Concert Agreements have similar terms and essentially have the same effect. The principal terms of the Acting in Concert Agreements are as follows:

- (a) the parties herein shall give unanimous consent, approval or rejection on any other material issues and decisions in relation to the business of our Group;

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

- (b) the parties herein consent that Mr. Cai Baogui shall have the right to vote on behalf of Ruide Venture at the Shareholders' meeting, provided parties acting in concert must first reach an agreement before such vote;
- (c) except for the situation where Ruide Venture needs to abstain from voting in relation to connected transaction, Mr. Cai Baogui shall vote in accordance to the agreement reached among the acting in concert parties; and
- (d) except for the situation where Mr. Cai Baogui, Mr. Hu Zhibin and Mr. Li Xinnong need to abstain from voting in relation to connected transaction, the acting in concert parties shall vote unanimously in accordance to the agreement reached among themselves.

Our ultimate Controlling Shareholders

As of November 30, 2021, our ultimate Controlling Shareholders, through Ruide Venture, Ganzhou Geshuo, Ganzhou Xinsheng and their respective direct shareholding, held approximately 34.42% of our total issued Shares. In addition, two of our ultimate Controlling Shareholders, namely Mr. Cai Baogui and Mr. Hu Zhibin, directly held approximately 0.09% and 0.13% of the total issued Shares, respectively.

Ganzhou Qianchang

Ganzhou Qianchang was a limited partnership established under the laws of the PRC on August 10, 2011 as our employee shareholding platform. The partnership information of Ganzhou Qianchang before the Cancellation (as defined below) is set out below:

Partners	Type	Partnership interest held	Background information of partners
1. Ganzhou Huirui	General partner	5.81%	Limited partnership established for the purpose of providing incentives to our Directors, senior management and key management.
2. Ganzhou Geshuo	Limited partner	46.05%	Shareholding platform of two of our ultimate Controlling Shareholders (namely Mr. Hu Zhibin and Mr. Li Xinnong) in which Mr. Li is the general partner who holds 39% of the partnership interest therein, while Mr. Hu is the limited partner who holds 61% of the partnership interest therein.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Partners	Type	Partnership interest held	Background information of partners
3. Ganzhou Xinsheng	Limited partner	30.65%	Shareholding platform of two of our ultimate Controlling Shareholders (namely Mr. Cai Baogui and Mr. Hu Zhibin), in which Mr. Cai is the general partner who holds 89.12% of the partnership interest therein, while Mr. Hu is the limited partner who holds 10.88% of the partnership interest therein.
4. Qianyi Investment, Ganzhou Benhui and Qianrui Investment	Limited partners	17.49% (in aggregate)	Three limited partnerships established for the purpose of providing incentives to our Directors, senior management and key management.
	Total	<u>100%</u>	

Since the general partner of Ganzhou Qianchang is Ganzhou Huirui but not any of the ultimate Controlling Shareholders or entities controlled by any of them, our ultimate Controlling Shareholders do not have control over Ganzhou Qianchang. Therefore, the ultimate Controlling Shareholders were not regarded as having control (direct or indirect) over the voting rights in our Company held by Ganzhou Qianchang, notwithstanding their indirect stake therein.

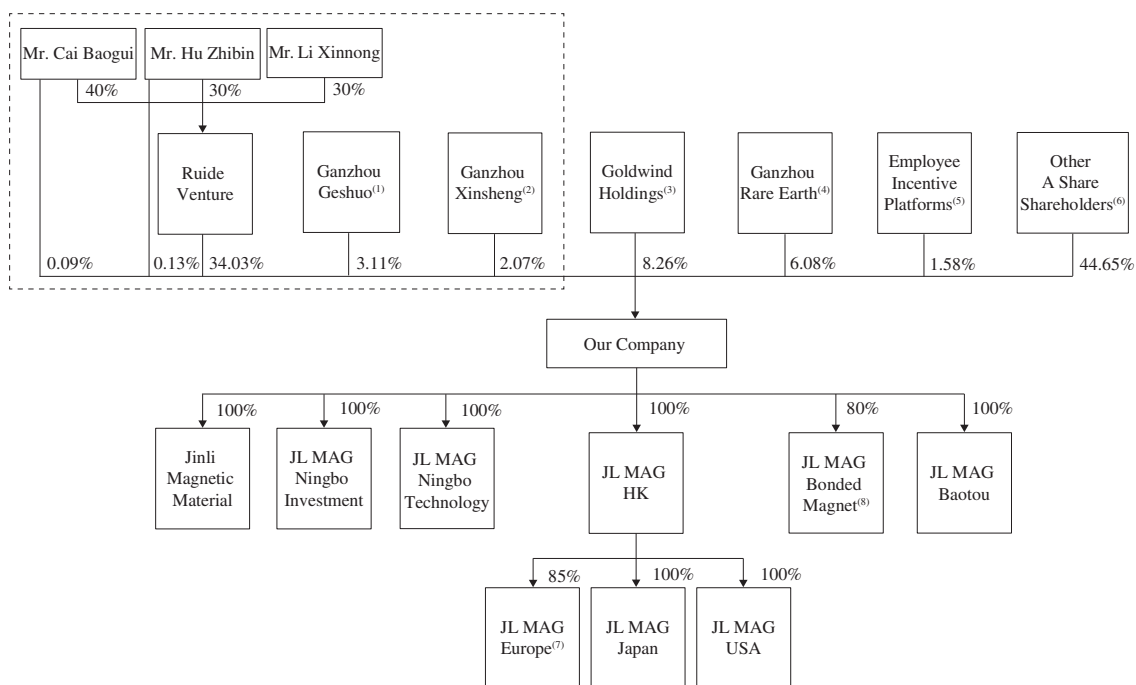
Ganzhou Qianchang's business registration was expired on August 9, 2021 and its partnership and business registration was cancelled on September 24, 2021 (the "**Cancelation**"). As a result of the Cancelation, the Shares held by Ganzhou Qianchang were distributed to, and hence directly held by, the partners of Ganzhou Qianchang, namely (i) Ganzhou Geshuo, (ii) Ganzhou Xinsheng, and (iii) the Employee Incentive Platforms, in proportion to their respective partnership interests in Ganzhou Qianchang before the Cancelation.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

CORPORATE STRUCTURE

Corporate structure before the Global Offering

The following diagram illustrates the simplified corporate and shareholding structure of our Company immediately prior to the completion of the Global Offering.



Our Controlling Shareholders

Notes:

- (1) Ganzhou Geshuo is a shareholding platform of Mr. Hu Zhibin and Mr. Li Xinnong. Mr. Li is the general partner of Ganzhou Geshuo and owns 39% of the equity interest of Ganzhou Geshuo. Mr. Hu is the limited partner of Ganzhou Geshuo and owns 61% of the equity interest of Ganzhou Geshuo.
- (2) Ganzhou Xinsheng is a shareholding platform of Mr. Cai Baogui and Mr. Hu Zhibin. Mr. Cai is the general partner of Ganzhou Xinsheng and owns 89.12% of the equity interest of Ganzhou Xinsheng. Mr. Hu is the limited partner of Ganzhou Xinsheng and owns 10.88% of the equity interest of Ganzhou Xinsheng.
- (3) Goldwind Holdings is wholly-owned by Goldwind Technology, a Shenzhen Stock Exchange and Hong Kong Stock Exchange listed company.
- (4) Ganzhou Rare Earth is a state-owned limited liability company and controlled by Ganzhou State-owned Assets Supervision and Administration Commission (贛州市國有資產監督管理委員會).
- (5) Employee Shareholding Platforms refer to four limited liability partnerships, namely Qianyi Investment, Ganzhou Benhui, Ganzhou Huirui and Qianrui Investment, which were established for the purpose of providing incentives to our Directors, senior management and key employees. With respect to Qianyi Investment, Mr. Luo Muhua is the general partner and Ms. Xie Hui, Mr. Liu Lujun, Mr. Chu Yinhe, Mr. Wang Yinghai, Mr. Li Xiuguo, Mr. Ma Yankui, Mr. Deng Chengzhi, Mr. Wu Haiming, Mr. Zhan Yijie, Mr. Huang Zhaoming, Mr. Li Wei, Mr. Song Shaoyong, Mr. Lai Luosheng, Mr. Lai Xunlong, Mr. Qiu Kequan, Mr. Yang Jinyuan, Mr. Xiao Wenming, Mr. Chi Fujun, Mr. Guo Changhong, Mr. Liu Yong, Ms. He Yanfeng, Mr. Chen Jianhui, Ms. Li Mei, Mr. Huang Xin and Mr. Wu Haoming are the limited partners. With respect to Ganzhou Benhui, Mr. Mao Huayun is the general partner and owns 51.75% of the equity interest and Mr. Huang

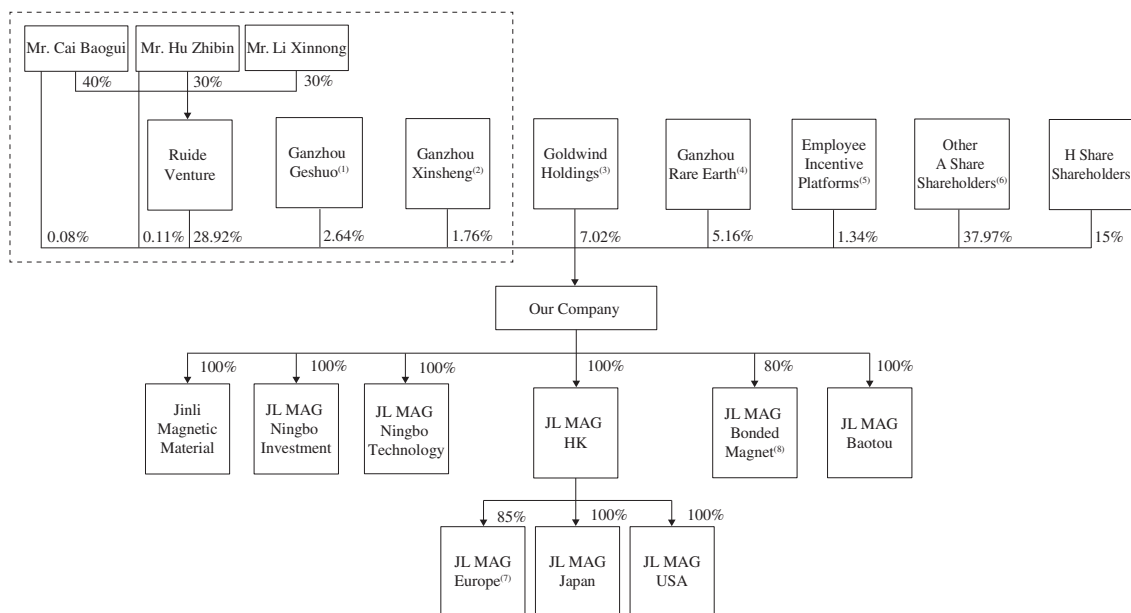
HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Changyuan is the limited partner and owns 48.25% of the equity interest. With respect to Ganzhou Huirui, Mr. Lyu Feng is the general partner and owns 50% of the equity interest and Mr. Lu Ming is the limited partner and owns 50% of the equity interest. With respect to Qianrui Investment, Mr. Wang Shuilong is the general partner and Mr. Yu Han, Mr. Su Quan, Ms. Liu Qiujuan, Mr. Yue Chongbin, Mr. Wang Fu, Ms. Sun Yixia, Mr. Xu Jianqing, Mr. Jiang Yingqing, Mr. Zhou Tiefu, Mr. Huang Weifang, Mr. Xu Xinmin, Ms. Guo Chunlan, Ms. Zeng Guangyu, Mr. Li Shengxiang, Mr. Yang Guisheng, Mr. Chen Yankui, Mr. Ye Pingyu, Mr. Chen Yunpeng, Mr. Qiu Molong, Mr. Guan Yuyun, Mr. Zhang Sunming, Mr. Peng Wenbiao, Mr. Liao Mingjiang and Mr. Wang Kaiyou are the limited partners. As of November 30, 2021, our Company was owned as to 0.45%, 0.41%, 0.39% and 0.33% by Qianyi Investment, Ganzhou Benhui, Ganzhou Huirui and Qianrui Investment, respectively.

- (6) As of November 30, 2021, there were approximately 54,042 other individual or institutional A Share Shareholders. Except for HKSCC, which as trustee holds approximately 4.96% of the equity interest of our Company on behalf of investors in Hong Kong and overseas pursuant to the rules and limits of Shenzhen-Hong Kong Stock Connect, none of the rest of the other A Share Shareholders hold more than 1% of the equity interest of our Company. Except for Mr. Lyu Feng, an executive Director who controls 2,787,264 A Shares through Ganzhou Huirui and directly owns 1,598,080 A Shares, representing 0.62% of the equity interest of our Company, none of the other A Share Shareholders are core connected persons (as defined under the Listing Rules) of our Company and shall be counted into the public float.
- (7) The remaining 15% of the total issued and outstanding shares of JL MAG Europe is held by Hest B.V., which is owned by H.A.A Stienen, the sole managing director of JL MAG Europe, and his spouse.
- (8) The remaining 20% of the equity interest of JL MAG Bonded Magnet is held by You Zhenggang (游正岗), the deputy general manager of JL MAG Bonded Magnet.

Corporate structure immediately following the Global Offering

The following diagram illustrates the corporate and shareholding structure of the Company immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised).



Our Controlling Shareholders

- (1) - (8) See notes (1) to (8) of the simplified corporate structure under the section headed “– Corporate Structure – Corporate structure before the Global Offering” above for details.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Public Float

The 284,431,600 A Shares held by Ruide Venture, Ganzhou Geshuo, Ganzhou Xincheng, Ganzhou Huirui, Mr. Cai Baogui, Mr. Hu Zhibin, Mr. Li Xinnong and Mr. Lyu Feng as of November 30, 2021 will not be considered as part of the public float upon the Listing since they will be considered as our Company's core connected persons (as defined in the Listing Rules). As none of Goldwind Holdings, Ganzhou Rare Earth, Qianyi Investment, Ganzhou Benhui, Qianrui Investment and other A Share Shareholders (except for Mr. Lyu Feng), on the basis of their current shareholding and structure, is expected to be a core connected person of our Company, the A Shares (representing approximately 50.99% of our Company's total issued Share, assuming the Over-allotment Option is not exercised) held by them are expected to be counted towards the public float for the purpose of Rule 8.08 of the Listing Rules upon the Listing. As such, it is expected the upon the Listing, our Company will be able to meet the minimum public float requirement under Rule 8.08(1)(b).

Reasons for the Listing

Our Company is seeking a listing of its H Shares on the Stock Exchange in order to provide further capital for the development and expansion of the Company's business, to strengthen the Company's working capital and to further strengthen our business profile and global presence, as described in more details in "Future Plans and Use of Proceeds" in this Prospectus.

OVERVIEW

We are a leading producer of high-performance rare earth permanent magnets. We ranked first in the world by high-performance REPM production volume in 2020 with a market share of approximately 14.5%, according to Frost & Sullivan. In particular, we applied GBD technology in producing 4,111 tonnes of high-performance REPMs in 2020, ranking first in the world's GBD REPM market with a market share of approximately 21.3%, according to Frost & Sullivan. Since our establishment, we have focused on the R&D, production and sales of high-performance NdFeB PMs used globally in the fields of new energy, energy conservation and environmental protection. Our products have a wide array of applications in NEVs and automotive parts, PM wind turbine generators, energy-saving VFACs and other sectors. We believe that, by leveraging our large production capacity, high-quality product offerings, outstanding R&D capabilities, proprietary technologies and strong product delivery capability, we are able to effectively address the needs of, and forge cooperative relationships with, our customers, including global leaders in their respective industries.

We believe that we are well-positioned in a booming industry to capitalize on the strong growth prospects in the downstream industries as the world consensus on global climate change leads to carbon reduction as a key dimension of environmental protection. In response to climate change, governments in the world are taking active actions to promote new energy and reduce carbon emission. Specifically, China plans to reach carbon peak by 2030 and carbon neutrality by 2060. REPMs embody an inherent advantage in reducing carbon emission. According to Frost & Sullivan, over 50% of the global electricity is consumed by electric motors, and REPM electric motors could save up to 15% to 20% of energy compared with traditional electric motors. Moreover, the application of REPMs enables variable-frequency household appliances, NEVs and automotive parts and 3C intelligent electronic products to be more lightweight and miniaturized, which is in line with consumers' preference. According to Frost & Sullivan, the global consumption of REPMs, mostly comprising NdFeB PMs, increased from approximately 146,600 tonnes in 2015 to 209,500 tonnes in 2020 and is expected to further increase to 305,200 tonnes in 2025.

We started the R&D and production of high-performance NdFeB PMs for use in wind power generators in 2009 and 2010, respectively, and have since expanded our business in emerging sectors that have achieved robust growth in recent years and still hold significant potential for future growth. We are committed to facilitating the pursuit of carbon peak and carbon neutrality both in China and around the world through our production and provision of high-performance NdFeB PMs, guided by our mission of "Employing rare earth to create better life". We uphold our core value of "Customer Orientation and Value Co-creation" and aim to achieve "leading technology, reliable quality, on-time delivery, upgraded management (service), capital facilitation and transformational development". Under the leadership of our management team with deep industry background and extensive management and operational experience, we have become a critical supplier in the supply chain systems of leading companies in multiple carbon-reduction sectors. We are striving to reinforce our established market presence and become the No. 1 global leader in the REPM market, according to Frost & Sullivan.

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We produce customized high-performance NdFeB PMs based on purchase orders from our customers. Our production capabilities cover the entire production cycle of high-performance NdFeB PMs including R&D, mold development and manufacturing, blank production, finished product processing, surface treatment, magnetization, testing, manufacturing of magnetic component parts and packaging, which enables us to carry out comprehensive control and management of the entire process flow. In anticipation of the substantial growth of our downstream sectors, we have strategically scaled up our production capacity during the Track Record Period. Our annual production capacity of high-performance NdFeB PM blanks increased from 7,000 tonnes in 2018 to 8,800 tonnes in 2019, and further to 12,800 tonnes in 2020, representing a CAGR of 35.2% from 2018 to 2020.

We have secured the supply of raw materials through forging long-term and stable strategic cooperations with major rare earth suppliers. Among our suppliers, China Southern Rare Earth was the second largest rare earth mining group in China by annual rare earth mining quota which was 42,450 tonnes in 2021, accounting for approximately 25.3% of the national mining quota in the same year. Its output mainly comprises medium and heavy rare earth. China Southern Rare Earth was among our five largest suppliers during the Track Record Period.

We have strong R&D capabilities for production optimization and global-leading proprietary technologies. We optimize product formulations to help our customers in the wind power sector reduce their production costs through lowering the medium and heavy rare earth added in the production of high-performance NdFeB PMs. On the other hand, our GBD technology, which is one of the most advanced technologies in global REPM industry and is currently applied by less than ten REPM manufacturers in the world, according to Frost & Sullivan, can significantly reduce the use of medium and heavy rare earth in the production of high-performance NdFeB PMs used in NEVs, energy-saving VFACs and other downstream products, thereby reducing raw material costs while maintaining high performance at high working temperatures. GBD technology is widely applied in the production of our high-performance NdFeB PM finished products in energy-saving VFACs sector and NEVs and automotive parts sector as production of high-performance NdFeB PMs in these sectors requires higher usage of medium and heavy rare earth as compared to production of high-performance NdFeB PMs in other sectors, and is also applied in the production of certain high-performance NdFeB PM finished products in 3C sector. In 2020, we applied GBD technology in producing 4,111 tonnes of high-performance REPMs, ranking first in the world's GBD REPM market with a market share of approximately 21.3%, according to Frost & Sullivan.

During the Track Record Period, we achieved rapid financial growth and high levels of ROE. Our revenue increased from RMB1,282.0 million in 2018 to RMB1,630.1 million in 2019 and further to RMB2,288.7 million in 2020, representing a CAGR of 33.6% from 2018 to 2020. In 2020, our weighted ROE was 17.1%.

COMPETITIVE STRENGTHS

We believe that the following strengths contribute to our growth and differentiate us from our competitors:

Global leading producer of high-performance REPMs with fast growth

We are a leading producer of high-performance REPMs. We ranked first in the world by high-performance REPM production volume of 9,612.9 tonnes in 2020 according to Frost & Sullivan. In particular, we applied GBD technology in producing 4,111 tonnes of high-performance REPMs in 2020, ranking first in the world's GBD REPM market with a market share of approximately 21.3%, according to Frost & Sullivan. Leveraging our large production capacity, outstanding R&D capabilities, proprietary technologies and strong product delivery capability, we have established a market-leading position in each of the following key downstream sectors, according to Frost & Sullivan:

- **New energy vehicles.** We are a global leading supplier of high-performance NdFeB PMs used for the production of NEVs and automotive parts. In 2020, we ranked second globally by the number of passenger NEVs that use our high-performance NdFeB PMs. In 2020, the REPMs that we dispatched into the NEV sector were sufficient for the making of approximately 450,000 NEV drive motors for equipping the same number of passenger NEVs, equal to approximately 14.5% of the total number of NEVs produced globally in the same year. Our high-performance NdFeB PMs were used for producing drive motors and automotive parts for four of the top five NEV producers in the world in 2020. We sell our products directly to the global No. 1 NEV producer by 2020 market share and also directly to BYD. In addition, SAIC Motor, NIO, and Li Auto are among our end-users. We have also been certified as a high-performance NdFeB PMs supplier to the NEV platforms of Volkswagen and General Motors.
- **Wind power.** We are the largest supplier globally of high-performance NdFeB PMs used in the wind generator turbines in 2020 by newly installed capacity. Our high-performance REPMs dispatched to the wind power sector in 2020 were sufficient for the production of PM wind turbine generators with an approximate aggregate installed capacity of 10 GW, equal to approximately 40% of the global PM wind power newly installed capacity in the same year. Our major customers in the wind power sector include leading players such as Goldwind and Siemens Gamesa.
- **Energy-saving variable frequency air-conditioners.** We are the largest supplier globally of high-performance NdFeB PMs used for the production of energy-saving VFACs in 2020. We ranked first in the world by the number of energy-saving VFAC compressors equipped with high-performance NdFeB PMs produced by us with a market share of approximately 31.5% in 2020. Our major customers include leading industry players such as Midea, Gree, Shanghai Highly and Guangzhou Mitsubishi.

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In anticipation of the substantial growth of our downstream sectors, we have strategically scaled up our production capacity during the Track Record Period. Our annual production capacity of high-performance NdFeB PM blanks increased from 7,000 tonnes in 2018 to 8,800 tonnes in 2019 and further to 12,800 tonnes in 2020, representing a CAGR of 35.2%. Large-scale production has enabled us to realize economies of scale and achieve cost-effective production. Our profitability and overall competitiveness are enhanced due to higher production efficiency and reduced costs, thereby further consolidating our leading position in the high-performance NdFeB PM market.

We are in the process of further expanding our production capacity. Our annual production capacity is expected to reach 23,000 tonnes of high-performance NdFeB PM blanks in 2022 and 40,000 tonnes of high-performance NdFeB PM blanks by 2025 through the upgrade and expansions of our existing production bases in Ganzhou and our new production bases in Baotou and Ningbo. The completion-based check and acceptance of construction for our Baotou Production Base was completed in December 2021 and our Baotou Production Base is expected to commence operation by the end of 2021 with a designed production capacity of 8,000 tonnes per annum of high-performance NdFeB PM blanks. We also plan to commence the construction of our Ningbo Production Base by the end of 2021, which is expected to commence operation by the end of 2023 with a designed production capacity of 3,000 tonnes of high-performance NdFeB PM blanks and 100 million units/sets of high-performance NdFeB PM component parts per annum. These two new production bases are expected to help us further strengthen our production capabilities, enrich our products portfolio and improve our overall competitiveness and profitability. In addition, we plan to further expand our production capacity through the future construction of Phase II of the Baotou Production Base.

We achieved rapid growth during the Track Record Period. Our revenue grew at a CAGR of 33.6% from 2018 to 2020. We believe that our leading position in the REPM industry positions us well to capitalize on the strong growth potential in the REPM market in China and globally.

In-depth cooperation with top player customers in new energy and energy saving industries that enables us to capture growing downstream demand

Benefiting from the global trends of carbon emission reduction, our main downstream sectors are experiencing fast growth, which translates into strong and increasing demand for our products.

- **New energy vehicles:** In 2020, the State Council announced the Development Plan for The New Energy Vehicle Industry (2021-2035), which envisions NEVs to account for 20% of China's total sales of vehicles by 2025. Supportive government policies stimulated the development of NEVs in China. The sales volume of passenger NEVs in China grew at a CAGR of 43.0% from 2015 to 2020 and is expected to continue to grow at a CAGR of 30.3% from 2020 to 2025. In recent years, the rapid increase in sales of NEVs has led to a surge in the consumption of high-performance NdFeB PMs. The consumption volume of high-performance

NdFeB PMs in the NEV industry in China increased from approximately 700 tonnes in 2015 to approximately 4,060 tonnes in 2020, representing a CAGR of 42.3%, and is expected to reach approximately 16,300 tonnes in 2025, representing a CAGR of 32.1% from 2020 to 2025.

Globally, the sales volume of passenger NEVs is expected to grow at a CAGR of 45.1% from 2020 to 2025, reaching approximately 11.3 million in 2025. According to Frost & Sullivan, the global consumption volume of high-performance NdFeB PMs in the NEV industry increased from approximately 1,480 tonnes in 2015 to approximately 9,760 tonnes in 2020, representing a CAGR of 45.9%, and is expected to reach approximately 37,510 tonnes in 2025, representing a CAGR of 30.9% from 2020 to 2025.

- **Wind power:** The PRC government promotes wind power as an important element for the achievement of carbon neutrality. During the “14th Five-Year Plan” period, newly installed electricity generation capacity in China will exceed 50GW per annum on average. The newly installed electricity generation capacity of wind power in China increased from 33.0 GW in 2015 to 52 GW in 2020 and is expected to reach 62.3 GW in 2025. Compared with double fed induction generators, PM wind turbines equipped with high-performance NdFeB PMs generally have simpler structures, lower operation and maintenance costs, longer service life, better performance of grid connection and higher efficiency of power generation, and are more efficient to operate in a low wind speed environment. The penetration rate of REPM motors will gradually increase leading to a robust increase in consumption of high-performance NdFeB PMs. The domestic consumption volume of high-performance NdFeB PMs used for wind turbine generators increased from approximately 4,870 tonnes in 2015 to approximately 9,100 tonnes in 2020 and is expected to further increase to approximately 16,820 tonnes in 2025.

According to Frost & Sullivan, from 2015 to 2020, the global newly installed electricity generation capacity of wind power increased from 63.8 GW to 93.0 GW, and is expected to reach 112.2 GW in 2025; accordingly, the global consumption of high-performance NdFeB PMs increased from approximately 7,170 tonnes in 2015 to approximately 12,880 tonnes in 2020 and will achieve approximately 19,620 tonnes in 2025.

- **Energy-saving variable frequency air-conditioners:** Compared with fixed-frequency air-conditioners, energy-saving VFACs are more energy efficient and have a longer service life. In 2020, the PRC government implemented the Limited Values and Grades of Energy Efficiency for Room Air Conditioners (《房間空氣調節器能效限定值及能效等級》), which requires the overall energy efficiency standard of air-conditioner industry to increase by 30% by 2022, while only energy-saving VFACs using high-performance sintered NdFeB PMs can meet the requirements of the new standard, according to Frost & Sullivan. The production volume of energy-saving VFACs in China increased from 38.6 million in 2015 to

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83.4 million in 2020 and is expected to reach 177.3 million in 2025. The consumption of high-performance NdFeB PMs in energy-saving VFACs has increased accordingly. The domestic consumption volume of high-performance NdFeB PMs in the energy-saving VFAC sector increased from approximately 3,860 tonnes in 2015 to approximately 8,340 tonnes in 2020 and is expected to reach approximately 17,730 tonnes in 2025.

The global production of energy-saving VFACs grew from 71.3 million units in 2018 to 99.3 million units in 2020 and is expected to reach 214.5 million units by 2025. According to Frost & Sullivan, the global consumption of high-performance NdFeB PMs in the energy-saving VFACs industry increased from approximately 6,300 tonnes in 2018 to approximately 9,120 tonnes in 2020 and is expected to reach approximately 19,700 tonnes in 2025.

- **Others:** To capture other emerging demands for high-performance NdFeB PMs, we proactively expanded our business and have become a supplier of high-performance NdFeB PMs to leading customers in other fields such as 3C, energy-saving elevators, robotics and intelligent manufacturing and rail transit.

We have forged close cooperation relationships with our major customers that are top-tier players in their respective sectors. Leveraging our large production scale, high-quality product offerings, outstanding R&D capabilities, proprietary technologies and strong product delivery capability, we have entered into the supply chain systems of many global leading companies in our downstream sectors. In 2020, our major customers included four of the top five players in the global NEV sector by sales volume in 2020, three of the top five players in the global wind power sector by 2020 newly added installed capacity and the top two household air-conditioner producers by production volume in China. In addition, in the 3C, energy-saving elevators, robotics and intelligent manufacturing, rail transit and other sectors, we have entered into the supply chain systems of a number of top-tier customers, including Bosch Rexroth and Kone Elevator. Our strong and integrated relationships with the top players in each of these sectors place us at a strategically advantaged position to capture the growing demand therefrom.

First-mover advantage in the REPM industry characterized by customer stickiness and high entry barriers

The REPM industry is characterized by strong customer stickiness and high entry barriers. REPM producers are expected to meet downstream customers' specific requirements on product characteristics, quality, quantity and delivery time. We leverage our professional and technical expertise in high-performance NdFeB PMs to participate in the new product design of our customers, assisting our customers to optimize their products' performance and reduce production cost and providing comprehensive technical solutions on high-performance NdFeB PMs to our customers from as early as the design stage of their products. Downstream customers have varied requirements to produce their end products, and we exhibit high responsiveness to our clients' specialized needs of producing non-standardized products

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through our ability to fulfill customers' requirements. Our strong R&D capacity, supplemented with execution capability and quality control have enabled us to constantly meet the standards set by our customers, which in turn has contributed to our success in building and maintaining solid relationships with them.

We keep substantially the entire manufacturing process in-house and implement a strict quality management system. We continue to improve our lean production capability and strive to satisfy our customers' needs by leveraging our product delivery capability and production efficiency. As we generally do not outsource the production step to any sub-contractors, we are in a better position to conduct quality control, and carry out production as scheduled.

The REPM industry also poses high entry barriers in terms of customers' accreditation. High-performance NdFeB PMs are important functional materials in the relevant industries. The quality of NdFeB PMs has a significant impact on the performance and quality of the customers' final products. Once the cooperation is established, our customers tend not to change their supplier easily. Therefore, new entrants to the REPM industry without proven track record may have difficulty in becoming qualified suppliers to leading players in downstream industries within a short period of time or at all. Because of the high barriers in customers' accreditation, our status as an accredited supplier of many leading customers demonstrates our consistently high product quality and leadership in the REPM industry. We believe that our tested relationships with existing top-tier customers enhance our brand recognition and reputation, enabling us to leverage the first-mover advantage to secure our established leading position in the industry and further expand the customer base.

Strong R&D capabilities for production optimization and global-leading GBD technologies

The production of high-performance NdFeB PMs has high technical barriers. The production and supply of high-performance NdFeB PMs used for the production of energy-saving VFACs and NEVs and automotive parts require the use of our proprietary GBD technology, which enables us to reduce the use of medium and heavy rare earth while maintaining the high performance of our NdFeB PMs and develop high-grade products. We have mastered six systems of self-owned core technologies and patents with GBD technology at its core, including GBD technology, formulation system, grain refinement technology, primary molding technology, production automation technology, and new coating technology with high temperature resistance and corrosion resistance. Among them, we have applied for the authorization of a number of domestic and foreign invention patents for the GBD technology.

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On one hand, we optimize the formulations to help our customers in the wind power sector reduce their production costs through lowering the medium and heavy rare earth added in the production of high-performance NdFeB PMs. On the other hand, we keep improving the performance of our products used for the production of high-speed spinning motors such as the motors of NEVs and energy-saving VFACs. We are capable of employing the GBD technology to achieve mass production and develop high-grade products that substantially reduces the use of medium and heavy rare earth while maintaining high performance. GBD technology is widely applied in the production of our high-performance NdFeB PM finished products in energy-saving VFACs sector and NEVs and automotive parts sector as production of high-performance NdFeB PMs in these sectors requires higher usage of medium and heavy rare earth as compared to production of high-performance NdFeB PMs in other sectors, and is also applied in the production of certain high-performance NdFeB PM finished products in 3C sector. According to Frost & Sullivan, the GBD technology can generally reduce the use of medium and heavy rare earth by 50% to 70%. In 2020, we completed the assessment of “key technological research and industrialization of high temperature resistant, high-performance REPM of light and heavy rare earth”. According to the comprehensive evaluation by the China Rare Earth Society (中國稀土協會) and the industry experts, the composition and manufacturing technology of high temperature resistant and high-performance sintered NdFeB material developed by us, significantly reduce the amount of medium and heavy rare earth, serving as a critical support for downstream industrial development and conservation of rare earth resources.

In 2018, 2019 and 2020, we applied GBD technology in the process of producing approximately 1,200 tonnes, 2,100 tonnes and 4,111 tonnes of high-performance REPMs respectively. The production capacity applying GBD technology has doubled and will achieve further growth in the future. The application of GBD technology results in a high gross margin. For example, in 2020, the gross profit margin of producing high-performance NdFeB PMs for equipping energy-saving VFACs was approximately 24.0%.

We collaborated with Central Iron & Steel Research Institute (鋼鐵研究總院) and Nanchang University of Aeronautics (南昌航空大學) to conduct industry-academia researches. We have completed two national-level scientific research projects under the 863 Program (863 項目) and four Jiangxi provincial-level science and technology projects. Our R&D team comprised over 200 personnel as of June 30, 2021. Our R&D expenses incurred in the year ended December 31, 2018, 2019 and 2020 were RMB55.1 million, RMB63.2 million and RMB103.2 million, exceeding three percent of our total revenue.

Long-term and stable strategic cooperation with major rare earth suppliers

We have maintained long-term and firm strategic cooperation with major rare earth suppliers. Five out of the six rare earth groups in China are our rare earth suppliers. Among our suppliers, China Southern Rare Earth was the second largest rare earth mining group in China by annual rare earth mining quota which was 42,450 tonnes in 2021, accounting for approximately 25.3% of the national mining quota in the same year. Its output mainly comprises medium and heavy rare earth. China Southern Rare Earth was among our five largest

suppliers during the Track Record Period. Moreover, we have established firm and strategic cooperative relationship with key rare earth suppliers such as China Southern Rare Earth and China Northern Rare Earth to ensure the long-term and stable supply of rare earth.

In China, light rare earth mines are mainly located in Baotou of the Inner Mongolia Autonomous Region while medium and heavy rare earth deposits are mainly located in southern regions, including Ganzhou, Jiangxi, according to Frost & Sullivan. As a result, our premises in Ganzhou and Baotou endow us with cost advantage, convenient delivery and the stable and reliable supply of rare earth materials. We purchase rare earth in advance based on orders from our customers, maintain a safety inventory of rare earth with competitive price based on our anticipation of increases in market price of rare earth, establish mechanism of price adjustment with our major customers and optimize formulation and processing technology, which enables us to mitigate the impact of fluctuations in rare earth prices on our operating results.

Highly experienced and committed management team with visionary leadership and proven execution capabilities

Our proven track record of successful operations and our leading market position bears testament to our management team's leadership and execution prowess. Founded in 2008, we constantly expanded our business presence in the then emerging sectors under the leadership of our management with a focus on R&D and production of high-performance NdFeB PMs. From 2008, we focused our efforts on facility construction in preparation for large-scale production, technological advancement to meet technical specification of downstream customers, and establishing cooperation with industry-leading customers through undergoing long-term and strict accreditation processes, which laid a solid foundation for our subsequent business expansion. We started to produce high-performance NdFeB PMs used for the production of wind turbines in 2010, energy-saving VFACs in 2011 and NEVS and component parts in 2012. Our revenue in the aforementioned sectors have exhibited a generally upward trend during the Track Record Period. We will continue to explore high-end markets such as robotics, intelligent manufacturing and energy-saving elevators. We have started mass production and sales of high-performance NdFeB PMs in 3C field and exploration in new sectors such as rail transit.

Led by our visionary Chairman and president, Mr. Cai Baogui, we have a deep bench of highly qualified core management team with complementary strengths. Primarily responsible for the overall strategic planning and business development of the Company, and making major strategic decisions, Mr. Cai has over 15 years of experience in corporate management and operation. Mr. Lyu Feng, our vice chairman and vice president, has approximately 10 years of experience in REPM industry. Ms. Xie Hui, our finance director, has over 20 years of experience in financial management. Mr. Lu Ming, our vice president and secretary to the

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Board, has over 15 years of experience in investment, financing and capital operation. Mr. Huang Changyuan, our vice president, has over 15 years of experience in business and marketing. Our R&D team is led by two provincial level scientific and technological talents. Mr. Mao Huayun, our vice president, has 20 years of technical experience in the field of magnetic materials and has won three Scientific and Technological Awards each in Shanghai, Ganzhou, and at provincial-level in Zhejiang. Mr. Yi Pengpeng, our vice president, is a certified senior engineer by Zhejiang Province and was appraised as the talent of Jiangxi Thousand Talent Program (“千人計劃”). Our senior management team contributes to the stable development of the Company through their long tenure and accountability. The dedicated and stable management team is essential in nurturing corporate loyalty and identity. With their deep insights and familiarity with the company, they are able to formulate growth and development strategies that complement our mission and vision.

Our management is supported by a dedicated and well-incentivized team of employees. Historically, we have issued new shares in 2011 and 2016 and implemented a Restricted Share Incentive Plan in 2020 to attract, motivate and retain our employees, resulting in boosted financial performance of our team, as our assessment of performance is measured by net profit growth rate. For further details, please refer to the section headed “History, Development and Corporate Structure – Major Shareholding Changes of Our Company” in this prospectus.

Together with our senior management, our employees’ technical expertise, combined with extensive know-how accumulated in conducting R&D projects, contribute to our long track record of high-quality products thereby underpinning our competitive strengths and market leadership.

DEVELOPMENT STRATEGIES

Our strategic goal is to become the global leader in the REPM industry. We intend to achieve this goal by implementing the following strategies:

Further scale up production capacity

In response to the increasing demand from downstream industries, we plan to expand existing production capacity of high-performance NdFeB PMs and deepen the penetration of our products in the downstream sectors.

We will continue to upgrade our production lines through R&D. Our current gross production capacity of high-performance NdFeB PM blanks has achieved 15,000 tonnes per annum, and the production base has expanded from a single factory to a group of factories at multiple sites. We plan to continue to increase our production capacity significantly in the next few years, realizing an annual production capacity of 23,000 tonnes of high-performance NdFeB PM blanks by 2022 and 40,000 tonnes of high-performance NdFeB PM blanks by 2025.

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In 2020, we have completed and put into use two projects respectively, named “Establishment of a High-performance NdFeB PMs Project with an Annual Production Capacity of 1,300 Tonnes” and “Upgrade and Transformation of Automatic Production Lines”, which have yielded productive results. The implementation of the aforementioned two projects are mainly funded by our proceeds from the initial public offering of our A Shares and listing on the Shenzhen Stock Exchange. Through “Establishment of a High-performance NdFeB PMs Project with an Annual Production Capacity of 1,300 Tonnes”, we have constructed production facilities with a gross floor area of approximately 19,000 sq.m. and procured more than 400 units of production equipment, which enhanced our annual production capacity for high-performance NdFeB PMs by 1,300 tonnes. We believe such project will translate into enhanced production capacity of our products in downstream sectors, including, but not limited to, NEV sector, energy-saving VFAC sector, energy saving elevator sector and robotics and intelligent manufacturing sector. We plan to further enhance the automation level for our production lines through “Upgrade and Transformation of Automatic Production Lines”. For such project, we have (i) procured more than 100 units of equipment, which mainly consisted of analysis and testing equipment and automation equipment; (ii) procured automation-related software; and (iii) enhanced our testing and research and development efforts. We believe such project will in turn enhance our production efficiency and reduce labor costs. Two projects, named “Upgrade and Transformation of Intelligent Manufacturing Factory” and “Project of Realizing An Annual Production of 3,000 Tonnes of High-performance NdFeB PMs Used in NEV and 3C Sectors” have been successfully initiated by our Company in 2019 and 2020 respectively and are steadily progressing at current stage. “Upgrade and Transformation of Intelligent Manufacturing Factory” is mainly funded by proceeds from the public issuance of convertible bonds in 2019, and “Project of Realizing An Annual Production of 3,000 Tonnes of High-performance NdFeB PMs Used in NEV and 3C Sectors” is mainly funded by proceeds from our issuance of A Shares to specified investors in 2021. We plan to replace certain aging production equipment with comparatively low automation level with new production equipment with high automation level through “Upgrade and Transformation of Intelligent Manufacturing Factory” by the end of 2021. In addition, we plan to further enhance our production efficiency through optimizing layout at our existing production facilities and improve the digitalized management of our production process. “Project of Realizing an Annual Production of 3,000 Tonnes of High-end Magnets Used in NEV and 3C Sectors” is carried out through expansion of our existing production facilities in Jiangxi and procurement of new equipment used for our production. After the completion of such project, the production capacity of high-performance NdFeB PMs at our Ganzhou Production Base is expected to increase by 3,000 tonnes per annum by the end of 2022. The completion-based check and acceptance of construction for our Baotou Production Base was completed in December 2021 and our Baotou Production Base is expected to commence operation by the end of 2021 with a designed production capacity of 8,000 tonnes per annum of high-performance NdFeB PM blanks. The construction of our Baotou Production Base is mainly funded by bank borrowings. For our Baotou Production Base, taking into account, among others, primarily (i) the expected commencement of operation by the end of 2021; (ii) designed production capacity of 8,000 tonnes per annum of high-performance NdFeB PM blanks; (iii) revenue and profit generated after the commencement of operation; (iv) total investment we incurred in relation to the construction of Baotou Production Base and the expected future costs to be incurred thereof;

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and (v) our calculation and feasibility study conducted, we expect that the breakeven point is in 2022 and the after-tax static investment payback point is in 2024. We also plan to commence the construction of our Ningbo Production Base by the end of 2021, which is expected to commence operation by the end of 2023 with a designed production capacity of 3,000 tonnes of high-performance NdFeB PM blanks and 100 million units/sets of high-performance NdFeB PM component parts per annum. The construction of our Ningbo Production Base will be mainly funded by the net proceeds from the Global Offering. For our Ningbo Production Base, taking into account, among others, primarily (i) the expected commencement of construction by the end of 2021; (ii) the expected commencement of operation by the end of 2023; (iii) designed production capacity of 3,000 tonnes of high-performance NdFeB PM blanks and 100 million units/sets of high performance NdFeB PM component parts per annum; (iv) the expected revenue and profit generated after the commencement of operation; (v) total investment we incurred in relation to the construction of Ningbo Production Base and the expected future costs to be incurred thereof; and (vi) our calculation and feasibility study conducted, we expect that the breakeven point is in 2024 and the expected after-tax static investment payback point is in 2028. Apart from the expanded production scale of high-performance magnetic materials and components, Ningbo Production Base enables us to extend the processing capability, enrich the product portfolio, build a multi-sector, multi-category and multi-level product offering structure and improve our profitability by producing high value-added products, resulting in an enhancement of our market position.

Industry chain expansion

We intend to expand our industry chain to cover other businesses through selective acquisitions of, or strategic investments in, both upstream and downstream industries domestically and globally. We believe that such acquisitions or investments are conducive to extending the coverage and reach of our business and establishing our leadership in new markets. The expansion of our industry value chain will be mainly funded by the net proceeds from the Global Offering.

To this end, we seek investment and acquisition opportunities with companies engaged in the recycling, reuse, separation and smelting of rare earth to further enhance the reliable and high-quality rare earth supply and companies in downstream industries which we believe can offer high growth potential and will lead to successful expansion and long-term strengthening of our market position. With an aim to extend our industry chain and to tap into markets that we identify as fast-growing and complementary to our existing business, in the evaluation of acquisition or investment opportunities, we primarily take into account the business operations, financial performance and the market potential of the target.

We will carefully evaluate each potential acquisition target, investment or alliance and pursue those that are aligned with, and create incremental value for, our core business. As of the Latest Practicable Date, we had not identified any definitive acquisition or investment target.

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Strengthen our R&D efforts and broaden our product offering

We plan to further strengthen our R&D efforts in improving our production techniques, diversify our current product portfolio and facilitate the cooperation with top-tier customers. In particular, we plan to:

- Continue to carry out R&D projects to consolidate our current technologies and optimize formulations, introduce new high performance products and technology to timely respond to customers' demands for upgrading products and lead the technology innovation in our industry;
- Maintain our technological edge in high-performance NdFeB PM production with enhancements in view of the latest international technological trends and best practices, and further improve our proprietary technologies;
- Increase our investments in R&D including further reducing the use of medium and heavy rare earth in the production of high-performance NdFeB PMs in a wider range of applications;
- Expand our R&D team by recruiting industry experts and talents, strengthen our internal trainings and talent cultivation;
- Upgrade our production facilities by enhancing their automation level to facilitate ramping up our production capacity while ensuring product quality and consistency; and
- Establish R&D centers or testing centers in Ningbo, the U.S. and Europe in addition to our existing two R&D centers in Ganzhou and Europe, which is compatible with our global business layout.

The implementation of the aforementioned plans will be mainly funded by the net proceeds from the Global Offering.

Expand our global business footprint

As China has pledged to reach carbon neutrality by 2060 and most of the developed countries, such as U.S., Japan and UK, aim to achieve such goal by 2050, relevant supportive policies have been promulgated to reduce carbon emission. REPMs, by virtue of its inherent energy saving advantages and wide applications in energy saving industries, is expected to achieve robust development in the following years domestically and abroad. We plan to fund the expansion of our global business footprint through the net proceeds from the Global Offering.

BUSINESS

We will grasp the strategic opportunity period of upward development of the industry to proactively lay out our business in overseas markets. We will focus on building overseas technology exchange platform, sales platform and logistics services. In particular, our overseas technology exchange platform will mainly serve as a platform for our existing or potential customers in Japan, United States and Europe to exchange thoughts and ideas on advanced technologies with us, while our staff will offer customized services, including tailor-made designs and sample products for our customers pursuant to our customers' technology-related requests, through such overseas technology exchange platform. We believe our overseas technology exchange platform will assist us in acquiring more customers in Japan, United States and Europe in the future. For our overseas sales platform, we plan to proactively interact with local customers through such platform, as well as strategically allocate our staff in different regions worldwide to promptly respond to customers' demand and arranging onsite sales-related services. For our overseas logistics services, we plan to actively establish and expand our delivery and warehousing network in Europe to enhance logistics experience for our customers. We believe the aforementioned platforms and services are complementary and are able to further enhance our customers' experience worldwide, which in turn expand our global business footprint. At present, we have established subsidiaries in Hong Kong, Europe, Japan and the United States. We intend to further develop our existing overseas subsidiaries and extend our global business footprint to more regions and countries to seize more global market shares.

OUR BUSINESS MODEL

We primarily engage in the manufacture and sales of high-performance NdFeB PMs. As of the Latest Practicable Date, we operated a production base located in Ganzhou City, Jiangxi Province, China (the "**Ganzhou Production Base**"). We design high-performance NdFeB PMs and develop procurement and production plans based on customer requirements. We purchase rare earth from, and have maintained long-term and firm strategic cooperation with, major rare earth suppliers in China. Leveraging our facilities and technologies, we carry out mass production of customized high-performance NdFeB PMs and generally store such products at our warehouses for delivery to our customers. Our customers mainly include leading NEV and automotive part producers, wind turbine generator producers, VFAC manufacturers, 3C manufacturers and elevator manufacturers. We primarily adopt a cost-plus pricing mechanism for our high-performance NdFeB PMs.

BUSINESS

OUR PRODUCTS

Our products mainly include high-performance NdFeB PM finished products, which accounted for 93.1%, 98.5%, 98.0% and 98.3% of our revenue in 2018, 2019, 2020 and the first half of 2021, respectively. We also sell NdFeB PM blanks to our customers. The following table sets forth a breakdown of our revenue by product category and downstream application for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2018		2019		2020		2020		2021	
	<i>(RMB'000)</i>	(%)	<i>(RMB'000)</i>	(%)	<i>(RMB'000)</i>	(%)	<i>(RMB'000)</i>	(%)	<i>(RMB'000)</i>	(%)
	<i>(unaudited)</i>									
High-performance NdFeB										
PM finished products	1,193,019	93.1	1,605,012	98.5	2,243,354	98.0	903,409	98.7	1,736,227	98.3
– NEVs and automotive parts	317,781	24.8	219,871	13.5	325,557	14.2	127,024	13.9	317,088	18.0
– PM wind turbine generators	386,269	30.1	855,212	52.5	879,019	38.4	375,509	41.0	489,542	27.7
– Energy-saving VFACs	371,466	29.0	422,287	25.9	878,295	38.4	339,491	37.1	776,654	43.9
– Energy-saving elevators	44,491	3.5	59,112	3.6	70,284	3.1	30,591	3.3	42,408	2.4
– Robotics and intelligent manufacturing	73,012	5.7	48,530	3.0	49,077	2.1	29,880	3.3	58,254	3.3
– 3C	–	–	–	–	41,122	1.8	914	0.1	52,281	3.0
NdFeB PM blanks	88,985	6.9	25,105	1.5	45,310	2.0	12,125	1.3	30,232	1.7
Total	<u>1,282,004</u>	<u>100.0</u>	<u>1,630,117</u>	<u>100.0</u>	<u>2,288,664</u>	<u>100.0</u>	<u>915,534</u>	<u>100.0</u>	<u>1,766,459</u>	<u>100.0</u>

NdFeB PMs are permanent magnets mainly made from an alloy of neodymium, iron and boron. We produce customized high-performance NdFeB PM finished products with various parameters, such as composition, shape, size, coating, remanence, coercive force, maximum energy product, temperature coefficient and magnetizing method, based on customer requirements. The key performance indicators of our high-performance NdFeB PM finished products are remanence, coercive force and maximum service temperature. Leveraging our GBD technology, we are able to conduct mass production of high-performance NdFeB PM finished products that achieve various performance indicators with reduced amounts of medium and heavy rare earth ingredients.

We also produce and sell some customized NdFeB PM blanks to manufacturers in the REPM industry based on customer orders. Compared with our high-performance NdFeB PM finished products, our NdFeB PM blanks are generally of larger size and rougher, as they are not required to undergo fine processing. In 2018, 2019, 2020 and the first half of 2021, we generated 6.9%, 1.5%, 2.0% and 1.7% of our revenue from sales of NdFeB PM blanks, respectively.

BUSINESS

See “Financial Information – Description of Selected Components of Statement of Profit or Loss – Revenue” for a discussion of reasons of changes in our revenue during the Track Record Period.

Our products are widely used in downstream sectors including NEVs and automotive parts, PM wind turbine generators, energy-saving VFACs, 3C products, energy-saving elevators, robotics and intelligent manufacturing. Set forth below are certain of our representative products for different downstream applications:



NEVs and automotive parts

The use of REPMs in NEV drive motors, ABS (anti-lock braking system), EPS (electronic steering system) and automotive parts can increase the power density of the motors and improve their operating efficiency.

Magnet Series: H, SH, UH and EH

Remanence range (T): 1.14-1.46

Coercivity range (kA/M): 1,352-2,706

Maximum energy product (KJ/m³): 247-422

Maximum working temperature (°C): 120-200

Major customers: the world's No. 1 NEV producer by 2020 market share and BYD



PM wind turbine generators

REPMs are used in PM wind turbines, which feature simple structure, low operation and maintenance costs, long service life, good grid-connected performance and high power generation efficiency, and are more suitable for operation in low wind speed environments.

Magnet Series: H and SH

Remanence range (T): 1.28-1.44

Coercivity range (kA/M): 1,273-1,752

Maximum energy product (KJ/m³): 302-406

Maximum working temperature (°C): 60-120

Major customers: Goldwind and Siemens Gamesa



Energy-saving VFACs

Using REPMs in the motors of household appliances enables them to run at different speeds, improves their operational efficiency, reliability and performance and reduces their operating costs.

Magnet Series: SH and UH

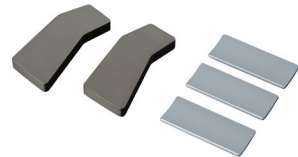
Remanence range (T): 1.28-1.46

Coercivity range (kA/M): 1,592-2,149

Maximum energy product (KJ/m³): 302-422

Maximum working temperature (°C): 120-150

Major customers: Media, Gree, Shanghai Highly and Guangzhou Mitsubishi



Energy-saving elevators

Using REPMs, elevator makers are able to produce elevator traction machines of higher power, smaller size, lower noise and less operating costs.

Magnet Series: H and SH

Remanence range (T): 1.22-1.42

Coercivity range (kA/M): 1,352-1,910

Maximum energy product (KJ/m³): 287-398

Maximum working temperature (°C): 80-120

Major customer: Kone Elevator



Intelligent manufacturing

Using REPMs in the servomotors of industrial robots helps to improve the power density and performance of relevant parts of the servomotors while reducing their sizes.

Magnet Series: N, M, H and SH

Remanence range (T): 1.14-1.48

Coercivity range (kA/M): 955-1,990

Maximum energy product (KJ/m³): 247-438

Maximum working temperature (°C): 60-120

Major customer: Bosch Rexroth

BUSINESS

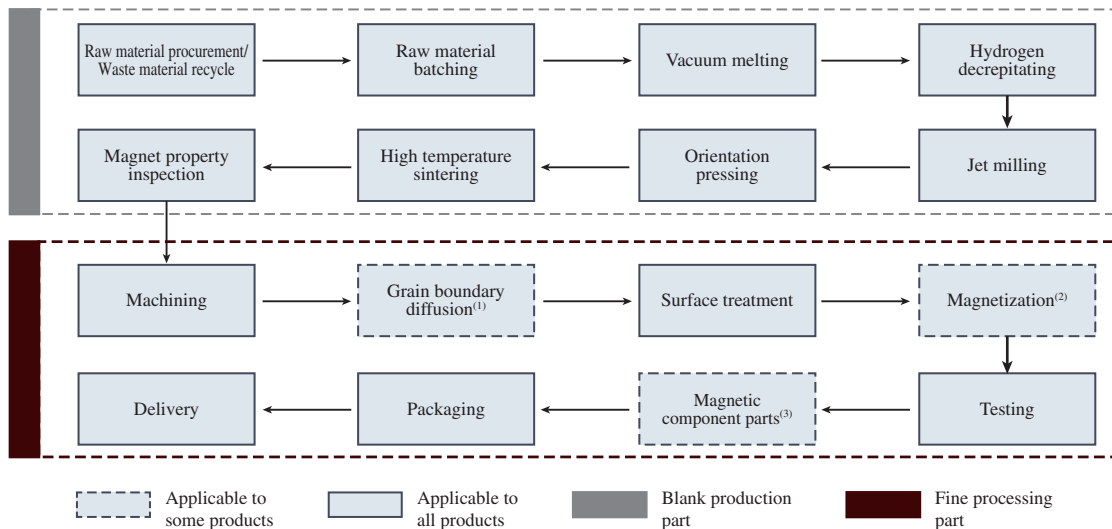
NdFeB PMs are widely used in sustainable manufacturing sectors. Benefiting from the trend of carbon emission reduction global wide, our main downstream sectors are experiencing fast growth, which translates into strong and increasing demand for our products. See “Industry Overview – Analysis of Global and China REPM Market – Market Drivers”.

PRODUCTION

We manufacture and sell customized high-performance NdFeB PM finished products of different specifications and customizations based on the applications and the needs and requirements of our customers. As advised by our PRC Legal Advisor, our products are not classified as the high pollution and high environmental risk products as specified in the *High Pollution and High Environmental Risk Product Directory (2017 Edition)*.

Production Workflow

We conduct substantially the entire manufacturing process in-house. Our production is mainly divided into two major parts, namely blank production and fine processing. For illustrative purpose, the chart below sets out our major workflow for the manufacture of our products:



Notes:

- (1) Certain products needs to go through GBD process for the addition of a limited amount of medium and heavy rare earth ingredients to achieve certain performance indicators based on customer needs. GBD technology is widely applied in the production of our high-performance NdFeB PM finished products in energy-saving VFACs sector and NEVs and automotive parts sector as production of high-performance NdFeB PMs in these sectors requires higher usage of medium and heavy rare earth as compared to production of high-performance NdFeB PMs in other sectors, and is also applied in the production of certain high-performance NdFeB PM finished products in 3C sector.
- (2) We conduct magnetization either before testing or after the delivery of our products to our customers.
- (3) We add attachments to our products according to customer requirements.

Blank production

We purchase and batch raw materials including rare earth metals and other metals according to our product design. We engage third-party service providers to extract rare earth from our waste materials, and reuse them in our production. We may also purchase some rare earth oxides and engage third-party service providers to produce rare earth metals from such rare earth oxides. We melt the raw materials under vacuum in an induction melting furnace and cool the liquid to form ingots. After hydrogen decrepitating and jet milling, the ingots are made into powder. We press the powder into customized molds and sinter the reshaped ingots to form dense blocks. The dense blocks are required to undergo magnet property inspections before entering into fine processing units.

Fine processing

We cut the dense blocks according to our product design. The size and shape of NdFeB PMs vary depending on their applications. After the machining process, we add medium and heavy rare earth into the NdFeB PMs leveraging our GBD technology. According to Frost & Sullivan, the GBD technology is considered one of the most efficient and cost-effective technologies currently in the world for the production of high-performance NdFeB PMs, as (i) it significantly reduces the amount of medium and heavy rare earth needed for manufacturing NdFeB PMs; and (ii) it enables producers to carry out precise penetration of medium and heavy rare earths in the PM products according to customer requirements. After the GBD process, we conduct surface treatment and magnetization on our semi-finished products.

We place great emphasis on quality control. We perform testing throughout our production process. We also conduct performance and appearance tests and examinations on our high-performance NdFeB PMs. Our quality control team is generally in charge of the final inspection of our high-performance NdFeB PMs before delivery based on our standardized quality control checklist generally. See “– Quality Control”.

Production Plans

We typically make production plans based on sales orders (including our anticipated sales orders) and purchase plans provided by our customers. To effectively control our risk exposure to excess production and inventory, our production, procurement, sales and inventory control teams report to our managers daily to facilitate their review of our production plans and making adjustments to our production volume, production schedules and procurement where necessary.

BUSINESS

Production Facilities

We manufacture our products in our Ganzhou Production Base. The Ganzhou Production Base has an aggregate site area of approximately 189,158.0 sq.m. and total gross floor area of approximately 120,308.6 sq.m. We have maintained high utilization rates during the Track Record Period. The following table sets forth certain details of our Ganzhou Production Base during the Track Record Period:

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
NdFeB PM blanks					
Annual production capacity (tonnes/annum)	7,000	8,800	12,800	5,500	7,500
Production volume (tonnes)	6,731	9,167	12,564	5,037	7,034
Utilization rate (%)	96.2	104.2 ⁽²⁾	98.2	91.6 ⁽³⁾	93.8
High-performance NdFeB PM finished products⁽¹⁾					
Production volume (tonnes)	4,801	6,632	9,613	3,804	5,457
Percentage over NdFeB PM blank production volume ⁽⁴⁾ (%)	71.3	72.3	76.5	75.5	77.6

Notes:

- (1) We produce customized high-performance NdFeB PM finished products based on orders placed by our customers. As each batch of finished products may adopt different production processes according to customer requirements, it is not practicable to calculate an overall annual production capacity of finished products.
- (2) Our production volumes may be lower or higher than the designed production capacity. The utilization rate of our production facilities reached 104.2% in 2019 mainly because our actual operating hours exceeded the estimated operating hours as a result of our enhanced production process automation level as well as our strategic repairs and maintenance arrangement on our machinery and equipment.
- (3) Our utilization rate for the six months ended June 30, 2020 was comparatively lower than other periods, primarily due to the impact of the COVID-19 pandemic in the first two months of 2020. Our utilization rate had gradually restored to the level before the outbreak of the COVID-19 pandemic by the end of February 2020. See “Summary – Impact of the Outbreak of COVID-19 on our Business” for further details.
- (4) The production process of high-performance NdFeB PM finished products is conducted after the NdFeB PM blank production process as we fine process high-performance NdFeB PM finished products on top of NdFeB PM blanks produced based on customer orders.

BUSINESS

Our overall production capacity had been improving throughout the Track Record Period, mainly because we successively completed the construction of additional production lines and upgraded our existing production facilities to improve the automation of our production processes. In particular, we have completed and put into use two projects, namely the “Upgrade and Transformation of Automatic Production Lines” and “Establishment of a High Performance NdFeB PMs Project with an Annual Capacity of 1,300 Tonnes”, in 2019 and 2020, respectively.

Our production volume of NdFeB PM blanks kept increasing during the Track Record Period, primarily due to (i) our increased production capacity; and (ii) the increase in customer orders driven by the rapid growth in the downstream sectors.

Our utilization rates remained high during the Track Record Period. During the same period, we conducted R&D in automation, which improved our production efficiency. Our utilization rate is affected by various factors, including the cumulative operating hours of our production facilities and any inspections and repairs and maintenance of our machinery and equipment. Actual hours spent on maintenance and repair may differ from our estimates and actual operating conditions and environment may differ from those prescribed. As a result, our production volumes may be lower or higher than the designed production capacity.

Production Expansion Plan

In order to meet the fast-growing market demand for REPMs, we plan to further expand our production capacity by upgrading our existing production facilities in Jiangxi and constructing additional production bases in Baotou in Inner Mongolia and Ningbo in Zhejiang.

We are in the process of expanding our existing production facilities in Jiangxi by constructing “Project of Realizing an Annual Production of 3,000 Tonnes of High-end Magnets Used in NEV and 3C Sectors”. Such project is expected to be completed by the end of 2022. After the completion of such project, the production capacity of high-performance NdFeB PMs at our Ganzhou Production Base is expected to increase by 3,000 tonnes per annum.

We have a production base under construction strategically located in in Baotou, Inner Mongolia (the “**Baotou Production Base**”). Phase I of the Baotou Production Base, with a total planned investment of RMB575.0 million, is expected to commence commercial production by the end of 2021. The completion of Phase I will further increase our production capacity of high-performance NdFeB PM blanks by 8,000 tonnes per annum. For details, see the section headed “Future Plans and Use of Proceeds”. In addition, we plan to further expand our production capacity through the future construction of Phase II of the Baotou Production Base.

BUSINESS

We also plan to construct a production base with a planned investment of RMB1.1 billion in Ningbo, Zhejiang (the “**Ningbo Production Base**”). Such production base is expected to commence construction by the end of 2021 and commence commercial production by the end of 2023. As of the Latest Practicable Date, the project proposal had been approved by the Ningbo Jiangbei Development and Reform Bureau, which enabled us to further proceed with application of other requisite permits required for commencement construction and future production of Ningbo Production Base. The approval of the project proposal indicates that we have fulfilled our information disclosure obligations in relation to the project to the relevant government authority in accordance with applicable PRC laws and regulations. The production base is expected reach an annual production capacity of 3,000 tonnes of high-performance NdFeB PM blanks and 100 million units/sets of high-performance NdFeB PMs component parts per annum after commission. For details, see the section headed “Future Plans and Use of Proceeds”.

We believe that our expansion projects will further strengthen our production capacity, maintain our global leading market share and realize our market potential.

Major Production Equipment

We endeavor to equip our manufacturing facilities with state-of-art equipment. Many of the equipment we utilize require minimal human operation, allowing us to reduce labor costs and focus our manufacturing facility staffing on maintenance and supervisory personnel. Our major suppliers for production and testing equipment are established industrial players both in the PRC and in other countries and regions. We make certain customizations to some of our equipment based on our needs to increase automation and enhance our production and testing processes. We carry out assessments on the energy consumption and production efficiency of our equipment and upgrade them from time to time as we deem necessary. We believe that our equipment and our customization and development capabilities have enabled us to better control our production costs and increase our production efficiency to ensure our competitiveness in the REPM market.

BUSINESS

During the Track Record Period, we procured additional equipment from time to time. We calculate depreciation on our equipment using the straight-line method over their estimated useful lives, which are five to ten years. We conduct regular maintenance and repair work and review their useful lives on an annual basis. The table below sets out a summary of our major production and testing equipment at our Ganzhou Production Base as of June 30, 2021, all of which are self-owned:

<u>Equipment name</u>	<u>Number of units</u>	<u>Function</u>
Melting furnace	12	Melting raw materials to form ingots
Jet mill	14	Grinding ingots into powder
Powder forming press	48	Pressing powder into the mold of certain shape and size
Sintering furnace	190	Sintering to form dense blocks
Multi-wire cutting machine	138	Cutting the NdFeB PM blanks
Electroplating equipment	9	Electroplating of NdFeB PMs
Analysis and testing equipment	46	Analyzing and testing
Automation equipment	204	Automation of various production processes

Maintenance and Repair

We have formulated and implemented our enterprise standards and procedures on equipment management, according to which we carry out regular maintenance of our equipment. Our power and equipment department is primarily responsible for the overall management of our equipment from selection, installation and testing to inspection, maintenance and repair. We also designate responsible persons for specific equipment, who are responsible for ensuring the safe and proper operation of the equipment, carrying out daily maintenance, assisting in the repair of the equipment and timely reporting of unsolved malfunction of the equipment to the workshop manager.

BUSINESS

We compile comprehensive operation and maintenance rules and procedures for specific pieces of equipment in operation. We categorize our equipment into four types based on their importance to our production, product quality and delivery time and loss due to maintenance downtime. While our equipment should in general undergo one comprehensive maintenance every year, the more important types of equipment are subject to additional cleaning, inspection, adjustment and verification. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material unexpected disruption of operations as a result of any material failure of production machinery and equipment. Our maintenance and repair expenses amounted to approximately RMB0.5 million, RMB1.3 million, RMB1.1 million and RMB0.8 million in 2018, 2019, 2020 and the first half of 2021, respectively.

QUALITY CONTROL

We place great emphasis on, and endeavor to constantly ensure, the high quality of our products. We have obtained the ISO9001 and IATF16949 quality assurance system certifications and implement stringent quality control in strict compliance with the requirements of such systems. We established quality control checkpoints throughout various stages of our production process from product design, purchase of raw materials to manufacturing.

We adopt a series of policies and procedures to ensure effective identification of customer requirements and reflection of such requirements in our product design, thereby paving the way for a quality delivery on customer orders.

Our quality control team monitors the quality of our work-in-progress to ensure that our entire production process complies with our product specifications and technical requirements. Our quality control team conducts various functional tests of our work-in-progress and finished goods to ensure that only products that comply with the requisite quality and performance standards can proceed to the next production steps or delivered to our customers.

We regularly review and evaluate our quality control system according to the latest industry standards and submit reports to our management. Our management is responsible for making plans and implementing measures to improve our quality control system. During the Track Record Period and up to the Latest Practicable Date, we were not aware of any material complaints on us or our products from our customers.

BUSINESS

SALES

We sell our products directly to our downstream customers. In 2018, 2019 and 2020 and the first half of 2021, we sold approximately 4,097.0, 6,132.8, 8,544.5 and 5,320.3 tonnes of high-performance NdFeB PM finished products, respectively. For the same periods, the ASP of such finished products was RMB291,193.3 per tonne, RMB261,709.5 per tonne, RMB262,549.5 per tonne and RMB326,340.1 per tonne, respectively. The ASP of our high-performance NdFeB PM finished products was higher in the first half of 2021, which was primarily attributable to (i) a higher percentage of revenue generated from the energy-saving VFAC sector for which we generally record a higher ASP per tonne as the finished products are smaller and require more fine processing compared with the same tonnage of other finished products such as for the wind power sector; and (ii) the increase in the market price of rare earths as our main raw materials, which is in turn reflected in the prices of our finished products.

The following table sets forth a breakdown of our sales volumes and ASPs by product category and downstream application for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2018		2019		2020		2020		2021	
	Sales volume	ASP	Sales volume	ASP	Sales volume	ASP	Sales volume	ASP	Sales volume	ASP
	tonnes	RMB/tonne	tonnes	RMB/tonne	tonnes	RMB/tonne	tonnes	RMB/tonne	tonnes	RMB/tonne
High-performance NdFeB										
PM finished product	4,097.0	291,193.3	6,132.8	261,709.5	8,544.5	262,549.5	3,416.0	264,464.0	5,320.3	326,340.1
- NEVs and automotive parts	858.1	370,331.0	570.7	385,265.5	824.8	394,710.2	320.8	395,960.1	765.0	414,494.1
- PM wind turbine generators	1,738.4	222,198.0	3,788.6	225,733.0	4,247.9	206,930.2	1,706.5	220,046.3	2,086.7	234,601.0
- Energy-saving VFACs	1,166.5	318,444.9	1,448.5	291,534.0	3,004.0	292,375.2	1,204.2	281,922.4	2,098.6	370,082.0
- Energy-saving elevators	154.0	288,902.6	208.3	283,783.0	258.2	272,207.6	113.2	270,238.5	130.7	324,468.2
- Robotics and intelligent manufacturing	180.0	405,622.2	116.7	415,852.6	127.7	384,314.8	69.9	427,467.8	133.1	437,670.9
- 3C	-	-	-	-	81.9	502,100.1	1.4	652,857.1	106.2	492,288.1
NdFeB PM blank	<u>508.9</u>	<u>174,857.5</u>	<u>148.9</u>	<u>168,603.1</u>	<u>273.8</u>	<u>165,485.8</u>	<u>79.0</u>	<u>153,481.0</u>	<u>126.6</u>	<u>238,799.4</u>
Total sales volume/										
Average selling price	<u>4,605.9</u>	<u>278,339.5</u>	<u>6,281.7</u>	<u>259,502.5</u>	<u>8,818.3</u>	<u>259,535.7</u>	<u>3,495.0</u>	<u>261,955.4</u>	<u>5,446.9</u>	<u>324,305.4</u>

BUSINESS

Selling price for our high-performance NdFeB PM finished products may vary based on parameters, such as composition, shape, size, coating, remanence, coercive force, temperature coefficient and magnetizing method, based on customer requirement. Our general sale price range by product category and downstream application during the Track Record Period are set out below:

**General sale price range during
the Track Record Period**

RMB'000/tonne

High-performance NdFeB PM finished product

– NEVs and automotive parts	320 – 450
– PM wind turbine generators	180 – 260
– Energy-saving VFACs	260 – 350
– Energy-saving elevators	240 – 350
– Robotics and intelligent manufacturing	350 – 500
– 3C	450 – 700
NdFeB PM blank	150 – 260

Sales volumes for our high-performance NdFeB PM finished products under each downstream application generally continued to increase during the Track Record Period primarily due to (i) favorable governmental policies, and (ii) the increasing demand for our products in various sectors, particularly in PM wind turbine generators sector, energy-saving VFACs sector and NEVs and automotive parts sector. Sales volume for our high-performance NdFeB PM finished products in NEVs and automotive parts sector decreased in 2019 as compared to that in 2018 as a result of the slowdown in the development of NEV sector in 2019 led by a reduction in the government subsidies granted to the NEV sector.

Despite the fluctuations in ASPs for our high-performance NdFeB PM finished products in certain downstream applications, ASPs for our high-performance NdFeB PM finished products as a whole generally remained relatively stable from 2018 to 2020.

- *NEVs and automotive parts*: Despite the decrease in revenue generated from NEVs and automotive parts sector as a result of the slowdown in the development of NEV sector in 2019 led by a reduction in the government subsidies granted to the NEV sector as demonstrated by the reduction in sales volume from 858.1 tonnes in 2018 to 570.7 tonnes in 2019, ASP for our high-performance NdFeB PM finished products in NEVs and automotive parts sector increased in 2019 as compared to that in 2018. Such increase was mainly due to an increase in selling price of (i) medium and heavy rare earth, which requires higher usage for production in NEVs and automotive parts sector as compared to production in other sectors; and (ii) Pr-Nd, a light rare earth. Although production in this sector requires higher usage of medium and heavy rare earth as compared to production in other sectors, the effect of the spike in Pr-Nd price in May and June 2019 had a greater effect on ASP in this sector in 2019 than compared to the effect of increase in medium and heavy rare earth price.

BUSINESS

Furthermore, with the mainstream quarterly price adjustment mechanism of products in NEVs and automotive parts sector, ASP for our high performance NdFeB PM finished products in this sector had increased in the second half of 2019 than compared to that in 2018.

- *PM wind turbine generators:* ASP for our high-performance NdFeB PM finished products in PM wind turbine generators sector decreased in 2020 as compared to that in 2019, primarily because rare earth price was relatively low at the time when we entered into sales agreements with our customers. We entered into an one-year contract with fixed price, which was determined taking into account of rare earth price in November 2019, with a major customer in PM wind turbine generators sector in November 2019. The price of Pr-Nd, the major raw material for our PM wind turbine generators products sold to this customer, was relatively low in November 2019. Since July 2019, the price of Pr-Nd generally continued to decrease in 2019, and reached a low point in November 2019.
- *Energy-saving VFACs:* ASP for our high-performance NdFeB PM finished products in energy-saving VFACs sector decreased in 2019 as compared to that in 2018, primarily because light rare earth price was relatively low at the time when we entered into sales agreements with our customers in 2019. Despite the significant increase in the price of Pr-Nd in May and June 2019, the price of Pr-Nd, the major raw material for our energy-saving VFACs products, generally continued to decrease from 2018 to 2019, which in turn resulted in a decrease in the price of our energy-saving VFACs products as stipulated in relevant contracts in 2019 given prices of our energy-saving VFACs products are adjusted on a monthly basis.
- *Robotics and intelligent manufacturing:* ASP for our high-performance NdFeB PM finished products in robotics and intelligent manufacturing sector decreased in 2020 as compared to that in 2019, primarily because certain customers adjusted their procurement plans based on commercial considerations from their ends. In 2020, we sold less products with comparatively higher price than that of our other robotics and intelligent manufacturing products to one major customer in robotics and intelligent manufacturing sector as a result of this customer's internal requirement on lowering procurement price.

ASPs for our high-performance NdFeB PM finished products generally increased in the first half of 2021 as compared with that in the first half of 2020, primarily due to the increase in raw material price since the second half of 2020. The fluctuation of ASP for our high-performance NdFeB PM finished products in 3C sector in the first half of 2021 as compared with that in the first half of 2020 was not representative as we sold only 1.4 tons of finished products for 3C sector in the first half of 2020.

BUSINESS

During the Track Record Period, most of our sales were conducted in the PRC. As of June 30, 2021, we had a sales and marketing team of 63 employees, focusing on business development and customer service. Our sales and marketing team analyzes the dynamics of key downstream markets to discover business opportunities. They regularly contact our existing and potential customers about our product offerings and development plans. They also gather feedbacks from customers on our products thereby facilitating our understanding of customer needs and responding to demands for our products. Our sales and marketing team also markets our products on industry exhibitions.

We enter into sales agreements with, or accept purchase orders from, our customers for each purchase. We have entered into framework agreements with some of our major customers. For details of the framework agreements, see “– Customers” for details. We may also communicate with our customers regarding their procurement plans in order to better anticipate customer demand and arrange our own production and procurement accordingly.

We sell a small portion of our products to overseas customers. As many of our major customers are globally leading players in their respective sectors, they may have businesses in different parts of the world. Accordingly, we may engage in overseas sales to satisfy such customers’ demands from outside of the PRC. Changes in our customers’ global layouts and their demands for our products from different parts of the world may lead to fluctuations in our overseas sales both in terms of actual amounts and as a percentage of our total sales. We also conduct overseas marketing activities and provide customer services to overseas customers through our subsidiaries in Europe, Japan and the U.S. During the Track Record Period, we generated revenue from overseas customers, including customers in Europe, Japan and the U.S., among which the majority of revenue was generated from customers in Europe. For the years ended December 31, 2018, 2019 and 2020 and six months ended June 30, 2021, revenue generated from overseas customers accounted for 13.8%, 17.2%, 14.9% and 10.0% of our total revenue for the same period, respectively. We promote our products in overseas market through promotions at industry conferences. During the Track Record Period and up to the Latest Practicable Date, to the best knowledge of our Directors, our products were not subject to any tariffs or trade barriers, or impacted by any trade disputes. However, if our products were subject to any tariffs or trade barriers, or the downstream sectors of our products were negatively impacted by trade disputes, our business, results of operations and financial condition could be negatively and adversely affected. See “Risk Factors – Risks Relating to Our Business and Industry – We face risks associated with our international sales and operations” for details.

BUSINESS

The following table sets out a breakdown of our revenue by geographical region for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2018		2019		2020		2020		2021	
	<i>(RMB'000)</i>	<i>(%)</i>	<i>(RMB'000)</i>	<i>(%)</i>	<i>(RMB'000)</i>	<i>(%)</i>	<i>(RMB'000)</i>	<i>(%)</i>	<i>(RMB'000)</i>	<i>(%)</i>
	<i>(unaudited)</i>									
China	1,104,780	86.2	1,349,249	82.8	1,947,860	85.1	722,074	78.9	1,590,460	90.0
Overseas	177,224	13.8	280,868	17.2	340,804	14.9	193,460	21.1	175,999	10.0
Total	<u>1,282,004</u>	<u>100.0</u>	<u>1,630,117</u>	<u>100.0</u>	<u>2,288,664</u>	<u>100.0</u>	<u>915,534</u>	<u>100.0</u>	<u>1,766,459</u>	<u>100.0</u>

Despite our revenue increase, our overseas revenue decreased for the six months ended June 30, 2021 as compared to that for the six months ended June 30, 2020, primarily because we strategically increased our sales to customers in sectors with higher gross profit margin, which led to a decrease in sales to certain overseas customers for the six months ended June 30, 2021 as compared to that for the six months ended June 30, 2020.

PRICING

We mainly adopt a cost-plus pricing mechanism for our products. Rare earths as raw materials make up over 70% of our cost of sales. Fluctuations in rare earth prices therefore may lead to fluctuations in the prices of our products. We typically enter into sales agreements with, or accept purchase orders from, our customers. We have also entered into framework agreements with certain major customers, which provided for price adjustment subject to further agreement of the parties where product costs increase or decrease beyond a certain threshold.

Our products may need different amounts of fine processing for the same unit weight. For example, our finished products for the 3C sector are generally smaller in size compared with those used in NEV drive motors, and therefore generally command higher prices per tonne.

Price Adjustment Mechanism

We place strong emphasis on establishing long term and solid business relationship with our customers. In order to establish a close cooperation relationships and enhance mutual benefit between our customers and us, the price adjustment mechanism had been increasingly adopted during the Track Record Period. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, revenue attributable to price adjustment mechanism as a percentage of our total revenue was 75.2%, 81.9%, 84.0% and 85.8%, respectively. In addition, the percentage of revenue subject to annual price adjustment to our total revenue decreased from 2019 to 2020, and continued to decrease in the first half of 2021. Pursuant to this price adjustment mechanism, we are able to adjust the unit price of our products on annual, semi-annual, quarterly or monthly basis in accordance to the respective contracts entered into with our customers. The adjusted price is generally determined with reference to the market spot prices of rare earths at the time when the price is determined. When establishing the price adjustment mechanism with our customers, we generally take into account, among others, the corresponding downstream sector, commercial request, cooperation relationship, product specifications, order size of such customers. We set forth the mainstream price adjustment mechanism with our customers by downstream sector during the Track Record Period below:

- *NEVs and automotive parts*: adjusted on quarterly basis, while price with a small portion of customers was adjusted on annual or semi-annual basis;
- *PM wind turbine generators*: adjusted on annual basis from 2018 to 2020; adjusted on semi-annual basis in the first half of 2021 in order to respond to the continuous and significant increase in rare earth price;
- *Energy-saving VFACs*: adjusted on monthly basis;
- *Other sectors*: adjusted on annual, semi-annual, or quarterly basis, as the case may be.

Goldwind Technology is our customer in PM wind turbine generators sector, and its wholly-owned subsidiary, Goldwind Holdings, is one of our Company's Shareholders. Pursuant the contracts we entered into with Goldwind Technology, we adjusted the unit price of our products sold to Goldwind Technology on annual basis from 2018 to 2020, and shortened the price adjustment period with Goldwind Technology in the first half of 2021 in order to respond to the continuous and significant increase in rare earth price, which was consistent to the price adjustment mechanism as set out in contracts with our other customers in PM wind turbine generators sector during the Track Record Period.

BUSINESS

The following table sets forth a breakdown of our revenue by type of price adjustment mechanism and revenue not subject to price adjustment mechanism for the periods indicated:

	For the year ended December 31						For the six months ended June 30	
	2018		2019		2020		2021	
	<i>(RMB'000)</i>	(%)	<i>(RMB'000)</i>	(%)	<i>(RMB'000)</i>	(%)	<i>(RMB'000)</i>	(%)
Price adjustment mechanism								
No adjustment ⁽¹⁾	317,509	24.8	295,852	18.1	365,605	16.0	250,942	14.2
Adjusted annually	402,878	31.4	738,139	45.3	746,186	32.6	15,419	0.9
Adjusted semi-annually	62	0.0	45,337	2.8	92,359	4.0	503,774	28.5
Adjusted quarterly	292,315	22.8	200,014	12.3	320,328	14.0	319,602	18.1
Adjusted monthly	269,240	21.0	350,775	21.5	764,186	33.4	676,722	38.3
Total	<u>1,282,004</u>	<u>100.0</u>	<u>1,630,117</u>	<u>100.0</u>	<u>2,288,664</u>	<u>100.0</u>	<u>1,766,459</u>	<u>100.0</u>

Note:

- (1) Primarily represent one-off contracts with customers where price adjustment mechanism is not necessary.

The following table sets forth a breakdown of our backlog contract value by type of price adjustment mechanism and backlog contract value not subject to price adjustment mechanism as of the Latest Practicable Date:

	Contract Value as of the Latest Practicable Date	
	<i>(RMB'000)</i>	(%)
Price adjustment mechanism		
No adjustment	1,538,219	43.7
Adjusted annually	2,759	0.1
Adjusted semi-annually	267,596	7.6
Adjusted quarterly	643,057	18.3
Adjusted monthly	1,063,360	30.3
Total	<u>3,514,991</u>	<u>100.0</u>

BUSINESS

During the Track Record Period, our production efficiency, the appliance of GBD technology (which can significantly reduce the use of medium and heavy rare earth in the production of high-performance NdFeB PMs without undermining the performance of NdFeB PMs), as well as the price adjustment mechanism had an impact on our results of operations and gross profit margins. In light of the significant increase in rare earth price since the second half of 2020, the price adjustment mechanism increasingly impacted gross profit margins of our products in NEVs and automotive parts, PM wind turbine generators and energy-saving VFACs sectors. Generally, when rare earth prices experience steady increase, our price adjustment mechanism allows us to pass the risk of raw material price increase to a certain extent to our customers gradually. When rare earth prices experience significant increase, our price adjustment mechanism allows us to timely pass the risk of raw material price increase to our customers in downstream sectors with shorter price adjustment period. However, for downstream sectors with longer price adjustment period, we cannot promptly respond to the raw material price increase, leading to decreases in our gross profit margins in relevant sectors. See “Risk Factors – Risks Relating to Our Business and Industry – Our price adjustment mechanism has an impact on our results of operations, and may not enable us to promptly respond to the raw material price increase”.

- *NEVs and automotive parts*: The price of products in NEVs and automotive parts sector was mainly adjusted on quarterly basis, while price with a small portion of customers in this sector was adjusted on annual or semi-annual basis during the Track Record Period. This comparatively longer price adjustment period was not able to promptly respond to the significant increase in rare earth price. From 2019 to 2020, heavy rare earth price increased significantly, which was one of the major reasons for the decrease in gross profit margin of NEVs and automotive parts sector in 2020 as compared to that in 2019. In addition, since the second half of 2020, rare earth price continued to increase significantly, which was one major reason for the decrease in gross profit margin of NEVs and automotive parts sector in the first half of 2021 as compared to that in the first half of 2020.
- *PM wind turbine generators*: The price of products in PM wind turbine generators sector was adjusted on annual basis from 2018 to 2020. This long price adjustment period was not able to timely respond to the significant increase in rare earth price. Since May 2019, rare earth price continued to increase significantly. As a result, gross profit margin of PM wind turbine generators sector decreased in 2019 as compared to that in 2018. In order to limit the impact of continuously increasing rare earth prices on our results of operations, we enhanced our price adjustment mechanism for PM wind turbine generators in 2021, which adjusts prices of products in PM wind turbine generators sector on semi-annual basis. However, rare earth price continued to increase significantly in the first half of 2021, which led to a decrease in gross profit margin of PM wind turbine generators sector in the first half of 2021 as compared to that in the first half of 2020.

BUSINESS

- *Energy-saving VFACs*: The price of products in energy-saving VFACs sector was adjusted on monthly basis during the Track Record Period. This shorter price adjustment period enables us to better respond to the significant increase in rare earth price. Since the second half of 2020, rare earth price continued to increase significantly. The monthly-adjusted price adjustment mechanism for energy-saving VFACs sector led to the continuous increase in our sales price of products in this sector since the second half of 2020. Taking into account our raw materials inventory acquired at lower prices despite the increase in rare earth price, gross profit margin of energy-saving VFACs sector increased in the first half of 2021 as compared to that in the first half of 2020.

As we keep inventory of raw materials, in the event of a sharp increase in rare earth raw materials market prices, we generally can record an increase in gross profit margin before our raw materials inventory acquired at lower prices depletes, if our sales price is adjusted quickly following the sharp increase in rare earth raw materials market prices. As a result, gross profit margin of energy-saving VFACs sector increased in the first half of 2021 as compared to that in the first half of 2020 because the price of products in energy-saving VFACs sector is adjusted on monthly basis. Such increased gross profit margin is only temporary before low-cost inventory depletes, and is also offset by reduced gross profit margin from high-cost inventory in the case of a decline in rare earth raw materials market prices.

If the rare earth raw materials market prices increase or decrease steadily, the inventory cost and sales price will generally catch up correspondingly, resulting in a steady gross profit margin. If the rare earth raw materials market prices increase sharply and then stay high, then:

- in sectors with a more frequent price adjustment mechanism (e.g. monthly, as is the case for energy-saving VFACs sector), our sales price will catch up quickly, while the low-cost inventory will bring a temporary increase to the gross profit margin. As low-cost inventory is gradually depleted, inventory cost slowly catches up with rare earth raw materials market prices and sales price, and the gross profit margin will fall back to a normal level; and
- in sectors with a less frequent price adjustment mechanism (e.g. semi-annually, as is the case for PM wind turbine generators sector), both inventory cost and sales price will catch up slowly. There is therefore no gross profit margin increase. After low-cost inventory is gradually exhausted, the gross profit margin may decrease until next price adjustment, after which both inventory cost and sales price will catch up fully and the gross profit margin will return to a normal level.

We are of the view that unless rare earth raw materials market prices continue to rise sharply endlessly (which we believe to be not the case), gross profit margin changes are only temporary and will even out in the long run. Gross profit fluctuations as a result of frequent price adjustment mechanism and less frequent price adjustment mechanism would offset each other and as a result that we were able to maintain a relative stable overall gross profit margin for the first half of 2021, showing notable resilience through business diversification despite rare earth raw materials market prices fluctuations.

BUSINESS

In light of the significant increase in rare earth price since the second half of 2020 and its impact on our results of operations, we expect rare earth price fluctuations will continue to impact our results of operations going forward, especially in sectors whose price adjustment periods are comparatively longer. We believe our price adjustment mechanism will assist us in responding to the rare earth price fluctuations. To limit the impact of rare earth price fluctuations on our business operations to the extent possible, we have taken the following measures, including (i) gradually enhance our price adjustment mechanism with our customers; (ii) increasingly align our rare earth procurement volume with the order amount from our customers; (iii) endeavor to reduce average cost of rare earth and enhance our production efficiency by improving our production technology, increasingly adopt GBD technology in our production, and establishing long-term relationships with large rare earth suppliers, which enables us to purchase adequate rare earth to satisfy our needs, thereby enabling us to maintain a safety inventory of rare earth with competitive price based on our anticipation of increases in rare earth price; and (iv) continuously enhance our research and development efforts in production process to reduce costs.

CUSTOMERS

We have established long-term and stable business relationships with our major customers. In particular, three customers remained among our top five customers throughout the Track Record Period. We had maintained business relationships ranging from three to ten years as of June 30, 2021 with our five largest customers during the Track Record Period. In 2018, 2019, 2020 and the first half of 2021, sales to our top five customers represented approximately 68.1%, 73.4%, 67.6%, and 69.6% of our revenue, respectively. Sales to our largest customer represented approximately 23.3%, 37.3%, 26.2%, and 25.3% of our revenue for the same periods, respectively. As advised by Frost and Sullivan, it is an industry norm for NdFeB PMs manufactures to have a high customer concentration. As advised by Frost and Sullivan, in 2018, 2019 and 2020, sales to top five customers of leading NdFeB PMs manufactures in China generally represented 40% to 55% of their revenue, respectively. See “Risk Factors – Risks Relating to Our Business and Industry – Our customer concentration is high, and a loss of our major customers may adversely affect our business operations and financial results”. Based on public information available and regular assessment conducted by us, we are of the view that as of the Latest Practicable Date, all of our top five customers during the Track Record were financially sound and in good operating condition.

To the best knowledge of our Directors, none of our Directors, Supervisors and/or their respective close associates, or any of our existing Shareholders who owned more than 5% of the issued share capital of the Company, had any interest in any of our top five customers during the Track Record Period. None of our top five customers during the Track Record Period was a supplier of the Group.

BUSINESS

The tables below set forth certain information of our top five customers during the Track Record Period:

For the year ended December 31, 2018

Customer	Background	Years of relationship	% of revenue	Credit Period	Revenue in 2020 ⁽¹⁾	Market Capitalization as of December 31, 2020 ⁽¹⁾
Customer A	A leading Chinese stated-owned rail transit and wind turbines manufacturing enterprise listed on both the SSE and HKSE	7	23.3	90 days	RMB227,656.0 million	RMB139.0 billion
Customer B	A leading Chinese technology enterprise group in consumer appliances, HVAC, robotics and industrial automation systems listed on the SZSE	5	18.0	30 days	RMB285,709.7 million	RMB692.0 billion
Customer C	A leading Chinese NEV and rail transit manufacturing enterprise listed on both the SZSE and HKSE	3	12.1	60 days	RMB156,597.7 million	RMB508.8 billion
Customer D	A global leading technology and service provider that primarily sells automotive parts, motors, electrical tools and house appliances	8	11.4	90 days	not publicly available	not publicly available
Customer E	A comprehensive equipment manufacturing enterprise mainly focusing on new energy generation equipment and industrial equipment	9	3.3	90 days	RMB137,285.1 million	RMB72.0 billion
Total			68.1			

BUSINESS

For the year ended December 31, 2019

Customer	Background	Years of business relationship	% of revenue	Credit Period	Revenue in 2020 ⁽¹⁾	Market Capitalization as of December 31, 2020 ⁽¹⁾
Customer A	A leading Chinese stated-owned rail transit and wind turbines manufacturing enterprise listed on both the SSE and HKSE	7	37.3	90 days	RMB227,656.0 million	RMB139.0 billion
Customer B	A leading Chinese technology enterprise group in consumer appliances, HVAC, robotics and industrial automation systems listed on the SZSE	5	16.2	30 days	RMB285,709.7 million	RMB692.0 billion
Customer F	A global leading electrification, automation and digitalization solutions provider based in Germany	3	10.3	90 days	EUR9,483.0 million	EUR22.4 billion
Customer D	A global leading technology and service provider that primarily sells automotive parts, motors, electrical tools and house appliances based in Netherlands	8	6.0	90 days	not publicly available	not publicly available
Customer C	A leading NEVs and rail transit manufacturing enterprise listed on both the SZSE and HKSE	3	3.6	60 days	RMB156,597.7 million	RMB508.8 billion
Total			<u><u>73.4</u></u>			

BUSINESS

For the year ended December 31, 2020

Customer	Background	Years of business relationship	% of total revenue	Credit Period	Revenue in 2020 ⁽¹⁾	Market Capitalization as of December 31, 2020 ⁽¹⁾
Customer A	A leading Chinese stated-owned rail transit and wind turbines manufacturing enterprise listed on both the SSE and HKSE	7	26.2	90 days	RMB227,656.0 million	RMB139.0 billion
Customer B	A leading Chinese technology enterprise group in consumer appliances, HVAC, robotics and industrial automation systems listed on the SZSE	5	22.2	60 days	RMB285,709.7 million	RMB692.0 billion
Customer G	A leading Chinese technological industrial group in household appliances, high-end equipment and communication equipment based in Guangdong Province, China, listed on the SZSE	8	8.2	60 days	RMB170,497.4 million	RMB372.6 billion
Customer F	A global leading electrification, automation and digitalization solutions provider based in Germany	3	6.2	90 days	EUR9,483.0 million	EUR22.4 billion
Customer D	A global leading technology and service provider that primarily sells automotive parts, motors, electrical tools and house appliances	8	4.8	90 days	not publicly available	not publicly available
Total			67.6			

BUSINESS

For the six months ended June 30, 2021

Customer	Background	Years of business relationship	% of total revenue	Credit Period	Revenue in 2020 ⁽¹⁾	Market Capitalization as of December 31, 2020 ⁽¹⁾
Customer A	A leading Chinese stated-owned rail transit and wind turbines manufacturing enterprise listed on both the SSE and HKSE	7	25.3	90 days	RMB227,656.0 million	RMB139.0 billion
Customer B	A leading Chinese technology enterprise group in consumer appliances, HVAC, robotics and industrial automation systems listed on the SZSE	5	22.1	60 days	RMB285,709.7 million	RMB692.0 billion
Customer G	A leading Chinese technological industrial group in household appliances, high-end equipment and communication equipment based in Guangdong Province, China listed on SZSE	8	12.2	60 days	RMB170,497.4 million	RMB372.6 billion
Customer D	A global leading technology and service provider that primarily sells car parts, motors, electrical tools and house appliances	8	5.4	90 days	not publicly available	not publicly available
Customer E	A comprehensive equipment manufacturing enterprise mainly focusing on new energy generation equipment and industrial equipment	9	4.6	90 days	RMB137,285.1 million	RMB72.0 billion
Total			69.6			

Note:

(1) Based on public information.

BUSINESS

For the year ended December 31, 2018, the identity of our fifth largest customer, namely, Customer E, was different from the identity of that as disclosed in our annual report for the year ended December 31, 2018 as published on the websites of our Company and the SZSE (the “**2018 Annual Report**”). Such difference in the composition of our five largest customers for the year ended December 31, 2018 was attributable to consolidation of the sales amount to two customers during the process of the preparation for the 2018 Annual Report. When preparing for the 2018 Annual Report, our management understood from public information that the aforementioned two customers were legally merged. As a result, our management decided to consolidate sales amount to the aforementioned two customers in the 2018 Annual Report. However, when preparing disclosure of our major customers, we noted that there were purchase orders separately from the aforementioned two customers for the year ended December 31, 2018. In addition, based on other public information, we became aware that the business integration of the aforementioned two customers might be still ongoing for the year ended December 31, 2018, which could indicate that the relevant purchase decisions were made by different business units. As a result, we were of the view that not consolidating the sales amount of the aforementioned two customers would provide a more meaningful presentation.

We enter into sales agreements with, or accept purchase orders from, our customers. Such sales agreements or purchase orders set out quality specifications, quantity and price. Under such sales agreements or purchase orders, we are generally required to arrange transportation of our products to destinations specified by our customers at our own cost and risk. We generally grant credit periods ranging from 30 to 90 days to our customers.

We also enter into various framework agreements with certain major customers, which generally do not specify the quantity or price of our products but cover certain procedural, logistical and administrative matters between us and our customers. Set out below are the material terms of certain framework agreements:

Duration	Generally ranging from one year to indefinite term.
Quantity	Typically there is no minimum purchase commitment in the framework agreements and the actual purchase volume is subject to specific purchase orders or contracts.
Price and pricing policy	The price will be subject to specific sales agreements or purchase orders. Certain framework agreements stipulate that the unit prices of our products may be adjusted accordingly subject to mutual agreement if the increase or decrease in our production costs exceeds certain agreed threshold.

BUSINESS

Delivery	We are generally required to deliver our products to destinations specified by our customers at our own cost and risk.
Settlement	Our customers generally settle purchase prices by wire transfer or bank acceptance bills.
Warranty	Certain framework agreements provide that a small percentage of the purchase price may be withheld by our customers as warranty deposit and released after an agreed period of time.
Other terms	Generally including other terms such as product quality, packaging, inspection, acceptance and rejection, mold management, confidentiality and liabilities for breach.

DELIVERY AND LOGISTICS

We are generally responsible for arranging the delivery of our products to locations designated by our customers. We generally purchase insurance for each batch of products to be delivered to our customers. Our products sold to overseas customers are generally transported on a delivered-at-place basis.

During the Track Record Period, we engaged external logistic companies to deliver our products. Pursuant to the agreements entered into between us and the logistic companies, the logistic companies are responsible for any direct losses caused by them during the shipment of our products. In 2018, 2019, 2020 and the first half of 2021, our cost for logistic services was approximately RMB5.2 million, RMB7.5 million, RMB9.8 million and RMB4.9 million, respectively, representing 0.5%, 0.6%, 0.6% and 0.4%, respectively, of our cost of sales. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material disruption or damage in relation to the delivery of our products.

PROCUREMENT

The key materials for our high-performance NdFeB PM production are rare earths, including both medium and heavy rare earths such as Dy-Fe and Tb, and light rare earths such as Pr-Nd. Pr-Nd is the major raw material for our high-performance NdFeB PM production in all downstream sectors, while production of high-performance NdFeB PMs in energy-saving VFACs sector and NEVs and automotive parts sector requires higher usage of medium and heavy rare earth as compared to production of high-performance NdFeB PMs in other sectors. During the Track Record Period, we sourced all our rare earths from domestic suppliers. We mainly sourced heavy rare earths from suppliers in Jiangxi and its neighboring regions and light rare earths from suppliers located in Inner Mongolia and Sichuan, generally corresponding to the geographic distribution of rare earth resources in China.

BUSINESS

The rare earths are subject to strict production volume controls in China. The Chinese government imposed light rare earth mining quota of 100,850 tonnes, 112,850 tonnes, 120,850 tonnes and 148,850 tonnes in 2018, 2019, 2020 and 2021, respectively, and medium and heavy rare earth mining quota of 19,150 tonnes in each of 2018, 2019, 2020 and 2021, respectively. See “Risk Factors – Risks Relating to Our Business and Industry – We rely on a stable supply of quality raw materials. Any decrease in the supply or increase in the prices of these raw materials could have a material and adverse impact on our business”. According to the United States Geological Survey, the annual total production volume of rare earth in China is tantamount to the mining quota imposed by the PRC government for that year. In China, the rare earth mining quota is allocated among only six rare earth groups, namely, China Northern Rare Earth, China Southern Rare Earth, China Rare Earth & Metals Corporation Limited (“China Rare Earth & Metals”), Xiamen Tungsten Co., Ltd. (“Xiamen Tungsten”), Guangdong Rare Earth Industry Group Co., Ltd. (“Guangdong Rare Earth”) and China Minmetals Corporation (“China Minmetals”). These six rare earth groups will then further allocate rare earths they mined to companies that they hold a controlling interest or non-controlling interest therein, in accordance with their respective annual mining quota. As a result, our top five suppliers during the Track Record Period were either these six rare earth groups or companies in which these six rare earth groups hold a controlling interest or non-controlling interest. The tables below set forth rare earth mining quota for these six rare earth groups for the periods indicated:

For the year ended December 31, 2018

Rare earth group	Light rare earth mining quota⁽¹⁾	Medium and heavy rare earth mining quota⁽¹⁾	Rare earth mining quota
	<i>(tonnes)</i>	<i>(tonnes)</i>	<i>(tonnes)</i>
China Northern Rare Earth	N/A	N/A	69,250
China Southern Rare Earth	N/A	N/A	28,250
China Rare Earth & Metals	N/A	N/A	14,350
Xiamen Tungsten	N/A	N/A	3,440
Guangdong Rare Earth	N/A	N/A	2,700
China Minmetals	N/A	N/A	2,010
Subtotal	100,850	19,150	120,000

Note:

- (1) The PRC government did not disclose the respective mining quota of light rare earth and medium and heavy rare earth for these six rare earth groups in 2018.

BUSINESS

For the year ended December 31, 2019

Rare earth group	Light rare earth mining quota	Medium and heavy rare earth mining quota	Total rare earth mining quota
	<i>(tonnes)</i>	<i>(tonnes)</i>	<i>(tonnes)</i>
China Northern Rare Earth	70,750	–	70,750
China Southern Rare Earth	27,750	8,500	36,250
China Rare Earth & Metals	14,350	2,500	16,850
Xiamen Tungsten	–	3,440	3,440
Guangdong Rare Earth	–	2,700	2,700
China Minmetals	–	2,010	2,010
Subtotal	112,850	19,150	132,000

For the year ended December 31, 2020

Rare earth group	Light rare earth mining quota	Medium and heavy rare earth mining quota	Total rare earth mining quota
	<i>(tonnes)</i>	<i>(tonnes)</i>	<i>(tonnes)</i>
China Northern Rare Earth	73,750	–	73,550
China Southern Rare Earth	32,750	8,500	41,250
China Rare Earth & Metals	14,550	2,500	17,050
Xiamen Tungsten	–	3,440	3,440
Guangdong Rare Earth	–	2,700	2,700
China Minmetals	–	2,010	2,010
Subtotal	120,850	19,150	140,000

BUSINESS

For the year ended December 31, 2021

Rare earth group	Light rare earth mining quota	Medium and heavy rare earth mining quota	Total rare earth mining quota
	<i>(tonnes)</i>	<i>(tonnes)</i>	<i>(tonnes)</i>
China Northern Rare Earth	100,350	–	100,350
China Southern Rare Earth	33,950	8,500	42,450
China Rare Earth & Metals	14,550	2,500	17,050
Xiamen Tungsten	–	3,440	3,440
Guangdong Rare Earth	–	2,700	2,700
China Minmetals	–	2,010	2,010
Subtotal	148,850	19,150	168,000

To ease the tight supply of rare earth, the Ministry of Industry and Information Technology raised the rare earth mining quota in 2021 to 168,000 tonnes, representing an increase of 20% compared with that in 2020. According to the United States Geological Survey, the annual total production volume of rare earth in China is tantamount to the mining quota imposed by the PRC government for that year.

For the years ended December 31, 2018, 2019 and 2020, our total purchase volume of rare earths as a percentage of the total production volume of rare earths in the PRC was 1.7%, 1.8% and 2.3%, respectively. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, our purchase volume of rare earths from China Southern Rare Earth as a percentage of our total purchase volume of rare earths was 5.2%, 9.9%, 4.6% and 15.5%, respectively.

During the Track Record Period, our purchase amount of Pr-Nd, which is the major raw material for our production of high-performance NdFeB PMs, accounted for less than 10% of the total production volume of Pr-Nd in China, according to Frost & Sullivan. Given that the supply restrictions implemented by the Chinese government in the form of mining quotas could limit the amount of raw materials available to rare earth downstream sectors, we have entered into rare earth supply agreements with certain of our major suppliers to ensure a stable supply of rare earths. See “– Suppliers” below for details.

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During the Track Record Period, prices of rare earth experienced fluctuations. The unit price of rare earth we purchase is generally based on negotiations with our suppliers by reference to prices published on third-party bulk commodity information websites. We do not hedge our risk exposures in connection with rare earth prices using derivative instruments, given that so far as we are aware there is no such derivative market of rare earth appropriate for such hedging purpose. We also maintain and manage a safety inventory of rare earth based on our anticipation of the movements in the rare earth market. See “Risk Factors – Risks Relating to Our Business and Industry – Fluctuations in rare earth prices could have an adverse effect on our results of operations”. Please refer to the section headed “Financial Information – Significant Factors Affecting Our Results of Operations” in this prospectus for more details.

During the Track Record Period, we also purchased other metal and chemicals for our production. Most of such raw materials can be readily purchased on public markets at transparent prices. In 2018, 2019 and 2020 and the first half of 2021, our cost of raw materials and consumables was approximately RMB769.3 million, RMB1,001.5 million, RMB1,413.9 million and RMB1,114.2 million, respectively, representing approximately 77.1%, 77.9%, 81.0% and 83.4% of our total cost of sales for the same periods, respectively. During the Track Record Period, we did not experience any material difficulty in the timely procurement of materials at prices acceptable to us.

SUPPLIERS

We have established stable and long-term business relationships with our suppliers. As of June 30, 2021, we had four to ten years of business relationships with our top five suppliers during the Track Record Period. In 2018, 2019 and 2020 and the first half of 2021, purchases from our top five suppliers accounted for approximately 72.4%, 67.7%, 64.4% and 75.8% of our total purchases for the same periods, respectively. Purchases from our largest supplier represented approximately 27.5%, 24.4%, 24.2% and 25.6% of our total purchases for the same periods, respectively. See “Risk Factors – Risks Relating to Our Business and Industry – We procure a significant portion of our raw materials from our top five suppliers. Any adverse change in business relationship with our major suppliers could materially and adversely affect our business, financial condition and results of operations”. To mitigate our supplier concentration, we have established business relationships with five of the six rare earth groups in China (with themselves or companies these rare earth groups directly or indirectly hold equity interests therein). During the Track Record Period, all of our top five suppliers were Chinese companies. Based on public information available and regular assessment conducted by us, we are of the view that as of the Latest Practicable Date, all of our top five suppliers during the Track Record were financially sound and in good operating condition.

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The tables below set forth the basic information of our top five suppliers for the periods indicated:

For the year ended December 31, 2018

Supplier	Background	Major products procured	Years of relationship	% of total purchases	Credit Period
Supplier A	A company based in Sichuan mainly engaged in rare earth smelting, separation and deep processing	Light rare earth and heavy rare earth	10	27.5	Within 60 days of delivery
Supplier B	A high-tech enterprise based in Jiangxi mainly engaged in rare earth production	Light rare earth	10	27.3	Within 30 days of delivery
Supplier C	A state-owned high-tech enterprise based in Sichuan mainly engaged in rare earth production	Light rare earth	9	7.6	Within 30 days of delivery
Supplier D	A high-tech enterprise based in Inner Mongolia mainly engaged in rare earth production	Light rare earth	5	5.2	Payment upon delivery
Supplier E	A company based in Jiangxi mainly engaged in the recycle of magnetic materials	Light rare earth and heavy rare earth	4	4.8	Within 45 days of delivery and invoice
Total				<u><u>72.4</u></u>	

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For the year ended December 31, 2019

Supplier	Background	Major products procured	Years of relationship	% of total purchases	Credit Period
Supplier A	A company based in Sichuan mainly engaged in rare earth smelting, separation and deep processing	Light rare earth and heavy rare earth	10	24.4	Within 60 days of delivery
Supplier B	A high-tech enterprise based in Jiangxi mainly engaged in rare earth production	Light rare earth	10	13.4	Within 30 days of delivery
Ganzhou Rare Earth	A state-owned enterprise based in Ganzhou, Jiangxi mainly engaged in the investment and asset management in rare earth industry	Light rare earth and heavy rare earth	10	12.8	Within 30 days of delivery
Supplier D	A high-tech enterprise based in Inner Mongolia mainly engaged in rare earth production	Light rare earth and heavy rare earth	5	10.2	Within 45 days of shipment
Supplier C	A state-owned high-tech enterprise based in Sichuan mainly engaged in rare earth production	Ingot	9	6.9	Within 30 days of delivery
Total				<u><u>67.7</u></u>	

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For the year ended December 31, 2020

Supplier	Background	Major products procured	Years of relationship	% of total purchases	Credit Period
Supplier A	A company based in Sichuan mainly engaged in rare earth smelting, separation and deep processing	Light rare earth and heavy rare earth	10	24.2	Within 75 days of delivery
Supplier D	A high-tech enterprise based in Inner Mongolia mainly engaged in rare earth production	Light rare earth	5	20.3	Within 30 to 60 days upon delivery
Ganzhou Rare Earth	A state-owned enterprise based in Ganzhou, Jiangxi mainly engaged in the investment and asset management in rare earth industry	Light rare earth and heavy rare earth	10	8.7	Within 60 days of delivery
Supplier F	A state-owned enterprise mainly engaged in the production and sales of metals, including rare earth metals	Light rare earth and heavy rare earth	7	5.8	Within 7 days of delivery
Supplier B	A high-tech enterprise based in Jiangxi mainly engaged in rare earth production	Light rare earth and heavy rare earth	10	5.4	Within 30 days of delivery
Total				64.4	

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For the six months ended June 30, 2021

Supplier	Background	Major products procured	Years of relationship	% of total purchases	Credit Period
Supplier D	A high-tech enterprise based in Inner Mongolia mainly engaged in rare earth production	Light rare earth	5	25.6	Within 45 days of shipment
Supplier A	A company based in Sichuan mainly engaged in rare earth smelting, separation and deep processing, based in Sichuan	Light rare earth and heavy rare earth	10	23.0	Within 75 days of delivery
Ganzhou Rare Earth	A state-owned enterprise based in Ganzhou, Jiangxi mainly engaged in the investment and asset management in rare earth industry	Light rare earth and heavy rare earth	10	17.5	Within 60 days of delivery
Supplier G	A company based in Ganzhou, Jiangxi mainly engaged in the production and sales of rare earth products and the research and development of related production processes and technologies	Light rare earth and heavy rare earth	1	6.5	Within 30 days of delivery
Supplier H	A company based in Inner Mongolia mainly engaged in the R&D, production and sales of RE materials, RE alloys and RE products	Light rare earth	9	3.2	Prepayment required
Total				75.8	

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In selecting our suppliers, we conduct reviews on different aspects such as the basic information of the supplier, its supply capacity and ability to assure product quality, past dealings, delivery time and its service and quality assurance system. Our procurement team places purchase orders with selected suppliers based on our production plan, inventory, cash management needs and existing procurement plan. During the Track Record Period, Ganzhou Rare Earth, a shareholder of our Company which held over 5% of our A Shares as of June 30, 2021, were among our five largest suppliers. Save as disclosed, our Directors confirm that, as of the Latest Practicable Date, none of the Directors, Supervisors or their close associates or our existing Shareholders who, to the knowledge of the Directors, owned more than 5% of our issued share capital, had any interest in any of our five largest suppliers.

We generally enter into purchase contracts or place orders with our suppliers for each of our purchases. Set out below are the material terms of such purchase contracts or orders:

Specification	The contracts or orders set out the type of rare earth, quality specifications, and quantity of the rare earth to be supplied.
Price	The contracts or orders set out the unit price of rare earth.
Delivery	Our suppliers are typically required to deliver the rare earth to our production plant at the required time.
Payment	Certain suppliers may require us to make full prepayments to them. Otherwise we generally make payments to our suppliers after the delivery of rare earth to our production plant mainly by way of bank acceptance bills or wire transfer.
Credit Period	Other than the full prepayments as requested by certain suppliers, our suppliers typically grant us credit periods ranging from 5 to 75 days.
Warranty	If we receive any defective rare earth, we are entitled to require a substitution with rare earth satisfying the quality specifications stipulated by the contract at the supplier's costs.

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We have also entered into various framework agreements with certain major suppliers which provided us with praseodymium-neodymium alloy, dysprosium-iron alloy and terbium, in order to ensure a stable supply of rare earth. Set out below are the material terms of such framework agreements:

Duration	Generally one year.
Quantity	The framework agreements generally set out the range of monthly purchase amount of rare earth, and require us to comply with the monthly minimum purchase amount.
Price and pricing policy	The price will be subject to specific purchase orders or contracts and will be determined through negotiation with reference to rare earth prices set out on third-party bulk commodity information websites.
Specification	The framework agreements set out the quality specifications of the rare earth to be purchased by us.
Delivery	Our suppliers are typically required to deliver the rare earth to our production plant.
Payment	Certain suppliers may require us to make deposits to them according to our planned annual purchase amount. We make payments to our suppliers after the delivery of rare earth to our production plant. The framework agreements typically grant us credit periods ranging from 60 to 75 days.

There had been no material breach of procurement agreements with our suppliers during the Track Record Period. Neither had we experienced any significant difficulty in procuring the raw materials we need during the Track Record Period, including during the COVID-19 outbreak. For details of the impact of COVID-19 on our business, please see “Summary – Impact of the Outbreak of COVID-19 on Our Business” in this prospectus for details.

INVENTORY MANAGEMENT

Our inventory primarily comprises of raw materials, work-in-progress and finished goods, which are generally stored in our warehouse at our production base. We have designated personnel who use a centrally-administered ERP system to track and systematically manage our inventory. In order to ensure the sufficiency of raw materials, especially rare earths, we generally maintain a safety inventory of raw materials based on market trends. As of December 31, 2018, 2019, 2020 and June 30, 2021, our closing balance of our inventories amounted to approximately RMB598.1 million, RMB637.3 million, RMB925.0 million and RMB1,107.3 million, respectively, which accounted for approximately 35.1%, 27.5%, 33.5% and 30.1% of our total current assets as of the same date, respectively. Our average inventory turnover days were approximately 174, 175, 163 and 137 days in 2018, 2019, 2020 and the six months ended June 30, 2021, respectively. For more details of our average inventory turnover days, please refer to the section headed “Financial Information – Discussion of Certain Selected Items from the Consolidated Statements of Financial Position – Inventories” in this prospectus.

If there would be a substantial reduction in the rare earths mining quota imposed by the PRC government and we could not procure additional rare earths in the worst-case scenario (the “**Worst-case Scenario**”), which our Directors consider to be unlikely to happen, our Directors are of the view that we would be able to sustain our business operations for approximately two months from September 30, 2021. To be specific, based on our light rare earths such as Pr-Nd stored in place as of September 30, 2021, we would be able to continue our production for approximately two months, while based on our medium and heavy rare earths such as Dy-Fe and Tb stored in place as of September 30, 2021, we would be able to continue our production for approximately six months. As advised by Frost & Sullivan, the amount of raw materials we stored on hand to support our business operations is consistent with the practice as adopted by medium-and-large scaled REPM producers in China, on the basis that these manufacturers generally:

- (i) procure rare earths based on the volume of customer orders on a timely basis, and will not store a large volume of rare earths; and
- (ii) maintain the inventory level of light rare earths and medium and heavy rare earths to support their production for one to two months and three months, respectively. In addition, medium-and-large scaled REPM producers in China may increase the inventory level of medium and heavy rare earth they maintain to four to six months in light of the increase in medium and heavy rare earth price.

Our Directors are of the view that the Worst-case Scenario is unlikely to happen, considering:

- (i) the continuous increase in rare earth mining quota imposed by the PRC government during the Track Record Period to ease the tight supply of rare earth; and
- (ii) our long-term and stable strategic cooperations with major rare earth suppliers in China.

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During the Track Record Period, we stored some finished products at warehouses designated by certain independent third-party customers (the “**Third-party Warehouses**”) as requested by such customers to satisfy their short-term procurement needs on a rolling basis and inventory management requirements. Such customers were mainly NEV sector participants. They also include several VFAC and energy-saving elevator manufacturers. Such finished goods were generally stored at Third-party Warehouses at our own risk. See “Risk Factors – Risks Relating to our Business and Industry – We may suffer losses from our finished products stored at warehouses designated by independent third-party customers”. For finished goods stored at Third-party Warehouses, we conduct inspections on them on a regular basis before they are taken out by our customers. In addition, we only cooperate with Third-party Warehouses equipped with comprehensive storage management system. Moreover, pursuant to contracts we entered into with our customers, our customers are responsible for safeguarding the products before taking out, which is in line with the market practice as advised by Frost & Sullivan. Title and risk are passed to customers once they give us written notices in relation to their taking out of such finished goods from Third-party Warehouses for use. We recorded revenue for the finished goods taken out based on such written notices. For finished goods stored at Third-party Warehouses, we obtained the written notices upon their taking out of such finished goods from Third-party Warehouses for use. Physical inspection on the finished goods stored at Third-party Warehouses and reconciliation of the related records with the customers were performed by us on a regular basis. Based on such written notices and those routine measures, revenue was recognized when the control of the finished goods stored at Third-party Warehouses was transferred to the customers. During the Track Record Period, we did not encounter material losses of finished goods stored at Third-party Warehouses due to any reasons. As of December 31, 2018, 2019, 2020 and June 30, 2021, inventories stored at Third-party Warehouses accounted for less than 5.0% of our total inventories as of the same dates.

COMPETITION

According to Frost & Sullivan, driven by the carbon emission reduction goals of governments and abundant resources of rare earth, the global and China’s REPM markets experienced rapid growth from 2015 to 2020. Considering the ability to secure sufficient and stable rare earth supply, market recognition to attract customer orders and the high level of technical knowhow and expertise required in the field, we believe new entrants will face relatively high entry barriers to the large-scale production of REPMs.

We produced 9,612.9 tonnes of high-performance REPMs in 2020, ranking first in the world by high-performance REPM production volume with a market share of approximately 14.5%. According to Frost & Sullivan, the global and China’s REPM markets are relatively fragmented, with the top three global and Chinese producers accounting for an aggregate market share of 15.4% and 17.0% by production volume in 2020, respectively. By production volume of REPMs based on GBD technology, we ranked first among the GBD REPM producers in the world in 2020.

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We compete with other large high-performance REPM producers in the world. Competition in the REPM industry is mainly based on stable and sufficient rare earth supply, production capacity, market recognition and R&D capabilities. We believe that our global leading production capacity, in-depth cooperation with top player customers in downstream sectors, long-term and stable strategic cooperation with major rare earth suppliers and strong R&D capabilities distinguish us from our competitors. For details, please refer to the section headed “– Competitive Strengths”. Please also refer to the section headed “Industry Overview” in this prospectus for further information about the competitive landscape of the REPM industry in the world and the PRC.

INFORMATION SYSTEMS

We believe that established information systems are conducive to improving our efficiency in administering and operating our business. We have made continuous investment to maintain comprehensive information systems which integrate the internal and external management information across various aspects of our business operations. Our OA office system helps to improve our operational efficiency and our management of projects. Our ERP system enable us to manage our procurement, sales and inventory, which in turn has allowed us to manage and optimize our business processes and to improve our operation performance. In the future, we will continue to enhance the internal and external extension of our information systems that enable us to obtain and process information and data on an expedited basis, support our decision-making, increase our production efficiency, all of which will in turn help us to improve our cooperation with our customers and suppliers and increase our revenue and profitability.

RESEARCH AND DEVELOPMENT

We emphasize on R&D and have cultivated strong R&D capabilities. As of June 30, 2021, we had established a R&D team of 234 dedicated R&D personnel. Our R&D team is divided into three groups, mainly responsible for (i) technology R&D in cutting-edge areas; (ii) materials R&D in relation to our new products and projects; and (iii) automation of our production processes and equipment, respectively.

We cooperate with academic institutions to further strengthen our R&D capabilities, through which we have undertaken two national-level key R&D projects and four Jiangxi provincial-level science and technology projects.

During the Track Record Period, we improved our GBD technology, which enables us to reduce the amounts of the medium and heavy rare earth required for the production of high-performance NdFeB PMs without undermining the performance thereof. We developed new coating technologies, which enables us to produce high-performance NdFeB PMs of various working temperatures and levels of corrosion and salt spray resistance. We also developed and implemented the one-off pressing technology, thereby reducing the time and

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manpower required for the blank production process. In 2018, we completed a provincial-level science and technology project and won Jiangxi Provincial-Level Science and Technology Progress Award by People's Government of Jiangxi Province. We have been recognized by Jiangxi Provincial Department of Science and Technology, Jiangxi Provincial Department of Finance and the State Administration of Taxation, Jiangxi Branch as a High and New Technology Enterprise since 2011. In 2020, we also completed the assessment of "key technological research and industrialization of high temperature resistant, high-performance REPMs of low heavy rare earth". According to the comprehensive evaluation by China Rare Earth Society and the industry experts, the composition and manufacturing technology of high temperature resistant, high-performance sintered NdFeB material developed by us could significantly reduce the amount of medium and heavy rare earth required for high-performance REPMs material manufacturing, providing critical support for downstream industrial development and conservation of rare earth resources.

In 2018, 2019, 2020 and the first half of 2021, we incurred RMB55.1 million, RMB63.2 million, RMB103.2 million and RMB78.1 million in R&D expenses, respectively, which were equal to 4.3%, 3.9%, 4.5% and 4.4% of our revenue during the same period, respectively.

INTELLECTUAL PROPERTY

We recognize the importance of protecting and enforcing our intellectual property rights. We register and maintain registration of intellectual property rights that are material to our business operations.

As of the Latest Practicable Date, we held (i) 47 licensed patents in the PRC (including 20 patents for invention and 27 patents for utility models); (ii) one patent in the U.S.; (iii) one patent in the Europe; and (iv) one patent in Japan. Further, as of the Latest Practicable Date, we were in the process of applying for the registration of 22, three, two and one patents in the PRC, the U.S., Europe and Japan, respectively. Our patents are principally related to the technologies, processes, improvements and designs of our products. Our invention patents and utility model patents generally have a validity period of 20 years and 10 years, respectively.

As of the Latest Practicable Date, we were not involved in any material disputes or legal proceedings in respect of, and nor were we aware of any pending or threatened claims against us relating to, the infringement of intellectual property rights owned by third parties. To the best of our knowledge, information and belief, we were not aware of any material infringement of our intellectual property rights as of the Latest Practicable Date and we believe that we have taken reasonable measures to prevent infringement of our own intellectual property rights. For further details of our intellectual property rights, please refer to the section headed "Appendix V – Statutory and General Information – 2. Further Information about Our Business – B. Our intellectual property rights" in this prospectus.

INSURANCE

We have insurance coverage for our plant, machinery and inventory. We generally purchase insurance for each batch of products to be delivered to our customers. We also maintain product liability insurance. During the Track Record Period and up to the Latest Practicable Date, we did not make, and neither were we the subject of, any insurance claims that are of a material nature to the Group. According to Frost and Sullivan, our insurance coverage generally meets the practices in REPMs industry in the PRC. For details of the risks relating to our insurance coverage, see “Risk Factors – Risks Relating to Our Business and Industry – We have limited insurance coverage which could expose us to significant costs and business disruption” in this prospectus.

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE RESPONSIBILITIES

We are committed to protecting the environment and promoting corporate social responsibility. We have adopted a comprehensive policy on environmental, social and corporate governance responsibilities (“ESG”). Our Board of Directors takes the collective and overall responsibility for establishing, adopting and reviewing the ESG vision, policy and target of our Group, and evaluating, determining and addressing our ESG-related risks. Our Board of Directors has also assigned our general manager to oversee the coordination of different departments to ensure that our operations and practices are in line with related ESG strategies. With respect to the management of environmental, social and climate-related issues, our Board of Directors has assigned our general manager to monitor materiality assessments conducted to identify material ESG issues, such as climate-related issues. Our Board of Directors then reviews the results from the materiality assessment and conclude on the issues that we shall focus on.

Furthermore, our Board of Directors will closely follow and monitor the latest requirements regarding ESG disclosure and regulatory compliance. For instance, we are highly aware of the Stock Exchange’s ESG requirements, and in order to ensure compliance with said requirements, our Board of Directors and our general manager will oversee the compilation of our ESG report, and shall review the content and quality of the ESG report after we are officially listed.

We have worked intensely in the following aspects to promote health, safety and environmental aspects of our operations: (i) to promote the reduction in emissions, solid wastes and consumption of water, paper, energy and other supplies; (ii) to follow the corporate policy on equal opportunities and to hiring, evaluate and promote based on merits; and (iii) to provide adequate training and supervision for new employees and training programs for employees’ career advancement.

Environmental Protection and Climate-related Matters

Our operations are subject to the relevant environmental protection laws and regulations promulgated by the PRC government, a summary of which is set out in the section headed “Regulatory Overview – Laws and Regulations Relating to Our Business and Operations” in this prospectus. We have implemented internal environmental protection rules and obtained ISO 14000 certification regarding environmental compliance. In addition, the construction of any new production facility or any improvement or expansion of any existing production project must comply with environmental impact evaluation regulations. For each production project which shall conduct an environmental impact evaluation, we submit environmental impact assessment documents for approval by the relevant environmental authority as required by relevant PRC laws and regulations.

Our production process emits certain waste materials such as waste water, waste gas and solid waste. We have obtained the necessary waste emission permits and engaged third party service providers to collect, process and recycle our waste materials, such as solid waste. In addition, we apply environmentally-friendly technology in our production process. In particular, we have water treatment and recycle systems in place which allow us to recycle and reuse waste water. We have equipment in our production facility to reduce gas emission during our production process, and assign designated employees to closely monitor the gas emission conditions. We also have adopted measure to control noise pollution. For example, we have installed walls to control noise arising from our operations.

We have an environment-related risks control system. Our management is responsible for formulating our environmental protection system and environmental management targets, as well as instructing, supervising and assessing the environment-related risk management and control work. Our Board of Directors formulates our overall development strategy of environmentally-friendly development and our general manager formulates the implementation plan to achieve environmentally-friendly development, sets overall goals of environmental protection and supervises the execution of our environmentally-friendly development plan.

In addition, we acknowledge that climate-related matters pose a certain level of threat to us. Climate-related risks identified by us can be classified into two major categories: physical risk and transitional risk.

We define physical risks as risks that potentially cause physical impact to us. We believe that climate-related issues may bring about the risk of increasingly severe extreme weather events, such as more frequent storms, typhoons and flooding. We may potentially be impacted by an increased operation and maintenance cost, as well as increased investment in insurance for protection. The health and safety of employees may also be endangered.

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Due to climate change and climate-related issues, consumers may shift their preferences for products that adopt to a more sustainable lifestyle, while regulators may require increasing disclosure on emission. Such transitional risks which require us to move towards a sustainable business model may potentially impact our business operations. As a result, we are committed to saving resources during our production process. Our resources conservation measures include the following:

- We engage third-party service providers to extract rare earth from our waste materials and scrap REPMs we collected from our customers for our reuse, thereby saving rare earth resources while enhancing our profitability;
- We conduct R&D in respect of raw material batching and continually develop our technologies to reduce the amount of heavy rare earths used for production without undermining the performance of our high-performance NdFeB PMs; and
- We continually improve our production processes to reduce electricity and water consumption. In 2020, we reduced electricity and water consumption for each tonne of high-performance NdFeB PMs we produced on average by 4.3% and 19.1%, respectively, as compared to 2019.

In addition, our products are widely used in sustainable manufacturing sectors. In 2020, high-performance NdFeB PMs we produced could support the production of 0.45 million NEVs, 41.0 million energy-saving VFACs, and wind power generators with total installed capacity of 10 GW, facilitating the carbon emission reduction in our downstream sectors.

During the Track Record Period, we had not been subject to any fines or penalties by government agencies in the PRC resulting from any non-compliance with any environmental protection laws in the PRC; and, so far as our Directors are aware after making all reasonable enquiries, there was no threatened or pending action by any PRC environmental government agencies in respect thereof.

Corporate Social Responsibility

We are committed to the fulfillment of our corporate responsibility. For instance, we made donations of masks, medical supplies and funds amounting to approximately RMB1.1 million to fight the COVID-19 pandemic in 2020. We also provided scholarships to college students during the Track Record Period.

Occupational Health and Safety and Corporate Policy

We are subject to the relevant PRC laws and regulations regarding labor and production safety. For further details, please refer to the sections headed “Regulatory Overview – Laws and Regulations Relating to Our Business and Operations – Regulations on Safety Production Management” in this prospectus. We have established procedures to ensure the workplace safety for our employees. We have also implemented safety guidelines and operating procedures for our production processes and conduct regular and thorough worksite inspections to eliminate any potentially hazardous working environment.

We provide our employees with occupational safety education and training, covering the relevant laws and regulations regarding labor and production safety, risks in relation to our business operations and production facilities as well as measures to reduce such risks so as to enhance their awareness of safety issues, and carry out periodic inspections to verify compliance and institute an internal responsibility system for implementing safe production measures.

We did not experience any material workplace accident during the Track Record Period and up to the Latest Practicable Date. Our PRC Legal Advisor confirmed that, during the Track Record Period and up to the Latest Practicable Date, we had not been subject to any material penalties associated with any violation of applicable laws or regulations with respect to occupational health and work safety in the PRC.

In addition, we hire employees based on their merits and it is our corporate policy to offer equal opportunities to our employees regardless of gender, age, race, religion or any other social or personal characteristics. Moreover, we appreciate the services of our employees, and care about their wellbeing. To that end, we offer employee benefits such as meal allowances, cultural and social events, and holiday and birthday gifts.

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Identification, Assessment and Management of Environmental, Social and Climate-related Risks and Opportunities

Based on our management’s judgment, we have identified the material ESG issues highly related to our business. On top of the risks regarding environmental protection and climate-related issues, we have identified the following material ESG issues and their potential impacts.

<u>Material Topics</u>	<u>Potential Risks, Opportunities and Impacts</u>
Transition to green building . . .	Facilities and equipment of our operation sites may provide space for us to enhance our environmental performance through selecting more energy efficient equipment. While this may potentially incur a cost for new equipment and facilities in the short term and increased operational cost, our environmental performance may be enhanced.
Human capital development . . .	The health and safety of employees may be put at risk due to climate-related issues, such as increasingly frequent extreme weather conditions. Meanwhile, strong human capital development may lead to a stronger employee base and a lower turnover rate.
Product design and lifecycle management	The maintenance of facilities and equipment at operation sites may incur additional costs if said facilities are not properly maintained.

Furthermore, we are willing to consult professional entities to improve its compliance and quality on emission disclosures, and regularly communicates with different stakeholders on their views on climate-related issues.

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Metrics and Targets on Environmental, Social and Climate-related Risks

We have taken into account the quantitative information that reflect our management for environmental, social and climate-related risks, which includes greenhouse gas emissions and resource consumption. Greenhouse gas emissions consists of Scope 1 and Scope 2 emissions. Scope 1 direct emissions include the greenhouse gas emissions from our production facilities, stationary combustion sources and vehicles. Scope 2 energy indirect emissions include the greenhouse gas emissions from usage of purchased electricity. The following table sets forth the information of our greenhouse emissions and resource consumption for the years indicated:

Emissions	2018	2019	2020
Greenhouse gas emissions (tonnes CO ₂ equivalent)	44,157	51,812	73,971
Scope 1 (direct emissions) (tonnes CO ₂ equivalent)	476	558	2,177
Scope 2 (indirect emissions) (tonnes CO ₂ equivalent)	43,681	51,254	71,793
Resource Consumption	2018	2019	2020
Water consumption (m ³)	503,035	576,571	551,868
Electricity consumption (MWh)	83,092	97,496	136,568
Natural gas consumption (m ³)	219,924	258,078	1,007,188
Emission/Consumption Per Unit ⁽¹⁾	2018	2019	2020
Greenhouse gas emissions per unit (tonne/RMB'000)	0.03	0.03	0.03
Water consumption per unit (tonne/RMB'000)	0.39	0.35	0.24
Electricity consumption per unit (MWh/RMB'000)	0.06	0.06	0.06
Natural gas consumption per unit (m ³ /RMB'000)	0.17	0.16	0.44

Note:

(1) Calculated by emissions/consumptions divided by revenue for the year.

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As a result of our production expansion, both our greenhouse gas emissions and resource consumption increased from 2018 to 2020. However, our greenhouse gas emissions per unit and electricity consumption per unit remained stable from 2018 to 2020 and our water consumption per unit decreased from 2018 to 2020. The increase in our natural gas consumption per unit in 2020 was primarily due to (i) the increasing use of natural gas over electricity as it is more energy efficient and its increasing use could reduce our greenhouse gas emissions; and (ii) upgrades in our production process, which increased the use of natural gas.

To better implement the concept of low-carbon development, actively fulfill our social responsibility of sustainable development, and to address our increasing demand for green power, our Board announced in October 2021 that we intend to cooperate with Goldwind Technology in a green power initiative on, amongst others, construction of no more than 15 MW photovoltaic power plants in our production sites, including, among others, spare areas in Ganzhou Production Base, Baotou Production Base and Ningbo Production Base. As of the Latest Practicable Date, we were in the process of negotiating details of the aforementioned cooperation with Goldwind Technology.

We will continue to adhere to the concept of green development in our business operations in the future. In addition to contribute REPMs to assist China in achieving its goal of carbon peak and carbon neutrality, we will actively cooperate with leading new energy companies, including Goldwind Technology, in a green power initiative based on our business needs.

To better manage our environmental, social and climate-related risks, we aim to reduce our greenhouse emissions and resource consumption in the foreseeable future. We have established a carbon peak and carbon neutrality team responsible for setting plans and taking measures to reduce our greenhouse gas emissions and energy consumption. We plan to reduce our emission/consumption per unit by an average of 5% to 10% on an annual basis in the future until we achieve our long-term goal of carbon neutrality through increasing use of green energy and enhance our efforts in recycling of raw materials.

In the upcoming future, our administrative expenses regarding environmental, social, and climate-related issues are estimated to increase along with our overall business development, however, the proportion of such administrative expenses against our total revenue is estimated to trend downwards.

BUSINESS

EMPLOYEES

As of June 30, 2021, we had 3,278 employees in the PRC and 19 employees overseas. The following table sets out a breakdown of our employees by function:

<u>Function</u>	<u>Number of Employees</u>	<u>% of Total</u>
Production and quality control	2,790	84.7
Research and Development	234	7.1
Management and administration	192	5.8
Sales, business development and marketing	63	1.9
Finance	18	0.5
Total	<u>3,297</u>	<u>100.0</u>

We recruit our employees based on a number of factors such as our vacancy needs and expansion plans, and the candidates' work experience and educational background. We typically hire through recruitment websites and campus recruitments. We believe our benefits, working environment and development opportunities for our employees have contributed to good employee relations and employee retention. Our employees have established a labor union to protect employees' rights, encourage employee participation in management decisions, attend to employees' personal growth and career performance and assist in mediating disputes between us and union members. We generally maintained good relationships with our employees and had not experienced any strike or material labor dispute during the Track Record Period.

We enter into individual labor contracts with our employees, which set out, among other things, positions, salaries, working hours and other benefits. An employee's remuneration comprises (i) a basic monthly salary, which correlates with the employee's position and skills; (ii) a performance-based monthly remuneration, which is based on the overall performance of our business and the employee's individual performance; and (iii) a special bonus based on the overall assessment of our operational performance. We also provide other benefits, including accommodation and holiday benefits, to our employees.

As our operations involve safety hazards, we place significant emphasis on our employees' training to ensure that each of our employees who work at production facilities is equipped with the prerequisite knowledge of our operation equipment and safety policies. We carry out a wide variety of training programs for our employees including induction training, on-the-job training, professional knowledge training and technical skills training. We also engage external consulting and educational institutions to provide training to our employees.

BUSINESS

PROPERTIES

We occupy certain properties in the PRC in connection with our business operations. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. They mainly include premises for our (i) production facilities; (ii) storage and warehouse; (iii) employee dormitory; and (iv) offices.

According to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all our Group's interests in land or buildings, for the reason that, as of June 30, 2021, we had no single property with a carrying amount of 15% or more of our total assets.

Owned Properties

As of the Latest Practicable Date, we owned land use rights with respect to (i) three parcels of land located in Ganzhou City, Jiangxi Province used for the operation of our high-performance NdFeB PM production and sales business, with a total site area of approximately 189,158.0 sq.m.; (ii) one parcel of land in Baotou City, Inner Mongolia Autonomous Region with a total site area of approximately 120,136.2 sq.m., on which we were constructing our Baotou Production Base; and (iii) one parcel of land in Ningbo City, Zhejiang Province with a total site area of approximately 108,415.0 sq.m., on which we planned to construct our Ningbo Production Base.

As of the Latest Practicable Date, we had obtained 25 building ownership certificates, all of which were in relation to our properties located in Ganzhou City, Jiangxi Province and were used as industrial buildings and ancillary buildings, such as office and dormitory. The GFA for these properties amounted to approximately 120,308.6 sq.m.

Our PRC Legal Advisor has confirmed that we have obtained the proper land use rights certificates and building ownership certificates for our land and buildings located in the PRC, we are entitled to use the abovementioned land, and we legally own all abovementioned buildings.

Leased Properties

As of the Latest Practicable Date, we leased five properties in China with a GFA of approximately 4,438.3 sq.m from Independent Third Parties. Such leased properties were mainly used as the electroplating workshop for our Baotou Production Base, and offices. We also leased a few properties located in Hong Kong, the U.S., Europe and Japan, with a total GFA of approximately 911.2 sq.m. used as offices of our overseas subsidiaries.

BUSINESS

The lease agreements for properties that we leased in the PRC had not completed lease registration with the relevant government authorities. As advised by our PRC Legal Advisor, according to PRC law, the non-registration of lease agreements will not affect the validity of such lease agreements, but the relevant local housing administrative authorities can require us to complete registrations within a specified time frame and we may be subject to a fine between RMB1,000 and RMB10,000 per lease for any delay in making such registrations. As of the Latest Practicable Date, we were not subject to any penalties arising from the non-registration of lease agreements.

LICENSES AND PERMITS

We are required to obtain certain licenses and permits from the relevant government authorities for the conduct of our business. Please refer to the section headed “Regulatory Overview” in this prospectus for details of such licenses and permits.

The following table sets forth certain licenses and permits we had obtained as of the Latest Practicable Date:

<u>License/Permit</u>	<u>License/Permit Holder</u>	<u>Issuing Authority</u>	<u>Date of Grant/Issue</u>	<u>Expiry Date</u>
Pollutant Discharge Permit (排污許可證)	Our Company	Ecological Environment Bureau of Ganzhou, Ganzhou Economic and Technological Development District Branch (贛州市生態環境局贛州經濟技術開發區分局)	May 11, 2020	May 10, 2023
	Jingli Magnetic Material	Ecological Environment Bureau of Ganzhou, Zhanggong District (贛州市章貢生態環境局)	December 22, 2020	December 21, 2025
	Jinli Bonded Magnet	Ecological Environment Bureau of Ganzhou, Ganzhou Economic and Technological Development District Branch (贛州市生態環境局贛州經濟技術開發區分局)	June 10, 2020	June 9, 2023

As advised by our PRC Legal Advisor, during the Track Record Period and up to the Latest Practicable Date, except for the drainage permit for discharging sewage as described in “– Legal Proceedings and Compliance – Non-compliance – Drainage permit for discharging sewage”, we had obtained all requisite licenses and permits from the relevant government authorities that were material for our business operations and such licenses and permits remained in full force and effect. We have obtained the drainage permit for discharging sewage on September 2, 2021. Our licenses and permits are subject to periodic review and renewal.

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During the Track Record Period, we had not experienced any refusal of renewal of our licenses and permits that were necessary for our business operations, and we do not expect to have any material difficulty in renewing them when they expire in the future.

AWARDS AND RECOGNITIONS

During the Track Record Period, we were recognized for the quality of our products and certain other achievements by third party companies, institutions, media organizations and local government. The table below sets out some of the major awards and recognitions we have received.

Awarding Year	Award/Certificate	Awarded Entity	Issuing Organization
2015-2020	Quality Credit AAAAA Supplier	The Company	Goldwind
2018	Jiangxi Provincial-Level Science and Technology Progress Award	The Company	People's Government of Jiangxi Province
2018	Excellent Supplier	The Company	Bosch Group
2019	Best Integrity & Contribution Award	The Company	Shanghai Highly
2019	China Social Responsibility Contribution Enterprise	The Company	International Financial News
2019	Star of Investor Relations Management	The Company	The Economic Observer
2019	The 15th Outstanding Board of Directors of Chinese Listed Companies	The Board of the Company	Directors & Boards Magazine
2019	IPO New Star Award of Chinese Listed Companies	The Company	Securities Times
2019	2019 Quality Award by the Mayor of Ganzhou City	The Company	Municipal People's Government of Ganzhou
2019	Ten-Year Strategic Cooperation Award	The Company	CRRC Zhuzhou Electric Co., Ltd.
2020	The 11th Tianma Award for Board of Directors on GEM-listed Companies with the Best Investor Relation in China	The Company	Securities Times
2020	The 15th Survey and Selection of Competitiveness and Credibility of Chinese Listed Companies-Best GEM Listed Company	The Company	Chinese Securities Journal
2020	Long-term Cooperation Award	The Company	Goldwind
2020	VE Proposal Award	The Company	Guangzhou Mitsubishi
2020	Excellent Supplier for Efficiency Improvement	The Company	Midea
2021	The 16th Outstanding Board of Directors of Chinese Listed Companies	The Board of the Company	Directors & Boards Magazine

INTERNAL CONTROLS AND RISK MANAGEMENT

We are exposed to various risks in our operations. Please refer to the section headed “Risk Factors” in this prospectus for a discussion of various operational risks and uncertainties we face. It is the responsibility of our Board of Directors to ensure that our Group maintains sound and effective internal controls to safeguard the Shareholders’ investments and our Group’s assets at all times. We have adopted a series of internal control policies and procedures designed to achieve effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Highlights of our internal control system include the following:

Financial Reporting Risk Management

We have in place a set of policies in connection with our financial reporting risk management, such as financial system management and internal audit management. We also have procedures in place to implement such policies, and our financial department prepares and reviews our management accounts following such procedures. We require staff in our financial department to have requisite qualifications and experience. In addition, we provide trainings to our financial department staff to ensure they understand our relevant policies and procedures.

Regulatory Compliance Risk Management

After Listing, we may be exposed to the risks of non-compliance with the Listing Rules. We will continue to maintain a list of certificates, licenses and filings that are required for our operations and will update this list from time to time based on our consultation with local authorities and advice from our external advisers. We have adopted various policies to ensure compliance with the Listing Rules, including but not limited to aspects related to corporate governance, connected transactions, notifiable transactions, inside information and securities transactions by our Directors. We have established an Audit Committee with written terms of reference in compliance with Code C.3 of the Corporate Governance Code and Corporate Governance Report as set forth in Appendix 14 to the Listing Rule. The Audit Committee and one of our executive Directors will supervise the implementation of our internal control measures in order to better monitor our daily operations from the perspective of compliance with applicable rules and regulations. We will appoint a compliance adviser to advise us on compliance matters in relation to the Listing Rules. All Directors and employees will be required to attend training to refresh their understanding of relevant regulatory requirements and our policies at least annually. We will also retain legal advisers to advise us on compliance with applicable laws and regulations of Hong Kong and the PRC mainland.

Operational Risk Management

Our senior management is responsible for overseeing our operations and assessing the operational risks of our business. They are responsible for implementing our internal policies and procedures and reporting any irregularities discovered to our executive Directors.

Market Risks Management

Our Company is exposed to general market risks related to changes in the PRC macroeconomic environment, government policies and movements in market variables and interest rates, and other market changes. Our executive Directors and senior management are responsible for identifying and assessing potential market risks and from time to time formulating policies to mitigate these market risks. Such risk has been covered by our Company's overall risk control policies and procedures.

We have engaged an internal control consultant to review the effectiveness of our internal controls associated with our major business processes, identify deficiencies and improvement opportunities, provide recommendations on remedial actions and review the implementation status of these remedial actions. During the review process of our internal control consultant, certain internal control matters were identified and we have adopted corresponding internal control measures to improve on these matters. We have adopted the recommendations made by the internal control consultant and our internal control consultant has completed the follow-up procedures on our internal control system with regard to those actions taken by us and have not identified any material deficiencies in our internal control system.

In addition, as part of our risk management measures, we have implemented specific measures against corruption and bribery. We require our employees, especially those involved in procurement, distribution and sales, and other business functions which are more susceptible to bribery and corruptions, to abide by our compliance requirements, and make necessary representations and warranties to the Company. We have provided and will provide regular anti-corruption and anti-bribery compliance training for our Directors, senior management and sales employees in order to enhance their knowledge and compliance of applicable laws and regulations. We also communicate our anti-bribery and anti-corruption principles to our customers and suppliers. We have established a system of supervision that allows complaints and reports to be submitted to management regarding non-compliant behavior of our employees and external customers and suppliers.

LEGAL PROCEEDINGS AND COMPLIANCE**Legal Proceedings**

We may from time to time be subject to various legal or administrative proceedings arising in the ordinary course of business such as proceedings in respect of disputes with suppliers or customers, labor disputes or infringement of intellectual property rights. During the Track Record Period and up to the Latest Practicable Date, we were not aware of any current, pending, or threatened material litigation, arbitration proceedings, or administrative proceedings against us, any of our subsidiaries, or any of our Directors or senior management that could have a material adverse effect on our business, financial condition and results of operations, nor have we experienced any incident of non-compliance which, in the opinion of our Directors, is likely to materially and adversely affect our business, financial condition or results of operations.

Non-compliance

Save for the following historical non-compliance incidents, our Directors are not aware of any material non-compliance of our Group with the applicable laws and regulations during the Track Record Period and up to the Latest Practicable Date.

Social Insurance and Housing Provident Fund Contributions

During the Track Record Period, certain members of our Group in the PRC did not make full contributions to the social insurance and housing provident funds for their employees primarily because (i) the relevant employees were unwilling to contribute to such funds in full; and (ii) these entities did not implement the relevant regulatory requirements strictly. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, the outstanding amount of social insurance and housing provident funds was RMB0.4 million, RMB1.7 million, RMB4.6 million and RMB4.4 million, respectively, which was lower than 0.5% of our revenue for each period of the Track Record Period, respectively.

As advised by the PRC Legal Advisor, (i) failure to make full contributions to the social insurance fund may lead to government authorities' requests for rectification, overdue charges and government fines; and (ii) failure to make full contributions to the housing provident fund may lead to government authorities' requests and court orders for rectification. As of the Latest Practicable Date, we had not been subject to any of such requests, orders, charges or fines.

Most of the relevant employees affected were based in our headquarters in Ganzhou while others are in Baotou and Ningbo where we were constructing or plans to construct new production bases. Human Resources and Social Security Bureau of Ganzhou Economic and Technological Development Zone, Ganzhou Human Resources and Social Security Bureau, Sub-center directly under Ganzhou Housing Provident Fund Management Center, Baotou Rare Earth High-tech Industrial Development Zone Social Insurance Center and Baotou Housing Provident Fund Management Center issued written confirmations in July 2021 that our operating entities in these locations had made adequate contributions to the funds in accordance with local standards for their employees during the Track Record Period and up to the date of these confirmations. As advised by our PRC Legal Advisor, the aforementioned government authorities are the competent local authorities to issue such confirmations in respect of social insurance and housing provident fund contribution affairs to our Company, Jinli Magnetic Material, JL Bonded Magnet and JLMAG Baotou. In Ningbo where we had only six relevant employees affected as of the Latest Practicable Date, Human Resources and Social Security Bureau of Ningbo Jiangbei District and Ningbo Housing Provident Fund Management Center also issued written confirmations in July 2021 that we had made the relevant contributions and had not been penalized due to any non-compliance with application regulations during the Track Record Period and up to the date of these confirmations. As advised by our PRC Legal Advisor, the aforementioned government authorities are the competent local authorities to issue such confirmations in respect of social insurance and housing provident contribution fund affairs to JL MAG Ningbo Technology. Accordingly, we have not made any provision for potential economic losses that may arise from the foregoing. See "Risk Factors – Risk Relating to Our Business and Industry – Our non-compliance with certain laws and regulations regarding social insurance and housing provident funds in the PRC could lead to the imposition of fines and penalties on us."

We have implemented relevant internal control measures to ensure that we will make full contributions in relation to the social insurance and housing provident funds. We have established internal policy about social insurance and housing provident funds under the Labor Law of the PRC and related regulations to monitor our compliance with such laws and regulations. Since May 2021, we have been in the process of reviewing the calculation result of social insurance and housing provident funds for all eligible employees. Based on the communications with the relevant government authorities, the adjustment of the contribution base is usually made in a designated time each year and such time varies in different regions. As such, we expect to start making full contributions of social insurance and housing provident funds for all of our employees on an adjusted contribution base gradually by July 2022. In the future, we will communicate with local human resources, social insurance bureau and housing provident fund management center on a regular basis to ensure we acquire the most updated information about the relevant laws and regulations.

Drainage Permit for Discharging Sewage

During the Track Record Period, we did not obtain the drainage permit for discharging sewage of our operations into urban drainage. Pursuant to Regulation on Urban Drainage and Sewage Treatment (《城鎮排水與污水處理條例》) and Administrative Measures for the Licensing of Discharge of Urban Sewage into the Drainage Network (《城鎮污水排入排水管網許可管理辦法》), we are required to obtain the drainage permit for discharging sewage, otherwise we may be ordered by the competent authority to cease discharging sewage, take rectificatory measures within a specified time period and to complete the formalities for obtaining the permit for discharging sewage into drainage pipelines, and may be imposed a fine no more than RMB500,000, or be liable for compensation legally thereon. For details, please refer to “Regulatory Overview – Laws and Regulations relating to our Business and Operations – Regulations on Environmental Regulations – Regulations on pollution permit and drainage permit” in this prospectus.

Such non-compliance occurred because the staff who was formerly in charge of this matter did not fully understand the regulatory requirement. We have enhanced relevant internal control measures, including ensure staff in charge fully understand applicable environmental laws and regulations through regular trainings and studies, and assign designated department to review environment-related risk management and control on a regular basis. In July 2021, we applied for the drainage permit for discharging sewage of our operations into urban drainage. Administrative Approval Bureau of Ganzhou Economic and Technological Development Zone accepted our application in July 2021, and Ganzhou Economic Development Zone Branch of Ganzhou City Administration and Ganzhou City Zhanggong District City Administration confirmed that during the Track Record Period and up to the date of such confirmation, we had neither committed any material breach of the laws and regulations in respect of urban management nor been subject to any penalty. As advised by our PRC Legal Advisor, the aforementioned governmental authorities are the competent local authorities to issue such confirmation in respect of city administration affairs to our Company. We have obtained the drainage permit for discharging sewage on September 2, 2021. Therefore, our Directors are of the view that such non-compliance does not have material and adverse impact on our business operation and financial performance.

REGULATORY OVERVIEW

We are subject to a variety of PRC laws, rules and regulations affecting many aspects of our business. This section summarizes the principal PRC laws, rules and regulations that we believe are relevant to our business and operations.

LAWS AND REGULATIONS RELATING TO OUR BUSINESS AND OPERATIONS

Industry policy

Domestic industry has been principally governed by the guidelines on related industrial structure issued by National Development and Reform Commission of the People's Republic of China ("NDRC"). Pursuant to the Catalogue for Guiding Industry Restructuring (2019 Version) issued by NDRC on March 27, 2011 and amended on February 16, 2013 and October 30, 2019, the manufacture of rare earth permanent magnets belongs to national encouragement industry.

Government approval on investment project

Our investment project in PRC are currently subject to scrutiny or approval by competent authority as designated by local provincial government. Pursuant to the Notice of the State Council on issuing the Catalog of Investment Projects Subject to Government Confirmation (2016) which was issued by the State Council on December 12, 2016 and became effective on the same date, rare earth refining and separation projects, rare earth deep-processing projects are subject to approval of the provincial governments. In respect of projects subject to approval of the local governments, all provincial-level governments may, based on the local actual circumstances, according to the principle of delegation level matching undertaking capability, specifically divide the administration powers of the local governments at all levels, and develop unified catalogs of investment projects subject to government confirmation within their respective administrative regions.

Regulations on Safety Production Management

Pursuant to the Law on Work Safety of the PRC (《中華人民共和國安全生產法》) which was effective on November 1, 2002 and amended on August 27, 2009 and August 31, 2014 respectively, enterprises engaged in production activities must strengthen safety production management, establish and improve the responsibility system for safe production and ensure a safe production environment. The state establishes and implements a system for the accountability of production safety accidents. If the company fails to comply with the provisions of the Law on Work Safety, the supervisory authority on production safety may issue a rectification order, impose a fine, order the company to cease production and operation, or revoke the relevant permit; and if the violation constitutes any crime, the company may be subject to criminal liability.

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Pursuant to the Regulations on Safety Management of Hazardous Chemicals (《危險化學品安全管理條例》) which was promulgated by the State Council on January 26, 2002, effective on March 15, 2002 and amended on March 2, 2011 and December 7, 2013 respectively, the institutions which engage in production, storage, use, operation, and transportation of hazardous chemicals (“**hazardous chemicals institution**”) must comply with the safety management regulations. The hazardous chemical shall oblige to the safety conditions required by laws and administrative regulations and state and industry standards, establish and improve safety management rules and post safety responsibility systems, and provide safety education and legal education and occupation technical training for employees. Employees should accept such education and training and may begin working only after qualifying the relevant assessment. Where it requires employees to have certain qualification to assume a post, an enterprise shall only designate employees having such qualification to assume the post. The enterprises that use hazard chemicals for production should entrust institutions, with qualification required by the State, to conduct the safety assessment for its safety conditions of manufacturing once every three years, provide safety assessment reports, and file the safety assessment reports and the implementation of the rectification schedule to the production safety supervision and administration departments of local people’s governments at county level for record.

Regulation on Import and Export of Goods

Import and export goods

Pursuant to the Provisions of Customs of the PRC on the Administration of Registration of Customs Declaration Entities (《中華人民共和國海關報關單位註冊登記管理規定》) (Order No. 221 of the General Administration of Customs) issued by the General Administration of Customs on March 13, 2014 and amended on December 20, 2017 and May 29, 2018, any customs declaration entity which provides customs declaration services shall register with the customs office. The registration of a customs declaration entity comprises the registration of the customs declaration enterprise and the registration of the consignor or consignee of imported and exported goods. Only after obtaining business registration license from local customs or its authorized subordinate, may a customs declaration enterprise complete the registration of a customs declaration entity. A consignee or consignor of imported/exported goods may directly complete the registration procedure with the local customs office. A customs declaration entity should submit the Annual Report on the Registration Information of Customs Declaration Entities to the customs office where such entity registered before June 30 of each year. Unless otherwise provided by the customs, the Certificate of the Customs of the People’s Republic of China on the Registration of Customs Declaration Entities to the consignors and consignees of imported and exported goods should be effective permanently.

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Regulations on Product Liability

Pursuant to the Product Quality Law (《中華人民共和國產品質量法》) promulgated on February 22, 1993 and latest amended on December 29, 2018 by the Standing Committee of the National People's Congress of the People's Republic of China (the "SCNPC"), producers and sellers who engage in production and marketing activities, shall have their own proper regulations for the management of product quality, rigorously implementing post-oriented quality regulations, quality liabilities and relevant measures for their assessment, and be responsible for the quality of the product. The market regulatory authorities of the State Council are responsible for the supervision and administration of the quality of products of the whole country, local market regulatory authorities at and above the county level are responsible for the supervision of product quality within their own administrative jurisdictions. The market regulatory authorities, with respect to product quality, adopted supervision and inspection systems with random inspection system as the main method. Where any product is found to be unqualified, the manufacturer or seller may be ordered to make corrections within the time limit, suspend business, rectifications within the time limit or the business license may be revoked by the market regulatory authority. Where consumers suffer personal injury or property damage due to the quality of products, producers and sellers may be liable for compensating for losses.

The Law of the PRC on the Protection of the Rights and Interests of Consumers (《中華人民共和國消費者權益保護法》) was promulgated on October 31, 1993 and was amended on August 27, 2009 and October 25, 2013, to protect consumers' rights when they purchase or use goods and accept services. All business operators must comply with this law when they manufacture or sell goods and/or provide services to customers. Consumers suffering personal injury or property damage due to production defects may be compensated in accordance with the law. After paying compensations, sellers have the right to recover the losses from the liable producers.

Regulations on Environmental Regulations

Environmental protection

The Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) which was promulgated by the SCNPC and became effective on December 26, 1989, and latest amended on April 24, 2014, provided that the environmental protection administrative department generally supervised and administered the national environmental protection work, including issuing the environmental quality standards, emission standards, conduct environmental protection supervision administration and other aspects. Environmental protection administrative departments of State Council and local people's government are responsible for the environmental protection work of the whole country and their own administrative jurisdictions respectively. Therefore, the concerned enterprises must comply with both the national environmental protection standards and local environmental protection standards.

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Prevention and control pollution

Water Pollution Prevention and Control Law of the PRC (《中華人民共和國水污染防治法》), which was amended by SCNPC on June 27, 2017 and became effective on January 1, 2018, and Atmospheric Pollution Prevention and Control Law of the PRC (《中華人民共和國大氣污染防治法》), which was amended by SCNPC and became effective on October 26, 2018, and Law of the PRC on Prevention and Control of Pollution from Environmental Noise (《中華人民共和國環境噪聲污染防治法》), which was amended by SCNPC and became effective on the December 29, 2018, as well as Law of the PRC on the Prevention and Control of Environment Pollution Caused by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》), which was amended by SCNPC on April 29, 2020 and became effective on September 1, 2020, prescribe the details for the prevention and control water pollution, atmospheric pollution, noise pollution and solid waste pollution.

Environmental Assessment and Acceptance of Environmental Protection Facilities

Pursuant to the Law of Environmental Impacts of the PRC (《中華人民共和國環境影響評價法》) which was effective on September 1, 2003 and amended on July 2, 2016 and December 29, 2018, Regulations on the Administration of Construction Project Environmental Protection (《建設項目環境保護管理條例》) (Order No. 253 of the State Council) issued by the State Council on November 29, 1998 and amended on July 16, 2017 and interim Measures for the Administration of Environmental Protection Acceptance of Completed Construction Projects (《建設項目竣工環境保護驗收暫行辦法》) (Order No. 4 of the State Environmental Protection Administration) promulgated by the State Environmental Protection Administration on November 20, 2017 and became effective on the same day, where effects may be exerted on the environment after the implementation of construction projects, the construction enterprise shall submit an environmental impact report (form) or environmental impact registration form to the relevant environmental protection department. For a project where the preparation of environmental impact report (form) is required by law, its environmental impact assessment documents shall be approved by the relevant environmental protection department; otherwise it shall not start the construction. After the construction project is completed, the construction entity shall apply for environmental protection acceptance of the construction project and prepare acceptance report pursuant to the standard and formality set by the environmental protection authority. The construction project may not be put into production or use until the constructed supporting environmental protection facilities pass the acceptance.

Regulations on Pollution Permit and Drainage Permit

Regulation on the Administration of Permitting of Pollutant Discharges promulgated by the State Council on January 24, 2021 and became effective on March 1, 2021 provided that, enterprises, public institutions or any other producers and operators which are subject to the administration of permitting of pollutant discharges under the law shall apply for pollutant discharge permits under the provisions of this Regulation; those pollutant-discharging entities which have not obtained pollutant discharge permits shall not be allowed to discharge

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pollutants. Measures for Pollutant Discharge Permitting Administration (For Trial Implementation) (《排污許可管理辦法(試行)》) (Order No. 48 of the Ministry of Environmental Protection), which was issued by the Ministry of Environmental Protection on January 10, 2018 and amended on August 22, 2019, prescribes the specific measures for application, issue and implementation of pollution discharge permits and supervision and punishment relating to pollute discharge permitting. Pursuant to the Measures for Pollutant Discharge Permitting Administration (For Trial Implementation), enterprises, institutions and other producers and operators (“pollutant discharging entities”) on the classification administration list of pollutant discharge permitting for fixed pollution sources, shall apply for and obtain a pollutant discharge permit in accordance with the prescribed application time limit; and those not on the list are not need to apply for a pollutant discharge permit temporarily.

Pursuant to the Notice of the General Office of the State Council on Issuing the Implementation Plan for the Permit System for Controlling Pollutants Emission (Guobanfa No. 81 [2016]) promulgated by the State Council on November 10, 2016 and the Catalogue of Classification Management for Fixed rare earth permanent magnets Source Pollution Permits (2019 version) (《固定污染源排污許可分類管理名錄》) (Order No. 11 of the Ministry of Ecology and Environment) promulgated by the Ministry of Ecology and Environment on December 20, 2019, the state implements a focused management and a simplification of emission permits based on the pollutant-discharging enterprises and other manufacturing businesses’ amount of pollutants, emissions and the extent of environmental damage. The manufacture of rare earth permanent magnets is the industry which shall obtain the pollutant discharge permit in accordance with the prescribed application time limit.

Pursuant to Regulation on Urban Drainage and Sewage Treatment (《城鎮排水與污水處理條例》) (Order No. 641 of the State Council of the PRC) issued by the State Council on October 2, 2013 and became effective on January 1, 2014 and Administrative Measures for the Licensing of Discharge of Urban Sewage into the Drainage Network (《城鎮污水排入排水管網許可管理辦法》) (Order No. 21 of the Ministry of Housing and Urban-Rural Development) issued by Ministry of Housing and Urban-Rural on January 22, 2015 and became effective on March 1, 2015, the discharge of sewage into urban drainage facilities should be subject to the supervision and administration. Any entity who engages in industry, construction, catering, medical services and other activities without the permit for discharging sewage, shall not discharge sewage into urban drainage. Otherwise the entity may be ordered, by the competent urban drainage department, to cease the illegal act, take control measures within a specified time limit and to complete the formalities for a permit for discharging sewage into drainage pipelines, and may be imposed a fine of not more than RMB500,000, or be liable for compensation legally thereon, and if the illegal act constitutes any crime, the entity may be subject to criminal liability.

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Regulations on Labor and Employment

The Labor Contract Law of the PRC (《中華人民共和國勞動合同法》) which was promulgated by SCNPC and became effective on January 1, 2008 and amended on December 28, 2012 as well as the Regulations on Implementation of the Labor Contract Law of the PRC (《中華人民共和國勞動合同法實施條例》) which was effective on September 18, 2008, provide for the establishment of labor relationship between employers and employees, as well as the concluding, performance, dissolution and revision of the labor contracts. To establish a labor relationship, a written labor contract shall be signed. In the event that no written labor contract is signed at the time when a labor relationship is established, such contract shall be signed within one month from the date on which such employee commence to work.

Pursuant to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) which was promulgated by the SCNPC, became effective on July 1, 2011 and amended on December 29, 2018, Interim Regulations on Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) (Order No. 259 of the State Council) promulgated by the State Council on January 22, 1999, effective on the same date and amended on March 24, 2019, Trial Measures for Enterprise Staff Maternity Insurance (《企業職工生育保險試行辦法》) (No. 504 [1994] Ministry of Labor) promulgated by the Ministry of Labor on December 14, 1994 and effective on January 1, 1995, Regulations on Work-Related Injury Insurance (《工傷保險條例》) (Order No. 375 of the State Council) promulgated by the State Council on April 27, 2003, effective on January 1, 2004 and amended on December 20, 2010 and Regulations on Housing Provident Fund (《住房公積金管理條例》) (Order No. 262 of the State Council) promulgated by the State Council on April 3, 1999 and amended on March 24, 2002 and March 24, 2019, employing entity must pay basic pension insurance, unemployment insurance, basic medical insurance, work-related injury insurance, maternity insurance and housing provident fund for its employees. If an employing entity fails to go through the formalities or does not pay the full amount as scheduled, the relevant administration department shall order it to make rectification or make up the payment within the prescribed time limit. If the rectification for social insurance registration is not made within the stipulated period, the employing entity shall be imposed a fine. If the payment for social insurance premium is not made within the stipulated period, the relevant administration department shall impose a fine on the employing entity. If an employing entity fails to undertake payment and deposit registration of housing provident fund or fails to go through the formalities of opening housing provident fund account for its employees by the expiration of time limit, a fine shall be imposed. If an employing entity fails to make the payment and deposit of the housing provident fund within the prescribed period, an application may be made to the people's court for compulsory enforcement.

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Regulations on Foreign Investment

Foreign Investment

Investment activities in the PRC by foreign investors were principally governed by the Catalogue of Industries for Guiding Foreign Investment (《外商投資產業指導目錄》) (the “Catalogue”) issued and amended from time to time by the Ministry of Commerce (the “MOFCOM”) and National Development and Reform Commission (“NDRC”). The latest effective Catalogue came into effect on July 28, 2017 and was partially abolished by the Special Administrative Measures (“Negative List”) for Access of Foreign Investment (2021 version) (《外商投資准入特別管理措施(負面清單)(2021年版)》), (the “Negative List”), and Catalogue of Industries for Encouraging Foreign Investment (《鼓勵外商投資產業目錄(2020年版)》) (the “Encouraging List”). Industries listed in Catalogue are divided into three categories: “encouraged”, “restricted” and “prohibited”. The Negative List, which will come into effect on January 1, 2022, sets out special administrative measures in respect of the access of foreign investments in a centralized manner, and the Encouraging List which came into effect on January 27, 2021, sets out the encouraged industries for foreign investment.

Foreign-Invested Enterprises

On December 29, 1993, the SCNPC issued the PRC Company Law (《中華人民共和國公司法》) (the “Company Law”), which was amended on October 26, 2018. The Company Law regulates the establishment, operation and management of corporate entities in China and classifies companies into limited liability companies and limited companies by shares.

According to the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) (the “Foreign Investment Law”) promulgated by the SCNPC on March 15, 2019 and came into effect on January 1, 2020, the state shall implement the management systems of pre-establishment national treatment and negative list for foreign investment, and shall give national treatment to foreign investment beyond the negative list. Simultaneously, Sino-foreign Equity Joint Ventures of the PRC (《中華人民共和國中外合資經營企業法》), the Wholly Foreign-owned Enterprises Law of the PRC (《中華人民共和國外資企業法》) and Sino-foreign Cooperative Joint Ventures of the PRC (《中華人民共和國中外合作經營企業法》) have been repealed since January 1, 2020.

In December 26, 2019, the State Council promulgated the Regulations on Implementing the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》) (“the Regulations on Implementing the Foreign Investment Law”), which came into effect in January 2020. After the Regulations on Implementing the Foreign Investment Law of the PRC came into effect, the Regulation on Implementing the Sino-Foreign Equity Joint Venture of the PRC (《中華人民共和國中外合資經營企業法實施條例》), Provisional Regulations on the Duration of Sino-Foreign Equity Joint Venture (《中外合資經營企業合營期限暫行規定》), the Regulations on Implementing the Wholly Foreign-owned Enterprise Law (《中華人民共和國外資企業法實施細則》), Detailed Rules for the Implementation of the Law of the People’s

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Republic of China on Chinese-Foreign Contractual Joint Ventures (《中華人民共和國中外合作經營企業法實施細則》) have been repealed at the same time. According to the Foreign Investment Law and the Regulations on Implementing the Foreign Investment Law, the state applies the administrative system of pre-establishment national treatment plus negative list to foreign investment, and the state accords national treatment to foreign investment outside of the negative list, and a foreign investor and foreign-funded enterprise could conduct investing activities in the territory of PRC legally.

On December 30, 2019, the MOFCOM and the SAMR issued the Measures for the Reporting of Foreign Investment Information (《外商投資信息報告辦法》), which came into effect on January 1, 2020 and replaced the Interim Measures for the Recordation Administration of the Incorporation and Change of Foreign-Invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法》), for carrying out investment activities directly or indirectly in PRC, the foreign investors or foreign-invested enterprises shall submit investment information to the commerce authorities pursuant to these measures.

Regulations on Overseas Investment

Pursuant to the Measures for the Administration of Overseas Investment (《境外投資管理辦法》) (Order No. 3 [2014] of the MOFCOM) which was issued by the MOFCOM on March 16, 2009 and amended on September 6, 2014, the MOFCOM and the commerce departments at provincial levels shall subject the overseas investment of enterprises to recordation or confirmation management, depending on the actual circumstances of investment. Overseas investment involving any sensitive country or region, or any sensitive industry shall be subject to confirmation management. Overseas investment under other circumstances shall be subject to recordation management.

Pursuant to the Measures for the Administration of Overseas Investment of Enterprises (《企業境外投資管理辦法》) (Order No. 11 of the NDRC) which was issued by the NDRC on December 26, 2017 and became effective on March 1, 2018, an enterprise in the territory of the PRC (“the investor”) shall, in overseas investment, undergo the formalities for the confirmation or recordation, among others, of an overseas investment project (“the project”), report the relevant information, and cooperate in supervisory inspection. Sensitive projects conducted by investors directly or through overseas enterprises controlled by them shall be subject to confirmation management. Non-sensitive projects directly conducted by investors, namely, non-sensitive projects involving investors’ direct contribution of assets or rights and interests or provision of financing or security, shall be subject to recordation management. The aforementioned sensitive project means a project involving a sensitive country or region or a sensitive industry. The NDRC promulgated the Catalogue of Sensitive Sectors for Outbound Investment (2018 Edition) (《境外投資敏感行業目錄(2018年版)》), effective on March 1, 2018, to list the sensitive industries in detail.

Regulations on Intellectual Property

Patent

Patents are protected by the Patent Law of the PRC (《中華人民共和國專利法》) (“**the Patent Law**”), which was issued by the SCNPC on March 12, 1984, latest amended on October 17, 2020 and came effective on June 1, 2021, as well as by the Implementation Regulations for the Patent Law of the PRC (《中華人民共和國專利法實施細則》) issued by the State Council on June 15, 2001, came into effect on July 1, 2001 and revised on December 28, 2002 and January 9, 2010. The patent administrative departments are responsible for the management of patent affairs. According to the Patent Law, inventions refer to inventions, utility models and designs. An invention or utility model for which patent rights are granted shall reach the standards of novelty, creativity and practicability. The validity period of patent for an invention is 20 years, and the validity period of patent for a utility model is 10 years, while the validity period of patent for a design is 15 years, all counted from the date of application. Others may use the patent after obtaining the permit of the patent holder, otherwise such behavior will constitute patent infringement.

Examination and Approval of Patent Applications

For inventions:

- (i) Preliminary examination and announcement. If the patent application is found to be in compliance with the requirements of Patent Law after preliminary examination, the patent administrative authorities of the State Council shall announce the application once the period of 18 months from the date of application has expired, after receiving a patent application for an invention. The patent administrative authorities of the State Council may announce the application earlier upon request by the applicant.
- (ii) Substantial examination. The patent administrative authorities of the State Council may, within three years from the date of patent application for an invention, conduct substantial examination of the application upon request by the applicant at any time; where an applicant fails to request for substantial examination within the stipulated period without a justifiable reason, the application shall be deemed as withdrawn. After substantial examination of a patent application for an invention by the patent administrative authorities of the State Council, if the application is found not to be in compliance with the provisions of Patent Law, the applicant shall be notified and asked to state opinions or make amendments to the application within a stipulated period; where the applicant fails to reply within the stipulated period without a justifiable reason, the application shall be deemed as withdrawn.

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- (iii) Granting patent rights or rejecting patent application. Where a patent application for an invention has undergone substantial examination and no reason for rejection is found, the patent administrative authorities of the State Council shall decide to grant patent rights to the invention, issue a patent certificate for the invention, and concurrently carry out registration and announcement. The patent rights for an invention shall be effective from the date of announcement. Where the patent administrative authorities of the State Council still find the application not to be in compliance with the provisions of patent Law after the applicant has stated opinions or made amendments to the patent application for an invention, the application shall be rejected. The patent administrative authorities of the State Council shall establish a patent review committee. Where an applicant disagrees with the decision of the patent administrative authorities of the State Council rejecting his/her application, he/she may submit a request for review to the patent review committee within three months from the date of receipt of notification. The patent review committee shall make decisions after review and notify the applicant for patent. Where the applicant for patent disagrees with the review decision of the patent review committee, he/she may file a lawsuit with competent People's Court within three months from the date of receipt of notification.

For utility models and designs, where a patent application for a utility model or a design has undergone preliminary examination and no reason for rejection is found, the patent administrative authorities of the State Council shall decide to grant patent rights to the utility model or the design, issue the corresponding patent certificate, and concurrently carry out registration and announcement. The patent rights for a utility model or a design shall be effective from the date of announcement.

Trademark

Pursuant to the Trademark Law of the PRC (《中華人民共和國商標法》) which was promulgated by the SCNPC on August 23, 1982 and latest amended on April 23, 2019 with its amended terms effective on November 1, 2019 and the Implementation Rules of the Trademark Law of the PRC (《中華人民共和國商標法實施條例》) which was promulgated by the State Council on August 3, 2002, amended on April 29, 2014 and effective on May 1, 2014, trademarks are registered with the Trademark Office of the State Administration for Market Regulation. The Trademark Law adopts the principle of “first to file” in handling trademark registration. Where registration is sought for a trademark that is identical or similar to another trademark which has already been registered or pending in application for use in the same or similar category of commodities or services, the application for registration of such trademark may be rejected. Trademark registrations are effective for a renewable ten-year period, unless otherwise revoked. Trademark license agreements must be filed with the Trademark Office. The licensor shall supervise the quality of the commodities on which the trademark is used, and the licensee shall guarantee the quality of such commodities.

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Domain Name

In accordance with the Measures for the Administration of Internet Domain Names (《互聯網域名管理辦法》) which was issued by the Ministry of Information Industry on August 24, 2017 and came into effect on November 1, 2017, the Ministry of Information Industry is responsible for supervision and administration of domain name services in the PRC. Communication administrative bureaus at provincial levels shall conduct supervision and administration of the domain name services within their respective administrative jurisdictions. Domain name registration services shall, in principle, be subject to the principle of “first apply, first register”. A domain name registrar shall, in the process of providing domain name registration services, ask the applicant for which the registration is made to provide authentic, accurate and complete identity information on the holder of the domain name and other domain name registration related information.

Taxation of Security Holders

The taxation of income and capital gains of holders of H Shares is subject to the laws and practices of the PRC and of jurisdictions in which holders of H Shares are residents or otherwise subject to tax. The following summary of certain relevant taxation provisions is based on current effective laws and practices, and no predictions are made about changes or adjustments to relevant laws or policies, and no comments or suggestions will be made accordingly. The discussion has no intention to cover all possible tax consequences resulting from the investment in H Shares, nor does it take the specific circumstances of any particular investor into account, some of which may be subject to special regulations. Accordingly, you should consult your own tax advisor regarding the tax consequences of an investment in H Shares. The discussion is based upon laws and relevant interpretations in effect as of the date of this Prospectus, which is subject to change or adjustment and may have retrospective effect. No issues on PRC or Hong Kong taxation other than income tax, capital appreciation and profit tax, business tax/appreciation tax, stamp duty and estate duty were referred in the discussion. Prospective investors are urged to consult their financial advisors regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H Shares.

The PRC Taxation

Taxation on Dividends

Individual Investor

Pursuant to the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》), which was most recently amended on August 31, 2018 and the Implementation Provisions of the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法實施條例》), which was most recently amended on December 18, 2018 and came into effect on January 1, 2019 (the “IIT Law”), dividends distributed by PRC enterprises are subject to individual income tax levied at a flat rate of 20%. For a foreign individual who is not a resident

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of the PRC, the receipt of dividends from an enterprise in the PRC is normally subject to individual income tax of 20% unless specifically exempted by the tax authority of the State Council or reduced by relevant tax treaty. Pursuant to the Circular on Certain Policy Questions Concerning Individual Income Tax (《關於個人所得稅若干政策問題的通知》), which was issued by the Ministry of Finance (the “MOF”) and the State Administration of Taxation (the “SAT”) on May 13, 1994 and came into effect on the same date, the incomes gained by individual foreigners from dividends and bonuses of enterprise with foreign investment are exempt from individual income tax for the time being.

Enterprise Investors

According to the Enterprise Income Tax Law of PRC (《中華人民共和國企業所得稅法》), which was promulgated by the SCNPC on March 16, 2007, implemented on January 1, 2008, and subsequently amended on February 24, 2017 and December 29, 2018 respectively, and the Implementation Rules for the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) enacted on December 6, 2007 by the State Council and became effective on January 1, 2008, and amended on April 23, 2019 (the “EIT Law”), a non-resident enterprise is generally subject to a 10% enterprise income tax on PRC-sourced income (including dividends received from a PRC resident enterprise that issues shares in Hong Kong), if it does not have an establishment or premise in the PRC or has an establishment or premise in the PRC but its PRC-sourced income has no real connection with such establishment or premise. The aforesaid income tax payable for non-resident enterprises are deducted at source, where the payer of the income is required to withhold the income tax from the amount to be paid to the non-resident enterprise.

The Circular of on Issues Relating to the Withholding and Remitting of Enterprise Income Tax by PRC Resident Enterprises on Dividends Distributed to Overseas Non-Resident Enterprise Shareholders of H Shares (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) (Guo shui [2008] No. 897), which was issued and implemented by the SAT on November 6, 2008, further clarified that a PRC-resident enterprise must withhold enterprise income tax at a rate of 10% on the dividends of 2008 and onwards that it distributes to overseas non-resident enterprise shareholders of H Shares. In addition, the Response to Questions on Levying Corporate Income Tax on Dividends Derived by Non-resident Enterprise from Holding Stock such as B Shares (《關於非居民企業取得B股等股票股息徵收企業所得稅問題的批復》) (Guo shui [2009] No. 394), which was issued by the SAT and came into effect on July 24, 2009, further provides that any PRC-resident enterprise whose shares are listed on overseas stock exchanges must withhold and remit enterprise income tax at a rate of 10% on dividends of 2008 and onwards that it distributes to non-resident enterprises. Such tax rates may be further modified pursuant to the tax treaty or agreement that China has entered into with a relevant country or area, where applicable.

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Pursuant to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) (the “the Arrangement”), which was signed on August 21, 2006 and came into effect on December 8, 2006, the PRC Government may levy taxes on the dividends paid by a PRC company to Hong Kong residents (including resident individual and resident entities) in an amount not exceeding 10% of the total dividends payable by the PRC company unless a Hong Kong resident directly holds 25% or more of the equity interest in the PRC company, then such tax shall not exceed 5% of the total dividends payable by the PRC company. The Fifth Protocol to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《<內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排>第五議定書》) issued by the SAT, which came into effect on December 6, 2019, adds a criteria for the qualification of entitlement to enjoy treaty benefits. Although there may be other provisions under the Arrangement, the treaty benefits under the criteria shall not be granted in the circumstance where relevant gains, after taking into account all relevant facts and conditions, are reasonably deemed to be one of the main purposes for the arrangement or transactions which will bring any direct or indirect benefits under this Arrangement, except when the grant of benefits under such circumstance is consistent with relevant objective and goal under the Arrangement. The application of the dividend clause of tax agreements is subject to the requirements of PRC tax law and regulation, such as the Notice of the State Administration of Taxation on the Issues Concerning the Application of the Dividend Clauses of Tax Agreements (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) (Guo Shui [2009] No. 81) promulgated on February 20, 2009.

Tax Treaties

Non-resident investors residing in jurisdictions which have entered into treaties or adjustments for the avoidance of double taxation with the PRC might be entitled to a reduction of the PRC enterprise income tax imposed on the dividends received from PRC enterprises. The PRC currently has entered into Avoidance of Double Taxation Treaties or Arrangements with a number of countries and regions including Hong Kong Special Administrative Region, Macao Special Administrative Region, Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States. Non-PRC resident enterprises entitled to preferential tax rates in accordance with the relevant taxation treaties or arrangements are required to apply to the PRC tax authorities for a refund of the corporate income tax in excess of the agreed tax rate, and the refund application is subject to approval by the PRC tax authorities.

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Taxation on Share Transfer

Income tax

Individual Investors

According to the IIT Law, gains on the transfer of equity interests in the PRC resident enterprises are subject to individual income tax at a rate of 20%.

Pursuant to the Circular on Declaring that Individual Income Tax Continues to be Exempted over Income of Individuals from the Transfer of Shares (《關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》) (Cai Shui [1998] No. 61) issued by the SAT on March 30, 1998, from January 1, 1997, income of individuals from transfer of the shares of listed enterprises continues to be exempted from individual income tax. The SAT has not expressly stated whether it will continue to exempt tax on income of individuals from transfer of the shares of listed enterprises in the latest amended IIT Law.

However, on December 31, 2009, the MOF, SAT and China Securities Regulatory Commission (the “CSRC”) jointly issued the Circular on Related Issues on Levying Individual Income Tax over the Income Received by Individuals from the Transfer of Listed Shares Subject to Sales Limitation (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知》) (Cai Shui [2009] No. 167), which states that individuals’ income from the transfer of listed shares obtained from the public offering of listed companies and transfer market on the Shanghai Stock Exchange and the Shenzhen Stock Exchange shall continue to be exempted from individual income tax, except for the relevant shares which are subject to sales restriction (as defined in the Supplementary Notice on Issues on Levying Individual Income Tax over the Income Received by Individuals from the Transfer of Listed Shares Subject to Sales Limitation (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的補充通知》) (Cai Shui [2010] No. 70) jointly issued and implemented by the above three departments on November 10, 2010). As of the Latest Practicable Date, no aforesaid provisions have expressly provided that individual income tax shall be levied from non-PRC resident individuals on the transfer of shares in PRC resident enterprises listed on overseas stock exchanges. However, there is no assurance that the PRC tax authorities will not change these practices which could result in levying income tax on non-PRC resident individuals on gains from the sale of H shares.

Enterprise Investors

In accordance with the EIT Law, a non-resident enterprise is generally subject to enterprise income tax at the rate of a 10% on PRC-sourced income, including gains derived from the disposal of equity interests in a PRC resident enterprise, if it does not have an establishment or premise in the PRC or has an establishment or premise in the PRC but its PRC-sourced income has no real connection with such establishment or premise. Such income tax payable for non-resident enterprises are deducted at source, where the payer of the income is required to withhold the income tax from the amount to be paid to the non-resident enterprise. Such tax may be reduced or exempted pursuant to relevant tax treaties or agreements on avoidance of double taxation.

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Stamp Duty

Pursuant to the Provisional Regulations of the PRC on Stamp Duty (《中華人民共和國印花稅暫行條例》), which was issued on August 6, 1988 and latest amended on January 8, 2011, and the Implementation Provisions of Provisional Regulations of the PRC on Stamp Duty (《中華人民共和國印花稅暫行條例實施細則》), which came into effect on September 29, 1988, PRC stamp duty only applies to specific taxable document executed or received within the PRC, having legally binding force in the PRC and protected under the PRC laws, thus the requirements of the stamp duty imposed on the transfer of shares of PRC listed companies shall not apply to the acquisition and disposal of H Shares by non-PRC investors outside of the PRC.

Shanghai-Hong Kong Stock Connect Taxation Policy

On October 31, 2014, the MOF, SAT and CSRC jointly issued the Circular on the Relevant Taxation Policy regarding the Pilot Inter-connected Mechanism for Trading on the Shanghai Stock Market and the Hong Kong Stock Market (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》) (Cai Shui [2014] No. 81) (the “Shanghai-Hong Kong Stock Connect Taxation Policy”) which clarified the relevant taxation policy under Shanghai-Hong Kong Stock Connection. The Shanghai-Hong Kong Stock Connect Taxation Policy has come into effect on November 17, 2014.

Pursuant to the Shanghai-Hong Kong Stock Connect Taxation Policy, individual income tax will be temporarily exempted for transfer spread income derived from investment by mainland individual investors in stocks listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect from November 17, 2014 to November 16, 2017. Pursuant to the Notice on Continuing the Application of Relevant Individual Income Tax Policies regarding the Inter-connected Mechanism of Trading on the Shanghai Stock Market and the Hong Kong Stock Market (《關於繼續執行滬港股票市場交易互聯互通機制有關個人所得稅政策的通知》) (Cai Shui [2017] No. 78), which was issued by the MOF, SAT and CSRC on November 1, 2017, the aforesaid individual income tax shall continue to be temporarily exempted from November 17, 2017 to December 4, 2019. Pursuant to the Notice on Continuing the Application of Individual Income Tax Policies Relating to Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect and Mainland and Hong Kong Mutual Recognition of Funds (《關於繼續執行滬港、深港股票市場交易互聯互通機制和內地與香港基金互認有關個人所得稅政策的公告》) (Announcement [2019] No. 93 of the MOF) which was issued by the MOF, SAT and CSRC on December 4, 2019, the aforesaid individual income tax shall continue to be temporarily exempted from December 5, 2019 to December 31, 2022. Business tax will be temporarily exempted in accordance with the current policy for the spread income derived from dealing in stocks listed on Hong Kong Stock Exchange by mainland individual investors through Shanghai-Hong Kong Stock Connection; for avoidance of doubt, the aforesaid business tax shall mean Value-added Tax (the “VAT”) due to business tax was replaced with VAT. For dividends obtained by mainland individual investors or mainland securities investment funds from investing in H shares listed on Hong Kong Stock Exchange

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through Shanghai-Hong Kong Stock Connection, individual income tax shall be withheld by H-share companies at the tax rate of 20%. For dividends obtained by mainland individual investors or mainland securities investment funds from investing in non-H shares listed on Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connection, individual income tax shall be withheld by China Securities Depository and Clearing Co., Ltd (the “CSDC”) at the tax rate of 20%. Individual investors may, by producing the tax payments document, apply for tax credit relating to the withholding tax already paid abroad to the competent tax authority of CSDC.

Pursuant to the Shanghai-Hong Kong Stock Connect Taxation Policy, enterprise income tax will be levied according to law on transfer spread income and dividend income (included in total income) derived from investment by mainland enterprise investors in stocks listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connection. Business tax will be levied or exempted in accordance with the current policy for spread income derived from dealing in stocks listed on the Stock Exchange by mainland enterprise investors through Shanghai-Hong Kong Stock Connection. For avoidance of doubt, the aforesaid business tax shall mean VAT due to business tax was replaced with VAT. In particular, enterprise income tax will be exempted according to law for dividend income obtained by mainland resident enterprises which hold H shares for at least 12 consecutive months. For dividend income obtained by mainland enterprise investors, H-share companies will not withhold dividend income tax for mainland enterprise investors. The tax payable shall be declared and paid by the enterprises themselves. Mainland enterprise investors, when declaring and paying enterprise income tax themselves, may apply for tax credit according to law in respect of dividend income tax which has been withheld and paid by non-H share companies listed on the Hong Kong Stock Exchange.

Pursuant to the Shanghai-Hong Kong Stock Connect Taxation Policy, mainland investors who trade or inherit shares listed on the Hong Kong Stock Exchange, or give such shares as gifts, through Shanghai-Hong Kong Stock Connection shall pay stamp duty in accordance with the current tax laws of Hong Kong. CSDC and Hong Kong Securities Clearing Company Limited, may collect the abovementioned stamp duty on each other’s behalf.

Principal Taxation of Our Company in the PRC

Enterprise Income Tax

According to the EIT Law, a resident enterprise shall pay EIT for its global income originating from both inside and outside PRC at an EIT rate of 25%. Foreign invested enterprises in the PRC falls into the category of resident enterprises, which shall pay EIT for the global income originating from both inside and outside PRC at an EIT rate of 25%. A non-resident enterprise having no establishment or premise in the PRC, or for a non-resident enterprise whose incomes has no real connection with its establishment or premise in the PRC shall pay enterprise income tax for the incomes derived from the PRC at a rate of 10%.

REGULATORY OVERVIEW

Pursuant to the Administrative Measures on Accreditation of High-tech Enterprises (《高技術企業認定管理辦法》) (Guo Kai Fa Huo [2016] No. 32), which was promulgated by the Ministry of Science and Technology, the MOF and SAT on January 29, 2016, and took effect from January 1, 2016, qualifications of an accredited high-tech enterprise shall be valid for three years from the date of issuance of the certificate upon obtaining the qualification as a high-tech enterprise, the enterprise shall complete tax reduction and exemption formalities with the tax authorities in charge pursuant to the provisions of Article 4 of these measures.

Value-added Tax

According to the Interim Regulations of the PRC on Value-Added Tax (《中華人民共和國增值稅暫行條例》) which was promulgated by the State Council on December 13, 1993, and amended on November 10, 2008, February 6, 2016 and November 19, 2017, and the Detailed Rules for the Implementation of the Provisional Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例實施細則》) (the “Implementation of Value-added Tax”) which was promulgated by the MOF on December 25, 1993 and subsequently amended on December 15, 2008 and October 28, 2011, all enterprises and individuals that engage in the sale of goods, repair and replacement, tangible movables leasing services and the importation of goods within the territory of the PRC shall pay value-added tax at the rate of 17%, except when specified otherwise, and in the sale of transport, post, construction, real estate leasing services, the sale of real estate, transfer the land use right, the sale or importation of specific goods shall pay value-added tax at the rate of 11%.

In accordance with Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (《關於全面推開營業稅改徵增值稅試點的通知》) (Cai Shui [2016] No. 36), which was promulgated on March 23, 2016 and came into effect on May 1, 2016, upon approval of the State Council, the pilot program of the collection of VAT in lieu of business tax shall be promoted nationwide in a comprehensive manner starting from May 1, 2016.

The Notice on the Adjustment to VAT Rates (《關於調整增值稅稅率的通知》) (Cai Shui [2018] No. 32), promulgated by the MOF and the SAT on April 4, 2018 and became effective as of May 1, 2018 adjusted the applicative rate of VAT, and the deduction rates of 17% and 11% applicable to the taxpayers who have VAT taxable sales activities or imported goods are adjusted to 16% and 10%, respectively.

According to the Announcement on Relevant Policies for Deepening Value-Added Tax Reform (《關於深化增值稅改革有關政策的公告》) (Announcement [2019] No. 39 of the MOF, SAT and the General Administration of Customs), promulgated by MOF, SAT and General Administration of Customs on March 20, 2019 and became effective on April 1, 2019, the VAT rates of 16% and 10% applicable to the taxpayers who have VAT taxable sales activities or imported goods are adjusted to 13% and 9%, respectively.

REGULATORY OVERVIEW

Foreign Exchange

The lawful currency of the PRC is Renminbi, which is currently subject to foreign exchange control and cannot be freely converted into foreign currency. The State Administration of Foreign Exchange (the “SAFE”), with the authorization of the People’s Bank of China (the “PBOC”), is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

The Regulations on Foreign Exchange Control of the PRC (《中華人民共和國外匯管理條例》) was issued by the State Council on January 29, 1996, implemented on April 1, 1996 and latest amended on August 5, 2008. The latest amendment to the Regulations on Foreign Exchange Control of the PRC clearly states that PRC will not impose any restriction on international current payments and transfers, while capital items are still subject to the existing restrictions. An overseas institution or individual that makes direct investments in the territory of the People’s Republic of China upon the approval of the competent department, and a domestic institution or individual that makes investments overseas, shall handle the registration formalities at the foreign exchange administrative department of the State Council.

The Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》) (Yin Fa [1996] No. 210), which was promulgated by the PBOC on June 20, 1996 and implemented on July 1, 1996, removes other restrictions on convertibility of foreign exchange under current items, while imposing existing restrictions on foreign exchange transactions under capital account items.

According to the relevant laws and regulations in the PRC, PRC enterprises (including foreign investment enterprises) which need foreign exchange for current item transactions may, without the approval of the foreign exchange administrative authorities, effect payment through foreign exchange accounts opened at the designated foreign exchange bank, on the strength of valid transaction receipts and proof. Foreign investment enterprises which need foreign exchange for the distribution of profits to their shareholders and PRC enterprises which, in accordance with regulations, are required to pay dividends to their shareholders in foreign exchange (such as our Company) may, on the strength of resolutions of the board of directors or the shareholders’ meeting on the distribution of profits, effect payment from foreign exchange accounts at the designated foreign exchange bank, or effect exchange and payment at the designated foreign exchange bank.

On October 23, 2014, the State Council issued the Decision of the State Council on Canceling and Adjusting a Group of Administrative Approval Items and Other Matters (《國務院關於取消和調整一批行政審批項目等事項的決定》) (Guo Fa [2014] No. 50), which canceled the administrative approval by the SAFE and its branches for matters concerning the repatriation and settlement of foreign exchange of overseas-raised funds through overseas listing.

REGULATORY OVERVIEW

According to the Notice on Issues Concerning the Foreign Exchange Administration of Overseas Listing (《關於境外上市外匯管理有關問題的通知》) (Hui Fa [2014] No. 54) issued by the SAFE and implemented on December 26, 2014, a domestic company shall, within 15 business days from the date of the end of its overseas listing issuance, register the overseas listing with the local branch office of SAFE at the place of its establishment; the proceeds from an overseas listing of a domestic company may be remitted to the domestic account or deposited in an overseas account, but the use of the proceeds shall be consistent with the content of the prospectus and other disclosure documents. A domestic company (except for bank financial institutions) shall present its certificate of overseas listing to open a special account at a local bank for its initial public offering (or follow-on offering) and repurchase business to handle the exchange, remittance and transfer of funds for the business concerned.

According to the Notice of Foreign Exchange on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》) (Hui Fa [2015] No. 13), which was issued by the SAFE on February 13, 2015, came into effect on June 1, 2015 and partially repealed on December 30, 2019, the confirmation of foreign exchange registration under domestic direct investment and the confirmation of foreign exchange registration under overseas direct investment shall be directly examined and handled by banks. SAFE and its branch offices shall indirectly regulate the foreign exchange registration of direct investment through banks.

According to the Notice on Revolutionizing and Regulating Capital Account Settlement Management Policies (《關於改革和規範資本項目結匯管理政策的通知》) (Hui Fa [2016] No. 16) which was promulgated by the SAFE and implemented on June 9, 2016, foreign currency earnings in capital account that relevant policies of willingness exchange settlement have been clearly implemented on (including the recalling of raised capital by overseas listing) may undertake foreign exchange settlement in the banks according to actual business needs of the domestic institutions. The tentative percentage of foreign exchange settlement for foreign currency earnings in capital account of domestic institutions is 100%, subject to adjust of the SAFE in due time in accordance with international revenue and expenditure situations.

On January 26, 2017, Notice on Further Promoting the Reform of Foreign Exchange Administration and Improving the Examination of Authenticity and Compliance (《關於進一步推進外匯管理改革完善真實合規性審核的通知》) (Hui Fa [2017] No. 3) was issued by SAFE to further expand the scope of settlement for domestic foreign exchange loans, allow settlement for domestic foreign exchange loans with export background under goods trading, allow repatriation of funds under domestic guaranteed foreign loans for domestic utilization, allow settlement for domestic foreign exchange accounts of foreign institutions operating in the Free Trade Pilot Zones, and adopt the model of full-coverage RMB and foreign currency overseas lending management, where a domestic institution engages in overseas lending, the sum of its outstanding overseas lending in RMB and outstanding overseas lending in foreign currencies shall not exceed 30% of its owner's equity in the audited financial statements of the preceding year.

REGULATORY OVERVIEW

Notice of Foreign Exchange of Further Facilitating Cross-border Trade and Investment (《關於進一步促進跨境貿易投資便利化的通知》) (Hui Fa [2019] No. 28) issued by the SAFE on October 23, 2019 and became effective on the same date, canceled restrictions on domestic equity investments made with capital funds by non-investing foreign-funded enterprises and on the use of funds in domestic asset realization accounts for foreign exchange settlement, and relaxed the restrictions on margin use and foreign exchange settlement by foreign investors. Eligible enterprises in pilot regions are allowed to use revenue under such capital accounts as capital funds, foreign debts, and overseas listing revenues for domestic payment without providing banks with authenticity certification materials in advance, and the use of funds should be authentic and compliant, and comply with the existing administrative provisions on the use of revenue under capital accounts.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

As of August 31, 2021, Mr. Cai Baogui, Mr. Hu Zhibin and Mr. Li Xinnong (through Ruide Venture, Ganzhou Geshuo, Ganzhou Xinsheng and their respective direct shareholding) are collectively interested in approximately 34.25% of the total issued share capital of our Company. Immediately after the completion of the Global Offering, assuming the Over-allotment Option is not exercised, our ultimate Controlling Shareholders, Mr. Cai Baogui, Mr. Hu Zhibin and Mr. Li Xinnong, are acting in concert with each other, will be entitled to exercise voting rights of approximately 33.52% of the issued share capital of our Company. Accordingly, Mr. Cai Baogui, Mr. Hu Zhibin and Mr. Li Xinnong and the investment holding entities controlled by them, namely Ruide Venture, Ganzhou Geshuo and Ganzhou Xinsheng, which constitute a group of controlling shareholders of our Company, will hold approximately 33.52% (32.78% if Over-allotment Option is fully exercised) of the issued share capital of our Company and remain our Controlling Shareholders upon the Listing.

Our Controlling Shareholders have been acting in concert since December 30, 2009. For more details, see “History, Development and Corporate Structure – Our Ultimate Controlling Shareholders and Parties Acting in Concert – Parties Acting in Concert”.

COMPETITION

Our core business involves the production of high-performance REPMs (“Core Business”). Mr. Cai Baogui, Mr. Hu Zhibin and Mr. Li Xinnong confirms respectively that as of the Latest Practicable Date, except through our Group, his associates had no interest in a business that competes or is likely to compete, either directly or indirectly, with the Core Business, which is subject to disclosure pursuant to Rule 8.10 of the Hong Kong Listing Rules.

For the purpose of the listing of our A Shares on the Shenzhen Stock Exchange in 2018, Mr. Cai Baogui, Mr. Hu Zhibin and Mr. Li Xinnong entered into a non-competition undertaking dated June 20, 2017 in favor of us, pursuant to which, Mr. Cai Baogui, Mr. Hu Zhibin and Mr. Li Xinnong have undertaken respectively that (1) he will not take advantage of the position as a controlling shareholder and de facto controlling person of our Company to prejudice the interests of the Company or other shareholders; (2) he or any entities controlled by him, does not and will not in any form (including but not limited to sole proprietorship, joint venture or ownership of shares and other interests in another company by way of investment, acquisition or merger), directly or indirectly engage in any business or activities inside and outside of China that competes or may compete with the business of the Company; (3) if he or any entities controlled by him has any business opportunity to engage in, participate in or possess the shares in any business which may compete with the business of the Company, he or any entities controlled by him will give the business opportunity to the Company; (4) if the future business of him or any entities controlled by him, whether direct or indirect, competes or may compete with the Company, he or any entities controlled by him will upon the objection by the Company, have the business to transfer or terminate the competing business in a timely manner, or to transfer all his shares in the said business to an independent third party and to provide

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

the Company with the right of first refusal, so as to ensure the fairness and reasonableness, to safeguard the interests of the Company and other shareholders; and (5) he will strictly comply with the above-mentioned commitments. In case of any violation occurs, he will cease the relevant breach immediately and be willing to compensate for the losses resulting therefrom.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying out our business independently of our Controlling Shareholders and his/its close associates after the Listing.

Management Independence

Our Board comprises two executive Directors, four non-executive Directors and three independent non-executive Directors. Although one of our executive Directors, Mr. Cai Baogui, and two of our non-executive Directors, Mr. Hu Zhibin and Mr. Li Xinnong, are also our Controlling Shareholders, all of our other Directors and senior management possess relevant management and/or industry-related experience to act as Directors or senior management of our Company and to make management decisions independently from our Controlling Shareholders. The balance of power and authority is ensured by the operation of the senior management and our Board. For more details, see “Directors, Supervisors and Senior Management”.

In addition, each of our Directors is aware of his fiduciary duties as a director of our Company which requires, among other things, that he acts for the benefit and in the best interests of our Group and our group of shareholders and does not allow any conflict between his duties as a Director and his personal interests. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant Board meetings of our Company in respect of such transactions and shall not be counted in the quorum. We will comply with all the relevant requirements of the Stock Exchange and the SFC. In addition, we have a senior management team to make business decisions independently. Our independent non-executive Directors will also bring independent judgment to the decision-making process of our Board. Please refer to “– Corporate Governance Measures” below for further details.

The independent non-executive Directors have extensive experience in different areas and have been appointed in accordance with the requirement under the Listing Rules to ensure that the decisions of the Board are made only after due consideration of independent and impartial opinion.

Based on the above, our Directors are satisfied that our Board as a whole, together with our senior management team, is able to perform the managerial role in our Group independently after the Listing.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Operational Independence

Although our Controlling Shareholders will retain a controlling interest in our Company after the Listing, we have full rights to make all decisions regarding, and carry out, our business operations independently. We have established our own organizational structure and each department is assigned to specific areas of responsibilities. We are also in possession of all necessary relevant licenses, approvals and certificates to carry on our business and we have sufficient operational capacity in term of capital and employees to operate and manage our business independently. We do not rely on our Controlling Shareholders or his/its close associates for our operations. We have independent access to suppliers and an independent management team (including our Directors and senior managements) to handle our daily operational work.

Based on the above, our Directors are satisfied that there is no operational dependence by us on our Controlling Shareholders and our Group is able to operate independently from our Controlling Shareholders after the Listing.

Financial Independence

We have established our own finance department with a team of financial staff, who are responsible for financial control, accounting and reporting function of our Company. The finance department is independent from our Controlling Shareholders. We can make financial decisions independently and our Controlling Shareholders do not intervene with our use of funds. In addition, we have been and are capable of obtaining financing from independent third parties without relying on any guarantee or security provided by our Controlling Shareholders or his/its close associates.

As of the Latest Practicable Date, there were no loans, advances or balances due to and from our Controlling Shareholders and his/its close associates which have not been fully settled, nor were there any pledges and guarantees provided by any of our Controlling Shareholders and his/its close associates on our Group's borrowing which have not been fully released or discharged.

Based on the above, our Directors are satisfied that we are able to maintain financial independence from our Controlling Shareholders and his/its close associates.

CORPORATE GOVERNANCE MEASURES

Our Directors believe that there are adequate corporate governance measures in place to manage potential conflicts of interest after the Listing. In particular, we will implement the following measures:

- as part of our preparation for the Global Offering, we have amended our Articles of Association to comply with the Listing Rules. In particular, our Articles of Association provides that, unless otherwise provided, a Director shall not vote on

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

any resolution approving any contract or arrangement or any other proposal in which such Director or any of his/her close associates has a material interest nor shall such Director be counted in the quorum present at the meeting;

- a Director with material interests shall make full disclosure in respect of matters that conflict or potentially conflict with our interest and absent himself from the board meetings on matters in which such Director or any of his close associates have a material interest, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by a majority of the independent non-executive Directors;
- we are committed that our Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors). We have appointed three independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and they are free of any business and/or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial and external opinion to protect the interests of our public Shareholders. Details of our independent non-executive Directors, see “Directors, Supervisors and Senior Management – Board – Independent non-executive Directors”;
- in the event that our independent non-executive Directors are requested to review any conflicts of interests circumstances between our Group on the one hand and our Controlling Shareholders and/or our Directors on the other, our Controlling Shareholders and/or our Directors shall provide our independent non-executive Directors with all necessary information and our Company shall disclose the decisions of our independent non-executive Directors either through its annual report or by way of announcements; and
- we have appointed Red Solar Capital Limited as our compliance advisor, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules, including various requirements relating to directors’ duties and corporate governance.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

OVERVIEW

Our Board consists of nine Directors, including two executive Directors, four non-executive Directors and three independent non-executive Directors. The Board is responsible, and has general authority for, the management and operation of our Company.

Our Supervisory Committee consists of three Supervisors, including the Chairman of the Supervisory Committee and an employee representative Supervisor.

Our senior management is responsible for the daily operations of our Company.

BOARD

Our Board consists of nine Directors, including two executive Directors, four non-executive Directors and three independent non-executive Directors. The following table sets forth key information about the Directors.

Name	Age	Position	Date of joining our Group	Date of appointment as Director	Roles and responsibilities
Mr. Cai Baogui (蔡報貴)	50	Chairman, executive Director and general manager	August 2008	August 2008	Responsible for overall planning and strategic development, management and business operations of the Group
Mr. Lyu Feng (呂鋒)	53	Vice chairman, executive Director and deputy general manager	August 2008	April 2016	Responsible for participating in the decision-making of material matters of the Company and responsible for the supply chain management of the Company
Mr. Hu Zhibin (胡志濱)	49	Non-executive Director	August 2008	August 2008	Responsible for participating in the decision-making of material matters of the Company

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of joining our Group	Date of appointment as Director	Roles and responsibilities
Mr. Li Xinnong (李忻農)	52	Non-executive Director	August 2008	August 2008	Responsible for participating in the decision-making of material matters of the Company
Mr. Li Fei (李飛)	45	Non-executive Director	April 2021	April 2021	Responsible for participating in the decision-making of material matters of the Company
Mr. Huang Weixiong (黃偉雄)	44	Non-executive Director	April 2021	April 2021	Responsible for participating in the decision-making of material matters of the Company
Mr. You Jianxin (尤建新)	60	Independent non- executive Director	January 2017	January 2017	Responsible for supervising and providing independent advice on the operation and management of the Company
Mr. Xu Feng (徐風)	48	Independent non- executive Director	July 2021	July 2021	Responsible for supervising and providing independent advice on the operation and management of the Company
Mr. Yuan Taifang (袁太芳)	53	Independent non- executive Director	January 2017	January 2017	Responsible for supervising and providing independent advice on the operation and management of the Company

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Chairman and Executive Director

Mr. Cai Baogui (蔡報貴), aged 50, is one of our founders and the Chairman, executive Director and general manager of our Company. After being appointed as the chairman and general manager of the Company in August 2008, Mr. Cai was subsequently re-designated as an executive Director in July 2021, primarily responsible for the overall planning and strategic development, management and business operations of the Group.

Mr. Cai has been an executive partner of Ganzhou Xinsheng Investment Management Center (limited partnership) (贛州欣盛投資管理中心(有限合夥)) since December 2020, a director of Ganzhou Xiexin Chaoneng Magnetic Co., Ltd. (贛州協鑫超能磁業有限公司) since June 2019, a director of China Permanent Magnet New Energy Group Co., Ltd. (中國永磁新能源集團有限公司) since December 2011. He has been the chairman of A-TECH Wind Power (Jiangxi) Co., Ltd. (力德風力發電(江西)有限責任公司) since March 2008, and the chairman of A-TECH Electronics Technology (Xinyu) Co., Ltd. (力德電子科技(新余)有限公司) since August 2006. Mr. Cai served as the chairman and general manager of a plastic producer from 2003 to 2006, and the production manager and secretary to the factory operation committee of Dongguan Deyuan Plastic Products Co., Ltd. (東莞德源塑膠製品有限公司) from 1994 to 2002. From 1993 to 1994, he was a lecturer at Nanchang University (南昌大學).

Mr. Cai also holds the following positions in the Group:

- Chairman of JL MAG Baotou (since August 2020)
- Chairman of JL MAG Ningbo Technology (since January 2020)
- Chairman of JL MAG Ningbo Investment (since December 2018)
- Director of JL MAG USA (since November 2018)
- Chairman of JL Bonded Magnet (since January 2017)
- Director of JL MAG Japan (since September 2016)
- Director of JL MAG HK (since September 2014)
- Supervisory director of JL MAG Europe (since October 2012)

Mr. Cai graduated from Nanchang University with a bachelor's degree in fine chemical engineering in July 1993. Mr. Cai has undertaken the EMBA program at Tsinghua University since September 2016.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Cai owns certain equity interest in the companies which he currently holds position in. None of the businesses of the aforementioned companies compete or likely to compete with our Company's business. The details of Mr. Cai's equity interest in and the main businesses of the relevant companies is set out in the table below.

Company	Position held	Shareholding percentage	Main business of the company
Ganzhou Xinsheng Investment Management Center (limited partnership)	Executive partner	89.12%	Investment
China Permanent Magnet New Energy Group Co., Ltd.	Director	40%	Investment
A-TECH Wind Power (Jiangxi) Co., Ltd.	Chairman	64%	Dormant
A-TECH Electronics Technology (Xinyu) Co., Ltd.	Chairman	40%	Dormant

Executive Director

Mr. Lyu Feng (呂鋒), aged 53, is the vice Chairman, executive Director and the deputy general manager of the Company. After being appointed as a Director of the Company in April 2016, Mr. Lyu was subsequently re-designated as an executive Director in July 2021, and is primarily responsible for participating in the decision-making of material matters and supply chain management of the Company.

Since August 2008, Mr. Lyu has been an assistant general manager and the deputy general manager of the Company, successively. Since August 2020, he has been a director of JL MAG Baotou, primarily responsible for supervising its daily business operations and management. He has been appointed as an executive director and general manager of Jinli Magnetic Material since 2014, and a director of Sichuan JCC Rare Earth Magnet Co., Ltd. (四川江銅稀土磁材有限公司) since August 2016. From 1997 to 2008, he was the deputy general manager of a Hunan Xiangjia Medical Equipment Co., Ltd. (湖南湘佳醫用器材有限公司). From July 1995 to August 1997, he was the deputy general manager of Foshan Huatong Medical Material Products Co., Ltd. (佛山市華通醫用材料製品有限公司). From September 1991 to September 1993, he was the heat treatment technician of Zhengzhou Aircraft Equipment Co., Ltd. (鄭州飛機裝備有限責任公司) (formally known as Zhengzhou Aviation Equipment Factory (鄭州航空機載設備廠)).

Mr. Lyu graduated from Beijing University of Aeronautics and Astronautics with a bachelor's degree in metallic materials and heat treatment in July 1991, and subsequently obtained a master's degree in business administration from Jiangxi University of Science and Technology in January 2016.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Non-executive Directors

Mr. Hu Zhibin (胡志濱), aged 49, is one of our founders and a non-executive Director of our Company. After being appointed as a Director of the Company in August 2008, Mr. Hu was subsequently re-designated as a non-executive Director in July 2021, and is primarily responsible for participating in the decision-making of material matters of the Company.

Mr. Hu has been the chairman and general manager of Shenzhen Ruizhou Industrial Co., Ltd. (深圳市瑞洲實業股份有限公司) since March 2019, an executive director of Zhongrui Menghao (Ningbo) Investment Management Co., Ltd. (中瑞盟灝(寧波)投資管理有限公司) since December 2017 the chairman of Zhongrui Runhe (Ningbo) Investment Management Co., Ltd. (中瑞潤和(寧波)投資管理有限公司) since November 2016. He has been appointed as a director of Lanxi (Ningbo) Assets Management Co., Ltd. (瀾溪(寧波)資產管理有限公司) since June 2016, an executive director and general manager of Zhongrui Intelligence International Holding Co., Ltd. (中瑞智慧國際控股有限公司) since September 2014, a director of China Permanent Magnet New Energy Group Co., Ltd. (中國永磁新能源集團有限公司) since December 2011, an executive director and general manager of Shenzhen Guoke Ruicheng Technology Co., Ltd. (深圳市國科瑞成科技有限公司) since August 2010, a director and general manager of A-TECH Wind Power (Jiangxi) Co., Ltd. (力德風力發電(江西)有限責任公司) since March 2008, a director of A-TECH Electronics Technology (Xinyu) Co., Ltd. (力德電子科技(新余)有限公司) since August 2006, the chairman of the board of directors of Rachee (Hongkong) Limited since April 2004, and an executive director and general manager of Shenzhen Rachee Science & Technique Industrial Co., Ltd. (深圳市瑞成科訊實業有限公司) since November 2001. From June 1996 to February 2005, he served as the general manager of Shenzhen Ocean Power Chemical Technology Co., Ltd. (深圳海川化工科技有限公司). From July 1994 to May 1996, he worked as an assistant engineer at Shengli Oilfield (勝利油田).

Mr. Hu graduated from Nanchang University with a bachelor's degree in fine chemical engineering in July 1994, and subsequently obtained a master's degree in finance from the University of International Business and Economics in June 2004.

Mr. Hu owns certain equity interest in the companies which he currently holds position in. None of the businesses of the aforementioned companies compete or likely to compete with our Company's business. The details of Mr. Hu's equity interest in and the main businesses of the relevant companies is set out in the table below.

Company	Position(s) held	Shareholding percentage	Main business(es) of the company
Shenzhen Ruizhou Industrial Co., Ltd.	Chairman and general manager	42%	Research and development, production and sales of density boards
Zhongrui Menghao (Ningbo) Investment Management Co., Ltd.	Executive director	70%	Investment management

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Company	Position(s) held	Shareholding percentage	Main business(es) of the company
Zhongrui Runhe (Ningbo) Investment Management Co., Ltd.	Chairman	28%	Investment management
Lanxi (Ningbo) Assets Management Co., Ltd.	Director	30%	Asset management, investment management
China Permanent Magnet New Energy Group Co., Ltd.	Director	30%	Investment platform
Shenzhen Guoke Ruicheng Technology Co., Ltd.	Executive director and general manager	30%	Technical development and sales of chemical raw materials (excluding hazardous chemicals)
A-TECH Wind Power (Jiangxi) Co., Ltd.	Director and general manager	18%	Dormant
A-TECH Electronics Technology (Xinyu) Co., Ltd.	Director	30%	Dormant
Rachee (Hongkong) Limited	Chairman of the board of directors	50%	Investment
Shenzhen Rachee Science & Technique Industrial Co., Ltd.	Executive director and general manager	90%	Chemical raw materials, chemical products

Mr. Li Xinnong (李忻農), aged 52, is one of our founders and a non-executive Director of our Company. After being appointed as a Director of the Company in September 2008, Mr. Li was subsequently re-designated as a non-executive Director in July 2021, primarily responsible for participating in the decision-making of material matters of the Company.

Mr. Li has been the chairman of the board of directors of Xinyu Boxun Automobile Co., Ltd. (新余博迅汽車有限公司) since October 2017. He has been a director of Jiangxi Jiufa Zhuanyongche Co., Ltd. (江西玖發專用車有限公司) since July 2014. He has been an executive director and the general manager of Hunan Boxun Investment Holding Group Co., Ltd. (湖南博迅投資控股集團有限公司) since November 2013. He has been a director of China Permanent Magnet New Energy Group Co., Ltd. (中國永磁新能源集團有限公司) since December 2011. He has been a director of Lide Electric Technology (Xinyu) Co., Ltd. (力德電子科技(新余)有限公司) since August 2006. He served as a deputy chief engineer of Vitop Bioenergy (China) Co., Ltd. (天年生物(中國)有限公司) from August 1995 to January 1998.

Mr. Li obtained a master's degree in engineering from Beijing University of Aeronautics and Astronautics in March 1995.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Li owns certain equity interest in the companies which he currently holds position in. None of the businesses of the aforementioned companies compete or likely to compete with our Company's business. The details of Mr. Li's equity interest in and the main businesses of the relevant companies is set out in the table below.

Company	Position(s) held	Shareholding percentage	Main business(es) of the company
Xinyu Boxun Automobile Co., Ltd.	Chairman of the board of directors	47.81%	Firefighting equipment manufacturing
Jiangxi Jiufa Zhuanyongche Co., Ltd.	Director	31.87%	Firefighting equipment manufacturing
Hunan Boxun Investment Holding Group Co., Ltd.	Executive director and the general manager	72%	Investment consulting, investment management services
China Yongci Xinnengyuan Group Co., Ltd.	Director	30%	Investment
Lide Electric Technology (Xinyu) Co., Ltd.	Director	30%	Dormant

Mr. Li Fei (李飛), aged 45, is a non-executive Director of the Company. After being appointed as a Director of the Company in April 2021, Mr. Li was subsequently re-designated as a non-executive Director in July 2021. Mr. Li is primarily responsible for participating in the decision-making of material matters of the Company.

Mr. Li currently holds the following positions in Goldwind Technology Group:

- Manager and executive director of Ningbo Tianshuo New Energy Co., Ltd. (寧波天朔新能源投資有限公司) (since March 2020)
- Manager and executive director of Beijing Goldwind Science & Creation Wind Power Equipment Co., Ltd. (北京金風科創風電設備有限公司) (since February 2020)
- Executive director of Jiangsu Goldwind Technology Co., Ltd. (江蘇金風科技有限公
司) (since January 2020)
- Executive director of Gansu Goldwind Wind Power Equipment Manufacture Co., Ltd. (甘肅金風風電設備製造有限公司) (since January 2020)
- Executive director of Beijing Goldwind Tiantong Science and Technology Development Co., Ltd. (北京金風天通科技發展有限公司) (since December 2019)
- Executive director and general manager of Goldwind (Lianyungang) Technology Co., Ltd. (金風科技(連雲港)科技有限公司) (since January 2019)

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

- Executive director and general manager of Shaanxi Goldwind Technology Co., Ltd. (陝西金風科技有限公司) (since June 2017)
- Executive director and general manager of Changji Goldwind Technology Co., Ltd. (昌吉金風科技有限公司) (since September 2016)
- Vice president of Goldwind Technology (since January 2007)

In November 2002, he was appointed as a lecturer at the School of Economics and Management, Xinjiang University.

Mr. Li graduated from Lanzhou University of Finance and Economics (formerly known as Lanzhou College of Commerce) with a bachelor's degree in marketing in June 1997, and subsequently obtained a master's degree in business management from Huazhong University of Science and Technology in December 2002. In September 2020, he obtained a doctorate in management science and engineering from the University of Chinese Academy of Sciences.

Mr. Huang Weixiong (黃偉雄), aged 44, is a non-executive Director of the Company. After being appointed as a Director of the Company in April 2021, Mr. Huang was subsequently re-designated as a non-executive Director in July 2021, primarily responsible for participating in the decision-making of material matters of the Company.

Since February 2021, Mr. Huang has served as the executive director and general manager of Ganzhou Qiantai Rare Earth Advanced Materials Co., Ltd. (贛州虔泰稀土新材料有限公司). Since December 2020, he has been the director and secretary of the board of directors of Ganzhou Rare Earth Youli Science and Technology Development Co., Ltd. (贛州稀土友力科技開發有限公司). Since August 2020, he has been the director of Jiangxi Mingda Functional Materials Co., Ltd. (江西明達功能材料有限責任公司). Since January 2020, he has served as the chairman of Ganzhou Rare Earth (Longnan) Nonferrous Metals Co., Ltd. (贛州稀土(龍南)有色金屬有限公司). Since December 2019, Mr. Huang has been a supervisor of Guo Chuang New Material (Beijing) Rare Earth New Material Technology Innovation Center Co., Ltd. (國創新材(北京)稀土新材料技術創新中心有限公司). Since December 2018, he has served as the director of China Rare Earth Supply Chain Management Co., Ltd. (中稀供應鏈管理有限公司). Since June 2018, he has been the director of Ganzhou Cheng Zheng Motor Co., Ltd. (贛州誠正電機有限公司). Since March 2018, he has been the director of Ganzhou Shengyilun Rare Earth High-Tech Co., Ltd. (贛州生一倫稀土高科技有限公司). Since September 2017, he has served as the director of Jiangxi Taist New Material Testing And Evaluation Center Co., Ltd. (江西泰斯特新材料測試評價中心有限公司). Since December 2016, he has been the secretary of the board of directors and the director of capital operations of China Southern Rare Earth Group Co., Ltd. (中國南方稀土集團有限公司). From October 2013 to November 2016, he served as the securities representative and the secretary of the board of directors of Jiangxi Changjiu Biochemical Industry Company Ltd. (江西昌九生物化工股份有限公司).

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Huang graduated from Jiangxi Normal University with a bachelor's degree in business administration in December 2016 and subsequently obtained a master's degree in business administration (economic management) from the Party School of Jiangxi Provincial Party Committee (江西省委黨校) in December 2018.

Independent non-executive Directors

Mr. You Jianxin (尤建新), aged 60, is an independent non-executive Director of the Company. Mr. You was appointed as an independent Director of the Company in January 2017, primarily responsible for overseeing the operation and management of the Company and providing independent advice.

Mr. You has been the supervisor of Shanghai TongJi Engineering Consulting Co., Ltd. (上海同濟工程諮詢有限公司) since June 2021. Since February 2020, he has been a director of Shanghai Zhida Technology Development Co., Ltd. (上海摯達科技發展有限公司). Since January 2020, Mr. You has been a director of Shanghai SAIC Hengxu Investment Management Co., Ltd. (上海上汽恒旭投資管理有限公司). Since 2016, he has served as an independent non-executive director of Shanghai Huahong Jitong Smart System Co., Ltd. (上海華虹計通智能系統股份有限公司). Since June 2016, he has been an independent non-executive director of Shanghai International Airport Co., Ltd. Since January 2016, Mr. You has been a supervisor of Tongji Innovation Venture Holding Co., Ltd. (同濟創新創業控股有限公司).

Since June 1998, Mr. You has been a professor and PhD tutor of the School of Economics and Management, Tongji University. From December 1999 to January 2008, Mr. You was the dean of the School of Economics and Management, Tongji University. From November 1993 to June 1998, he served as the deputy chief of the Office of Academic Affairs at Tongji University. From June 1994 to June 1998, Mr. You was an associate professor at the School of Economics and Management, Tongji University. At the School of Economics and Management, Tongji University, he was a lecturer from June 1990 to June 1994, and a teaching assistant from July 1984 to June 1990.

Mr. You graduated from Tongji University with a bachelor's degree in management engineering in July 1984, and subsequently obtained a master's degree and a doctorate in management science and engineering from Tongji University in January 1992 and December 1999, respectively.

Mr. Xu Feng (徐風), aged 48, was appointed as an independent non-executive Director of the Company in July 2021, primarily responsible for supervising and providing independent advice on the operations and management of the Company.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Xu has been the chairman of Xuzhou Hengsheng Zhigu Technology Development Co., Ltd. (徐州恒盛智谷科技發展有限公司) since June 2020. Since March 2017, he has served as an executive director of Jiangxi Hengke Dongfang Science and Technology Park Operation Co., Ltd. (江西恒科東方科技園運營有限公司). Since September 2013, he has been an executive director of Ganzhou Hengke Dongfang Industrial Co., Ltd. (贛州恒科東方實業有限公司). Since March 2011, Mr. Xu has served as the chairman of Jiujiang Hengsheng Technology Development Co., Ltd. (九江恒盛科技發展有限責任公司). From 2007 to 2011, he served as the chairman of Jiujiang Xinchangjiang Real Estate Co., Ltd. (九江市新長江置業有限公司). From 2000 to 2007, he served as the general manager of an advertising company.

Mr. Xu graduated from Jiujiang College in July 1995. He graduated from Tsinghua University with an EMBA degree in January 2012 and later graduated from the University of Minnesota in the United States with a doctor's degree in business administration in August 2020.

Mr. Xu owns certain equity interest in the companies which he currently holds position in. None of the businesses of the aforementioned companies compete or likely to compete with our Company's business. The details of Mr. Xu's equity interest in and the main businesses of the relevant companies is set out in the table below.

Company	Position(s) held	Shareholding percentage	Main business(es) of the company
Jiangxi Hengke Dongfang Science and Technology Park Operation Co., Ltd.	Executive director	99%	Consulting service for technological entrepreneurship project
Ganzhou Hengke Dongfang Industrial Co., Ltd.	Executive director	10%	Industrial park operation

Mr. Yuan Taifang (袁太芳), aged 53, was appointed as an independent Director of the Company in January 2017, primarily responsible for overseeing the operations and management of the Company and providing independent advice.

Since October 2020, Mr. Yuan has been an independent director of Ganzhou Water Co., Ltd. (贛州水務股份有限公司). Since August 2020, he has served as a supervisor of Ganzhou Consulting Service Management Co., Ltd. (贛州解惑諮詢管理有限公司). Since July 1990, Mr. Yuan has successively been a lecturer (of the School of Economics and Management) and a professor of accounting of Gannan Normal University.

Mr. Yuan graduated from Gannan Normal College (贛南師範大學) with a bachelor's degree in mathematics in July 1990, and subsequently obtained a master's degree in business administration from Jiangxi University of Finance and Economics in January 2007. Mr. Yuan was qualified as a Certified Public Accountant in the PRC in April 1998.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORY COMMITTEE

The Supervisory Committee of the Company consists of three members. The following table sets forth key information about the supervisors of the Company:

Name	Age	Position	Date of joining our Group	Date of appointment as supervisor	Function and responsibility
Su Quan (蘇權)	35	Chairman of the Supervisory Committee	November 2008	March 2012	Responsible for the overall operation of the Supervisory Committee and the supervision of the Board, senior management and the business operations of the Group
Li Hua (李華)	47	Supervisor	December 2020	April 2021	Responsible for the supervision of the Board, senior management and the business operations of the Group
Sun Yixia (孫益霞)	46	Employee representative supervisor	October 2009	June 2013	Responsible for the supervision of the Board, senior management and the business operations of the Group

Mr. Su Quan (蘇權), aged 35, was appointed as the chairman of the Supervisory Committee in March 2012, primarily responsible for the overall operation of the Supervisory Committee and the supervision of the Board, senior management and the business operations of the Group. Since November 2008, he has served successively as the sales manager and assistant general manager.

Mr. Su currently also holds the following positions of the Group:

- General Manager of JL MAG Baotou (since September 2020)
- Director of JL MAG Ningbo Tech (since January 2020)
- Supervisor of JL MAG Ningbo Investment (since December 2018)

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Su graduated from Beijing University for Business Administration in the junior college program of business administration in July 2007.

Mr. Li Hua (李華), aged 47, was appointed as a supervisor of the Company in April 2021, primarily responsible for the supervision of the Board, senior management and the business operations of the Group. Mr. Li has served as an audit manager of the Company since December 2020, primarily responsible for reviewing the Company's business and management, assets and capital utilization.

From July 2018 to October 2019, Mr. Li was the deputy general manager of the audit and supervision center of Zhefu Holding Group Co., Ltd. (浙富控股集團股份有限公司). From August 1996 to August 2009, he successively served as the accountant, auditor and audit manager of Jiangling Motors Corporation Co., Ltd. (江鈴汽車股份有限公司) and Jiangling Holding Co., Ltd. (江鈴控股有限公司).

Mr. Li graduated from Jiangxi University of Finance and Economics and obtained a bachelor's degree in accounting in July 1996.

Ms. Sun Yixia (孫益霞), aged 46, was appointed as the employee representative supervisor of the Company in June 2013, and is primarily responsible for the supervision of the Board, the senior management and the business operations of the Group. Since October 2009, Ms. Sun has served successively as the director and manager of the human resources department, being responsible for the human resources and administrative management of the Company.

From July 2008 to October 2009, Ms. Sun served as the head of the human resources department of Ganzhou City Development Investment Group (贛州城市開發投資集團). From March 2007 to July 2008, she served as the deputy manager of the administrative department of Jiangxi Yameida Science and Technology Limited Co., Ltd. (江西亞美達科技有限公司). From May 1998 to March 2007, she served as secretary to the general manager of Ganzhou Chia Tai Industrial Co., Ltd. (贛州正大實業有限公司).

Ms. Sun completed her undergraduate program in human resources management through online courses from Zhejiang University in July 2011.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

The senior management of the Company is responsible for the daily management of our business. The following table sets forth the key information about the senior management of our Company:

Name	Age	Position	Date of joining our Group	Date of appointment as a member of senior management	Function and responsibility
Cai Baogui (蔡報貴)	50	General manager	August 2008	August 2008	Responsible for the overall planning, management and business operations of the Group
Lyu Feng (呂鋒)	53	Deputy general manager	August 2008	June 2013	Responsible for the supply chain management of the Company
Huang Changyuan (黃長元)	40	Deputy general manager	August 2008	June 2013	Responsible for the marketing of the Company
Mao Huayun (毛華雲)	47	Deputy general manager	August 2009	June 2013	Responsible for the production, research and development of the Company
Lu Ming (鹿明)	44	Deputy general manager and secretary to the Board	September 2009	June 2013	Responsible for the investment and financing, strategic planning and capital operation of the Company
Yu Han (于涵)	40	Deputy general manager	June 2011	April 2013	Responsible for the marketing of the Company
Xie Hui (謝輝)	42	Finance director	July 2013	July 2013	Responsible for the financial management of the Company

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of joining our Group	Date of appointment as a member of senior management	Function and responsibility
Yi Pengpeng (易鵬鵬)	38	Deputy general manager	March 2019	March 2020	Responsible for the technical research and development in the field of 3C and the management of JL MAG Ningbo Technology (金力永磁(寧波)科技有限公司)

Mr. Cai Baogui (蔡報貴), is the Chairman and general manager of the Company. For his biographical details, please refer to “Board – Chairman and Executive Director” in this section.

Mr. Lyu Feng (呂鋒), is the deputy chairman, executive Director and deputy general manager of the Company. For his biographical details, please refer to “Board – Executive Director” in this section.

Mr. Huang Changyuan (黃長元), aged 40, has been successively served as the assistant general manager and deputy general manager of the Company since August 2008, and is primarily responsible for the Group’s marketing. From September 2003 to February 2006, he served as the deputy engineer of procurement of Dongguan Kanghua Hospital (東莞康華醫院), and from March 2006 to April 2018 he served as the manager of the procurement contract department of Dongguan Renkang Hospital (東莞仁康醫院).

Mr. Huang graduated from the Beijing Institute of Technology with a bachelor’s degree in aircraft design and engineering in July 2003, and subsequently obtained a master’s degree in business administration from Jiangxi University of Science and Technology in June 2015.

Mr. Mao Huayun (毛華雲), aged 47, has been successively served as the chief engineer and deputy general manager of our Company since August 2009, and is primarily responsible for the production, research and development of our Company.

Mr. Mao currently also holds the following positions of the Group:

- Director of JL MAG Baotou (since August 2020)
- Director of JL MAG Ningbo Technology (since January 2020)
- Supervisor of JL MAG Europe (since October 2012)

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

From 2004 to July 2008, Mr. Mao served as the manager of high-tech research and development department of Ningbo Yunsheng High-Tech Magnetics Co., Ltd. (寧波韻升高科磁業有限公司). From December 2000 to 2004, he served as an engineer of research and development of Ningbo Yunsheng High-Tech Magnetics Co., Ltd.. From July 1998 to December 2000, he was the heat treatment engineer of Ningbo Shuanglin Auto Component Co., Ltd. (寧波雙林汽車部件股份有限公司).

Mr. Mao graduated from Xi'an University of Architecture and Technology with a bachelor's degree in metal press forming in July 1998.

Mr. Lu Ming (鹿明), aged 44, has been successively served as the senior manager of the department of finance and investment, the deputy general manager and the secretary to the Board of the Company since September 2009, and was appointed as a joint company secretary of the Company in July 2021. He is primarily responsible for the investment and financing, strategic planning and capital operations of the Company.

Mr. Lu currently also holds the following positions in the Group:

- Director and general manager of JL MAG Ningbo Investment (since December 2018)
- Director of JL MAG Ningbo Technology (since January 2020)
- Director of JL MAG USA (since November 2018)
- Director of JL MAG HK (since September 2014)
- Supervisor of JL MAG Baotou (since August 2020)
- Supervisor of JL MAG JAPAN (since September 2016)

Mr. Lu has been a director of Sichuan Jiangtong Rare Earth Magnet Co., Ltd. (四川江銅稀土磁材有限公司) since April 2019. From September 1999 to December 2005, he served as the head of the secretary office of the board of directors of Sinopec Beijing Yanshan Petrochemical Co. Ltd. (中石化北京燕山石油化工股份有限公司).

Mr. Lu graduated from Tianjing University with a bachelor's degree in fine chemicals and management engineering in July 1999, and subsequently obtained a master's degree in business administration from Tsinghua University in July 2006.

Mr. Yu Han (于涵), aged 40, has been successively served as the assistant to deputy manager, deputy director, special assistant to general manager and deputy general manager of the Company since June 2011, and is primarily responsible for the marketing of the Company.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Yu currently also holds the following positions in the Group:

- Director of JL MAG Ningbo Technology (since January 2020)
- Director of JL Bonded Magnet (金力粘結磁) (since January 2017)
- Director of JL MAG JAPAN (since September 2016)

From March 2008 to March 2011, Mr. Yu was under the employment of Qingdao Hisense International Marketing Co., Ltd. (青島海信國際營銷有限公司). During such employment, on his secondment in its European branch from June 2009 to March 2011, he served as the sales manager. From July 2003 to May 2005, he was the assistant of the project manager of China Far East International Trading Corporation (中國遠東國際貿易總公司).

Mr. Yu obtained his master's degree in marketing from the University of the West of England in February 2008.

Ms. Xie Hui (謝輝), aged 42, was appointed as the Finance director of the Company in July 2013, and is primarily responsible for the financial management of the Company.

Ms. Xie also holds the following positions in the Group:

- Director of JL MAG Ningbo Investment (since December 2018)
- Director of JL MAG USA (since November 2018)
- Director of JL MAG HK (since September 2014)
- Supervisor of JL MAG Ningbo Technology (since January 2020)
- Supervisor of JL MAG Europe (since June 2014)
- Supervisor of Jinli Magnetic Material (since March 2014)

Prior to joining the Group, Ms. Xie was the deputy chief financial officer of China Zhongwang Holdings Limited (中國忠旺控股有限公司) from July 2009 to December 2012. From August 2004 to June 2009, she was the audit manager of PricewaterhouseCoopers Zhong Tian Certified Public Accountants. From August 2001 to July 2004, she served as an associate audit manager of China Audit Asia Pacific CPA (中審亞太會計師事務所).

Ms. Xie graduated from Dongbei University of Finance and Economics with a bachelor's degree in CPA specialization in July 2001. Subsequently, she obtained a master's degree in business administration from Tsinghua University in July 2013, and was qualified as a Certified Public Accountant in China in 2008. She is currently a non-practising member of The Chinese Institute of Certified Public Accountants.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Yi Pengpeng (易鵬鵬), aged 38, has been successively served as the chief technology officer and deputy general manager of the Company since March 2019, and is primarily responsible for the technical research and development in the field of 3C and the management of JL MAG Ningbo Technology.

Mr. Yi also holds the following positions of the Group:

- General manager of JL MAG Ningbo Technology (since January 2020)
- Executive Vice President of JL MAG Technology Institute (since March 2019)

From June 2011 to March 2019, Mr. Yi served as the chief engineer and deputy general manager of Ningbo Songke Magnetic Materials Co., Ltd. (寧波松科磁材有限公司)

Mr. Yi obtained a doctorate in materials physics and chemistry from Ningbo Institute of Materials Technology and Engineering, Chinese Academy of Sciences in July 2011.

JOINT COMPANY SECRETARIES

Mr. Lu Ming (鹿明)

Mr. Lu Ming was appointed as a joint company secretary of the Company on July 2, 2021. Mr. Lu is also the deputy general manager and secretary to the Board of the Company. Please see “Senior Management” in this section for details of the biography of Mr. Lu.

Ms. Zhang Xiao (張瀟)

Ms. Zhang Xiao was appointed as a joint company secretary of the Company on July 2, 2021. Ms. Zhang is a manager of SWCS Corporate Services Group (Hong Kong) Limited, and has extensive experience in the field of company secretarial services. She is an associate member of both the Hong Kong Chartered Governance Institute and the Chartered Governance Institute.

BOARD COMMITTEES

Pursuant to the laws and regulations of the PRC and corporate governance practice requirements under the Listing Rules, the Company has established four committees under the Board, including the audit committee, the remuneration and appraisal committee, the nomination committee and the strategy committee.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Audit committee

The Company has established an audit committee in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee include reviewing and supervising the financial reporting process and internal controls system of our Group, reviewing connected transactions and advising the Board. The audit committee comprises three Directors, namely Mr. Yuan Taifang, Mr. You Jianxin and Mr. Hu Zhibin. Mr. Yuan Taifang, being the chairman of the audit committee, is appropriately qualified as required under Rules 3.10(2) and 3.21 of the Listing Rules.

Remuneration and appraisal committee

The Company has established a remuneration and appraisal committee in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration and appraisal committee include reviewing and making recommendations to the Board regarding the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management. The remuneration and appraisal committee comprises three Directors, namely Mr. You Jianxin, Mr. Xu Feng and Mr. Lyu Feng. Mr. You Jianxin is the chairman of the remuneration and appraisal committee.

Nomination committee

The Company has established a nomination committee in compliance with the Code on Corporate Governance set out in Appendix 14 to the Listing Rules. The primary duties of the nomination committee include making recommendations to our Board regarding the appointment of Directors and the management of the Board succession. The nomination committee comprises three Directors, including Mr. Xu Feng, Mr. Yuan Taifeng and Mr. Cai Baogui. Mr. Xu Feng is the chairman of the nomination committee.

Strategy committee

The Company has established a strategy committee. The primary duties of the strategy committee include studying and making recommendations on the long-term strategic development plan of the Company and major issues of importance to the development of the Company, and reviewing and evaluating the implementation of the Group's development strategies and plans. The strategy committee comprises three directors, including Mr. Cai Baogui, Mr. You Jianxin, and Mr. Xu Feng. Mr. Cai Baogui is the chairman of the strategy committee.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

REMUNERATION OF DIRECTORS, SUPERVISORS AND FIVE HIGHEST PAID INDIVIDUALS

1. Service Agreements

For details on the service agreements entered into by and between our Company and our Directors and Supervisors, please see “Appendix V – Statutory and General Information – 3. Further Information about Our Directors, Our Supervisors and Substantial Shareholders – C. Particulars of service contracts” to this Prospectus.

2. Remuneration

The remuneration offered by the Company to the Directors and Supervisors of the Company includes salaries, allowances, bonuses, social assurance and provident fund, the specific amounts of which are determined based on the value contribution from the position and individual performance. Independent non-executive Directors’ allowances were received by independent non-executive Directors from the Company.

For the three years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, the aggregate remuneration before tax (including salaries, allowance, director’s fees, benefits in kind, pension scheme contributions, performance-related bonuses, equity-settled share award expenses) paid to our Directors by the Company amounted to approximately RMB3.0 million, RMB3.9 million, RMB10.7 million and RMB9.3 million, respectively.

For the three years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, the aggregate remuneration before tax (including salaries, allowance, benefits in kind, pension scheme contributions, performance-related bonuses, equity-settled share award expenses) paid to our Supervisors by the Company amounted to approximately RMB1.1 million, RMB0.7 million, RMB0.9 million and RMB0.6 million, respectively.

According to existing effective arrangements, the aggregate amount of remuneration before tax (excluding any possible payment of discretionary bonus) shall be paid by the Company to our Directors for the financial year ending December 31, 2021 is expected to be approximately RMB2.3 million.

According to existing effective arrangements, the aggregate amount of remuneration before tax (excluding any possible payment of discretionary bonus) shall be paid by the Company to our Supervisors for the financial year ending December 31, 2021 is expected to be approximately RMB0.99 million.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

For the three years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, the five highest paid individuals of the Company includes two, two, two and three Directors, respectively, their remunerations were included in the total amount paid by the Company for the remuneration of Directors.

For the three financial years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, the aggregate remuneration before tax paid to the five highest paid individuals (excluding Directors) of the Company amounted to RMB3.3 million, RMB5.4 million, RMB10.9 million and RMB5.8 million, respectively.

Further information on the remuneration of each of the Directors, the Supervisors and the five highest paid individuals during the Track Record Period is set out in “Appendix I – Accountants’ Report – Notes 8 and 9” to this Prospectus.

During the Track Record Period, no remuneration was paid by the Company to the Directors, Supervisors or the five highest-paid individuals as an inducement to join or upon joining the Company. No compensation was paid to by the Company, or receivable by, the Directors or former Directors of our Company, Supervisors or former Supervisors or the five highest paid individuals for the loss of office as director or supervisor of any member of our Group or for loss of any other office in connection with the management of the affairs of any member of our Group. None of the Directors or Supervisors had waived any remuneration and/or emoluments during the Track Record Period.

CODE PROVISION A.2.1 OF THE CORPORATE GOVERNANCE CODE

Mr. Cai Baogui is our co-founder, the Chairman and the general manager (same nature as chief executive). From the inception of our business, Mr. Cai has been responsible for the overall management, decision-making and strategy planning of our Group and is essential to our Group’s growth and business expansion. Since Mr. Cai is the key reason for our Group’s development and he will not undermine our Group’s interests in any way under any circumstances, our Board considers that vesting the roles of chairman and general manager in the same person, Mr. Cai, would not create any potential harm to the interest of our Group and it is, on the contrary, beneficial to the management of our Group. In addition, the operation of the senior management and our Board, which are comprised of experienced individuals, effectively checks and balances the power and authority of Mr. Cai, as both the Chairman and general manager of our Group. Our Board currently comprises two executive Directors (including Mr. Cai), four non-executive Directors and three independent non-executive Directors and therefore has a fairly strong independence element in its composition.

Save as disclosed above, we are in compliance with the requirements under all Code Provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

BOARD DIVERSITY

The Board will adopt a board diversity policy (the “**Board Diversity Policy**”) prior to the Listing in order to enhance the effectiveness of our Board and to maintain a high standard of corporate governance. Our Company recognizes and embraces the benefits of having a diverse Board. Pursuant to the Board Diversity Policy, in reviewing and assessing suitable candidates to serve as a Director of the Company, the Nomination Committee will consider a range of diversity perspectives with reference to the Company’s business model and specific needs, including but not limited to gender, age, language, cultural and educational background, professional qualifications, skills, knowledge, industry and regional experience and/or length of service.

Our Directors have a balanced portfolio of knowledge and skills, including management, strategic development, business development, research and development, investment management, etc. They obtained degrees in various fields such as material science, physics, engineering, chemistry, mathematics, economics, and business administration. The age of the Directors ranges from 44 years old to 60 years old. The Company will also continue to take steps to promote gender diversity at all levels of our Company, including but without limitation at our Board and senior management levels. In particular, the finance director of the Company, responsible for supervising the financial management of the Group, is a female and a member of the Company’s senior management team.

The Nomination Committee is responsible for reviewing the diversity of the Board. Upon the Listing, the Nomination Committee will from time to time review the Board Diversity Policy, develop and review measurable objectives for implementing the policy, and monitor the progress on achieving these measurable objectives in order to ensure that the policy remains effective. The Company will (i) disclose the biographical details of each Director and (ii) report on the implementation of the Board Diversity Policy (including whether we have achieved board diversity) in its annual corporate governance report. Our Board will not have any female Director upon Listing. However, our Company will take opportunities to increase the proportion of female members of the Board when selecting and recommending suitable candidates for Board appointments to help enhance gender diversity in accordance with stakeholder expectations and recommended best practices.

Our Company also intends to promote gender diversity when recruiting staff at the mid to senior level so that our Company will have a pipeline of female senior management and potential successors to the Board. We plan to offer all-rounded trainings to female employees whom we consider to have the suitable experience, skills and knowledge of our operation and business, including but not limited to, business operation, management, accounting and finance, legal and compliance and research and development. We are of the view that such strategy will offer chances for our Board to identify capable female employees to be nominated as a member of the Board in future with an aim to providing our Board with a pipeline of female candidates to achieve gender diversity in our Board in the long run. The Nomination Committee will identify and recommend at least one female candidate to our Board for its consideration on appointment of a Director with the goal to have at least one female Director in our Board within one year after the Listing.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

COMPLIANCE ADVISOR

We have appointed Red Solar Capital Limited as our Compliance Advisor (the “**Compliance Advisor**”) pursuant to Rule 3A.19 of the Listing Rules. The Compliance Advisor will provide us with guidance and advice as to compliance with the requirements under the Listing Rules and applicable laws. Pursuant to Rule 3A.23 of the Listing Rules, our Compliance Advisor will advise our Company in certain circumstances including:

- (a) before the publication of any regulatory announcement, circular, or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (c) where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this Prospectus or where the business activities, developments or results of operation of our Group deviate from any forecast, estimate, or other information in this Prospectus; and
- (d) where the Stock Exchange makes an inquiry to our Company regarding unusual movements in the price or trading volume of its listed securities or any other matters in accordance with Rule 13.10 of the Listing Rules.

Pursuant to Rule 19A.06 of the Listing Rules, the Compliance Advisor will, on a timely basis, inform our Company of any amendment or supplement to the Listing Rules that are announced by the Hong Kong Stock Exchange. The Compliance Advisor will also inform our Company of any new or amended law, regulation or code in Hong Kong applicable to us, and advise us on the continuing requirements under the Listing Rules and applicable laws and regulations.

The terms of appointment of our Compliance Advisor will commence on the Listing Date and is expected to end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date.

COMPETITION

Each of our executive Directors and non-executive Directors confirms that as of the Latest Practicable Date, he or she did not have any interest in a business which competes or is likely to compete, directly or indirectly, with our business and requires disclosure under Rule 8.10 of the Listing Rules.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

RESIGNATION AND APPOINTMENT OF DIRECTORS IN 2021

As of January 1, 2021, the Board of our Company was comprised of Mr. Cai Baogui (蔡報貴), Hu Zhibin (胡志濱), Mr. Li Xinnong (李忻農), Mr. Lyu Feng (呂鋒), Mr. Cao Zhigang (曹志剛), Mr. Xie Zhihong (謝志宏), Mr. You Jianxin (尤建新), Mr. Chen Zhanheng (陳佔恒) and Mr. Yuan Taifang (袁太芳).

On April 23, 2021, our Company convened its annual general meeting, at which Mr. Cai Baogui, Mr. Lyu Feng, Mr. Hu Zhibin, Mr. Li Xinnong, Mr. You Jianxin, Mr. Chen Zhanheng and Mr. Yuan Taifang were re-elected as the directors of the Company, Mr. Li Fei (李飛) and Mr. Huang Weixiong (黃偉雄) were elected as the directors of the Company. On July 2, 2021, Mr. Chen Zhanheng, an independent non-executive director, resigned. Mr. Xu Feng (徐風) was subsequently elected as an independent non-executive director on July 19, 2021.

Both of Mr. Cao Zhigang and Mr. Xie Zhihong ceased to be directors of our Company after completing their terms of appointment (approximately ten years) and did not offer themselves for re-election due to personal commitments. Mr. Chen Zhanheng ceased to be an independent non-executive Director due to his other personal commitments that would occupy much of his time. Each of Mr. Cao Zhigang, Mr. Xie Zhihong and Mr. Chen Zhanheng has confirmed that he has had no disagreement with our Company.

SUBSTANTIAL SHAREHOLDERS

As of November 30, 2021, our total share capital was RMB710,973,590 comprising 710,973,590 A Shares and the following persons directly or indirectly control, or are entitled to exercise the control of, 5% or more of our A Shares:

Shareholders	Nature of Interest	Class	Number of Shares directly or indirectly held	Approximate percentage of shareholding in the relevant class of Shares
Mr. Cai Baogui ⁽¹⁾	Interest in a controlled corporation	A Shares	241,937,600	34.03%
	Interest in a controlled corporation	A Shares	14,710,272	2.07%
	Beneficial owner	A Shares	640,000	0.09%
	Interest of person acting in concert	A Shares	280,353,456	39.43%
Mr. Hu Zhibin ⁽¹⁾	Interest in a controlled corporation	A Shares	241,937,600	34.03%
	Beneficial owner	A Shares	960,000	0.13%
	Interest of person acting in concert	A Shares	280,353,456	39.43%
Mr. Li Xinnong ⁽¹⁾	Interest in a controlled corporation	A Shares	241,937,600	34.03%
	Interest in a controlled corporation	A Shares	22,105,584	3.11%
	Interest of person acting in concert	A Shares	280,353,456	39.43%
Ruide Venture ⁽¹⁾⁽²⁾	Beneficial owner	A Shares	241,937,600	34.03%
Goldwind Holdings	Beneficial owner	A Shares	58,736,320	8.26%
Ganzhou Rare Earth	Beneficial owner	A Shares	43,200,000	6.08%

Notes:

- (1) Our ultimate controlling shareholders, Mr. Cai Baogui, Mr. Hu Zhibin and Mr. Li Xinnong are parties acting in concerts. Please refer to “History, Development and Corporate Structure – Our Ultimate Controlling Shareholders and Parties Acting in Concert Parties Acting in Concert” for further details.
- (2) On September 22, 2021, Ruide Venture pledged 4,800,000 A Shares of our Company to CITIC Securities. Such pledged shares were used as the guarantee of the stock pledge repurchase transaction agreement (股票質押式回購交易業務協議) entered between Ruide Venture and CITIC Securities. Under the agreement, CITIC Securities agreed to grant a loan facility in a maximum principal amount of RMB70,000,000 to Ruide Venture for a term of a year starting from September 22, 2021. As of the Latest Practicable Date, RMB40,000,000 of the loan facility was used to repay the loan under and release the 4,800,000 A Shares pledged in connection to the loan agreement dated October 28, 2020 entered between Jiangxi Jiufa Zhuanyongche Co., Ltd. (江西玖發專用車有限公司) and CITIC Bank Co., Ltd., Ganzhou Branch (中信銀行股份有限公司贛州分行). RMB28,500,000 of the loan facility was used by Xinyu Boxun Automobile Co., Ltd., a company owned as to 47.81% by Mr. Li Xinnong, to produce firefighting equipment and drone.

SUBSTANTIAL SHAREHOLDERS

Immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised), our share capital comprised 710,973,590 A Shares and 125,466,000 H Shares, representing approximately 85% and 15% of the total issued share capital of our Company, respectively.

So far as our Directors are aware, immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised) the following persons will have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us and of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of our Group:

Shareholders	Nature of Interest	Class	Number of Shares directly or indirectly held	Approximate percentage of shareholding in the relevant class of Shares	Approximate percentage of shareholding in the total issued share capital
Mr. Cai Baogui ⁽¹⁾⁽²⁾	Interest in a controlled corporation	A Shares	241,937,600	34.03%	28.92%
	Interest in a controlled corporation	A Shares	14,710,272	2.07%	1.76%
	Beneficial owner	A Shares	640,000	0.09%	0.08%
	Interest of person acting in concert	A Shares	280,353,456	39.43%	33.52%
Mr. Hu Zhibin ⁽¹⁾	Interest in a controlled corporation	A Shares	241,937,600	34.03%	28.92%
	Beneficial owner	A Shares	960,000	0.13%	0.11%
	Interest of person acting in concert	A Shares	280,353,456	39.43%	33.52%
Mr. Li Xinnong ⁽¹⁾⁽³⁾	Interest in a controlled corporation	A Shares	241,937,600	34.03%	28.92%
	Interest in a controlled corporation	A Shares	22,105,584	3.11%	2.64%
	Interest of person acting in concert	A Shares	280,353,456	39.43%	33.52%
Ruide Venture ⁽¹⁾⁽⁴⁾	Beneficial owner	A Shares	241,937,600	34.03%	28.92%

Notes:

- (1) Our ultimate controlling shareholders, Mr. Cai Baogui, Mr. Hu Zhibin and Mr. Li Xinnong are parties acting in concerts. Please refer to “History, Development and Corporate Structure – Our Ultimate Controlling Shareholders and Parties Acting in Concert Parties Acting in Concert” for further details. Immediately following completion of the Global Offering (assuming that the Over-allotment Option is not exercised), our Controlling Shareholders will together control approximately 33.52% of the total issued share capital of our Company. By virtue of the SFO, each Controlling Shareholder will be deemed to be interested in the Shares beneficially owned by other Controlling Shareholders.

SUBSTANTIAL SHAREHOLDERS

- (2) Mr. Cai is the general partner of Ganzhou Xinsheng, which directly hold 14,710,272 A Shares of our Company.
- (3) Mr. Li is the general partner of Ganzhou Geshuo, which will directly hold 22,105,584 A Shares.
- (4) On September 22, 2021, Ruide Venture pledged 4,800,000 A Shares of our Company to CITIC Securities. Such pledged shares were used as the guarantee of the stock pledge repurchase transaction agreement (股票質押式回購交易業務協議) entered between Ruide Venture and CITIC Securities. Under the agreement, CITIC Securities agreed to grant a loan facility in a maximum principal amount of RMB70,000,000 to Ruide Venture for a term of a year starting from September 22, 2021. As of the Latest Practicable Date, RMB40,000,000 of the loan facility was used to repay the loan under and release the 4,800,000 A Shares pledged in connection to the loan agreement dated October 28, 2020 entered between Jiangxi Jiufa Zhuanyongche Co., Ltd. (江西玖發專用車有限公司) and CITIC Bank Co., Ltd., Ganzhou Branch (中信銀行股份有限公司贛州分行). RMB28,500,000 of the loan facility was used by Xinyu Boxun Automobile Co., Ltd., a company owned as to 47.81% by Mr. Li Xinnong, to produce firefighting equipment and drone.

Except as disclosed in this prospectus, our Directors are not aware of any person who will, immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised), have beneficial interests or short positions in any Shares or underlying Shares, which would be required to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly interested in 10% or more of the issued voting shares of any member of our Group. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

SHARE CAPITAL

This section presents certain information regarding our share capital prior to and following the completion of the Global Offering.

BEFORE THE GLOBAL OFFERING

As of November 30, 2021, our registered and issued share capital was RMB710,973,590 comprising 710,973,590 A Shares at the nominal value of RMB1.00 each, all of which are listed on the Shenzhen Stock Exchange.

	Number of Shares	Approximate percentage of issued share capital (%)
A Shares in issue	<u>710,973,590</u>	<u>100</u>

UPON COMPLETION OF THE GLOBAL OFFERING

Immediately following completion of the Global Offering, assuming that the Over-allotment Option is not exercised, our registered and issued share capital will be as follows:

	Number of Shares	Approximate percentage of issued share capital (%)
A Shares in issue	710,973,590	85
H Shares in issue	<u>125,466,000</u>	<u>15</u>
Total	<u>836,439,590</u>	<u>100</u>

SHARE CAPITAL

Immediately following the completion of the Global Offering, assuming that the Over-allotment Option is exercised in full, our registered and issued share capital will be as follows:

	Number of Shares	Approximate percentage of issued share capital (%)
A Shares in issue	710,973,590	83.14
H Shares in issue	144,210,000	16.86
Total	855,183,590	100.00

OUR SHARES

We have two classes of Shares: (i) domestic Shares, namely A Shares (PRC listed Shares issued and subscribed for in RMB within the PRC); and (ii) overseas listed Shares, namely H Shares (overseas listed foreign invested Shares listed in Hong Kong). A Shares and H Shares are all ordinary Shares in the share capital of our Company. However, apart from certain qualified domestic institutional investors in the PRC and the qualified PRC investors under the Shenzhen-Hong Kong Stock Connect, H Shares generally cannot be subscribed for by or traded between legal or natural persons of the PRC. On the other hand, A Shares can only be subscribed for by and traded between legal or natural persons of the PRC, qualified foreign institutional investors or qualified foreign strategic investors approved by the CSRC or the Hong Kong and overseas investors under the Shenzhen-Hong Kong Stock Connect and must be subscribed for and traded in Renminbi. A Shares and H Shares are regarded as different classes of shares under our Articles of Association. The rights conferred on any class of Shareholders may not be varied or abrogated unless approved by a special resolution of the general meeting of Shareholders and by the holders of Shares of that class at a separate meeting. The circumstances which shall be deemed to be a variation or abrogation of the rights of a class are listed in “Appendix III – Summary of the Articles of Association.” However, the procedures for approval by separate classes of Shareholders shall not apply (i) where we issue, upon approval by a special resolution of the Shareholders in a general meeting, either separately or concurrently once every 12 months, not more than 20% of each of our existing issued A Shares and H Shares; (ii) where our plan to issue A Shares and H Shares at the time of our establishment is implemented within 15 months from the date of approval of the relevant regulatory authorities of the PRC, including the CSRC; and (iii) where the transfer of A Shares for listing and trading on the Stock Exchange as H Shares has been approved by the authorized securities approval authorities of the State Council, including the CSRC.

SHARE CAPITAL

The difference between the two classes of shares and provisions on class rights, the dispatch of notices and financial reports to Shareholders, dispute, resolution, registration of Shares on different registers of Shareholders, the method of share transfer and appointment of dividend receiving agents are set out in the Articles of Association and summarized in “Appendix III – Summary of the Articles of Association.”

Except for the differences above, A Shares and H Shares will however rank *pari passu* with each other in all other respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date in this prospectus. All dividends in respect of the H Shares are to be calculated in RMB and paid by us in Hong Kong dollars whereas all dividends in respect of A Shares are to be paid by us in RMB. In addition to cash, dividends may be distributed in the form of Shares. For holders of H Shares, dividends in the form of Shares will be distributed in the form of additional H Shares. For holders of A Shares, dividends in the form of Shares will be distributed in the form of additional A Shares.

Shenzhen-Hong Kong Stock Connect

Pursuant to the announcement jointly made by the SFC and the CSRC regarding the in principle approval for the development of the pilot program for the establishment of mutual stock market access between China and Hong Kong dated August 16, 2016, the Stock Exchange and the Shenzhen Stock Exchange have launched the Shenzhen-Hong Kong Stock Connect on December 5, 2016, which establishes mutual order routing connectivity and related technical infrastructure to enable investors of their respective market to trade designated equity securities listed in the other’s market. Under Shenzhen-Hong Kong Stock Connect, SZSE Securities that are eligible for trading by Hong Kong and overseas investors include all the constituent stocks of the SZSE Component Index and the SZSE Small/Mid Cap Innovation Index which have a market capitalization of not less than RMB6 billion, and all the SZSE-listed A shares which have corresponding H shares listed on SEHK, except (a) SZSE-listed shares which are not traded in RMB; and (b) SZSE-listed shares which are under risk alert or suspension of listing or delisting consolidation period. At the initial stage of Shenzhen-Hong Kong Stock Connect, investors eligible to trade shares that are listed on the ChiNext Market of SZSE through Shenzhen-Hong Kong Stock Connect will be limited to institutional professional investors. Subject to resolution of related regulatory issues, other investors may subsequently be allowed to trade such shares. Among the different types of SEHK-listed securities, only equities listed on the Main Board are included in Shenzhen-Hong Kong Stock Connect. Other products such as stocks listed on GEM, Nasdaq Pilot Program stocks, ETFs, Real Estate Investment Trusts (REITs), structured products, bonds, and other securities are not included. Under Shenzhen-Hong Kong Stock Connect, mainland investors are also able to trade selective SEHK Securities through SZSE members. These include the constituent stocks of the Hang Seng Composite SmallCap Index (“**HSSI**”) which have a market capitalization of not less than HK\$5 billion, and all the H shares of SEHK-listed companies which have A shares listed on SZSE (subject to certain exceptions).

SHARE CAPITAL

APPROVAL FROM HOLDERS OF A SHARES REGARDING THE GLOBAL OFFERING

We have obtained approval from our holders of A Shares to issue H Shares and seek the listing of H Shares on the Stock Exchange. Such approval was obtained at the general meetings of our Company held on July 19, 2021 upon, among other things, the following major terms:

(1) Size of the offer

The proposed number of H Shares to be offered initially shall not exceed 15% of the total issued number of shares as enlarged by the H Shares to be issued pursuant to the Global Offering. The number of H Shares to be issued pursuant to the exercise of the Over-allotment Option shall not exceed 15% of the total number of H Shares to be offered initially pursuant to the Global Offering.

(2) Method of offering

The method of offering shall be by way of a public offer for subscription in Hong Kong and an international offering to institutional and professional investors.

(3) Target investors

The H Shares shall be issued to professional organizations, institutions individual investors and the public.

(4) Price determination basis

The issue price of the H Shares will be determined after due consideration of the interests of existing Shareholders, the acceptance of investors and issuance risks and in accordance with international practices through the demands for orders and book building process, subject to the domestic and overseas capital market conditions and by reference to the valuation level of comparable companies in domestic and overseas markets.

(5) Validity period

18 months from July 19, 2021

CORNERSTONE INVESTORS

THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements (each a “**Cornerstone Investment Agreement**”, and together the “**Cornerstone Investment Agreements**”) with the cornerstone investors set out below (each a “**Cornerstone Investor**”, and together the “**Cornerstone Investors**”), pursuant to which the Cornerstone Investors have agreed to, subject to certain conditions, subscribe at the Offer Price for such number of Offer Shares as set out in the tables below (the “**Cornerstone Placing**”).

Assuming an Offer Price of HK\$33.80, being the low-end of the indicative Offer Price range set out in this prospectus, the total number of Offer Shares to be subscribed by the Cornerstone Investors would be 63,447,400 Offer Shares, representing approximately 50.56% of the H Shares in issue upon completion of the Global Offering and approximately 7.60% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised and all of the Incentive Shares have been issued).

Assuming an Offer Price of HK\$37.05, being the mid-point of the indicative Offer Price range set out in this Prospectus, the total number of Offer Shares to be subscribed by the Cornerstone Investors would be 58,430,800 Offer Shares, representing approximately 46.57% of the H Shares in issue upon completion of the Global Offering and approximately 7.00% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised and all of the Incentive Shares have been issued).

Assuming an Offer Price of HK\$40.30, being the high-end of the indicative Offer Price range set out in this Prospectus, the total number of Offer Shares to be subscribed by the Cornerstone Investors would be 54,223,600 Offer Shares, representing approximately 43.22% of the H Shares in issue upon completion of the Global Offering and approximately 6.49% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised and all of the Incentive Shares have been issued).

To our Company’s best knowledge, each of the Cornerstone Investors and their respective ultimate beneficial owners is an Independent Third Party and hence will count towards the public float of our Company under Rule 8.08 of the Listing Rules. For each Cornerstone Investors who subscribe for our H Shares through an asset manager that is a qualified domestic institutional investor (“**QDII**”), such asset manager is an Independent Third Party and is not a connected client of the lead broker or of any distributors (as defined in paragraph 5 of the Placing Guidelines).

Our Company is of the view that, leveraging on the Cornerstone Investors’ investment experience, the Cornerstone Placing will help raise the profile of our Company and to signify that such investors have confidence in our business and prospect. Our Company became acquainted with each of the Cornerstone Investors through introduction by the Joint Global Coordinators in the Global Offering.

CORNERSTONE INVESTORS

The Cornerstone Placing will form part of the International Offering and the Cornerstone Investors will not subscribe for any Offer Shares under the Global Offering (other than pursuant to the Cornerstone Investment Agreements). The Offer Shares to be subscribed by the Cornerstone Investors will rank *pari passu* in all respect with the fully paid H Shares in issue. Immediately following the completion of the Global Offering, none of the Cornerstone Investors will become a substantial shareholder of our Company, the Cornerstone Investors or their close associates will not, by virtue of their cornerstone investments, have any Board representation in our Company. Other than a guaranteed allocation of the relevant Offer Shares at the final Offer Price, the Cornerstone Investors do not have any preferential rights in the Cornerstone Investment Agreements compared with other public Shareholders.

To the best knowledge of our Company, save for the fact that state-owned enterprises hold certain interests in Goldwind Holdings (one of our existing Shareholders) and certain of the Cornerstone Investors as set out in the paragraph headed “– The Cornerstone Investors” in this section below, (i) each of the Cornerstone Investors is an Independent Third Party and is not our connected person (as defined in the Listing Rules); (ii) none of the Cornerstone Investors is accustomed to take instructions from our Company, its subsidiaries, the Directors, chief executive, Controlling Shareholders, substantial Shareholders, existing Shareholders or their respective close associates in relation to the acquisition, disposal, voting, or other disposition of Shares registered in its name or otherwise held by it; and (iii) none of the subscription of the relevant Offer Shares by any of the Cornerstone Investors is financed by our Company, the Directors, chief executives, Controlling Shareholders, substantial Shareholders, existing Shareholders or any of its subsidiaries or their respective close associates. Each of the Cornerstone Investors has confirmed that all necessary approvals have been obtained with respect to the Cornerstone Placing and that no specific approval from any stock exchange (if relevant) or its shareholders is required for the relevant cornerstone investment as each of them has general authority to invest.

As confirmed by each of the Cornerstone Investors, their subscription under the Cornerstone Placing would be financed by their own internal resources. None of the Cornerstone Investors or any of their affiliates, directors, officers, employees, agents or representatives, has accepted or entered into any agreement or arrangement to accept any direct or indirect benefits by side letter or otherwise, from the Company, any member of the Group, or any of their respective affiliates, directors, officers, employees, agents or representatives in the Global Offering or otherwise has engaged in any conduct or activity inconsistent with, or in contravention of, Guidance Letter HKEX-GL51-13. There is no side agreement or arrangement between the Company and our Cornerstone Investors.

If there is over-allocation in the International Offering, the settlement of such over-allocation may be effected through delayed delivery of the Offer Shares to be subscribed by certain Cornerstone Investors under the Cornerstone Placing. Where delayed delivery takes place, each Cornerstone Investor that may be affected by such delayed delivery has agreed that it shall nevertheless pay for the relevant Offer Shares before dealings commence on the Listing Date. As such, there will be no deferred settlement for the investment amounts. If there is no over-allocation in the International Offering, delayed delivery will not take place. The total

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number of Offer Shares to be subscribed by the Cornerstone Investors pursuant to the Cornerstone Placing may be affected by reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in the section headed “Structure of the Global Offering – The Hong Kong Public Offering – Reallocation”. The Cornerstone Investors will not subscribe for or purchase any Offer Shares under the Global Offering (other than pursuant to the respective Cornerstone Investment Agreements).

Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the allotment results announcement of our Company to be published on or around 13 January, 2022.

THE CORNERSTONE INVESTORS

The information about our Cornerstone Investors set forth below has been provided by our Cornerstone Investors in connection with the Cornerstone Placing.

China State-owned Enterprises Mixed Ownership Reform Fund

The China State-owned Enterprise Mixed Ownership Reform Fund Co., Ltd. (中國國有企業混合所有制改革基金有限公司) (“**Mixed-ownership Reform Fund**”) is a national fund approved by the State Council, entrusted by the State-owned Assets Supervision and Administration Commission of the State Council (“**SASAC**”) and initiated by China Chengtong Holdings Group Co., Ltd. (中國誠通控股集團有限公司) (“**China Chengtong**”). The Mixed-ownership Reform Fund was established in Shanghai in December 2020, with a total asset under management of RMB200 billion and an initial registered capital of RMB70.7 billion. The shareholders of the Mixed-ownership Reform Fund include a number of Chinese central enterprises, local government SOEs and private enterprises, amongst which the largest shareholder is China Chengtong with a shareholding of approximately 33.95%. China Chengtong is 100% controlled by the State Council. The Mixed-ownership Reform Fund is principally engaged in equity investment, asset management, investment advisory and corporate management advisory, with an investment focus on key strategic fields, core technical domains and others.

CR Alpha Investment II Limited

CR Alpha Investment II Limited (“**CR Alpha**”) is an investment company indirectly owned and controlled by the China Resources (Holdings) Company Limited (“**CR Group**”). CR Group is a diversified holding company registered in Hong Kong. To date, the scales of CR Group’s businesses span from consumer products to power, real estate, cement, gas, pharmaceuticals and finance. As a Chinese state-owned enterprise, CR Group is now implementing the “14th Five-Year” strategic plan through its establishment in Hong Kong. The strategic plan aims to reshape the group’s overall strategies by emphasizing high-quality development, strengthening innovative leadership, optimizing resource allocation, cultivating and laying foundations for core businesses, maintaining CR Group’s leading position in the

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industry, providing customers with high-quality products and services, continuously improving shareholder value, and ensuring the group develops as a state-owned capital investment company with its own characteristics, to enable CR Group to grow into a world-class enterprise that is globally competitive.

HHLR Fund, L.P. and YHG Investment, L.P.

HHLR Fund, L.P. and YHG Investment, L.P. are limited partnerships formed under the laws of the Cayman Islands. HHLR Advisors, Ltd. (“**HHLR**”) serves as the investment manager of HHLR Fund, L.P. and of YHG Investment, L.P. HHLR is a global asset management firm focused on investing in high quality businesses that achieve sustainable growth. HHLR partners with exceptional entrepreneurs and management teams. The group invests in the healthcare, business services, consumption and industrials sectors.

CITIC-Prudential Life Insurance Company Limited

CITIC-Prudential Life Insurance Company Limited (“**CITIC-Prudential**”) is a limited liability company incorporated in the PRC, with approximately 50.00% of its equity interests held by CITIC Corporation Limited (中國中信有限公司) which is in turn wholly-owned by CITIC Limited (a company listed on the Main Board of the Stock Exchange with stock code 267); and the remaining 50.00% of its equity interests held by Prudential Corporation Holdings Limited (英國保誠集團股份有限公司) which is a subsidiary of Prudential PLC (a company listed on the London Stock Exchange (PRU:LN) and Main Board of the Stock Exchange, stock code: 2378). CITIC-Prudential is mainly engaged in (i) life insurance, health insurance, accident insurance and other insurance businesses; and (ii) the re-insurance of the above businesses.

SINO-BLR Industrial Investment Fund, L.P.

SINO-BLR Industrial Investment Fund, L.P. (“**SINO-BLR**”) is a limited partnership established under the laws of the Cayman Islands with China Merchants SINO-BLR GP Limited acting as the general partner. SINO-BLR Industrial Investment Fund L.P. is sponsored by SASAC and initiated by China Merchants Group, with the purpose to implement the One Belt One Road initiative. The fund was established in April 2017, with a total asset under management of US\$585 million, focusing on the sectors of artificial intelligence, autonomous vehicles, health care equipment or technologies, etc.

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The tables below set forth details of the Cornerstone Placing:

Based on the Offer Price of HK\$33.80 (being the low-end of the indicative Offer Price range)

Cornerstone Investor	Investment amount/shares	Number of Offer Shares to be acquired ⁽¹⁾	Assuming the Over-allotment Option is not exercised		Assuming the Over-allotment Option is fully exercised	
			Approximate % of the H Shares in issue upon completion of the Global Offering	Approximate % the total Shares in issue upon completion of the Global Offering	Approximate % of the H Shares in issue upon completion of the Global Offering	Approximate % the total Shares in issue upon completion of the Global Offering
Mixed-ownership Reform Fund	US\$148.5 million	34,270,800	27.31%	4.10%	23.76%	4.01%
CR Alpha	US\$49.5 million	11,423,600	9.10%	1.37%	7.92%	1.34%
HHLR Fund, L.P. and YHG Investment, L.P.	6,260,600 H Shares	6,260,600	4.99%	0.75%	4.34%	0.73%
CITIC-Prudential	US\$30 million	6,923,400	5.52%	0.83%	4.80%	0.81%
SINO-BLR	US\$19.798 million	4,569,000	3.64%	0.55%	3.17%	0.53%
Total		63,447,400	50.56%	7.60%	43.99%	7.42%

Based on the Offer Price of HK\$37.05 (being the mid-point of the indicative Offer Price range)

Cornerstone Investor	Investment amount/shares	Number of Offer Shares to be acquired ⁽¹⁾	Assuming the Over-allotment Option is not exercised		Assuming the Over-allotment Option is fully exercised	
			Approximate % of the H Shares in issue upon completion of the Global Offering	Approximate % the total Shares in issue upon completion of the Global Offering	Approximate % of the H Shares in issue upon completion of the Global Offering	Approximate % the total Shares in issue upon completion of the Global Offering
Mixed-ownership Reform Fund	US\$148.5 million	31,264,600	24.92%	3.74%	21.68%	3.66%
CR Alpha	US\$49.5 million	10,421,400	8.31%	1.25%	7.23%	1.22%
HHLR Fund, L.P. and YHG Investment, L.P.	6,260,600 H Shares	6,260,600	4.99%	0.75%	4.34%	0.73%
CITIC-Prudential	US\$30 million	6,316,000	5.03%	0.76%	4.38%	0.74%
SINO-BLR	US\$19.798 million	4,168,200	3.32%	0.50%	2.89%	0.49%
Total		58,430,800	46.57%	7.00%	40.52%	6.84%

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Based on the Offer Price of HK\$40.30 (being the high-end of the indicative Offer Price range)

Cornerstone Investor	Investment amount/shares	Number of Offer Shares to be acquired ⁽¹⁾	Assuming the Over-allotment Option is not exercised		Assuming the Over-allotment Option is fully exercised	
			Approximate % of the H Shares in issue upon completion of the Global Offering	Approximate % the total Shares in issue upon completion of the Global Offering	Approximate % of the H Shares in issue upon completion of the Global Offering	Approximate % the total Shares in issue upon completion of the Global Offering
Mixed-ownership Reform Fund	US\$148.5 million	28,743,400	22.91%	3.44%	19.93%	3.36%
CR Alpha	US\$49.5 million	9,581,000	7.64%	1.15%	6.64%	1.12%
HHLR Fund, L.P. and YHG Investment, L.P.	6,260,600 H Shares	6,260,600	4.99%	0.75%	4.34%	0.73%
CITIC-Prudential	US\$30 million	5,806,600	4.63%	0.69%	4.03%	0.68%
SINO-BLR	US\$19.798 million	3,832,000	3.05%	0.46%	2.66%	0.45%
Total		54,223,600	43.22%	6.49%	37.60%	6.34%

Notes:

- (1) Subject to rounding down to the nearest whole board lot of 200 H Shares.

CLOSING CONDITIONS

The obligation of each of the Cornerstone Investors to acquire the Offer Shares under the respective Cornerstone Investment Agreement is subject to, among other things, the following closing conditions:

- (i) the Hong Kong Underwriting Agreement and the International Underwriting Agreement being entered into and having become effective and unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in the Hong Kong Underwriting Agreement and the International Underwriting Agreement, and neither of the Hong Kong Underwriting Agreement nor the International Underwriting Agreement having been terminated;
- (ii) the Offer Price having been agreed in accordance with the time and manner stipulated in this prospectus;
- (iii) the Listing Committee having granted the approval for the listing of, and permission to deal in, the H Shares (including the Shares under the Cornerstone Placing) as well as other applicable waivers and approvals and such approval, permission or waiver having not been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;

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- (iv) no laws shall have been enacted or promulgated which prohibits the consummation of the transactions contemplated in Hong Kong Public Offering, the International Offering or the relevant Cornerstone Investment Agreements, and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions; and

- (v) the respective representations, warranties, acknowledgements, undertakings and confirmations of the Cornerstone Investor under the relevant Cornerstone Investment Agreements are and will be (as of the closing of the relevant Cornerstone Investment Agreements) accurate and true in all respects and not misleading and that there is no material breach of the relevant Cornerstone Investment Agreement on the part of the Cornerstone Investor.

RESTRICTIONS ON THE CORNERSTONE INVESTOR

Each of the Cornerstone Investors has agreed that it will not, whether directly or indirectly, at any time during the period of six months from the Listing Date (the “**Lock-up Period**”), dispose of any of the Offer Shares they have purchased pursuant to the relevant Cornerstone Investment Agreements, save for certain limited circumstances, such as transfers to any of its wholly-owned subsidiaries who will be bound by the same obligations of such Cornerstone Investor, including the Lock-up Period restriction.

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You should read the following discussion and analysis in conjunction with our audited consolidated financial information, included in the Accountant's Report in Appendix I to this Prospectus, together with the accompanying notes. Our consolidated financial information has been prepared in accordance with IFRSs, which may differ in material aspects from generally accepted accounting principles in other jurisdictions. You should read the entire Accountant's Report and not merely rely on the information contained in this section.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. For details, see "Forward-looking Statements" and "Risk Factors" in this prospectus.

OVERVIEW

We are a leading producer of high-performance rare earth permanent magnets. We ranked first in the world by high-performance REPM production volume in 2020 with a market share of approximately 14.5%, according to Frost & Sullivan.

We primarily engage in the manufacture and sales of high-performance NdFeB PMs. As of the Latest Practicable Date, we operated a production base located in Ganzhou City, Jiangxi Province, China. We design high-performance NdFeB PMs and develop procurement and production plans based on customer requirements. We purchase rare earth from, and have maintained long-term and firm strategic cooperation with, major rare earth suppliers in China. Leveraging our facilities and technologies, we carry out mass production of customized high-performance NdFeB PM and generally store such products at our warehouses for delivery to our customers. Our customers mainly include leading NEV and automotive part producers, wind turbine generator producers, VFAC manufacturers, 3C manufacturers and elevator manufacturers. We primarily adopt a cost-plus pricing mechanism for our high-performance NdFeB PMs.

During the Track Record Period, we achieved rapid financial growth and high levels of ROE. Our revenue increased from RMB1,282.0 million in 2018 to RMB1,630.1 million in 2019 and further to RMB2,288.7 million in 2020, representing a CAGR of 33.6% from 2018 to 2020. In 2020, our weighted ROE was 17.1%.

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BASIS OF PREPARATION

The historical financial information of our Group has been prepared in accordance with all applicable IFRSs issued by International Accounting Standards Board (“IASB”). All IFRSs effective for the accounting period commencing from January 1, 2021, together with the relevant transitional provisions, have been adopted by our Group in the preparation of the historical financial information. The historical financial information has been prepared under the historical cost convention, except for forward exchange agreements, notes receivables at fair value through other comprehensive income (“FVOCI”) and wealth management products which have been measured at fair value. The preparation of the historical financial information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to our historical financial information are disclosed in Note 5 of the Appendix I to this prospectus.

The Reporting Accountant has reviewed the interim comparative financial information of our Group which comprises the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended June 30, 2020 and other explanatory information. The Reporting Accountant has conducted its review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the International Auditing & Assurance Standards Board. For more details, please refer to Appendix I to this prospectus.

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. All intra-group transactions and balances have been eliminated on consolidation.

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SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, affected by a number of factors, many of which may be beyond our control. A discussion of the key factors is set out below.

Growth in downstream sectors

We sell our high-performance NdFeB PMs for use in our downstream sectors, in particular the NEV, wind power and energy-saving VFAC sectors. During the Track Record Period, the growth in these sections drove up the demand for our products and led to increases in our revenue and profit. On the other hand, any setback in a downstream sector may cause a reduction in the demand from such sector of our products. For example, a temporary slowdown in the NEV sector in 2019 and rebound in 2020 led to fluctuations in our revenue from such sector in the same years. The growth of our downstream sectors is affected by a variety of factors, including government policies and market demand. Going forward, all three sectors are expected to achieve sizeable growth in the coming years. According to Frost & Sullivan, between 2020 and 2025, the consumption of high-performance NdFeB PMs is expected to increase:

- in the NEV sector from approximately 4,060 tonnes to approximately 16,300 tonnes in China and from approximately 9,760 tonnes to approximately 37,510 tonnes globally;
- in the wind power sector from approximately 9,100 tonnes to approximately 16,820 tonnes in China and from approximately 12,880 tonnes to approximately 19,620 tonnes globally; and
- in the energy-saving VFAC sector from approximately 8,340 tonnes to approximately 17,730 tonnes in China and from 9,120 tonnes to approximately 19,700 tonnes globally.

We expect the projected future growth in our downstream sections as mentioned above to continue to drive up the demand for our products. Further, as REPMs are anticipated to be applied to a wider range of sectors, we proactively expand our business and have become a supplier of high-performance REPM materials to leading customers in 3C, energy-saving elevators, robotics and intelligent manufacturing, rail transit and other fields. Any significant growth in any of these sectors in the future may also lead to an increase in the demand for REPMs.

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Expansion of our production capacity

Growth in our revenue and market share depends to a large extent on our ability to expand our production capacity. During the Track Record Period, we have strategically scaled up our production capacity in anticipation of the substantial growth of our downstream sectors. Our annual production capacity of NdFeB PM blank increased from 7,000 tonnes in 2018 to 8,800 tonnes in 2019 and further to 12,800 tonnes in 2020, representing a CAGR of 35.2%. During the Track Record Period, we have maintained high utilization rates at our facilities. In order to meet the fast-growing market demand for REPMs, we plan to further expand our production capacity by upgrading our existing production facilities in Jiangxi and constructing additional production bases in Baotou in Inner Mongolia and Ningbo in Zhejiang. We believe our expansion projects will help us expand our market share worldwide and consolidate the vertical business line to generate larger profits. We may also invest in additional expansion projects as we continue to grow our market share and income. See “Business – Production – Production Expansion Plan.”

Fluctuations in rare earth prices

Rare earth accounts for the largest portion of cost of sales, accounting for 70.8%, 72.6%, 75.7% and 78.6% of our total cost of sales in 2018, 2019, 2020 and the six months ended June 30, 2021, respectively. An increase in the price of rare earth, in particular NdFeB, will lead to an increase in our cost of sales. Historically, rare earth price has been subject to significant fluctuations. Due to constraints such as production capacity and government-imposed restrictions, rare earth supply may fall short of an unexpected increase in market demand, driving up rare earth price significantly. There were two major price increases of rare earth in 2017 and 2019, respectively, each of which lasted for less than half a year. The price increase of rare earth in 2020 lasted longer and was more substantial. According to Frost & Sullivan, the prices of rare earth metals and alloys in China, including Nd, Tb, Pr-Nd and Dy-Fe, are generally expected to continue to increase from 2020 to 2025. We sell high-performance NdFeB PMs by taking purchase orders from, or enter into sales agreements with, downstream customers, and mainly adopt a cost-plus pricing mechanism for our products. In the event of a significant increase of rare earth price, we may not be able to reach an agreement with our customers to adjust the prices of our products, which may impact our profitability.

Supply of rare earth

Rare earth production is under strict controls in China. Given that the Chinese government imposed production restrictions of rare earth in the form of mining quotas, which could limit the amount of raw material available to rare earth downstream sectors, we have entered into long-term rare earth supply agreements with certain of our major suppliers to ensure a long-term stable supply of rare earth. See “Business – Suppliers” for details. According to Frost & Sullivan, there are only a limited number of rare earth producers in China due to strict government control on rare earth production. Consequently, there was a concentration in our procurement from the five largest suppliers. To mitigate our supplier

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concentration, we have established business relationship with five of the six rare earth groups in China (with themselves or companies these rare earth groups directly or indirectly hold equity interests therein). Given the difficulty in further diversifying our rare earth procurement sources, we expect to continue to rely on a limited number of rare earth suppliers in the foreseeable future. In the event that any supplier ceases to supply to us, and we are unable to procure such raw materials from alternative suppliers on acceptable commercial terms and in a timely manner, our business, financial condition and results of operations may be materially and adversely affected.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our historical financial information. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. Estimates and judgments are continually reevaluated and are based on historical experience and other factors, including industry practices and expectations of future events that we believe to be reasonable under the circumstances. We did not change our assumptions or estimates during the Track Record Period and have not noticed any material errors regarding our assumptions or estimates. Under current circumstances, we do not expect that our assumptions or estimates are likely to change significantly in the future. When reviewing our historical financial information, you should consider (i) our critical accounting policies, (ii) the judgments and other uncertainties affecting the application of such policies and (iii) the sensitivity of reported results to changes in conditions and assumptions.

We set forth below those accounting policies that we believe are of critical importance to us or involve the most significant estimates and judgments used in the preparation of our historical financial information. Our significant accounting policies and estimates, which are important for an understanding of our financial condition and results of operations, are set forth in detail in Notes 4 and 5 to the Accountants' Report in Appendix I to this prospectus.

Significant Accounting Policies

Revenue Recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognized 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.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

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Revenue from the sale of products is recognized at the point in time when control of the asset is transferred to the customer, generally on receipts of the products by the customers.

Other income

Interest income is recognized 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 instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

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. 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 capitalized 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 recognizes 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 estimated useful lives and the annual depreciation rates used for this purpose are as follows:

	Estimated useful lives	Annual depreciation rates
Machinery and equipment	5 to 10 years	9.5% to 19%
Buildings	20 to 40 years	2.375% to 4.75%
Furniture and fixtures	5 to 10 years	9.5% to 19%
Motor vehicles	4 to 6 years	15.83% to 23.75%
Office and other equipment	4 to 6 years	15.83% to 23.75%

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 the end of each of the Relevant Periods.

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

Construction in progress represents buildings, machinery and equipment under construction or installation, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and capitalized borrowing costs on related borrowed funds 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.

Fair value measurement

The Group measures certain of its financial assets at fair value at the end of each of the Relevant Periods. 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, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial information are categorized 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;

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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 recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each of the Relevant Periods.

The valuation of financial assets at FVOCI were determined based on the discounted cash flow assuming the discount rate which will be realized upon subsequent settlement and assessed by our management.

In relation to the valuation of financial assets at FVOCI, our Directors adopted the following procedures: (i) reviewing the terms in relation to the bank acceptance notes; and (ii) carefully considering all information especially those unobservable input, such as discount rates which require management assessments and estimates. Based on the above procedures, our Directors are of the view that the valuation of the financial assets measured at FVOCI is fair and reasonable, and the financial statements of our Group are properly prepared.

Details of the fair value measurement of our level 3 financial assets are disclosed in note 44 to the Accountant's Report issued by our Reporting Accountant in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Report on Historical Financial Information in Investment Circulars" issued by HKICPA set forth in Appendix I to this prospectus.

In relation to the valuation of financial assets at fair value through profit or loss, we use observable input, such as forward exchange rates, contract exchange rates.

In relation to the foregoing, the Joint Sponsors have (i) discussed with our management with a view to understanding the nature and terms of our financial assets at FVOCI and financial assets at fair value through profit or loss and our work done in fair value estimation; (ii) reviewed the Accountants' Report set out in Appendix I to this prospectus, including Notes 25 and 27 regarding our financial assets at FVOCI and financial assets at fair value through profit or loss, respectively, as of December 31, 2018, 2019 and 2020 and June 30, 2021 and the nature of such assets as of each period ends; and (iii) discussed with the Reporting Accountants on their work done in relation to our valuation of financial assets at FVOCI and financial assets at fair value through profit or loss generally, including the methodology, key bases and assumptions used. On the basis of (i) the work done and representation by our Directors; (ii) the opinion of the Reporting Accountants (see page I-2) that the Accountants' Report in Appendix I to this prospectus gives a true and fair view of the financial position and performance of our Group; and (iii) the Joint Sponsors' due diligence as discussed above, provided that there were no misrepresentations or omissions to the Joint Sponsors' due diligence enquiries, nothing has come to the attention of Joint Sponsors that would lead them to cast doubts on our fair value estimation of our financial assets at FVOCI and financial assets at fair value through profit or loss.

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Impairment of financial assets

The Group recognizes 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 recognized 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 of the reporting date with the risk of a default occurring on the financial instrument as of 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.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 60 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.

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Debt investments at fair value through other comprehensive income and financial assets at amortized 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 or when the Group applies the practical expedient of not adjusting the effect of 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 recognizes 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.

Significant Accounting Estimates

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.

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 analyzed.

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The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in Note 24 to the Historical Financial Information.

Estimation of inventories under net realizable value

In accordance with the Group's accounting policy, the Group's management tests whether inventories suffered any impairment based on estimates of the net realizable value of the inventories. For different types of inventories, it requires the estimation on selling prices, costs of conversion, selling expenses and the related tax expense to calculate the net realizable value of inventories. For inventories held for executed sales contracts, management estimates the net realizable value based on the contracted price. For raw materials and work-in-progress, management has established a model in estimating the net realizable value at which the inventories can be realized in the normal course of business after considering the Group's manufacturing cycles, production capacity and forecasts, estimated future conversion costs and selling prices. Management also takes into account the price or cost fluctuations and other related matters occurring after the end of the reporting period which reflect conditions that existed at the end of the reporting period.

It is reasonably possible that if there is a significant change in circumstances including the Group's business and the external environment, outcomes within the next financial year would be significantly affected. Further details are included in Note 23 to Appendix I to this prospectus.

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DESCRIPTION OF SELECTED COMPONENTS OF STATEMENT OF PROFIT OR LOSS

The following table sets forth our consolidated statements of comprehensive profit or loss for the periods indicated:

	Years ended December 31,			Six Months ended June 30,	
	2018	2019	2020	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i>
Revenue	1,282,004	1,630,117	2,288,664	915,534	1,766,459
Cost of sales	(997,893)	(1,285,956)	(1,745,679)	(707,372)	(1,336,655)
Gross Profit	<u>284,111</u>	<u>344,161</u>	<u>542,985</u>	<u>208,162</u>	<u>429,804</u>
Other income and gains	52,316	31,723	63,178	22,171	40,156
Selling and distribution expenses	(19,694)	(17,793)	(17,053)	(7,822)	(12,558)
Administrative expenses	(60,403)	(61,818)	(104,336)	(34,113)	(88,214)
Research and development expenses	(55,120)	(63,196)	(103,175)	(37,271)	(78,099)
Impairment losses on inventories	(5,304)	(3,875)	(5,444)	(2,137)	(3,183)
Impairment losses on financial assets, net	(942)	(7,328)	(6,953)	(703)	(322)
Other expenses	(922)	(1,238)	(4,323)	(3,365)	(757)
Finance costs	(32,460)	(42,099)	(73,859)	(35,790)	(34,991)
Foreign exchange differences, net	354	851	(10,564)	(4,532)	(2,451)
Share of loss of associates	(2,924)	(647)	(1,739)	(890)	(2,271)
PROFIT BEFORE TAX	<u>159,012</u>	<u>178,741</u>	<u>278,717</u>	<u>103,710</u>	<u>247,114</u>
Income tax expenses	(12,665)	(22,144)	(34,017)	(12,156)	(26,531)
PROFIT FOR THE YEAR/PERIOD	<u>146,347</u>	<u>156,597</u>	<u>244,700</u>	<u>91,554</u>	<u>220,583</u>
Attributable to:					
Owners of the parent	147,019	156,889	244,502	91,632	220,342
Non-controlling interests	(672)	(292)	198	(78)	241
	<u>146,347</u>	<u>156,597</u>	<u>244,700</u>	<u>91,554</u>	<u>220,583</u>

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Revenue

During the Track Record Period, we derived all of our revenue from the sales of high-performance NdFeB PMs. For the years ended December 31, 2018, 2019, and 2020 and the six months ended June 30, 2020 and 2021, we generated total revenue of RMB1,282.0 million, RMB1,630.1 million, RMB2,288.7 million, RMB915.5 million and RMB1,766.5 million, respectively. Our revenue primarily represents the fair value of the consideration received and receivable for our products sold net of value-added tax.

The following table sets forth a breakdown of our revenue by product category and downstream application for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2018		2019		2020		2020		2021	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
	<i>(unaudited)</i>									
High-performance NdFeB										
PM finished products	1,193,019	93.1	1,605,012	98.5	2,243,354	98.0	903,409	98.7	1,736,227	98.3
– NEVs and automotive parts	317,781	24.8	219,871	13.5	325,557	14.2	127,024	13.9	317,088	18.0
– PM wind turbine generators	386,269	30.1	855,212	52.5	879,019	38.4	375,509	41.0	489,542	27.7
– Energy-saving VFACs	371,466	29.0	422,287	25.9	878,295	38.4	339,491	37.1	776,654	43.9
– Energy-saving elevators	44,491	3.5	59,112	3.6	70,284	3.1	30,591	3.3	42,408	2.4
– Robotics and intelligent manufacturing	73,012	5.7	48,530	3.0	49,077	2.1	29,880	3.3	58,254	3.3
– 3C	–	–	–	–	41,122	1.8	914	0.1	52,281	3.0
NdFeB PM blank	88,985	6.9	25,105	1.5	45,310	2.0	12,125	1.3	30,232	1.7
Total	1,282,004	100.0	1,630,117	100.0	2,288,664	100.0	915,534	100.0	1,766,459	100.0

Our revenue increased by 92.9% from RMB915.5 million for the six months ended June 30, 2020 to RMB1,766.5 million for the six months ended June 30, 2021, mainly because (i) the new national standard Minimum Allowable Values of the Energy Efficiency and Energy Efficiency Grades for Room Air Conditioners (《房間空氣調節器能效限定值及能效等級》) (GB 21455-2019) (the “**New AC Standard**”) implemented by the NSAC in July 2020, requires the overall energy efficiency standard of air-conditioner industry to increase by 30% by 2022, while only energy-saving VFACs using high-performance sintered NdFeB PMs can meet the requirements of the new standard, according to Frost & Sullivan, which resulted in the growth in demand for NdFeB PMs from the energy-saving VFAC sector; and (ii) the growth in both domestic and overseas NEV sector drove an increase in demand of our products, as governments all over the world implemented policies in 2020 to facilitate the development of NEV market for the next several years. For details, see “Industry Overview – Analysis of Global and China REPM Market – Future Opportunities – New Energy Vehicles Segment”.

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Our revenue increased by 40.4% from RMB1,630.1 million in 2019 to RMB2,288.7 million in 2020, mainly attributable to (i) a significant increase in revenue generated from domestic energy-saving VFAC sector from RMB422.3 million in 2019 to RMB878.3 million in 2020, as a result of the New AC Standard implemented by the NSAC in July 2020, driving energy-saving VFAC value chain participants to use sintered REPMs in their products. According to Frost & Sullivan, although it takes time for the market to respond to such policy, the domestic production of energy-saving VFACs increased from 69.4 million units in 2019 to 83.1 million units in 2020, driving a 20.1% increase in the domestic consumption of high-performance NdFeB PMs in the energy-saving VFAC sector for the same period; (ii) the establishment of our cooperation with customers in 3C sector in 2020 and revenue of RMB41.1 million recorded from such sector accordingly; (iii) an increase in revenue generated from NEV sector from RMB219.9 million in 2019 to RMB325.6 million in 2020, mainly attributable to the development of both domestic and overseas NEV markets. In 2020, the PRC government promulgated a series of policies to stimulate NEV consumption, including extension of the NEV purchase subsidy until the end of 2022, which led to a rebound in the domestic NEV consumption in 2020. According to Frost and Sullivan, the global sales of NEV increased by 43.9% from 2.0 million units in 2019 to 2.9 million units in 2020, driving an increase in the global consumption of high-performance NdFeB PMs in NEV sector by 42.6% from 6.8 thousand tonnes in 2019 to 9.8 thousand tonnes in 2020. According to the same source, the domestic sales of NEV increased by 17.4% from 1.1 million units in 2019 to 1.2 million units in 2020, driving an increase in the domestic consumption of high-performance NdFeB PMs in NEV sector by 14.7% from 3.5 thousand tonnes in 2019 to 4.1 thousand tonnes in 2020.

Our revenue increased by 27.2% from RMB1,282.0 million in 2018 to RMB1,630.1 million in 2019, mainly because (i) our revenue generated from wind power sector increased from RMB386.3 million in 2018 to RMB855.2 million in 2019, primarily because market players in such sector increased their investments in newly installed capacity with a view to benefiting from government subsidies that are available if certain milestone is achieved within a specified period. In May 2019, the NDRC promulgated the Notice on Improving the On-grid Tariff Policy for Wind Power Sector (《關於完善風電上網電價政策的通知》), which stated that onshore wind power generation projects approved before the end of 2018 will not be able to enjoy an on-grid tariff subsidy if they have not been connected to the grid before the end of 2020; onshore wind power generation projects approved in 2019 and 2020 will not be able to enjoy an on-grid tariff subsidy if they have not been connected to the grid before the end of 2021; and onshore wind power generation projects approved since January 1, 2021 will no longer enjoy an on-grid tariff subsidy; and (ii) our revenue generated from energy-saving VFAC sector increased from RMB371.5 million in 2018 to RMB422.3 million in 2019, as the promulgation of Notice on the Issuance of the Green and Efficient Refrigeration Action Plan (《關於印發<綠色高效製冷行動方案>的通知》) by relevant PRC authorities in June 2019, which requires the overall energy efficiency of household air-conditioners, variable refrigerant volume air-conditioning system and other refrigeration products to increase by 30% by 2022, drove a significant increase in the demand for our products from energy-saving VFAC producers in 2019. Such increase was partially offset by (i) a decrease in revenue generated from NEV sector from RMB317.8 million in 2018 to RMB219.9 million in 2019, as a result of the slowdown in the development of NEV sector in 2019 led by a reduction in the government subsidies granted to the NEV sector; and (ii) a decrease in our revenue generated from robotics and intelligent manufacturing sector from RMB73.0 million in 2018 to RMB48.5 million in 2019, primarily due to the changes in demand of our products from certain customers as they adjusted procurement plans based on their commercial considerations.

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Cost of Sales

Our cost of sales primarily consists of cost of raw materials and consumables, employee benefit expenses and other manufacturing overheads.

The following table sets forth a breakdown of our cost of sales for the period indicated:

	Year ended December 31,						Six Months ended June 30,			
	2018		2019		2020		2020		2021	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
	<i>(unaudited)</i>									
Raw materials and consumables	769,338	77.1	1,001,532	77.9	1,413,872	81.0	556,066	78.6	1,114,238	83.3
- Rare earth	706,227	70.8	934,090	72.6	1,320,996	75.7	520,737	73.6	1,051,218	78.6
- Other raw materials and consumables	63,111	6.3	67,442	5.3	92,876	5.3	35,329	5.0	63,020	4.7
Employee benefit expenses	92,451	9.3	114,844	8.9	129,700	7.4	58,108	8.2	88,138	6.6
Other manufacturing overheads	73,570	7.4	90,424	7.0	105,081	6.0	48,549	6.9	73,454	5.5
Other expenses	62,534	6.2	79,156	6.2	97,026	5.6	44,649	6.3	60,825	4.6
	997,893	100.0	1,285,956	100.0	1,745,679	100.0	707,372	100.0	1,336,655	100.0

Gross Profit and Gross Profit Margin

For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, our gross profit was RMB284.1 million, RMB344.2 million, RMB543.0 million, RMB208.2 million and RMB429.8 million, respectively. Our gross profit margin was 22.2%, 21.1%, 23.7%, 22.7% and 24.3% for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, respectively.

Our gross profit margin increased from 21.1% for the year ended December 31, 2019 to 23.7% for the year ended December 31, 2020 and increased from 22.7% for the six months ended June 30, 2020 to 24.3% for the six months ended June 30, 2021, primarily because our revenue increase outran the increase in our cost of sales for the same periods, which was primarily attributable to (i) our effort to reduce average cost of rare earth by (a) improving our production technology to reduce the amount of medium and heavy rare earth used in our production without undermining the performance of NdFeB PMs; and (b) establishing long-term relationships with large rare earth suppliers, which enables us to purchase adequate rare earth to satisfy our needs, thereby enabling us to maintain a safety inventory of rare earth with competitive price based on our anticipation of increases in market price of rare earth; and (ii) the slowdown in the increase in our labor costs and other manufacturing overheads due to the economies of scale as we gradually expanded our production volume of NdFeB PMs.

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Our price adjustment mechanism had an impact on our results of operations, especially on gross profit margins for our products in NEVs and automotive parts, PM wind turbine generators and energy-saving VFACs sectors during the Track Record Period. For downstream sectors with longer price adjustment period, we cannot promptly respond to the raw material price increase, leading to decreases in our gross profit margins in relevant sectors. See “Business – Pricing – Price Adjustment Mechanism” for details. The price of our products in NEVs and automotive parts sector was mainly adjusted on quarterly basis, while price with a small portion of customers was adjusted on annual or semi-annual basis during the Track Record Period. Our gross profit margin of NEVs and automotive parts sector decreased in the first half of 2021 as compared to that in the first half of 2020, primarily due to the combination of such long price adjustment period and the significant increase in rare earth price in the first half of 2021. In addition, our gross profit margin of PM wind turbine generators sector decreased in the first half of 2021 as compared to that in the first half of 2020, primarily due to same reasons. See “Risk Factors – Risks Relating to Our Business and Industry – Our price adjustment mechanism has an impact on our results of operations, and may not enable us to promptly respond to the raw material price increase”.

Other Income and Gains

Our other income and gains primarily consists of government grants, bank interest income and proceeds from sale of used rare earth and others. As advised by our PRC Legal Advisor, we are not required to obtain any permit or license for sales of used rare earth extracted from waste materials in China. Government grants mainly represented subsidies we received from the local government authorities in relation to our R&D activities, capital expenditure incurred on certain projects, listing of our A Shares and contributions to local fiscal income. Gains on fair value change of forward exchange agreements mainly represented gains from the forward exchange agreements we entered into in order to hedge our currency risk. Gains on wealth management products represented gains from wealth management products we purchased from reputable PRC commercial banks to improve the utilization of our cash on hand on a short-term basis. For further details, see “– Discussion of Certain Selected Items from the Consolidated Statements of Financial Position – Financial Assets at FVTPL”.

During the Track Record Period, when the market prices of rare earths were generally high, and we had short-term working capital requirements to meet, we sold rare earths extracted from our waste materials and recorded other income from sale of materials and others. Proceeds from sale of used rare earth and others increased from RMB3.4 million in 2018 to RMB31.7 million in 2020 and from RMB8.8 million for the six months ended June 30, 2020 to RMB16.8 million for the six months ended June 30, 2021, primarily due to our increased sales to meet increasing short-term capital needs, the increase in the rare earths extracted from our waste materials along with our enlarged production scale, and partially contributed by the increase in market price of rare earth.

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

	Years ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
				<i>(unaudited)</i>	
Other income					
Government grants	46,364	9,830	17,069	6,179	8,278
Bank interest income	1,442	4,205	6,991	3,497	5,810
Sale of materials and others	3,398	14,751	31,694	8,791	16,773
Subtotal	51,204	28,786	55,754	18,467	30,861
Other gains					
Gains on disposal of items of property, plant and equipment	368	120	–	–	519
Fair value changes of forward exchange agreements	744	1,188	722	–	4,170
Gains on wealth management products	–	550	5,702	3,704	4,606
Others	–	1,079	1,000	–	–
Subtotal	1,112	2,937	7,424	3,704	9,295
Total	<u>52,316</u>	<u>31,723</u>	<u>63,178</u>	<u>22,171</u>	<u>40,156</u>

We purchased wealth management products as a supplemental mean to improve the utilization of our cash on hand on a short-term basis. The expected returns of such wealth management products ranged from 1.15% to 3.45% per annum. Such wealth management products were generally redeemable at any time. We intend to purchase low-risk wealth management products with good liquidity for treasury management purpose in the future.

We have established a set of investment policies and internal control measures to achieve reasonable returns on our investments of wealth management products while mitigating our exposure to investment risks. These policies and measures include:

- investments shall be made when we have surplus cash that is not required for our short-term working capital purposes and shall generally be short-term and of a non-speculative nature in order to maintain our liquidity and financial flexibility;

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- we only purchase low-risk wealth management products issued by creditworthy commercial banks and/or other qualified financial institutions, and in any given period, to the extent feasible we may make investments in products provided by multiple issuers to mitigate concentration risks;
- investments exceeding certain thresholds must be approved by our Shareholders or the Board in accordance with relevant laws and regulations and our Articles of Association; and
- our finance department, subject to the review and approval of our management, is responsible for the overall execution of our investments, including risk assessment. We carry out risk assessment primarily based on the amounts of principal, maturity dates, the qualification of product managers, the underlying assets, the expected rates of return and the review of terms and conditions of the investments.

Selling and Distribution Expenses

Our selling expenses primarily consist of employee benefit expenses, traveling expenses and marketing expenses, such as exhibition promotion expenses. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, our selling and distribution expenses amounted to RMB19.7 million, RMB17.8 million, RMB17.1 million, RMB7.8 million and RMB12.6 million, respectively.

The following table sets forth a breakdown of our selling and distribution expenses for the periods indicated:

	Year ended December 31,						Six Months ended June 30,			
	2018		2019		2020		2020		2021	
	<i>(RMB'000)</i>	(%)	<i>(RMB'000)</i>	(%)	<i>(RMB'000)</i>	(%)	<i>(RMB'000)</i>	(%)	<i>(RMB'000)</i>	(%)
Employee benefit expense (including salaries, wages and other expenses)	9,337	47.4	9,292	52.2	10,011	58.7	5,234	66.9	8,897	70.8
Traveling expenses	1,382	7.0	1,437	8.1	878	5.1	220	2.8	394	3.1
Marketing expenses	8,021	40.7	5,868	33.0	4,767	28.0	1,948	24.9	2,661	21.2
Others	954	4.9	1,196	6.7	1,397	8.2	420	5.4	606	4.9
Total	19,694	100.0	17,793	100.0	17,053	100.0	7,822	100.0	12,558	100.0

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Administrative Expenses

Our administrative and other expenses primarily consist of employee benefit expenses, tax other than income tax expenses, professional services expenses and depreciation and amortization. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, our administrative and other expenses was RMB60.4 million, RMB61.8 million, RMB104.3 million, RMB34.1 million and RMB88.2 million, respectively.

The following table sets forth a breakdown of our administrative expenses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2018		2019		2020		2020		2021	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
	<i>(unaudited)</i>									
Employee benefit expense	30,130	49.9	33,572	54.3	72,236	69.3	20,955	61.4	68,558	77.8
- Salaries, wages and other expenses	30,130	49.9	33,572	54.3	44,713	42.9	20,955	61.4	35,128	39.9
- Share incentive expenses	-	-	-	-	27,523	26.4	-	-	33,430	37.9
Taxes other than income tax expenses	6,918	11.5	5,898	9.5	9,138	8.8	5,190	15.2	6,928	7.9
Professional service expenses	7,649	12.7	7,495	12.1	9,423	9.0	3,241	9.5	3,238	3.7
Depreciation and amortization	3,768	6.1	4,307	7.0	5,095	4.7	2,383	7.0	4,430	5.0
Travel and business related expense	7,358	12.2	6,416	10.4	3,710	3.6	1,130	3.3	2,066	2.3
Office expenses	2,703	4.5	1,737	2.8	2,264	2.2	111	0.3	1,327	1.5
Listing expenses	-	-	-	-	-	-	-	-	1,185	1.3
Others	1,877	3.1	2,393	3.9	2,470	2.4	1,103	3.3	482	0.5
Total	60,403	100.0	61,818	100.0	104,336	100.0	34,113	100.0	88,214	100.0

Research and Development Expenses

Our R&D expenses primarily consist of employee benefits expense, costs of consumable and testing materials. All our R&D expenses were charged to the consolidated statement of profit or loss as incurred during the Track Record Period. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, our R&D expenses were RMB55.1 million, RMB63.2 million, RMB103.2 million, RMB37.3 million and RMB78.1 million, respectively.

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The following table sets forth a breakdown of our R&D expenses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2018		2019		2020		2020		2021	
	<i>(RMB'000)</i>	<i>(%)</i>	<i>(RMB'000)</i>	<i>(%)</i>	<i>(RMB'000)</i>	<i>(%)</i>	<i>(RMB'000)</i>	<i>(%)</i>	<i>(RMB'000)</i>	<i>(%)</i>
	<i>(unaudited)</i>									
Employee benefit expense	17,171	31.2	23,369	37.0	37,525	36.4	13,106	35.2	36,890	47.2
– Salaries, wages and other expenses	17,171	31.2	23,369	37.0	27,526	26.7	13,106	35.2	24,868	31.8
– Share incentive expenses	–	–	–	–	9,999	9.7	–	–	12,022	15.4
Consumables and testing materials	31,364	56.9	34,062	53.9	59,785	57.9	21,260	57.0	28,057	35.9
Depreciation and amortization	2,232	4.0	2,703	4.3	2,854	2.8	1,435	3.9	1,544	2.0
Others	4,353	7.9	3,062	4.8	3,011	2.9	1,470	3.9	11,608	14.9
Total	55,120	100.0	63,196	100.0	103,175	100.0	37,271	100.0	78,099	100.0

Impairment Losses on Inventories

During the Track Record Period, our impairment losses on inventories represented the amount by which the carrying amount of inventories exceeds their recoverable amount. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, our impairment losses on inventories were RMB5.3 million, RMB3.9 million, RMB5.4 million, RMB2.1 million, and RMB3.2 million, respectively.

Impairment Losses on Financial Assets, Net

During the Track Record Period, our net impairment losses on financial assets mainly represented impairment provisions for our accounts receivables and bills receivables. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, our net impairment losses on financial assets were RMB0.9 million, RMB7.3 million, RMB7.0 million, RMB0.7 million and RMB0.3 million, respectively.

Other Expenses

Our other expenses primarily consist of donations and loss on disposal of non-current assets. Such donations were mainly in relation to scholarships we founded and donations to fight the COVID-19 pandemic. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, our other expenses were RMB0.9 million, RMB1.2 million, RMB4.3 million, RMB3.4 million and RMB0.8 million, respectively.

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The following table sets forth a breakdown of our other expenses for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
				<i>(unaudited)</i>	
Donations	820	756	1,632	1,192	550
Loss on disposal of non-current assets	37	414	1,377	1,019	206
Fair value changes of forward exchange agreements	–	–	–	1,152	–
Others	65	68	1,314	2	1
Total	922	1,238	4,323	3,365	757

Finance Costs

Our finance costs primarily consist of interest expense on bank borrowings and discounted acceptance notes and other finance costs in relation to our lease liabilities. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, our finance costs were RMB32.5 million, RMB42.1 million, RMB73.9 million, RMB35.8 million and RMB35.0 million, respectively.

The following table sets forth a breakdown of our finance costs for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
				<i>(unaudited)</i>	
Interest expense	31,491	41,224	72,454	34,611	34,692
Other finance costs	969	875	1,405	1,179	299
Total	32,460	42,099	73,859	35,790	34,991

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Foreign Exchange Differences, Net

Our foreign exchange difference, net represents the net losses or gains resulting from translation of currencies at different exchange rates. For the years ended December 31, 2018 and 2019, our net gains from foreign exchange differences were RMB0.4 million, and RMB0.9 million. For the year ended December 31, 2020 and the six months ended June 30, 2020 and 2021, we recorded net losses from foreign exchange differences of RMB10.6 million, RMB4.5 million, and RMB2.5 million, respectively.

Share of Loss of Associates

During the Track Record Period, our share of loss of associates primarily represented losses from our investment in Jiangtong Cikai and Xiexin Chaoneng. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, our share of loss of associates were RMB2.9 million, RMB0.6 million, RMB1.7 million, RMB0.9 million and RMB2.3 million, respectively.

Income Tax Expenses

Income tax consists of current income tax and deferred income tax by the Group. Current income tax primarily comprises PRC corporate income tax expenses by the Company and its PRC subsidiaries. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, we recorded income tax expenses of RMB12.7 million, RMB22.1 million, RMB34.0 million, RMB12.2 million and RMB26.5 million, respectively. Our effective tax rate, calculated as income tax expenses divided by profit before taxation, was 8.0%, 12.4%, 12.2%, 11.7% and 10.7% for the same periods, respectively.

In general, the Group's PRC entities are subject to PRC corporate income tax at the standard rate of 25% on their respective estimated assessable profits during the Track Record Period. The Company is entitled to tax concessions including a preferential tax rate of 15% for its participation in the "Grand Western Development Programme" (西部大開發). JL Baotou, which is incorporated in Inner Mongolia, is entitled to a preferential tax rate of 15%.

During the Track Record Period, the Group sold products to overseas customers partially through its Dutch operating entity, namely JL MAG Europe. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, our total amount of intra-group transactions involving cross-border sales or purchases amounted to RMB42.3 million, RMB26.2 million, RMB28.8 million and RMB18.4 million, respectively. 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.

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JL MAG Europe is required by applicable laws and regulations in the Netherlands to, within the period set for filing our corporate tax return, enter a master file and a local file for the year to which the return relates. The master file shall provide an overview of the multinational group company, including the nature of business activities of JL MAG Europe, its overall transfer pricing policy and its global allocation of income and economic activities to assist tax administrations in assessing the presence of substantial transfer pricing risk. The local file shall include information relevant to the transfer pricing analysis related to transactions between a taxpayer and an affiliated group entity in another state that helps to substantiate compliance with relevant transfer pricing laws and regulations.

We have engaged BDO Belastingadviseurs (“**BDO Netherlands**”), a third-party consultant based in the Netherlands, to conduct periodic reviews on intra-group transactions between JL MAG Europe and our Company and advise on JL MAG Europe’s compliance with all applicable laws and regulations regarding transfer pricing in the Netherlands (the “**TP Review**”). In terms of JL MAG Europe’s purchases and sales of NdFeB PMs (the “**Distribution Activities**”), the TP Review adopts transactional net profit margin method (“**TNMM**”) where operating profit margin is used as a profit-level indicator and is compared with the industry benchmark range. According to BDO Netherlands, the TNMM is an integral part of the Guidelines for Multinational Enterprises issued by the Organisation for Economic Co-operation and Development (the “**OECD Guidelines**”) as one of the acceptable methods to establish or test the prices on intercompany transactions. The OECD Guidelines describe two different categories of transfer pricing methods, namely, (i) traditional transaction methods; and (ii) transactional profit methods. The traditional transaction methods include the Comparable Uncontrolled Price (“**CUP**”), the Resale Minus and the Cost Plus. The transactional profit methods include the TNMM and the Profit Split. According to BDO Netherlands, both categories of transfer pricing methods are acceptable under the OECD Guidelines. As a result, the application of these methods will depend on which is most appropriate for the facts and circumstances of the business.

The traditional transaction methods arrive at the price for intercompany transactions by comparing these with prices between unrelated parties (i.e. CUP) or the gross margin on a transaction between unrelated parties (i.e. Resale Minus and Cost Plus). The CUP can only be reliably used if certain comparability factors are met. These comparability factors include (i) the contractual terms of the transaction; (ii) the functions performed by each of the parties to the transaction, taking into various account various other factors; (iii) the characteristics of property transferred or services provided; (iv) the economic circumstances of the parties and of the market in which the parties operate; and (v) business strategies pursued by the parties. The OECD Guidelines recognize that it may be difficult to find a transaction that is similar enough to the controlled transaction such that no difference has a material effect on price. Further, it is mentioned that the CUP method would be generally appropriate for commodities transactions between related parties. For the other two traditional transaction methods the requirements for product comparability are less compared to the CUP. The other comparability factors are equally applicable. As a result, the important issue in application of the traditional transaction method is the availability of transaction data that meet the criteria, according to BDO Netherlands.

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The TNMM provides an approach in case of absence of reliable comparable transaction data. The TNMM entails comparing the overall financial results of related-party transactions with the financial results of third-party companies, which operates similar business and bear similar business risks. The TNMM examines the net profit margin relative to an appropriate base (e.g. costs, revenue, or assets) that a taxpayer realizes from a controlled transaction, which refers to a transaction between two (or more) enterprises that are associated enterprises with respect to each other. The TNMM therefore operates in a similar manner to the Resale Minus and Cost Plus, whereas it is applied at a net margin level rather than a gross margin level and is generally based on aggregated, rather than individual transactions.

According to the Dutch Transfer Pricing Decree, it is recognized that in general it is difficult to apply the CUP as it is difficult in practice to identify transactions that meet the comparability criteria and that therefore the TNMM is used in most cases. The main strength of the TNMM is that it is less affected by transactional differences as used in the CUP. The TNMM may also be tolerant to some functional differences between the controlled and uncontrolled transaction compared to the Resale Minus and Cost Plus. Therefore, for the TNMM the standards of comparability are less rigorous compared to the traditional transaction methods.

According to BDO Netherlands, as no reliable data (meeting the comparability criteria) was available to apply a traditional transaction method, the TNMM was selected for JL MAG Europe. This method is an integral part of the OECD Guidelines transfer pricing methods and can be applied to the controlled transaction to which JL MAG Europe is party. Therefore, as advised by BDO Netherlands, there are no legal implications for applying the TNMM, and the TNMM is most commonly used in practice for goods and services transactions.

In addition, as advised by BDO Netherlands, the Dutch Transfer Pricing Decree confirms that the taxpayer is free to choose a transfer pricing method, provided that the method leads to an arm's length result. Furthermore, as advised by BDO Netherlands, there is no 'best method rule' applicable in the Netherlands because it is explicitly not required that the taxpayer examines all methods and substantiates why the selected method leads to the best outcome.

The Joint Sponsors have made due diligence enquires with BDO Netherlands on their basis of adopting TNMM for the TP Review. As advised by BDO Netherlands, they have taken into account of the following factors when considering to adopt TNMM for the TP Review: (i) applying the TNMM is acceptable under the relevant Dutch laws and regulations and, in itself, does not constitute a ground for challenges, enquiries or investigation by the Dutch tax authorities; (ii) the TNMM is also an integral part of the OECD Guidelines and is one of the acceptable methods to establish or test the prices on intercompany transactions; (iii) the TNMM is the only viable option due to the limitation on the availability of data for the TP Review; and (iv) the TNMM is most commonly used in practice for goods and services transactions that are similar to that of the Company's. Our Directors are satisfied that BDO Netherlands is qualified and competent to conduct the TP Review and based on the advice of BDO Netherlands, our Directors are satisfied that adopting TNMM for the TP Review is appropriate and there are no other material implications that need to be brought to the attention

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of the Shareholders. Based on the Joint Sponsors' due diligence enquiries with BDO Netherlands in connection with the TP Review and having considered the credentials of BDO Netherlands, nothing has come to the attention of the Joint Sponsors that would lead them to cast doubts on Our Directors' views as discussed above.

In terms of JL MAG Europe's agency services provided to the Company (the "**Agency Services**"), the TP Review compares JL MAG Europe's operating profit margin (which is based on the revenue generated by JL MAG Europe for the Company) against the industry benchmark range.

According to BDO Netherlands, the weighted average operating profit margin of selected companies performing comparable activities from 2012 to 2016 ranged from 0.2% to 13.1%, with 1.4% to 4.4% being considered as arm's length for distribution activities and 1.4% to 2.5% being considered as arm's length for agency services. JL MAG Europe's operating profit margin from Distribution Activities was 1.4% in 2018 and 2.4% in 2019, and the operating turnover of our Company as per the Agency Services provided by JL MAG Europe was 0.6% in 2018 and 1.1% in 2019. Based on the above benchmark study, BDO Netherlands found that remuneration JL MAG Europe received for its Distribution Activities for the years ended December 31, 2018 and 2019 was considered to be at arm's length, and remuneration received for its Agency Services for the years ended December 31, 2018 and 2019 was within the industry range. JL MAG Europe started to provide Agency Services to our Company since 2017. As with independent companies, it is expected that activities in the start-up phase do not have the same level of profitability as activities that have reached a more mature phase. The OECD Guidelines recognize that a taxpayer seeking to enter a new market or expand (or defend) its market share might temporarily incur higher costs (e.g. due to start-up costs or increased marketing efforts) and hence achieve lower profit levels than other taxpayers operating in the same market. In combination with the long lead times on transactions with clients, e.g. (i) the time between the initiation of a potential transaction (and cost incurred by JL MAG Europe); and (ii) the closing of that transaction (revenue earned by JL MAG Europe through agency fee), BDO Netherlands is of the view that these provide good arguments to take the position that the remuneration received for JL MAG Europe's Agency Services in 2018 and 2019, which was within the industry range, is in line with the arm's length principle. As such, BDO Netherlands concluded that transfer pricing master files and local files for JL MAG Europe in 2018 and 2019 comply with all applicable laws and regulations regarding transfer pricing documentation in the Netherlands.

In accordance with Dutch Corporate Income Tax Act 1969 ("**Dutch Tax Regulations**"), transfer pricing report for the year needs to be available on the same date as the last due date of filing the corporate income tax return for the year, which is 16 months after the year end, if the tax payers use the services of a tax consultant. Therefore, transfer pricing reports for JL MAG Europe for the year ended December 31, 2020 and 2021 should be available ultimately on April 30, 2022 and 2023, respectively. As advised by BDO Netherlands, there is no general filing obligation in Netherlands. Therefore, transfer pricing documentation only needs to be submitted to the Dutch tax authorities upon request of the Dutch tax authorities.

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As advised by BDO Netherlands, applicable laws and regulations regarding transfer pricing documentation in the Netherlands has not been amended during the Track Record Period and up to the Latest Practicable Date. In addition, BDO Netherlands is of the view that it does not reasonably foresee any amendments on these laws and regulations in the near future. BDO Netherlands has been engaged by JL MAG Europe to prepare its transfer pricing report for the year ended December 31, 2020 and will prepare these in line with Dutch transfer pricing requirements. Based on the management accounts of JL MAG Europe for the year ended December 31, 2020 and procedures performed by BDO Netherlands as of the Latest Practicable Date, BDO Netherlands is of the view that (i) nothing has come to its attention that makes it believe that the TP Review results for the year ended December 31, 2020 would materially deviate from that for the years ended December 31, 2018 and 2019; and (ii) it had not spotted any risk with respect to JL MAG Europe's compliance with all applicable laws and regulations regarding transfer pricing in the Netherlands as of the Latest Practicable Date.

Based on the opinions of BDO Netherlands as discussed above, and the facts that (i) the business model and pricing model of the Group's cross-border transactions remained unchanged during the Track Record Period and up to the Latest Practicable Date; and (ii) the total amount of intra-group transactions involving cross-border sales or purchases accounted for only 3.3%, 1.6%, 1.3% and 1.0% of our revenue for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, respectively, our Directors believe that our exposure to transfer pricing risk is limited, and the transfer pricing risk exposure would not have any material adverse impact on our business and financial performance taken as a whole.

For the years ended December 31, 2018, 2019, 2020 and the six months ended June 30, 2021, revenue recorded in the stand-alone financial statements of JL MAG Europe amounted to RMB57.4 million, RMB34.4 million, RMB35.5 million and RMB22.0 million, respectively. As there were tax deductible losses and other tax deductible items for JL MAG Europe, it did not have any assessable income subject to the Dutch profit tax during the Track Record Period, and thus no provision for Dutch tax was made during the Track Record Period. The aforementioned tax losses were incurred in the four years ended December 31, 2015, during which JL MAG Europe was incorporated and engaged in Distributing Activities for the Group. As of December 31, 2018, 2019, 2020 and June 30, 2021, the remaining tax deductible loss amounted to EUR2.3 million, EUR1.7 million, EUR1.2 million and EUR0.7 million, respectively.

Our Hong Kong, U.S. and Japanese subsidiaries did not conduct material sales activities with our overseas customers during the Track Record Period. No provision for the United States corporate income tax, the Japan corporate tax, or the Hong Kong profit tax has been made during the Track Record Period, as we do not have any assessable income subject to the United States corporate income tax, the Japan corporate tax, or the Hong Kong profit tax during the Track Record Period.

Profit for the Year/Period

For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, our net profit amounted to RMB146.3 million, RMB156.6 million, RMB244.7 million, RMB91.6 million and RMB220.6 million, respectively.

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PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six months ended June 30, 2021 Compared to Six months ended June 30, 2020

Revenue

Our revenue increased from RMB915.5 million for the six months ended June 30, 2020 to RMB1,766.5 million for the six months ended June 30, 2021, mainly because (i) the New AC Standard implemented by the NSAC in July 2020 requires the overall energy efficiency standard of air-conditioner industry to increase by 30% by 2022, while only energy-saving VFACs using high-performance sintered NdFeB PMs can meet the requirements of the new standard, according to Frost & Sullivan, which resulted in the growth in demand for REPMs from the energy-saving VFAC sector; and (ii) the growth in both the domestic and overseas NEV sector drove an increase in demand for our products, as governments all over the world implemented policies in 2020 to facilitate the development of NEV market for the next several years.

Cost of Sales

Our cost of sales increased from RMB707.4 million for the six months ended June 30, 2020 to RMB1,336.7 million for the six months ended June 30, 2021, primarily due to our business expansion, which was in line with the increase in our revenue for the same period. Our revenue increase in the six months ended June 30, 2021 outran the increase in our cost of sales for the same period, primarily due to (i) our effort to reduce average cost of rare earth by (a) improving our production technology to reduce the amount of medium and heavy rare earth used in our production without undermining the performance of NdFeB PMs; and (b) establishing long-term relationships with large rare earth suppliers, which enables us to purchase adequate rare earth to satisfy our needs, thereby enabling us to maintain a safety inventory of rare earth with competitive price based on our anticipation of increases in market price of rare earth; and (ii) the slowdown in the increase in our labor costs and other manufacturing overheads due to the economies of scale as we gradually expanded our production volume of NdFeB PMs.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased from RMB208.2 million for the six months ended June 30, 2020 to RMB429.8 million for the six months ended June 30, 2021, while our gross profit margin, which represents gross profit as a percentage of total revenue, increased from 22.7% for the six months ended June 30, 2020 to 24.3% for the six months ended June 30, 2021.

Our gross profit margin of NEVs and automotive parts sector decreased in the first half of 2021 as compared to that in the first half of 2020, primarily due to the combination of such long price adjustment period and the significant increase in rare earth price in the first half of 2021. In addition, our gross profit margin of PM wind turbine generators sector decreased in the first half of 2021 as compared to that in the first half of 2020, primarily due to same reasons. See “– Description of Selected Components of Statement of Profit or Loss – Gross Profit and Gross Profit Margin” for details.

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Other Income and Gains

Our other income and gains increased from RMB22.2 million for the six months ended June 30, 2020 to RMB40.2 million for the six months ended June 30, 2021, primarily attributable to (i) an increase in proceeds from sale of materials and others to satisfy our short-term liquidity needs; (ii) an increase in fair value changes of forward exchange agreements of RMB4.2 million; and (iii) an increase in bank interest income of RMB2.3 million, primarily in relation to cash received from issuance of A Shares to certain shareholders in January 2021.

Selling and Distribution Expenses

Our selling and distribution expenses increased from RMB7.8 million for the six months ended June 30, 2020 to RMB12.6 million for the six months ended June 30, 2021, primarily due to (i) an increase in expenses for our marketing activities in the first half of 2021, as compared to the first half of 2020 when we temporarily reduced marketing activities in view of the outbreak of the COVID-19 pandemic; and (ii) 11 more sales employees we recruited and the increase in the average compensation of our sales employees, calculated as salaries, wages and other expenses under sales and marketing expenses for the period divided by the number of our sales employees as of the period end, by approximately 40.3%.

Administrative Expenses

Our administrative expenses increased from RMB34.1 million for the six months ended June 30, 2020 to RMB88.2 million for the six months ended June 30, 2021, primarily due to (i) share incentive expenses of RMB33.4 million we incurred in the six months ended June 30, 2021. For details of our share incentive plan, please refer to Note 37 to the Accountants' Report as set out in the Appendix I to this prospectus; and (ii) 56 more management staff we recruited and the increase in average salary of our management staff, calculated as salaries, wages and other expenses under administrative expenses for the period divided by the number of our management staff as of the period end, by approximately 18.7% to support our business growth.

Research and Development Expenses

Our R&D expenses increased from RMB37.3 million for the six months ended June 30, 2020 to RMB78.1 million for the six months ended June 30, 2021, primarily attributable to (i) an increase in employee benefit expenses from RMB13.1 million to RMB36.9 million, primarily due to the expansion of our R&D team from 172 employees as of June 30, 2020 to 234 employees as of June 30, 2021, the increase in the average salary of our R&D staff, calculated as salaries, wages and other expenses under research and development expenses for the period divided by the number of our R&D staff as of the period end, by approximately 39.5% and share incentives granted to key R&D staff in the first half of 2021; and (ii) the increase in consumables and testing materials from RMB21.3 million to RMB28.1 million.

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Impairment Losses on Inventories

Our impairment losses on inventories increased from RMB2.1 million for the six months ended June 30, 2020 to RMB3.2 million for the six months ended June 30, 2021, primarily due to the fluctuation in the net realizable value of inventories based on the estimated selling price of finished products.

Impairment Losses on Financial Assets, Net

Our net impairment losses on financial assets decreased from RMB0.7 million for the six months ended June 30, 2020 to RMB0.3 million for the six months ended June 30, 2021, primarily due to the reversal of impairment provision made in 2020 for a bad debt which was subsequently recovered in the first half of 2021.

Other Expenses

Our other expenses decreased from RMB3.4 million for the six months ended June 30, 2020 to RMB0.8 million for the six months ended June 30, 2021, primarily because (i) we made donations to fight the COVID-19 pandemic in 2020; and (ii) we recorded fair value gain of forward exchange agreements in the first half of 2021 compared to a loss for the same period in 2020, due to fluctuations in exchange rates.

Finance Costs

Our finance costs remained relatively stable at RMB35.8 million for the six months ended June 30, 2020 and RMB35.0 million for the six months ended June 30, 2021.

Foreign Exchange Differences, Net

Our net foreign exchange loss decreased from RMB4.5 million for the six months ended June 30, 2020 to a loss of RMB2.5 million for the six months ended June 30, 2021, primarily due to the impact of exchange rate fluctuation on the monetary items of foreign currencies.

Share of Loss of Associates

Our share of loss of associates increased from RMB0.9 million for the six months ended June 30, 2020 to RMB2.3 million for the six months ended June 30, 2021 primarily due to increased loss generated by Jiangtong Cicai.

Income Tax Expense

Our income tax expenses increased from RMB12.2 million for the six months ended June 30, 2020 to RMB26.5 million for the six months ended June 30, 2021, mainly due to the increase in our profit before taxation.

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Profit for the Period

As a result of the foregoing, our profit for the period increased from RMB91.6 million for the six months ended June 30, 2020 to RMB220.6 million for the six months ended June 30, 2021. Our net profit margin, which represents profit for the period as a percentage of total revenue, increased from 10.7% in 2020 to 12.5% in 2021.

Year ended December 31, 2020 Compared to Year ended December 31, 2019

Revenue

Our revenue increased by 40.4% from RMB1,630.1 million in 2019 to RMB2,288.7 million in 2020, mainly attributable to (i) a significant increase in revenue generated from domestic energy-saving VFAC sector from RMB422.3 million in 2019 to RMB878.3 million in 2020, as a result of the New AC Standard implemented by the NSAC in July 2020, driving the energy-saving VFAC value chain participants to use sintered NdFeB PMs in their products; (ii) the establishment of our cooperation with customers in 3C sector in 2020 and revenue of RMB41.1 million recorded from such sector accordingly; (iii) an increase in revenue generated from NEV sector from RMB219.9 million in 2019 to RMB325.6 million in 2020, mainly attributable to the development of both domestic and overseas NEV markets. In 2020, the PRC government promulgated a series of policies to stimulate NEV consumption, including extension of the NEV purchase subsidy until the end of 2022, which led to a rebound in the domestic NEV consumption in 2020. According to Frost and Sullivan, the global sales of NEV increased by 43.9% from 2.0 million units in 2019 to 2.9 million units in 2020, driving an increase in the global consumption of high-performance NdFeB PMs in NEV sector by 42.6% from 6.8 thousand tonnes in 2019 to 9.8 thousand tonnes in 2020. According to the same source, the domestic sales of NEV increased by 17.4% from 1.1 million units in 2019 to 1.2 million units in 2020, driving an increase in the domestic consumption of high-performance NdFeB PMs in NEV sector by 14.7% from 3.5 thousand tonnes in 2019 to 4.1 thousand tonnes in 2020.

Cost of Sales

Our cost of sales increased by 35.7% from RMB1,286.0 million in 2019 to RMB1,745.7 million in 2020, primarily due to our business expansion which was in line with the increase in our revenue in 2020. Our revenue increase from 2019 to 2020 outran the increase in our cost of sales for the same period, primarily due to (i) our effort to reduce cost of rare earth by (a) improving our production technology to reduce the amount of medium and heavy rare earth used in our production without undermining the performance of NdFeB PMs; and (b) establishing long-term relationships with large rare earth suppliers, which enables us to purchase adequate rare earth to satisfy our needs, thereby enabling us to maintain a safety inventory of rare earth with competitive price based on our anticipation of increases in market price of rare earth; and (ii) the slowdown in the increase in our labor costs and other manufacturing overheads due to the economies of scale as we gradually expanded our production volume of NdFeB PMs.

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Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by 57.8% from RMB344.2 million in 2019 to RMB543.0 million in 2020, while our gross profit margin increased from 21.1% in 2019 to 23.7% in 2020.

Other Income and Gains

Our other income and gains increased by 99.2% from RMB31.7 million in 2019 to RMB63.2 million in 2020, primarily attributable to (i) an increase of RMB7.2 million in our government grants in relation to our operations to drive the development of rare earth development in Ganzhou and our exports; (ii) an increase of RMB5.2 million in gains on wealth management products entered into with the banks; and (iii) an increase of RMB2.8 million in bank interest income, primarily due to our increased cash at bank resulting from the proceeds from the issuance of Convertible Bonds in November 2019.

Selling and Distribution Expenses

Our selling and distribution expenses remained relatively stable at RMB17.8 million in 2019 and RMB17.1 million in 2020.

Administrative Expenses

Our administrative expenses increased by 68.8% from RMB61.8 million in 2019 to RMB104.3 million in 2020, primarily due to (i) the share incentive expenses we incurred in 2020. For details of our share incentive plan, please refer to Note 37 to the Accountants' Report as set out in the Appendix I to this prospectus; and (ii) 19 more management staff we recruited and the increase in the average salary of our management staff by 15.4% to support our business growth.

Research and Development Expenses

Our R&D expenses increased by 63.3% from RMB63.2 million in 2019 to RMB103.2 million in 2020, primarily attributable to (i) a significant increase in testing materials consumed for two additional R&D projects; (ii) the increase in power consumption for mold development and product testing incurred for product R&D, which was in line with the increase in customer orders; and (iii) share incentives we granted to our R&D staff in 2020.

Impairment Losses on Inventories

Our impairment losses on inventories increased by 40.5% from RMB3.9 million in 2019 to RMB5.4 million in 2020, primarily due to the fluctuation in the net realizable value of inventories based on the estimated selling price of finished products.

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Impairment Losses on Financial Assets, Net

Our net impairment losses on financial assets remained relatively stable at RMB7.3 million in 2019 and RMB7.0 million in 2020.

Other Expenses

Our other expenses increased by 249.2% from RMB1.2 million in 2019 to RMB4.3 million in 2020, primarily due to (i) RMB1.2 million in donations in relation to the COVID-19 pandemic in 2020; (ii) the increase of RMB1.0 million in loss on disposal of non-current assets, which was of a one-off nature; and (iii) the provision of RMB1.3 million mainly in relation to the interest payable due to a third party according to the court judgment of a legal proceeding in 2020. See “– Discussion of Certain Selected Items from the Consolidated Statements of Financial Position – Restricted Cash” for details of the legal proceeding.

Finance Costs

Our finance costs increased by 75.4% from RMB42.1 million in 2019 to RMB73.9 million in 2020, mainly due to (i) the increase of RMB22.8 million in interest expenses mainly in relation to the Convertible Bonds we issued in November 2019; and (ii) the increase of RMB10.6 million in the interest expenses in discounted acceptance notes to satisfy our short-term working capital needs.

Foreign Exchange Differences, Net

Our net foreign exchange differences changed from a gain of RMB0.9 million in 2019 to a loss of RMB10.6 million in 2020, mainly due to the impact of exchange rate fluctuation on the monetary items of foreign currencies.

Share of Loss of Associates

Our share of loss of associates increased significantly from RMB0.6 million in 2019 to RMB1.7 million in 2020, primarily attributable to the increased losses made by Jiangtong Cicai in 2020.

Income Tax Expense

Our income tax expenses increased by 53.6% from RMB22.1 million in 2019 to RMB34.0 million in 2020, mainly due to the increase in our profit before taxation.

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Profit for the Year/Period

As a result of the foregoing, our profit for the year increased by 56.3% from RMB156.6 million in 2019 to RMB244.7 million in 2020. Our net profit margin, which represents profit for the year as a percentage of total revenue, increased from 9.6% in 2019 to 10.7% in 2020.

Year ended December 31, 2019 Compared to Year ended December 31, 2018

Revenue

Our revenue increased by 27.2% from RMB1,282.0 million in 2018 to RMB1,630.1 million in 2019, mainly because (i) our revenue generated from wind power sector increased from RMB386.3 million in 2018 to RMB855.2 million in 2019, primarily because market players in such sector increased their investments in newly installed capacity with a view to benefiting from government subsidies that are available if certain milestone is achieved within a specified period; (ii) our revenue generated from energy-saving VFAC sector increased from RMB371.5 million in 2018 to RMB422.3 million in 2019, as a result of favorable PRC government policies. Such increase was partially offset by (i) a decrease in revenue generated from NEV sector from RMB317.8 million in 2018 to RMB219.9 million in 2019, as a result of the slowdown in the development of NEV sector in 2019 led by a reduction in the government subsidies granted to the NEV sector; and (ii) a decrease in our revenue generated from robotics and intelligent manufacturing sector from RMB73.0 million in 2018 to RMB48.5 million in 2019, primarily due to the changes in demand of our products from certain customers as they adjusted procurement plans based on their commercial considerations.

Cost of Sales

Our cost of sales increased by 28.9% from RMB997.9 million in 2018 to RMB1,286.0 million in 2019, primarily due to our business expansion which was in line with the increase in our revenue for the same period.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by 21.1% from RMB284.1 million in 2018 to RMB344.2 million in 2019, while our gross profit margin decreased from 22.2% in 2018 to 21.1% in 2019.

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Other Income and Gains

Our other income and gains decreased by 39.4% from RMB52.3 million in 2018 to RMB31.7 million in 2019, primarily due to a significant decrease in our government grants from RMB46.4 million in 2018 to RMB9.8 million in 2020, mainly due to government grants in relation to our listing on SZSE and our operations in REPM industry granted to us on a one-off basis in 2018. Such decrease was partially offset by the increase in (i) income from sale of used rare earth of RMB9.8 million; and (ii) an increase in bank interest income of RMB2.8 million, primarily due to our increased cash at bank resulting from the proceeds from the issuance of Convertible Bonds in November of 2019.

Selling and Distribution Expenses

Our selling and distribution expenses decreased by 9.7% from RMB19.7 million in 2018 and RMB17.8 million in 2019, primarily due to the decrease in exhibition promotion expenses as we expanded our customer base through promotion activities in 2018 and started to focus more on maintaining large customers in 2019.

Administrative Expenses

Our administrative expenses remained relatively stable at RMB60.4 million in 2018 and RMB61.8 million in 2019.

Research and Development Expenses

Our R&D expenses increased by 14.7% from RMB55.1 million in 2018 to RMB63.2 million in 2019, primarily attributable to (i) 13 more R&D staff we recruited and the increase in the average salary of our R&D staff by 25.2%; and (ii) the increase in power consumption for mold development and product testing incurred for product R&D, which was in line with the increase in customer orders.

Impairment Losses on Inventories

Our impairment losses on inventories decreased by 26.9% from RMB5.3 million in 2018 to RMB3.9 million in 2019, primarily due to the fluctuations in the net realizable value of its inventories on the basis of the estimated selling price of the finished goods.

Impairment Losses on Financial Assets, Net

Our net impairment losses on financial assets increased significantly from RMB0.9 million in 2018 to RMB7.3 million in 2019, mainly attributable to the increase in our accounts receivables.

FINANCIAL INFORMATION

Other Expenses

Our other expenses increased by 34.3% from RMB0.9 million in 2018 to RMB1.2 million in 2019, primarily due to an increase of RMB0.4 million in loss on disposal of non-current assets, which was one-off in nature.

Finance Costs

Our finance costs increased by 29.7% from RMB32.5 million in 2018 to RMB42.1 million in 2019 mainly due to the increase of interest expense associated with the increased financing resources, including borrowings, Convertible Bonds and discounted acceptance notes to satisfy our short-term working capital needs.

Foreign Exchange Differences, Net

Our net foreign exchange differences remained relatively stable at RMB0.4 million in 2018 and RMB0.9 million in 2019.

Share of Loss of Associates

Our share of loss of associates decreased by 77.9% from RMB2.9 million in 2018 to RMB0.6 million in 2019, primarily because Jiangtong Cicai made less loss in 2019.

Income Tax Expense

Our income tax expenses increased by 74.8% from RMB12.7 million in 2018 to RMB22.1 million in 2019, mainly due to the increase in our profit before taxation.

Profit for the Year/Period

As a result of the foregoing, our profit for the year increased by 7.0% from RMB146.3 million in 2018 to RMB156.6 million in 2019. Our net profit margin, which represents profit for the year as a percentage of total revenue, decreased from 11.4% in 2018 to 9.6% in 2019.

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DISCUSSION OF CERTAIN SELECTED ITEMS FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The following table sets forth our current assets and current liabilities as of the dates indicated:

	As of December 31,			As of	As of
				June 30,	October 31,
	2018	2019	2020	2021	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					<i>(unaudited)</i>
CURRENT ASSETS					
Inventories	598,146	637,311	924,987	1,107,259	1,145,813
Trade receivables	369,886	704,773	743,067	1,166,138	1,379,626
Notes receivables at amortized cost	123,149	56,961	118,571	156,800	355,385
Notes receivables at FVOCI	101,736	116,282	127,167	25,865	80,553
Prepayments, other receivables and other assets	6,151	11,475	71,740	36,411	66,827
Financial assets at FVTPL	744	1,932	2,654	6,824	75,843
Other current assets	43,414	7,231	15,162	9,868	19,064
Restricted cash	66,128	134,211	163,423	110,837	172,866
Cash and cash equivalents	396,686	644,305	593,012	1,055,213	809,351
TOTAL CURRENT ASSETS	<u>1,706,040</u>	<u>2,314,481</u>	<u>2,759,783</u>	<u>3,675,215</u>	<u>4,105,328</u>
CURRENT LIABILITIES					
Trade and notes payables	321,535	414,555	621,326	657,291	898,892
Contract liabilities	13,645	5,556	18,045	19,787	34,865
Other payables and accruals	68,560	65,010	146,522	159,020	154,091
Interest-bearing bank and other borrowings	520,892	467,789	466,633	1,097,332	1,201,267
Lease liabilities	1,486	1,959	1,132	2,235	2,163
Tax payables	–	6,499	18,657	19,100	1,615
TOTAL CURRENT LIABILITIES	<u>926,118</u>	<u>961,368</u>	<u>1,272,315</u>	<u>1,954,765</u>	<u>2,292,893</u>
NET CURRENT ASSETS	<u>779,922</u>	<u>1,353,113</u>	<u>1,487,468</u>	<u>1,720,450</u>	<u>1,812,435</u>

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As of December 31, 2018, we had net current assets of RMB779.9 million, with current assets of approximately RMB1,706.0 million and current liabilities of approximately RMB926.1 million. Current assets were mainly comprised of inventories, cash and cash equivalents, trade receivables, notes receivables and restricted cash, and were approximately RMB598.1 million, RMB396.7 million, RMB369.9 million, RMB224.9 million and RMB66.1 million, respectively, as of December 31, 2018. Current liabilities as of December 31, 2018 were mainly comprised of interest-bearing bank and other borrowings, trade and notes payables and other payables and accruals of RMB520.9 million, RMB321.5 million and RMB68.6 million, respectively.

As of December 31, 2019, we had net current assets of RMB1,353.1 million, representing a 73.5% increase compared to December 31, 2018, primarily due to (i) an increase of RMB340.2 million in our trade receivables as well as prepayments, other receivables and other assets along with the increase of our sales; (ii) an increase of RMB247.6 million in cash and cash equivalents resulting from the issuance of Convertible Bonds in November 2019; (iii) an increase in restricted cash of RMB68.1 million; (iv) an increase in our inventories of RMB39.2 million as we increased our raw materials in preparation for subsequent production and finished goods for subsequent sales, along with the increase in orders we received; and (v) a decrease of RMB53.1 million in interest-bearing bank and other borrowings. Such increase was partially offset by (i) an increase in trade and notes payables of RMB93.0 million along with the increase of our purchases; (ii) a decrease of RMB51.6 million in notes receivables; and (iii) a decrease of RMB36.2 million in other current assets.

As of December 31, 2020, we had net current assets of RMB1,487.5 million, representing a 9.9% increase compared to December 31, 2019, primarily due to (i) an increase in our inventories of RMB287.7 million as we increased our raw materials in preparation for subsequent production and finished goods for subsequent sales, along with the orders we received; (ii) an increase of RMB72.5 million and RMB38.3 million in our notes receivables and trade receivables, respectively, along with the increase of our sales; (iii) an increase of RMB60.3 million in prepayments, other receivables and other assets as we increased prepayments to a major rare earth supplier to secure a stable rare earth supply; and (iv) an increase in restricted cash of RMB29.2 million. Such increase was partially offset by (i) a decrease of RMB51.3 million in cash and cash equivalents as we utilized the proceeds from the issuance of Convertible Bonds in November 2019; (ii) an increase in trade and notes payables of RMB206.8 million along with the increase in our purchases; and (iii) an increase in other payables and accruals of RMB81.5 million primarily in relation to the restricted share repurchase obligations.

As of June 30, 2021, we had net current assets of RMB1,720.5 million, representing a 15.7% increase compared to December 31, 2020, primarily due to (i) an increase in our cash and cash equivalents of RMB462.2 million resulting from the issuance of A shares to certain shareholders in January 2021; (ii) an increase in trade receivables of RMB423.1 million along with the increase of our sales; and (iii) an increase in inventories of RMB182.3 million, as we increased our raw materials in preparation for subsequent production and finished goods for subsequent sales, along with the orders we received. Such increase was partially offset by (i) an increase in interest-bearing bank and other borrowings of RMB630.7 million to support our working capital needs; (ii) an increase in trade and notes payables of RMB36.0 million; (iii) a decrease in notes receivables at FVOCI of RMB101.3 million as we discounted portion of bank acceptance notes to satisfy our short-term working capital needs; and (iv) a decrease in restricted cash of RMB52.6 million.

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As of October 31, 2021, being the latest practicable date for ascertaining certain financial information of the Group, we had net current assets of RMB1,812.4 million. The continuous improvement in our net current assets was primarily due to the increase in our trade and notes receivables attributable to the fact that we continuously increased our operation income. Such improvement was partially offset by the increase in trade and notes payables.

Plant, Property and Equipment

Property, plant and equipment mainly consist of buildings, machinery and equipment, furniture and fixtures, motor vehicles and construction in progress. As of December 31, 2018, 2019 and 2020 and June 30, 2021, the net book value of our property, plant and equipment amounted to RMB337.6 million, RMB423.0 million, RMB562.6 million and RMB737.7 million. The increases in our plant, property and equipment during the Track Record Period were primarily due to the investment in equipment in relation to our additional production line and automation of our production facilities.

Other Non-current Assets

Our other non-current assets during the Track Record Period comprised of our advance payment for engineering equipment and long-term prepaid expenses.

Advance payment for engineering equipment primarily represented prepayments for equipment for the construction of our additional production bases. The following table sets forth an aging analysis of our advance payment for engineering equipment as of the dates indicated:

	As of December 31,			As of	Subsequently	Unsettled as of
	2018	2019	2020	June 30,	settled as of	October 31,
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2021</u>	<u>2021</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					<i>(unaudited)</i>	<i>(unaudited)</i>
Less than 1 year	33,817	47,482	78,702	85,085	23,002	62,083
1 to 2 years	10,660	387	91	26,946	8,420	18,526
2 to 3 years	–	8,250	–	91	–	91
Over 3 years	–	–	8,250	8,250	–	8,250
Total	<u>44,477</u>	<u>56,119</u>	<u>87,043</u>	<u>120,372</u>	<u>31,422</u>	<u>88,950</u>

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Our advance payment for engineering equipment increased from RMB44.5 million as of December 31, 2018 to RMB56.1 million as of December 31, 2019, primarily due to payment in advance on certain production equipment. Our advance payment increased from RMB56.1 million as of December 31, 2019 to RMB87.0 million as of December 31, 2020 and further to RMB120.4 million as of June 30, 2021, primarily in relation to the progress of the construction of our Baotou Production Base and upgrade of our Ganzhou Production Base.

As of October 31, 2021, RMB31.4 million, representing 26.1% of our advance payment for engineering equipment as of June 30, 2021, had been subsequently settled.

We consider that the recoverability risk of our advanced payment for engineering equipment unsettled as of October 31, 2021 is relatively low, on the basis that (i) in selecting our equipment suppliers, we conduct reviews on different aspects such as the basic information of the supplier, its supply capacity and ability to assure product quality, past dealings, delivery time and its service and quality assurance system; (ii) we closely monitor the recoverability of, and carry out periodic and ad hoc review on, our advanced payment for engineering equipment; (iii) during the Track Record Period and up to the Latest Practicable Date, we had not experienced any material default regarding our advanced payment for engineering equipment; (iv) as of the Latest Practicable Date, to the best of our knowledge, we were not aware of any material outstanding balance of advanced payment that is expected to be unrecoverable.

Based on the Joint Sponsors' due diligence enquiries with our management and the Reporting Accountants (including a review of the aging analysis of our advance payment for engineering equipment as prepared by our management), and provided that there were no misrepresentations and omissions to the Joint Sponsors' due diligence enquiries, nothing has come to the attention of the Joint Sponsors that would lead them to cast doubts on our views as discussed above.

Long-term prepaid expenses primarily represented prepayments for construction of additional production lines and continuous upgrade of existing production facilities at our Ganzhou Production Base. Our long-term prepaid expenses increased from RMB9.8 million as of December 31, 2018 to RMB15.8 million as of December 31, 2019, primarily in relation to "Upgrade and Transformation of Automatic Production Lines", "Upgrade and Transformation of Intelligent Manufacturing Factory" and "Establishment of a High-performance NdFeB PMs Project with an Annual Production Capacity of 1,300 Tonnes" projects. Our long-term prepaid expenses remained relatively stable as of December 31, 2019 and 2020 and June 30, 2021 as we completed "Upgrade and Transformation of Automatic Production Lines" and "Establishment of a High-performance NdFeB PMs Project with an Annual Production Capacity of 1,300 Tonnes" projects, and initiated the "Upgrade and Transformation of Intelligent Manufacturing Factory" and "Project of Realizing an Annual Production of 3,000 Tonnes of High-end Magnets Used in NEV and 3C Sectors" in 2019 and 2020, respectively, at our Ganzhou Production Base.

FINANCIAL INFORMATION

Inventories

Our inventories consisted of raw materials, work in progress and finished goods. We regularly monitor our inventories and endeavor to keep an optimal inventory level in line with the expected usages in the near term. Our warehouse personnel are responsible for the inspection and storage of our inventories. The following table sets forth the components of our inventories as of the dates indicated:

	As of December 31,			As of June 30,
	2018	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	225,291	226,858	313,961	354,349
Work in progress	130,155	114,047	112,919	171,516
Finished goods	244,897	299,415	501,119	584,230
Sub-total	600,343	640,320	927,999	1,110,095
Less: Impairment provision				
Work in progress	(362)	(113)	(945)	(917)
Finished goods	(1,835)	(2,896)	(2,067)	(1,919)
Sub-total	(2,197)	(3,009)	(3,012)	(2,836)
Total	598,146	637,311	924,987	1,107,259

Our inventories increased from RMB598.1 million as of December 31, 2018 to RMB637.3 million as of December 31, 2019, to RMB925.0 million as of December 31, 2020 and further to RMB1,107.3 million as of June 30, 2021, mainly because we increased our raw materials in preparation for subsequent production and finished goods for subsequent sales, along with the orders we received. Our work in progress decreased from December 31, 2018 to December 31, 2019 and further to December 31, 2020 was primarily due to our improvement of inventory management. Our work in progress increased from RMB112.0 million as of December 31, 2020 to RMB170.6 million as of June 30, 2021, primarily due to the increase in our production scale along with the increase in our production capacity.

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During the Track Record Period, we stored some finished products at warehouses designated by certain independent third-party customers (the “**Third-party Warehouses**”) as requested by such customers to satisfy their short-term procurement needs on a rolling basis and inventory management requirements. Such customers were mainly NEV sector participants. They also include several VFAC and energy-saving elevator manufacturers. Such finished goods were generally stored at Third-party Warehouses at our own risk. See “Risk Factors – Risks Relating to our Business and Industry – We may suffer losses from our finished products stored at warehouses designated by independent third-party customers”. Title and risk are passed to customers once they give us written notices in relation to their taking out of such finished goods from Third-party Warehouses for use. We recorded revenue for the finished goods taken out based on such written notices. During the Track Record Period, we did not encounter material losses of finished goods stored at Third-party Warehouses due to any reasons. As of each of December 31, 2018, 2019, 2020 and June 30, 2021, inventories stored at Third-party Warehouses accounted for less than 5.0% of our total inventories as of the same dates.

For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, our inventory turnover days were 174 days, 175 days, 163 days and 138 days, respectively. We calculate our inventory turnover days using the average of the opening and closing balance of inventories divided by cost of sales for the year/period and multiplied by number of days in such year/period (365 days for 2018, 2019 and 2020 and 181 days for the six months ended June 30, 2021). The general decrease in our inventory turnover days during the Track Record Period was primarily due to our improvement in inventory management.

As of October 31, 2021, RMB992.2 million, representing 89.6% of our inventories as of June 30, 2021, had been subsequently utilized or sold.

Trade Receivables

Our trade receivables primarily represent invoiced amounts due from our customers for goods provided in the ordinary course of business. During the Track Record Period, we generally granted credit periods to our customers ranging from 30 to 90 days. We recorded trade receivables of RMB369.9 million, RMB704.8 million, RMB743.1 million, and RMB1,166.1 million as of December 31, 2018, 2019 and 2020 and June 30, 2021, respectively, accounting for 21.7%, 30.5%, 26.9% and 31.7% of our total current assets as of the same dates, respectively.

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The following table sets out a breakdown of our trade receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2018	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	374,939	717,787	762,221	1,184,231
Impairment	(5,053)	(13,014)	(19,154)	(18,093)
Total	369,886	704,773	743,067	1,166,138

Our trade receivables increased by 90.5% from RMB369.9 million as of December 31, 2018 to RMB704.8 million as of December 31, 2019, to RMB743.1 million as of December 31, 2020 and further to RMB1,166.1 million as of June 30, 2021, along with the increase in our sales. Such increase was also attributable to the increase in our cooperation with customers in wind power sector which generally has a longer settlement period.

The following table sets forth an aging analysis of our accounts receivable as of the dates indicated, based on the invoice date:

	As of December 31,			As of June 30,	Subsequently settled as of October 31,	Unsettled as of October 31,
	2018	2019	2020	2021	2021	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i> <i>(unaudited)</i>
Less than 1 year	359,610	698,415	742,130	1,166,117	865,304	300,813
1 to 2 years	9,980	1,127	388	–	–	–
2 to 3 years	296	5,231	549	21	–	21
Total	369,886	704,773	743,067	1,166,138	865,304	300,834

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The following table sets forth an aging analysis of our trade receivables as of the dates indicated, based on the due date:

	As of December 31,			As of June 30,	Subsequently settled as of October 31,	Unsettled as of October 31,
	2018	2019	2020	2021	2021	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i> <i>(unaudited)</i>
Current	248,469	620,927	660,402	1,107,496	806,683	300,813
Days past due						
Less than 30 days	46,798	70,327	76,439	58,621	58,621	–
30 to 60 days	56,965	2,968	4,846	–	–	–
61 to 90 days					–	–
Over 91 days	17,654	10,551	1,380	21	–	21
Total	<u>369,886</u>	<u>704,773</u>	<u>743,067</u>	<u>1,166,138</u>	<u>865,304</u>	<u>300,834</u>

For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, our trade receivable turnover days were 103 days, 120 days, 115 days and 98 days, respectively. We calculate our trade receivable turnover days using the average of the opening and closing balance of trade receivables divided by revenue of the year/period and multiplied by number of days in such year/period (365 days for 2018, 2019 and 2020 and 181 days for the six months ended June 30, 2021). Our relatively long trade receivables turnover days were primarily due to long settlement period with customers in the wind power sector, which was generally in line with the industry norm. According to Frost and Sullivan, market players in wind power sector generally have long investment payback period and tend to ask for longer settlement period to mitigate their liquidity risk. The fluctuation in our trade receivables turnover days during the Track Record Period was generally in line with changes in the proportion of revenue generated from wind power sector. The general decreases in our trade receivable turnover days were also in relation to our credit management efforts.

We emphasize on the management of trade receivables. We have adopted the following measures in relation to trade receivables management:

- Before we grant credit to our customers, our finance department assesses the credit worthiness of such customers by collecting and reviewing their information. For existing customers, we carry out checks from time to time by requesting the customers to provide operating and financial information to identify any symptom of potential impairment, especially for our key customers.

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- We grant credit periods and amounts to our customers based on the results of the credit assessment and designate specific personnel to track and monitor the performance of each contract.
- The designated personnel adopt various methods to ensure customers pay in a timely manner, including monthly statements, reminder letters, reminder phone calls and physical visits, if necessary.
- Any indication of potential financial difficulties of the customers or any default of payment is reported to the supervisor of the designated personnel for further action, including, where appropriate, ceasing to provide further service and initiating legal actions.

Our Directors believe that the provisions made for impairment of trade receivables and overdue trade receivables during the Track Record Period was adequate, on the basis that (i) we closely review the balances of trade receivables and any overdue balances on an ongoing basis and assess the collectability of overdue balances; (ii) we estimate the loss allowances for trade receivables by assessing the ECLs, which are based on our historical credit loss experience, adjusted for factors that are specific to the debtors, and an assessment of both the current and forecast general economic conditions at the end of each financial year during the Track Record Period; and (iii) we monitor the collections of trade receivables and retrospectively review the accounting estimate of prior period to identify any material discrepancies. Where the accounting estimate is different from the original estimate, such difference will be reflected in the carrying amounts of trade receivables and thus the impairment loss in the period in which such estimate is adjusted. We keep assessing the ECL of trade receivables during their expected lives.

Based on the foregoing, the historical recovery patterns of our trade receivables and the fact that as of the Latest Practicable Date, we have not noticed any material outstanding balances of our trade receivables as of June 30, 2021 that have potential recoverability issues, our Directors are of the view that the recoverability of our trade receivables as of June 30, 2021 is reasonably assured.

Based on the Joint Sponsors' due diligence enquiries with our management and the Reporting Accountants and a review of our trade receivables aging analysis, and provided that there were no misrepresentations and omissions to the Joint Sponsors' due diligence enquiries, nothing has come to the attention of the Joint Sponsors that would lead them to cast doubts on our Directors' views as discussed above.

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As of October 31, 2021, RMB865.3 million, or 74.2% of our trade receivables as of June 30, 2021 had been subsequently settled.

Notes Receivables

Our notes receivables primarily consist of bank acceptance notes and commercial acceptance notes. Our notes receivable are usually settled within six months from their respective dates of issuance. Our commercial acceptance notes and bank acceptance notes were classified as financial assets at amortized cost and financial assets measured at FVOCI, respectively.

The following table sets out a breakdown of our notes receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2018	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Notes receivables at amortized cost				
Commercial acceptance notes	123,672	57,157	119,769	158,384
Less: Impairment	(523)	(196)	(1,198)	(1,584)
	123,149	56,961	118,571	156,800
Notes receivables at FVOCI				
Bank acceptance notes	101,736	116,282	127,167	25,865

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The following table sets forth an aging analysis of our notes receivable as of the dates indicated, based on the invoice date:

	As of December 31,			As of	Subsequently	Unsettled as of
				June 30,	settled as of	October 31,
	2018	2019	2020	2021	October 31,	October 31,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					<i>(unaudited)</i>	<i>(unaudited)</i>
Less than 1 month	2,755	15,758	51,004	16,617	16,617	–
1 to 3 months	57,610	24,841	60,608	76,760	76,760	–
3 to 6 months	143,956	74,348	120,922	52,133	44,096	8,037
6 months to 1 year	20,564	58,296	13,204	37,155	10,177	26,978
Total	224,885	173,243	245,738	182,665	147,650	35,015

We discounted certain commercial acceptance notes with an aggregate amount of approximately RMB71.4 million, RMB38.8 million, RMB61.0 million and RMB97.1 million as of December 31, 2018, 2019, 2020 and June 30, 2021, respectively. We have retained the substantial risks and rewards, which include default risks relating to such discounted notes, and accordingly, the full carrying amounts of the discounted notes and the associated payables are continued to be recognized. None of the discounted notes settled during the Track Record Period had been recouped as of the end of the Relevant Periods.

We endorsed certain notes receivable accepted by banks in China to certain of our suppliers in order to settle the trade payables due to such suppliers with aggregate carrying amounts of RMB80.6 million, RMB85.9 million, RMB208.7 million and RMB253.2 million as of December 31, 2018, 2019, 2020 and June 30, 2021, respectively, and discounted certain bank acceptance notes to banks with an aggregate amount of RMB132.3 million, RMB214.9 million, RMB209.9 million and RMB364.5 million as of December 31, 2018, 2019, 2020 and June 30, 2021, respectively. The derecognized notes have a maturity from one to six months at the end of each of the reporting period. In accordance with the Law of Negotiable Instruments of the PRC (《中華人民共和國票據法》), the holders of the derecognized notes have a right of recourse against us if there is a default by the PRC banks in terms of such derecognized notes. Our Directors believe that, we transferred substantially all risks and benefits relating to the derecognized notes and therefore had derecognized the full carrying amounts of the derecognized notes and the associated trade payables; and the fair values of the amount we have to pay, if the right of recourse is exercised, are not significant. For further details, please refer to Note 25 to the Accountants' Report set out in Appendix I to this prospectus.

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Our commercial acceptance notes decreased from RMB123.1 million as of December 31, 2018 to RMB57.0 million as of December 31, 2019 mainly due to the decrease in commercial acceptance notes our customers used to settle with us. Our commercial acceptance notes increased from RMB57.0 million as of December 31, 2019 to RMB118.6 million as of December 31, 2020 and further to RMB156.8 million as of June 30, 2021, as our customers used more commercial acceptance notes to settle with us.

Our notes receivable at FVOCI remained relatively stable as of December 31, 2018, 2019 and 2020. It decreased from RMB127.2 million as of December 31, 2020 to RMB25.9 million as of June 30, 2021, primarily because we discounted some bank acceptance notes in the first half of the year 2021 to satisfy our short-term working capital needs.

As of October 31, 2021, RMB147.7 million, or 80.8% of our notes receivables as of June 30, 2021 had been subsequently settled.

We consider that the recoverability risk of our notes receivables unsettled as of October 31, 2021 is relatively low, on the basis that (i) we only accept bank and commercial acceptance notes that are issued by well-established and reputable financial institutions; (ii) we carefully review terms of the bank and commercial acceptance notes and closely monitor the recoverability of such notes; (iii) during the Track Record Period and up to the Latest Practicable Date, we had not experienced any material default regarding our bank and commercial acceptance notes; (iv) as of the Latest Practicable Date, to the best of our knowledge, we were not aware of any material outstanding balance of notes receivables that is expected to be unrecoverable.

Based on the Joint Sponsors' due diligence enquiries with our management and the Reporting Accountants (including a review of the aging and impairment analyses of our notes receivable as prepared by our management), and provided that there were no misrepresentations and omissions to the Joint Sponsors' due diligence enquiries, nothing has come to the attention of the Joint Sponsors that would lead them to cast doubts on our views as discussed above.

FINANCIAL INFORMATION

Prepayments, Other Receivables and Other Assets

The following table sets out a breakdown of our payments, other receivables and other assets as of the dates indicated:

	As of December 31,			As of
	2018	2019	2020	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments	3,865	9,583	56,706	24,568
Deposits and other receivables	3,567	2,146	15,223	13,178
Including				
– Prepaid capitalized transaction cost related to A share issuance in January 2021	–	–	2,023	–
Due from a related party	–	122 ⁽¹⁾	–	–
Interest receivable	143	313	311	161
Less: impairment of other receivables	(1,424)	(689)	(500)	(1,496)
Total	6,151	11,475	71,740	36,411

Note:

- (1) Such balance was trade in nature. See note 42 to the Accountant Report set out in Appendix I to this prospectus for details.

During the Track Record Period, prepayments were mainly made to our rare earth suppliers to secure a stable supply of rare earth. Our purchase amount with suppliers are deducted from prepayments when we receive rare earth from our suppliers. Our prepayments increased from RMB3.9 million as of December 31, 2018 to RMB9.6 million as of December 31, 2019, and further to RMB56.7 million as of December 31, 2020, primarily due to the increase in purchases of rare earth along with the increase in our production scale. Our prepayments decreased from RMB56.7 million as of December 31, 2020 to RMB24.6 million as of June 30, 2021, primarily due to receipt of rare earth from our suppliers.

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Deposits and other receivables mainly represent receivables from employees, guarantees of investment and prepaid capitalized transaction cost in relation to our issuance of A shares to specified shareholders in January 2021.

Our deposits and other receivables increased significantly from RMB2.1 million as of December 31, 2019 to RMB15.2 million as of December 31, 2020, primarily due to a deposit of RMB11.4 million made to Ningbo (Jiangbei) High-Tech Industrial Park Management Committee to guarantee our construction, completion and commercial production of Ningbo Production Base. Refund of such deposit depends on the achievement of certain milestones specified in our agreement with Ningbo (Jiangbei) High-Tech Industrial Park Management Committee. In the unlikely circumstances where we are unable to achieve those milestones, we will not be eligible to apply for a refund of such deposit, which may adversely affect our financial condition. See “Risk Factors – Risks Relating to Our Business and Industry – We may not be able to implement our strategies and our future plans”.

Our deposits and other receivables decreased from RMB15.2 million as of December 31, 2020 to RMB13.2 million as of June 30, 2021, primarily because we recorded the prepaid capitalized transaction cost of approximately RMB2.0 million as a deduction from the equity upon the issuance of A shares to specified shareholders in January 2021. For details of the identities and background of such specified shareholders, see “History, Development and Corporate Structure – Major Shareholding Changes of Our Company – Our Incorporation and Controlling Shareholders – 7. Issuance of A Shares to specified investors”.

Financial Assets at FVTPL

Our financial assets at FVTPL represented our investments in derivative financial assets instruments. We entered into forward foreign exchange contracts to manage our exposure to foreign currency risk. We enter into such contracts based on our anticipated cash inflow from overseas customers. Such contracts generally have terms within one year. We measure fair values of the forward foreign exchange contracts based on the difference between the estimated forward exchange rates as of each balance sheet date and the exchange rates which were locked up by the forward contracts.

Our financial assets at FVTPL increased from RMB0.7 million as of December 31, 2018 to RMB1.9 million as of December 31, 2019, to RMB2.7 million as of December 31, 2020 and further to RMB6.8 million as of June 30, 2021, primarily due to the increase in forward contracts we entered into along with the increase in our sales to overseas customers.

FINANCIAL INFORMATION

Cash and Cash Equivalents

Our cash and cash equivalents mainly represent cash at bank denominated in RMB and various other currencies. The following table sets forth the breakdown of our cash and cash equivalents as of the dates indicated:

	As of December 31,			As of
	2018	2019	2020	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2021
Cash and bank balances	462,814	778,516	756,435	1,166,050
Less: Restricted cash	(66,128)	(134,211)	(163,423)	(110,837)
Cash and cash equivalents	<u>396,686</u>	<u>644,305</u>	<u>593,012</u>	<u>1,055,213</u>

The following table sets forth the breakdown of our cash and bank balances denominated in RMB and various other currencies as of the dates indicated:

	As of December 31,			As of
	2018	2019	2020	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2021
Cash and bank balances denominated in:				
RMB	439,496	736,014	680,807	1,088,509
EUR	7,130	9,808	27,186	42,153
USD	14,224	30,636	46,281	34,169
JPY	1,783	1,916	2,059	1,168
HKD	171	142	102	51
CAD	10	–	–	–
Total	<u>462,814</u>	<u>778,516</u>	<u>756,435</u>	<u>1,166,050</u>

Our cash and cash equivalents increased by 62.4% from RMB396.7 million as of December 31, 2018 to RMB644.3 million as of December 31, 2019 mainly due to proceeds from the issuance of Convertible Bonds in November 2019. Our cash and cash equivalents decreased by 8.0% from RMB644.3 million as of December 31, 2019 to RMB593.0 million as of December 31, 2020, primarily due to the utilization of proceeds from issuance of Convertible Bonds. Our cash and cash equivalents increased by 77.9% from RMB593.0 million as of December 31, 2020 to RMB1,055.2 million as of June 30, 2021, primarily due to the proceeds from the issuance of A shares to certain shareholders in January 2021.

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Restricted Cash

Our restricted cash mainly represent deposits as guarantee for our bank acceptance notes, performance bonds, forward foreign exchange contracts and letters of credit. Such performance bonds were mainly in relation to our deposits at commercial banks to obtain guarantee from the commercial banks for our performance obligations under construction agreements. Changes in our restricted cash as of December 31, 2018, 2019 and 2020 and June 30, 2021 were mainly due to fluctuations in our bank acceptance notes, forward foreign exchange contracts and letters of credit.

We recorded certain restricted cash in relation to frozen deposit for a lawsuit where a third-party customer in wind power sector (“**Customer A**”) breached its purchase agreement with us for failure to purchase NdFeB PMs from us pursuant to the agreement it entered into with our Company. In July 2018, Customer A brought lawsuits against us claiming for a refund of prepayments it made to us in relation to such purchase agreement. In August 2018, Customer A filed a litigation preservation application with relevant court. On September 11, 2018, the court resolved to freeze the Company’s bank deposits of RMB20.0 million. In December 2020, the court made a final judgment which ruled (a) our Company to refund the prepayment and relevant interest in aggregate of approximately RMB22.1 million to Customer A; and (b) Customer A to pay a damage of RMB1.0 million to us. In December 2020, upon receiving the judgment, we made a provision of RMB1.3 million, which was primarily in relation to the interest payable due to Customer A. In January 2021, we paid RMB22.1 million to Customer A, and the frozen deposit was released accordingly. For further details of the frozen deposit, see note 28 to the Accountants’ Report set out in Appendix I to this prospectus.

Trade and Notes Payables

Our trade and notes payables mainly represented balances due to our suppliers of raw materials. Our suppliers generally grant us a credit period ranging from 5 to 75 days. The following table sets out a breakdown of our trade and notes payables as of the dates indicated:

	As of December 31,			As of June 30,
	2018	2019	2020	2021
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Trade payables	236,040	241,621	363,573	510,730
Notes payable	85,495	172,934	257,753	146,561
Total	321,535	414,555	621,326	657,291

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Our trade payables remained relatively stable as of December 31, 2018 and 2019. Our trade payables increased from RMB241.6 million as of December 31, 2019 to RMB363.6 million as of December 31, 2020 and further to RMB510.7 million as of June 30, 2021, mainly due to the increase in purchase of raw materials along with the expansion of our production and sales scale.

Our notes payables increased by 102.3% from RMB85.5 million as of December 31, 2018 to RMB172.9 million as of December 31, 2019 and further increased by 49.0% to RMB257.8 million as of December 31, 2020, mainly due to the increase in purchase of raw materials along with the expansion of our production and sales scale. Our notes payables decreased by 43.1% from RMB257.8 million as of December 31, 2020 to RMB146.6 million as of June 30, 2021, primarily due to the maturity and settlement of acceptance notes.

The following table sets out an analysis of our trade and notes payables based on invoice date as of the dates indicated:

	As of December 31,			As of	Subsequently	Unsettled as of
	2018	2019	2020	June 30,	settled as of	October 31,
	RMB'000	RMB'000	RMB'000	2021	October 31,	October 31,
				RMB'000	2021	2021
					(unaudited)	(unaudited)
Less than 1 year	318,710	413,900	620,984	656,879	550,036	106,843
1 to 2 years	910	408	133	75	39	36
2 to 3 years	950	130	113	128	56	72
Over 3 years	965	117	96	209	–	209
	321,535	414,555	621,326	657,291	550,131	107,160

For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, our trade and notes payables turnover days were 95, 104, 108 and 87 days, respectively. We calculate our trade and notes payable turnover days using the average of the beginning and ending trade and notes payables balances for the period, divided by the sum of cost of sales for the relevant year/period and multiplied by the number of days in the relevant year/period (365 days for 2018, 2019 and 2020 and 181 days for the six months ended June 30, 2021).

As of October 31, 2021, RMB550.1 million, or 83.7% of our trade and notes payables as of June 30, 2021 had been subsequently settled.

FINANCIAL INFORMATION

Contract Liabilities

During the Track Record Period, our contract liabilities represented the obligations to transfer goods to customers for which we have received short-term advances. Such contract liabilities are reduced when we perform such obligations to customers. Our contract liabilities decreased from RMB13.6 million as of December 31, 2018 to RMB5.6 million as of December 31, 2019 mainly because the planned procurement amount of certain customers who made prepayments with us decreased. Our contract liabilities increased from RMB5.6 million as of December 31, 2019 to RMB18.0 million as of December 31, 2020 and further to RMB19.8 million as of June 30, 2021, mainly because the planned procurement amount of certain customer who made prepayments with us increased.

Other Payables and Accruals

Our other payables and accruals mainly consist of salaries, wages and benefits payables, dividend payables, other payables and tax other than income tax payables. We recorded other payables and accruals of RMB68.6 million, RMB65.0 million, RMB146.5 million, and RMB159.0 million as of December 31, 2018, 2019 and 2020 and June 30, 2021, respectively.

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

	As of December 31,			As of June 30,
	2018	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Dividend payables	18	6	6	6
Other payables	40,064	34,401	102,079	97,730
Salaries, wages and benefits payables	24,707	28,480	39,300	54,016
Taxes other than income tax payables	3,771	2,123	5,137	7,268
Total	68,560	65,010	146,522	159,020

Our other payables and accruals increased by 125.4% from RMB65.0 million as of December 31, 2019 to RMB146.5 million as of December 31, 2020, mainly due to (i) an increase in other payables resulting from the increase in share repurchase obligations in relation to share incentives we granted; and (ii) an increase in salaries, wages and benefits payables, primarily attributable to the increase in the number and salary of our staff.

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As of December 31, 2018, 2019 and 2020 and June 30, 2021, we recorded share repurchase obligations of nil, nil, RMB54.9 million and RMB54.9 million, respectively. The increase in the balance of share repurchase obligation as of December 31, 2020 as compared to December 31, 2019 was primarily in relation to certain Type I Restricted Shares we granted to our management and employees in August 2020. Such Shares shall be repurchased by the Company at RMB21.62 per share in cash if there is a failure to meet following unlocking conditions in the unlocking period:

- The Company has not encountered the following circumstances: (i) the reporting accountant of the Company issued adverse opinion or disclaimer of opinion on the Company's financial statements or the internal control of financial reporting for the most recent financial year; (ii) the Company failed to declare dividends that are mandatorily required by laws, its memorandum of articles or public commitment within 36 months of the Company's listing; (iii) granting such incentive shares would violate applicable laws; or (iv) any other circumstances as determined by the CSRC;
- The grantee has not encountered the following circumstances: (i) the grantee was regarded as disqualified by any of the stock exchanges or the CSRC in the previous 12 months; (ii) the grantee was subject to administrative penalties or punishment, or prohibited by the CSRC from re-entering the industry; (iii) the grantee was prohibited by the applicable laws from serving as a director or senior management of a company, or from being granted share incentives; and (iv) any other circumstances as determined by the CSRC;
- The Company achieves the following performance assessment targets:

<u>Unlocking period</u>	<u>Assessment year</u>	<u>Growth rate in the net profit for the year as compared to FY2019 (A)</u>	
		<u>Target rate (Am)</u>	<u>Trigger rate (An)</u>
First unlocking period	2020	the net profit for FY2020 represents a growth rate of no less than 30% as compared to FY2019	20%
Second unlocking period	2021	the net profit for FY2021 represents a growth rate of no less than 60% as compared to FY2019	40%
Third unlocking period	2022	the net profit for FY2022 represents a growth rate of no less than 90% as compared to FY2019	70%

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Assessment index	Achievement	Unlocking proportion (X)
Growth rate in the net profit for the year as compared to FY2019 (A)	$A \geq A_m$	$X=100\%$
	$A_n \leq A < A_m$	$X=(A - A_n)/(A_m - A_n) * 50\% + 50\%$
	$A < A_n$	$X=0$

If the Company achieves the performance assessment targets, the actual number of restricted shares of a grantee to be unlocked = the number of shares an individual plans to unlock * the proportion of shares the Company plans to unlock * the proportion of shares an individual plans to unlock.

- The grantee meets certain designated benchmark in our internal performance review.

See note 32 and note 37 to the Accountant Report as set out in Appendix I to this prospectus and “Appendix V – Statutory and General Information – 4. Restricted Share Incentive Plan” for further details.

Our other payables and accruals decreased from RMB102.1 million as of December 31, 2020 to RMB97.7 million as of June 30, 2021 primarily due to the settlement of payables of approximately RMB22.1 million in relation to a litigation, where a third-party customer in wind power sector breached its purchase agreement with us for failure to purchase NdFeB PMs from us as agreed in the agreement and required for a refund of prepayments it made to us. See “– Restricted Cash” in this section for details.

Convertible Bonds

On November 1, 2019, the Company issued 4,350,000 Convertible Bonds with a nominal value of RMB435.0 million and a maturity of six years. The interest of the issued Convertible Bonds will be calculated using a coupon rate of 0.4% in the first year, 1.0% in the second year, 1.5% in the third year, 2.0% in the fourth year, 3.0% in the fifth year and 4.0% in the sixth year, and the principal will be returned at maturity and the interest of the last year will be paid.

During the conversion period from May 7, 2020 to October 31, 2025, the Company has the right to redeem all or part of the Convertible Bonds at its principal amount together with accrued and unpaid interest if either events occurred: (i) during the conversion period, at least twenty trading day in thirty consecutive trading days the closing price of the A Shares is not lower than 130% of the conversion price; or (ii) the total outstanding amount of the unconverted Convertible Bonds is less than RMB30.0 million.

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The Company is obliged to repurchase all or part of the unconverted Convertible Bonds at the option of the bondholders at the principal amount together with accrued and unpaid interest upon occurrence of certain future events, including (i) in the last two years before the maturity date, the closing price of the A Share in thirty consecutive trading days is lower than 70.0% of the conversion price; or (ii) the use of the proceeds is deemed to have changed according to relevant rules and regulations promulgated by the CSRC or is regarded by the CSRC as changed.

On July 29, 2021, the Board resolved to exercise the redemption right to redeem all the outstanding Convertible Bonds at redemption price of RMB100.83 per Convertible Bond after close of market on August 30, 2021. Nonetheless, the bondholders are entitled to convert their Convertible Bonds at the conversion price of RMB25.3 per A Share before close of market on August 30, 2021. As of August 30, 2021, a total of 4,274,634 Convertible Bonds had been converted into 16,886,127 A Shares. As of August 31, 2021, 75,366 Convertible Bonds were redeemed by our Company at redemption price of RMB100.83. See “History, Development and Corporate Structure – Major Shareholding Changes of Our Company – Our Incorporation and Controlling Shareholders – 5. The issuance of Convertible Bonds in November 2019” for further details of the key terms of Convertible Bonds. As a result of the redemption, we recorded RMB0.9 million as finance costs in our consolidated statement of profit or loss for the nine months ended September 30, 2021.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

Our use of cash primarily relates to operating activities, capital expenditure and repayment of bank borrowings. We financed our operations primarily through a combination of capital contribution from our Shareholders, cash generated from our operations and interest-bearing borrowings. As of December 31, 2018, 2019 and 2020 and June 30, 2021, we had cash and cash equivalents of RMB396.7 million, RMB644.3 million, RMB593.0 million and RMB1,055.2 million, respectively.

Our Directors believe that after taking into consideration the financial resources available to us, including cash flows from our operations, available banking facilities and estimated proceeds from the Global Offering, we have sufficient working capital for our present and future requirements for at least 12 months commencing from the date of this prospectus.

FINANCIAL INFORMATION

Cash Flow

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

	Year ended December 31,			Six Months ended June 30,	
	2018	2019	2020	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Operating cash flows before movements in working capital	237,740	279,907	419,995	168,663	316,428
Changes in working capital	(180,796)	(193,653)	(237,161)	(130,199)	(363,677)
Income tax paid	(23,041)	(5,424)	(24,799)	(12,052)	(29,410)
Net cash flow from/(used in) operating activities	33,903	80,830	158,035	26,412	(76,659)
Net cash flow used in investing activities	(108,534)	(120,239)	(208,138)	(46,203)	(295,781)
Net cash flow from/(used in) financing activities	262,107	285,585	(203)	(61,972)	836,196
Net increase/(decrease) in cash and cash equivalents	187,476	246,176	(50,306)	(81,763)	463,756
Cash and cash equivalents at beginning of year/period	205,315	396,686	644,305	644,305	593,012
Effect of foreign exchange rate changes, net	3,895	1,443	(987)	1,158	(1,555)
Cash and cash equivalents at end of year/period	<u>396,686</u>	<u>644,305</u>	<u>593,012</u>	<u>563,700</u>	<u>1,055,213</u>

Net cash flow from/(used in) operating activities

We derive our cash inflow from operating activities principally from the receipt of payments for the sales of our high-performance NdFeB PMs. Our cash outflow from operating activities is principally for our purchases of rare earth used for the manufacture of our high-performance NdFeB PMs.

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For the six months ended June 30, 2021, our net cash used in operating activities was RMB76.7 million, which was primarily attributable to our profit before tax of RMB247.1 million, adjusted for non-cash and non-operating items. Positive adjustments for non-cash and non-operating items primarily included (i) finance costs of RMB35.0 million and (ii) depreciation of property, plant and equipment of RMB29.0 million. The amount was then adjusted for the changes in working capital, which primarily included (i) an increase in trade receivables of RMB422.0 million; (ii) an increase in inventories of RMB182.1 million; (iii) an increase in other payables and accruals of RMB106.1 million; (iv) a decrease in notes receivables of RMB62.7 million; and (v) a decrease in prepayments, other receivables and other assets of RMB55.2 million. The amount was further adjusted for an income tax paid of RMB29.4 million.

In view of our net operating cash outflow for the six months ended June 30, 2021, we plan to improve our operating cash flow position by (i) generating additional cash inflows by expanding our business scale, such as continuing to expand our production volume of high-performance NdFeB PMs and expand our customer base; (ii) adopting measures to control costs and operating expenses to improve our cost efficiency by, among others, improving our production technology; and (iii) improving our working capital management efficiency by enhancing the management of trade and notes receivables and inventories, e.g. improving our credit assessment mechanism and enhancing our communication with customers regarding settlement of trade receivables.

Based on the interim condensed consolidated information for the nine months ended September 30, 2021 of the Group reviewed by the Reporting Accountant as set out in Appendix IA of this prospectus, we recorded net operating cash inflow for the nine months ended September 30, 2021. Such improved operating cash flow position as compared to the six months ended June 30, 2021 was primarily due to our effort in collection of trade receivables.

For the year ended December 31, 2020, our net cash from operating activities was RMB158.0 million, which was primarily attributable to our profit before tax of RMB278.7 million, adjusted for non-cash and non-operating items. Positive adjustments for non-cash and non-operating items primarily included (i) finance costs of RMB73.9 million and (ii) depreciation of property, plant and equipment of RMB46.2 million. The amount was then adjusted for the changes in working capital, which primarily included (i) an increase in inventories of RMB287.7 million; (ii) an increase in trade and notes payables of RMB170.1 million; (iii) an increase in notes receivables of RMB73.5 million; (iv) an increase in trade receivables of RMB44.4 million; (v) an increase in prepayments, other receivables and other assets of RMB37.2 million; and (vi) an increase in other payables and accruals of RMB34.3 million. The amount was further adjusted for an income tax paid of RMB24.8 million.

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For the year ended December 31, 2019, our net cash from operating activities was RMB80.8 million, which was primarily attributable to our profit before tax of RMB178.7 million, adjusted for non-cash and non-operating items. Positive adjustments for non-cash and non-operating items primarily included (i) finance costs of RMB42.1 million and (ii) depreciation of property, plant and equipment of RMB39.7 million. The amount was then adjusted for the changes in working capital, which primarily included (i) an increase in trade receivables of RMB342.8 million; (ii) an increase in trade and notes payables of RMB169.8 million; (iii) a decrease in notes receivables of RMB52.0 million; (iv) an increase in inventories of RMB40.0 million; and (v) a decrease in other current assets of RMB36.2 million.

For the year ended December 31, 2018, our net cash from operating activities was RMB33.9 million, which was primarily attributable to our profit before tax of RMB159.0 million, adjusted for non-cash and non-operating items. Positive adjustments for non-cash and non-operating items primarily included (i) finance costs of RMB32.5 million and (ii) depreciation of property, plant and equipment of RMB32.3 million. The amount was then adjusted for the changes in working capital, which primarily included (i) an increase in inventories of RMB243.3 million; (ii) an increase in trade receivables of RMB17.6 million; (iii) an increase in notes receivables of RMB78.9 million; and (iv) an increase in other current assets of RMB41.6 million. The amount was further adjusted for an income tax paid of RMB23.0 million.

Net cash flow used in investing activities

For the six months ended June 30, 2021, our net cash used in investing activities was RMB295.8 million, which was primarily attributable to purchases of property, plant and equipment of RMB204.7 million and purchases of wealth management products of RMB313.0 million, which was partially offset by proceeds from sale of wealth management products of RMB317.6 million.

For the year ended December 31, 2020, our net cash used in investing activities was RMB208.1 million, which was primarily attributable to payment for leasehold land of RMB83.1 million, purchases of items of property, plant and equipment of RMB117.6 million, purchases of other long-term assets of RMB18.8 million.

For the year ended December 31, 2019, our net cash used in investing activities was RMB120.2 million, which was primarily attributable to purchases of items of property, plant and equipment of RMB97.4 million and purchases of other long-term assets of RMB17.6 million.

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For the year ended December 31, 2018, our net cash used in investing activities was RMB108.5 million, which was primarily attributable to purchases of items of property, plant and equipment of RMB58.6 million and purchases of other long-term assets of RMB50.1 million.

Net cash flow from/(used in) financing activities

For the six months ended June 30, 2021, our net cash from financing activities was RMB836.2 million, which was primarily attributable to (i) proceeds from issue of shares of RMB521.0 million; and (ii) new bank loans of RMB418.9 million, partially offset by a dividend payment of RMB86.3 million, settlement of letters of credit of RMB18.0 million and an interest payment of RMB16.3 million.

For the year ended December 31, 2020, our net cash used in financing activities was RMB0.2 million, which was primarily attributable to new bank loans of RMB455.3 million and proceeds from issue of shares of RMB54.9 million, partially offset by repayment of bank loans, settlement of letter of credit, dividends paid and interest paid of RMB378.5 million, RMB61.1 million, RMB45.5 million and RMB45.5 million, respectively.

For the year ended December 31, 2019, our net cash from in financing activities was RMB285.6 million, which was primarily attributable to proceeds from issue of convertible bonds of RMB435.0 million and new bank loans of RMB419.6 million, partially offset by repayment of bank loans of RMB452.4 million and dividends paid of RMB45.5 million.

For the year ended December 31, 2018, our net cash from financing activities was RMB262.1 million, which was primarily attributable to new bank loans of RMB307.0 million and proceeds from issue of shares of RMB224.2 million, partially offset by repayment of bank loans of RMB195.6 million and dividends paid of RMB40.9 million.

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INDEBTEDNESS

Interest-bearing bank and other borrowings

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

	As of December 31,			As of June 30,	As of October 31,
	2018	2019	2020	2021	2021
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i> <i>(unaudited)</i>
Current					
Lease liabilities – current	1,486	1,959	1,132	2,235	2,163
Bank loan – credit	358,071	298,669	178,049	524,383	688,051
Current portion of long term bank loans – credit	90,120	5,700	200,000	366,208	123,126
Current portion of long term bank loans – secured	–	–	–	100,000	100,000
Current portion of long term bank loans – mortgage	1,320	63,540	–	–	–
Letter of credit	–	61,085	27,614	9,619	76,667
Discounted commercial acceptance notes that were not yet due	71,381	38,795	60,970	97,122	213,421
Interest payable	522	938	1,459	3,935	4,479
Total	522,900	470,686	469,224	1,103,502	1,207,907
Non-current					
Lease liabilities – non- current	2,720	1,742	738	5,253	4,902
Bank loan – credit	5,700	200,000	167,208	23,126	200,000
Bank loan – secured	–	–	100,000	–	–
Bank loan – mortgage	63,540	–	–	100,000	100,000
Bank loan - secured & mortgage	–	–	–	–	42,885
Convertible bonds	–	322,027	343,572	353,441	–
Total	71,960	523,769	611,518	481,820	347,787

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As of December 31, 2018, 2019 and 2020, June 30, 2021 and October 31, 2021 the weighted average effective interest rates on borrowings from banks were 3.9%, 4.7%, 4.7%, 3.8% and 4.4%, respectively. For details of our interest-bearing bank and other borrowings, please refer to Note 33 to the Accountants' Report set out in Appendix I.

The carrying amounts of our interest-bearing bank borrowings are denominated in RMB, repayable within one year, and approximated for their fair values as of the respective balance sheet dates. As of October 31, 2021, also being the latest practicable date for the purpose of indebtedness statement in this prospectus, our bank loans amounted to RMB1,544.2 million. The bank loans were primarily used for the construction of additional production facilities and our general working capital purposes. As of October 31, 2021, our fixed assets with a net carrying amount of RMB137.4 million and land use right with a net carrying amount of RMB49.3 million were pledged to secure general bank loans. We plan to service our indebtedness primarily using expected cash generated from operations. As of October 31, 2021, unutilized banking facilities was RMB716.0 million. On July 14, 2021, JL MAG Baotou entered into a five-year syndicated loan facility with a principal of RMB340.0 million and an interest rate of PRC inter-bank lending one-year base rate as of drawdown plus five basis points in relation to the construction of our Baotou Production Base. Such syndicated loan is guaranteed by our Company. The principal is required to be fully drawn down by December 31, 2023. As of the Latest Practicable Date, we had drawn down RMB105.0 million with respect to the syndicated loan. Our Directors confirm that we had not had any material default with regard to any bank loans and other borrowings, we had not breached any financial covenants in our bank loans, and we had not experienced any difficulty in obtaining credit facilities, withdrawal of facilities, default in payment of bank borrowings or breach of covenants, in each case, during the Track Record Period and up to the Latest Practicable Date.

Except as disclosed above, we did not have any outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptance or acceptance credits or any guarantees outstanding as of October 31, 2021. There are no material covenants relating to our outstanding debt that would prevent us from raising additional bank or other external financing in any material aspects. Our Directors also confirm that there has not been any material adverse change to our indebtedness since October 31, 2021.

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CAPITAL EXPENDITURES

Historical Capital Expenditures

Our principal capital expenditures primarily related to purchases of property, plant and equipment in relation to the construction and upgrade of our production facilities. The following table sets forth a breakdown of our historical capital expenditures for the periods indicated:

	Year Ended December 31,						Six months ended June 30,			
	2018		2019		2020		2020		2021	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
	<i>(Unaudited)</i>									
Purchases of items of property, plant and equipment	58,615	53.9	97,408	79.7	117,607	53.6	25,958	46.9	204,722	67.9
Payments for leasehold land	-	-	-	-	83,146	37.9	11,410	20.6	91,321	30.3
Purchases of items of other long-term assets	50,092	46.0	17,616	14.4	18,757	8.5	17,971	32.5	5,083	1.7
Additions to other intangible assets	55	0.1	4,137	3.4	5	-	4	-	272	0.1
Investment in associate	-	-	3,000	2.5	-	-	-	-	-	-
Total	108,762	100.0	122,161	100.0	219,515	100.0	55,343	100.0	301,398	100.0

Capital Commitments

Our capital commitments during the Track Record Period were primarily related to purchases of property, plant and equipment. As of December 31, 2018, 2019 and 2020, and June 30, 2021, the total amount of our capital expenditures contracted for but not yet incurred was RMB59.0 million, RMB147.7 million, RMB126.4 million and RMB190.2 million, respectively.

CONTINGENT LIABILITIES

As of the Latest Practicable Date, we did not have any material contingent liabilities.

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KEY FINANCIAL RATIO

The following table sets forth certain financial ratios as of the dates or for the years or period indicated:

	As of / for the year ended			As of / for the
	December 31,			six months
	2018	2019	2020	ended June 30, 2021
Gearing ratio ⁽¹⁾ (%)	53.7	74.7	68.9	70.0
Current ratio ⁽²⁾	1.8	2.4	2.2	1.9
Quick ratio ⁽³⁾	1.2	1.7	1.4	1.3
Return on equity ⁽⁴⁾ (%)	16.2	13.4	17.1	20.7
Return on total assets ⁽⁵⁾ (%)	8.1	6.3	7.7	10.6

Notes:

- (1) calculated by dividing total debts, i.e. our borrowings by total equity as of the end of respective year/period.
- (2) calculated by dividing our current assets by our current liabilities as of the end of the respective year/period.
- (3) calculated by dividing our current assets minus inventories by our current liabilities as of the end of the respective year/period.
- (4) equals our net profit for each of the year/period attributable to owners of the parent divided by the weighted average total equity as of the end of the respective year/period, multiplied by 100% (annualized where applicable).
- (5) equals our net profit for the year/period attributable to owners of the parent divided by the average of the total assets as of the beginning and the end of the respective year/period, multiplied by 100% (annualized where applicable).

Our gearing ratio increased from 53.7% as of December 31, 2018 to 74.7% and 68.9% as of December 31, 2019 and 2020, primarily due to the Convertible Bond issued in 2019 and the addition of net bank borrowing to support our business expansion. Our gearing ratio remained relatively stable at 68.9% as of December 31, 2020 and 70.0% as of June 30, 2021.

Our current ratio increased from 1.8x as of December 31, 2018 to 2.4x as of December 31, 2019, primarily due to an increase in current assets as a result of (i) an increase in trade receivables which was in line with the increase in revenue for the year; and (ii) an increase in cash and cash equivalents mainly attributable to the proceeds received from the Convertible Bond issued in November 2019. Our current ratio decreased from 2.4x as of December 31, 2019 to 2.2x and 1.9x as of December 31, 2020 and June 30, 2021, respectively, mainly due

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to an increase in current liabilities as a result of (i) an increase in other payables, associated with the share incentive schemes offered in 2020 and (ii) an increase in interest-bearing bank and other borrowings to finance our working capital for purchasing inventories.

Our quick ratio remained relatively stable during the Track Record Period.

Our return on equity was 16.2%, 13.4% and 17.1% for the years ended December 31, 2018, 2019 and 2020, respectively. The annualized return on equity for the six months ended June 30, 2021 was 20.7%. Changes in our return on equity during the Track Record Period was primarily due to a continuously increase in profit while we distributed dividends from our retained profits for certain years/periods.

Our return on assets was 8.1%, 6.3% and 7.7% for the years ended December 31, 2018, 2019 and 2020, respectively. The annualized return on assets for the six months ended June 30, 2021 was 10.6%. Changes in our return on assets during the Track Record Period was primarily due to changes in our profit for the year/period.

RELATED-PARTY TRANSACTIONS

During the Track Record Period, we entered into certain related party transactions, which mainly include service rendering and purchase of rare earths from, and sales of goods and services to, related parties. Such related parties include Goldwind Technology and Ganzhou Rare Earth and their subsidiaries and affiliates, our associates and other related parties. For details of the related-party transactions, please refer to note 42 of the Accountants' Report set out in Appendix I to this prospectus. In the opinion of the Directors, each of the significant related party transactions set out in note 42 of the Accountants' Report were carried out in the normal course of business at terms negotiated between us and the respective related parties on an arm's length basis, and that our related party transactions during the Track Record Period would not distort our results of operation, on the following basis:

- ***Purchases of rare earth raw materials*** During the Track Record Period, purchase prices of the rare earths were determined through negotiation with rare earths suppliers with reference to rare earths prices set out on third-party bulk commodity information websites at the time of purchase, irrespective of whether such suppliers were related parties or not. In particular, we procure Pr-Nd, one light rare earth and the biggest component used in our production, based on the volume of customer orders on a timely basis, and will not store a large volume of Pr-Nd. As we made purchase orders solely based on our commercial needs, taking into account the availability and market price of the Pr-Nd at the time of the purchase, purchase price and quantity of each order with different parties varied. Accordingly, our total purchase amount and APPs of Pr-Nd from different parties could also vary from time to time. Therefore, APPs of rare earths procured from each supplier during a year or a period of time would not be identical to each other due to different timings when the purchase was made and different quantity required.

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During the Track Record Period, Pr-Nd was the biggest component used in our production, accounting for 55.6%, 64.0%, 48.1% and 73.4% of our total purchase of rare earth raw materials for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, respectively. During the Track Record Period, APPs of Pr-Nd procured from related parties was generally comparable but not identical to that from non-related parties because prices and availability of rare earths changed from time to time, and thus prices of rare earths varied by timing and quantity of our purchases. The price of Pr-Nd increased significantly from approximately RMB0.35 million per tonne at the end of 2019 to approximately RMB0.50 million per tonne at the end of 2020, and further increased to approximately RMB0.57 million per tonne at the end of June 2021, which led to a bigger variance in the purchase price of subsequent purchase orders with different timing. Given the fact that purchases of Pr-Nd from non-related parties accounted for over 90% and 80%, respectively, of our total purchases of Pr-Nd in 2020 and the first half of 2021, purchase orders with non-related parties were more evenly distributed in the year/period as compared to purchase orders with related parties. As our purchase orders were made solely based on commercial needs, and purchase orders had been made with Ganzhou Rare Earth (which was one of our five largest suppliers in 2020 and the first half in 2021) during the time when Pr-Nd price spiked, APPs of Pr-Nd purchased from related parties in 2020 and the first half of 2021 was higher than that from non-related parties.

The following table sets forth the APPs of Pr-Nd procured from related parties and non-related parties for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,
	2018	2019	2020	2021
	<i>(RMB'000/tonne)</i>			
Related parties	350	330	368	565
Non-related parties	363	325	334	537

- **Sales of goods** During the Track Record Period, all related parties that purchased products from us operate in the wind power sector. Selling prices of our products were determined on a cost-plus basis through arm's length negotiations between us and customers. Since our products were customized according to customer specifications, selling prices of our products to related parties were not identical to that to non-related parties.

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The following table sets forth a comparison of ASPs of our products sold to related parties and non-related parties that operate in wind power sector for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,
	2018	2019	2020	2021
	<i>(RMB'000/tonne)</i>			
Related parties	217	218	199	240
Non-related parties	253	261	251	175

For the years ended December 31, 2018, 2019 and 2020, ASPs of our products sold to related parties were generally lower than that to non-related parties, primarily because our related parties generally required less heavy rare earths ingredients in products purchased from us based on their own business needs.

For the six months ended June 30, 2021, the ASP of our products sold to non-related parties decreased and was lower than that to related parties, primarily because a major non-related party customer changed specifications of products purchased from us based on their own business needs, resulting in higher percentage of products sold with lower heavy rare earths ingredients, which lead to a lower ASP of products sold to such customer. Further, there was a price lock-up clause in the agreement with such non-related party customer which fixes the unit price of rare earths in our cost-plus pricing mechanism until the 2021 year-end. Therefore, we were unable to raise selling prices of products sold to such customer in line with the increase in rare earth prices in 2021.

We have measures in place to identify related parties and related-party transactions, and have adopted a number of policies to standardize and regulate our related-party transactions, including:

- pricing of the related party transactions should be fair and transparent, and should not materially deviate from the market practice. Where there is no public market for such transactions or relevant information is unavailable, price of the related-party transactions shall be determined by cost plus reasonable profits;

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- any proposed related-party transaction, the amount of which exceeds RMB30.0 million and accounts for more than 5.0% of the net assets of the Company as shown in the Company's most recent audited financial statements, shall be approved by the independent directors and then the Shareholders. Shareholders who are related parties with respect to the proposed transaction shall have no right to vote for the proposed transaction; and
- any proposed transaction with a related party who is a natural person shall be disclosed. In addition, any transaction proposed to be conducted with a related party entity with transaction amount exceeding RMB3.0 million and accounting for more than 0.5% of the net assets of the Company as shown in the Company's most recent audited financial statements, shall be disclosed. Save for related-party transactions in the ordinary course of business, any related-party transaction approved by Shareholders shall be disclosed according to applicable laws and regulations.

Going forward, we plan to continue to implement the following measures with the view to reducing related-party transactions:

- *deepening business relationship with non-related party rare earths suppliers.* During the Track Record Period, we purchased rare earths from Ganzhou Rare Earth with the view to enjoying our Ganzhou Production Base's proximity to Ganzhou Rare Earth's premises to reduce transportation cost. Along with the expansion in our production scale and the generally upward trend in rare earths price, our purchase amount from related parties increased during the Track Record Period. We aim to deepen our business relationship with other major rare earth groups in China. In particular, we have entered into an annual framework agreement with China Northern Rare Earth to ensure a stable supply of rare earths for our Baotou Production Base;
- *expanding our business presence in NEV, energy-saving VFAC and robotics and intelligent manufacturing sectors.* During the Track Record Period, our related parties concentrated in the wind power sector. In recent years, we are developing customers that are leading market players in NEV, energy-saving VFAC and robotics and intelligent manufacturing sectors, all of which were non-related parties, to our knowledge as of the Latest Practicable Date. According to Frost & Sullivan, favorable policies are expected to drive the growth of domestic consumption of high-performance NdFeB PMs in NEV, energy-saving VFAC and robotics and intelligent manufacturing sectors at a CAGR of 32.1%, 16.3% and 14.8% from 2020 to 2025, respectively. As such, we expect our revenue generated from NEV, energy-saving VFAC and robotics and intelligent manufacturing sectors to continue to increase, thereby reducing wind power sector related-party transactions as a percentage of our total revenue; and

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- *further diversifying our products and capturing business opportunities in emerging sectors.* We have initiated the “Project of Realizing an Annual Production of 3,000 Tonnes of High-end Magnets Used in NEV and 3C Sectors” at our Ganzhou Production Base in 2020 and expect to complete such project by the end of 2022. We are also constructing our Ningbo Production Base and the completion-based check and acceptance of construction for our Baotou Production Base was completed in December 2021, which enable us to extend the processing capability, enrich the product portfolio, and build a multi-sector, multi-category and multi-level product offering structure. We believe that the foregoing will enable us to capture the growth potential in the emerging sectors, thereby reducing our wind power sector related-party transactions as a percentage of our total revenue.

As of October 31, 2021, all our balances with related parties were trade in nature.

MARKET RISK DISCLOSURE

Our activities expose us to a variety of financial risks. The board of directors establishes and reviews policies for managing each of these risks as summarized below.

Interest rate risk

Our exposure to the risk of changes in market interest rates relates primarily to our long term debt obligations with a floating interest rate. We have certain policy in place to manage our interest cost by maintaining a debt portfolio with a mix of fixed and variable rates. For further details, including relevant sensitivity analysis, please see Note 45 to the Accountants’ Report set out in Appendix I.

Foreign currency risk

We have transactional currency exposures. Such exposures arise from sales or purchases by operating entities in currencies other than the operating entities’ functional currencies. According to our internal policies, we negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximize hedge effectiveness. For further details, including relevant sensitivity analysis, please see Note 45 to the Accountants’ Report set out in Appendix I.

Credit risk

We trade only with recognized and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and our exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, we do not offer credit terms without the specific approval of the management. For further details, see Note 45 to the Accountants’ Report set out in Appendix I.

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Liquidity risk

We monitor our risk to a shortage of funds using a recurring liquidity planning tool. This tool considers both the maturity of the financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

Our objective is to maintain a balance between continuity of funding and flexibility through the use of loans and bank borrowings. In the management of the liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by our management to finance the operations and mitigate the effects of fluctuations in cash flows. For further details, see Note 45 to the Accountants' Report set out in Appendix I.

DIVIDEND POLICY

For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, we declared and paid dividends of RMB40.9 million, RMB45.5 million, RMB45.5 million and RMB86.3 million, respectively.

Subject to our constitutional documents and the Company Law, we have adopted a general annual dividend policy, according to which we may declare dividend by way of cash dividends, stock dividends, or a combination of cash and stock dividends. We prioritize cash dividends over stock dividends. We shall declare and pay cash dividends of no less than 10% of our total net profit attributable to the owners of the parent for any particular year going forward in which we record profits and positive retained earnings and the retained earnings after distribution will satisfy our ordinary working capital needs (the ratio of audited net cash flows from operating activities divided by net profit for the year shall remain no less than 10.0%), unless our Directors foresee any events that will materially and adversely affect our business operations. The declaration, payment and the amount of dividends will be subject to our discretion and will depend on the results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that we may consider relevant. Dividends may be paid only out of our distributable profits as permitted under the relevant laws.

There is no guarantee, representation or indication that our Directors must or will recommend and that we must or will declare and pay dividends at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

DISTRIBUTABLE RESERVES

As of December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, we had distributable reserves of RMB266.9 million, RMB361.6 million, RMB534.5 million and RMB668.5 million, respectively.

FINANCIAL INFORMATION

LISTING EXPENSE

The listing expenses in connection with the Global Offering consist primarily of underwriting commission and other expenses assuming an Offer Price of HK\$37.05 per Offer Share, being the mid-point of the indicative Offer Price range are estimated to be approximately RMB170.8 million (including (i) underwriting commissions of approximately RMB125.3 million, and (ii) non-underwriting related expenses of approximately RMB45.5 million, which consist of fees paid and payable to legal advisers and Reporting Accountants of approximately RMB27.6 million and other fees and expenses of approximately RMB17.9 million), of which nil and RMB1.2 million was charged to the consolidated statements of profit or loss during the three years ended December 31, 2020 and the six months ended June 30, 2021, respectively. We expect that approximately RMB8.8 million will be charged to the consolidated statements of profit or loss after the Track Record Period, and approximately RMB160.8 million will be deducted from the share premium. The listing expenses are expected to represent approximately 4.5% of the gross proceeds of the Global Offering, assuming an Offer Price of HK\$37.05 per Offer Share (being the mid-point of the indicative Offer Price range) and the Over-allotment Option is not exercised. The listing expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

See “Appendix II – Unaudited Pro Forma Financial Information” in this prospectus for details of our unaudited pro forma statement of adjusted net tangible assets.

NO MATERIAL ADVERSE CHANGE

Save as disclosed under the “Recent Developments and No Material Adverse Change” in the “Summary” section in this prospectus, our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position since June 30, 2021 (being the date on which the latest consolidated financial information of our Group was prepared) and there has been no event since June 30, 2021 which would materially affect the information shown in our consolidated financial statements included in the Accountants’ Report in Appendix I to this prospectus.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please see section headed “Business – Development Strategies” for further details of our future plans.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$4,439.5 million after deducting the underwriting fees and expenses payable by us in the Global Offering, assuming the Over-allotment Option is not exercised, and an Offer Price of HK\$37.05 per Share, being the mid-point of the indicative Offer Price range of HK\$33.80 to HK\$40.30 per Share in this prospectus. We intend to use the net proceeds we will receive from this offering for the following purposes:

- approximately 35.0% of the net proceeds, or approximately HK\$1,553.8 million, is expected to be used for the construction of our Ningbo Production Base.

In particular, we plan to allocate:

- (i) approximately 45.9% of such proceeds, or approximately HK\$713.3 million, to the construction of production facilities with an aggregate site area of approximately 108,400 sq.m. and total gross floor area of approximately 228,000 sq.m. by the end of 2023, among which (a) 50.0% of the aforementioned proceeds, or approximately HK\$356.7 million will be incurred to construct production lines to fuel our increased production capacity, (b) 37.8% of the aforementioned proceeds, or approximately HK\$269.6 million will be incurred to construct ancillary facilities such as dormitories for our employees, carparks, environmental protection facilities and warehouses, and (c) 12.2% of the aforementioned proceeds, or approximately HK\$87.0 million will be incurred to construct the R&D building in our Ningbo Production Base;
- (ii) approximately 28.5% of such proceeds, or approximately HK\$442.1 million, to the purchase of approximately 1,200 units of machinery and equipment by the end of 2023, among which (a) 67.4% of the aforementioned proceeds, or approximately HK\$298.0 million will be incurred to procure approximately 700 units of production equipment, which primarily include multi-wire cutting machine, melting furnace, jet mill and sintering furnace, and (b) 32.6% of the net aforementioned proceeds, or approximately HK\$144.1 million will be incurred to procure 500 units of automation equipment and analysis and testing equipment to enhance the automation level in our Ningbo Production Base as well as conducting corresponding analysis and testing on our products. As of June 30, 2021, all our major production and testing equipment were located in our Ganzhou Production Base, and the useful lives of which ranged from five to ten years. All our production and testing equipment located in our Ganzhou Production Base will not be relocated to our Ningbo Production Base when it

FUTURE PLANS AND USE OF PROCEEDS

commences operation. Therefore, we are of the view that the aforementioned procurement of approximately 1,200 new units of machinery and equipment is necessary to fuel the future production in our Ningbo Production Base, which is expected to have a designed production capacity of 3,000 tonnes of high-performance NdFeB PM blanks and 100 million units/sets of high-performance NdFeB PM component part per annum;

- (iii) approximately 9.3% of such proceeds, or approximately HK\$144.1 million, to installation and other fees to be incurred by the end of 2023, among which (a) 20.0% of the aforementioned proceeds, or approximately HK\$28.8 million will be incurred in relation to installation fee in relation to installing equipment used for the future production in our Ningbo Production Base, and (b) 80.0% of the aforementioned proceeds, or approximately HK\$115.3 million will be incurred in relation to ancillary fee used to support other projects such as surrounding municipal construction, market survey, design and onsite oversight; and
- (iv) approximately 16.3% of such proceeds, or approximately HK\$254.3 million, to be incurred in relation to project working capital to support future daily operation of our Ningbo Production Base, which primarily covers raw material costs, fuel costs, staff costs and other operational expenses. We will proactively adjust structure of allocation for the aforementioned project working capital based on our needs arising from daily operation of our Ningbo Production Base in the future.

We plan to commence the construction of our Ningbo Production Base by the end of 2021, which is expected to commence operation by the end of 2023 with a designed production capacity of 3,000 tonnes of high-performance NdFeB PM blanks and 100 million units/sets of high-performance NdFeB PM component parts per annum. We believe our Ningbo Production base will expand our production capacity of high-performance NdFeB PM blanks and high-performance NdFeB PM component parts to meet the expected increase in demand. According to Frost & Sullivan, the global consumption of high-performance NdFeB PMs is expected to grow at a CAGR of approximately 14.7% from 2020 to 2025, reaching 129,100.0 tonnes in 2025, and the consumption of high-performance NdFeB PMs in China is expected to grow at a CAGR of approximately 16.6% from 2020 to 2025, reaching approximately 87,100.0 tonnes in 2025. During the Track Record Period, we have maintained high utilization rates, which exceeded 90.0%, for our Ganzhou Production Base, in relation to the production of high-performance NdFeB PM blanks. As a result, to meet the increasing market demand, we are of the view that the construction of Ningbo Production Base is necessary. In addition, considering (i) our leading high-performance REPM production volume and proprietary technology which enable us to benefit from the growth opportunities in the REPM market; (ii) our in-depth cooperation with top player customers in new energy and energy saving industries, which enables us to capture the fast-growing downstream demand; and

FUTURE PLANS AND USE OF PROCEEDS

(iii) the sustainable growth of the consumption volume of high-performance NdFeB PMs in China and globally, we believe that our expanded production capacity can be absorbed by the market demand. For our Ningbo Production Base, the expected breakeven point is in 2024 and the expected after-tax static investment payback point is in 2028.

- approximately 25.0% of the net proceeds, or approximately HK\$1,109.9 million, is expected to be used for potential acquisitions by the end of 2023 for the expansion of our global industry chain layout, including (i) expansion in the upstream businesses such as rare earth processing and REPM products recycling; and (ii) expansion in the downstream businesses such as the production of REPM-based component parts. Through such industry chain layout expansion, we intend to further enrich our business model, expand our revenue base and improve our gross margin.

In the implementation of such expansion, we may take into consideration a number of factors, including (i) the business operations and financial performance of the acquisition target; (ii) the potential synergy between the acquisition target and us, which have a scope of business complementary to ours and will offer high growth potential to us; (iii) the compliance record of the acquisition target in various aspects such as environmental protection, health and safety; and (iv) the existing shareholding structure, valuation and other investment terms regarding the acquisition target. In particular, we would expect our acquisition targets to have (a) obtained all required qualifications for carrying out the relevant business and satisfactory credit record, with considerable brand awareness in the domestic market or globally; (b) a corporate culture and management philosophy similar to ours; (c) a clear ownership structure and good compliance and financial management records without current involvement in material legal disputes; and (d) recorded a revenue of not less than HK\$1,000 million or a net profit of not less than HK\$100 million for the most recent financial year. The criteria are subject to adjustment based on changes in the market conditions and our strategic needs. We may consider acquisitions or minority investments when appropriate opportunities arise. In pursuing acquisitions, we are generally flexible in transactional structures. We may also conduct acquisitions in stages. See “Business – Development Strategies – Industry chain expansion”. As of the Latest Practicable Date, we did not have any specific acquisition plans or targets and had not entered into any definitive agreements with any potential targets. As advised by Frost & Sullivan, there are approximately 120 companies engaged in the recycling, reuse, separation and smelting of rare earth and approximately 50 companies engaged in the production of REPM-based component parts that match our selection criteria for acquisitions, respectively. The total capital required for the acquisition of such potential targets would depend, to a large extent, on the size and number of the targets. Based on our market research and as advised by Frost & Sullivan, the market value of each potential target for companies engaged in the recycling, reuse, separation and smelting of rare earth is expected to range from RMB200 million to RMB800

FUTURE PLANS AND USE OF PROCEEDS

million, and the market value of each potential target for companies engaged in the production of REPM-based component parts is expected to range from RMB400 million to RMB900 million. The market value of potential target companies may fluctuate based on their financial performance and operating data, as well as the market condition. To be specific, we plan to acquire at least one company engaged in the recycling, reuse, separation and smelting of rare earth and one company engaged in the production of REPM-based component parts. We believe the acquisition of companies engaged in the recycling, reuse, separation and smelting of rare earth will enable us independently carry out recycling and reuse of waste materials, as well as separation and smelting of rare earth in our blank production process, which could in turn enhance our production efficiency and reduce our costs paid to third-party service providers. Moreover, we may be able to offer recycling, reuse, separation and smelting of rare earth service in the future. On the other hand, we believe the acquisition of the company engaged in the production of REPM-based component parts will further enhance our REPM manufacturing and production capabilities. In addition, we will be able to integrate advanced technologies such company adopts into our manufacturing process, which will in turn optimize our production process and improve our manufacturing efficiency and profitability.

- approximately 20.0% of the net proceeds, or approximately HK\$887.9 million, is expected to be used for our research and development.

In particular, we plan to use (i) approximately 35.7% of such proceeds, or approximately HK\$317.1 million, to develop additional core technology by the end of 2024, consisting of (a) new technique, such as technique used for developing high grade products, which will enable us to produce heavy rare earth free high-performance REPM, and grain boundary penetration extension technology, which can reduce the amount of heavy rare earth in our products by more than 50%, and (b) new equipment, such as automatic grain boundary penetration infiltration equipment and automatic assembly equipment, which will help reduce our labor costs and enhance our product quality, and automatic machining equipment, which will enhance our production efficiency; (ii) approximately 20.0% of such proceeds, or approximately HK\$177.6 million, to develop new products mainly for NEVs and automotive parts sector and 3C sector by the end of 2024; (iii) approximately 30.0% of such proceeds, or approximately HK\$266.4 million, to construct R&D centers in Ningbo, the United States and Europe, respectively, all by the end of 2024, among which the R&D center in Ningbo will focus on R&D of 3C intelligent electronic products, precision manufacturing and production automation technology, the R&D center in the United States will focus on R&D of 3C intelligent electronic products and automotive parts, as well as proactively participate in designing and rendering technical services for our customers, and the R&D center in Europe will focus on R&D of automotive parts, PM wind turbine generators and energy-saving products, as well as proactively participate in designing and rendering technical services for our customers. In addition, our R&D centers in the United States and Europe will

FUTURE PLANS AND USE OF PROCEEDS

also lay the foundation for building our overseas technology exchange platform. In particular, our overseas technology exchange platform will mainly serve as a platform for our existing or potential customers in Japan, United States and Europe to exchange thoughts and ideas on advanced technologies with us, while our staff will offer customized services, including tailor-made designs and sample products for our customers pursuant to our customers' technology-related requests, through such overseas technology exchange platform. We believe our overseas technology exchange platform will assist us in acquiring more customers in Japan, United States and Europe in the future; and (iv) approximately 14.3% of such proceeds, or approximately HK\$126.8 million, to procure testing equipment and build R&D teams. In particular, we plan to procure approximately 200 units of testing equipment and approximately 100 units of analyzing equipment by the end of 2024 to support our R&D carried out in the aforementioned R&D centers. In relation to the expansion of our R&D team, we plan to recruit (a) approximately 50 employees responsible for technology R&D in cutting-edge areas by the end of 2024, who are qualified as veterinarians and have master's or doctor's degrees in rare earth, powder metallurgy, metallic materials and chemistry and relevant working and management experience of five years or above. The aforementioned employees responsible for technology R&D in cutting edge areas are expected to be paid with an annual remuneration of approximately RMB250,000 to RMB800,000, (b) approximately 130 employees responsible for materials R&D in relation to our new products by the end of 2024, who are qualified as veterinarians and familiar with R&D in our industry and have bachelor's degrees or above in fields such as rare earth, powder metallurgy, metallic materials and chemistry and relevant working experience of three years or above. The aforementioned employees responsible for materials R&D in relation to our new products are expected to be paid with an annual remuneration of approximately RMB150,000 to RMB400,000, and (c) approximately 150 employees responsible for automation of our production processes and equipment by the end of 2024, who are qualified as veterinarians and familiar with automation technology and/or production in our industry and have bachelor's degrees or above in fields such as powder metallurgy, machinery, electronic motors and automation and relevant working experience of two years or above. The aforementioned employees responsible for automation of our production processes and equipment are expected to be paid with an annual remuneration of approximately RMB110,000 to RMB300,000. Based on our market research and as advised by Frost & Sullivan, the remuneration for research and development employees will vary according to their skills, experience, education background and performance, with an annual remuneration per employee with similar background as the aforementioned employees ranging from RMB100,000 to RMB900,000 in 2020.

FUTURE PLANS AND USE OF PROCEEDS

- approximately 10.0% of the net proceeds, or approximately HK\$443.9 million, will be allocated to repayment of our loans for construction of Baotou Production Base project as illustrated in the table below:

Lender	Nature	Principal amount	Interest rate (per annum)	Maturity date
A consortium of PRC banks	Long-term loan	RMB340.0 million	PRC inter-bank lending one-year base rate as of drawdown plus five basis points	July 13, 2026

The completion-based check and acceptance of construction for our Baotou Production Base was completed in December 2021 and our Baotou Production Base is expected to commence operation by the end of 2021 with a designed production capacity of 8,000 tonnes per annum of high-performance NdFeB PM blanks. For our Baotou Production Base, the expected breakeven point is in 2022 and the expected after-tax static investment payback point is in 2024.

- approximately 10.0% of the net proceeds, or approximately HK\$443.9 million, is expected to be used for our working capital and general corporate purposes.

We estimate that we will receive from the Global Offering net proceeds, after deducting the underwriting fees and estimated expenses payable by us in connection with the Global Offering, in the amount as set forth in the following table:

	Based on the low-end of the proposed Offer Price range of HK\$33.80	Based on the mid-point of the proposed Offer Price range of HK\$37.05	Based on the high-end of the proposed Offer Price range of HK\$40.30
Assuming the Over-allotment option is not exercised	Approximately HK\$4,045.2 million	Approximately HK\$4,439.5 million	Approximately HK\$4,833.8 million
Assuming the Over-allotment Option is exercised in full	Approximately HK\$4,657.8 million	Approximately HK\$5,111.0 million	Approximately HK\$5,564.2 million

FUTURE PLANS AND USE OF PROCEEDS

To the extent that the net proceeds from the Global Offering (including the net proceeds from the exercise of the Over-allotment Option) are either more or less than expected, we will adjust our allocation of the net proceeds for the above purposes on a pro rata basis.

To the extent that the net proceeds from the Global Offering are not immediately used for the above purposes, we currently intend to deposit such net proceeds into short-term saving accounts with licensed commercial banks or other authorized financial institutions.

We will issue an announcement if there is any material change in the abovementioned use of proceeds.

UNDERWRITING

HONG KONG UNDERWRITERS

CLSA Limited
BNP Paribas Securities (Asia) Limited
DBS Asia Capital Limited
Futu Securities International (Hong Kong) Limited
Livermore Holdings Limited

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. The International Offering is expected to be fully underwritten by the International Underwriters. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company, the Global Offering will not proceed and will lapse.

The Global Offering comprises the Hong Kong Public Offering of initially 12,546,800 Hong Kong Offer Shares and the International Offering of initially 112,919,200 International Offer Shares, subject, in each case, to reallocation on the basis as described in the section headed “Structure of the Global Offering” in this prospectus as well as to the Over-allotment Option (in the case of the International Offering).

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering the Hong Kong Offer Shares for subscription on the terms and conditions set out in this prospectus, the **GREEN** Application Form and the Hong Kong Underwriting Agreement at the Offer Price.

Subject to (a) the Listing Committee granting approval for the listing of, and permission to deal in, the H Shares to be offered pursuant to the Global Offering (including any additional H Shares that may be issued pursuant to the exercise of the Over-allotment Option) on the Main Board of the Stock Exchange and such approval not subsequently having been revoked prior to the commencement of trading of the H Shares on the Stock Exchange and (b) certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally but not jointly to procure subscribers for, or themselves to subscribe for, their respective applicable proportions of the Hong Kong Offer Shares being offered that are not taken up under the Hong Kong Public Offering on the terms and conditions set out in this prospectus, the **GREEN** Application Form and the Hong Kong Underwriting Agreement.

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The Hong Kong Underwriting Agreement is conditional on, among other things, the International Underwriting Agreement having been executed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination, if at any time prior to 8:00 a.m. on the Listing Date:

- (a) there develops, occurs, exists or comes into force:
 - (i) any new law or regulation or any change or development involving a prospective change in existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the PRC, Singapore, the United States, the United Kingdom, the European Union (or any member thereof), Japan or any other jurisdiction relevant to the Group or the Global Offering (each a “**Relevant Jurisdiction**”); or
 - (ii) any change or development involving a prospective change or development, or any event or series of events likely to result in or representing a change or development, or prospective change or development, in local, national, regional or international financial, political, military, industrial, economic, currency market, fiscal or regulatory or market conditions or any monetary or trading settlement system (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a change of the Hong Kong dollars or of RMB against any foreign currencies) in or affecting any Relevant Jurisdiction; or
 - (iii) any event or series of events or circumstances in the nature of force majeure (including, without limitation, acts of government, labour disputes, strikes, lock-outs, fire, explosion, earthquake, flooding, tsunami, volcanic eruption, civil commotion, riots, rebellion, public disorder, acts of war (whether declared or undeclared), acts of terrorism (whether or not responsibility has been claimed), acts of God, accident or interruption in transportation, destruction of power plant, outbreak, escalation, mutation or aggravation of diseases, epidemics or pandemics including, without limitation, SARS, swine or avian flu, H5N1, H1N1, H1N7, H7N9, Ebola virus, Middle East respiratory syndrome (MERS), COVID-19 and such related/mutated forms, economic sanction, any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of

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emergency or calamity or crisis in whatever form) political change, paralysis of government operations, interruption or delay in transportation, other industry action in or directly or indirectly affecting any Relevant Jurisdiction; or

- (iv) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities of generally on the Hong Kong Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Singapore Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or
- (v) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent Governmental Authority (as defined in the Hong Kong Underwriting Agreement)), New York (imposed at Federal or New York State level or other competent Governmental Authority), London, Singapore, the PRC, the European Union (or any member thereof), Japan or any Relevant Jurisdiction or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any Relevant Jurisdiction; or
- (vi) any (A) change or prospective change in exchange controls, currency exchange rates or foreign investment regulations (including, without limitation, a change of the Hong Kong dollars or RMB against any foreign currencies, a change in the system under which the value of the Hong Kong dollars is linked to that of the United States dollars or RMB is linked to any foreign currency or currencies), or (B) any change or prospective change in taxation in any Relevant Jurisdiction adversely affecting an investment in our H Shares; or
- (vii) the issue or requirement to issue by our Company of a supplemental or amendment to this prospectus, **GREEN** Application Form, Preliminary Offering Circular (as defined in the Hong Kong Underwriting Agreement) or Offering Circular (as defined in the Hong Kong Underwriting Agreement) or other documents in connection with the offer and sale of our H Shares pursuant to the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, or the Hong Kong Listing Rules or upon any requirement or request of the Hong Kong Stock Exchange, the SFC, the Shenzhen Stock Exchange or the CSRC; or
- (viii) any change or development involving a prospective change which has the effect of materialisation of any of the risks set out in the section headed “Risk Factors” in this prospectus; or

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- (ix) any litigation or claim being threatened or instigated against any member of our Group, any Director, any Supervisor of our Company or any Controlling Shareholder or any Director, including being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (x) any contravention by any member of our Group, any Director or any Supervisor of the Companies Ordinance, the PRC Company Law, the Hong Kong Listing Rules or any other applicable Laws (as defined in the Hong Kong Underwriting Agreement); or
- (xi) the chairman, any executive Directors, the general manager or the finance director of our Company vacating his or her office; or
- (xii) a Governmental Authority (as defined in the Hong Kong Underwriting Agreement) or a regulatory body or organisation in any Relevant Jurisdiction commencing any investigation or other action or proceedings, or announcing an intention to investigate or take other action or proceedings, against any member of our Group, any Director, any Supervisor or any Controlling Shareholder; or
- (xiii) any litigation or claim being threatened or instigated against, or a Governmental Authority (as defined in the Hong Kong Underwriting Agreement) or a regulatory body or organisation in any Relevant Jurisdiction commencing any investigation or action or other proceedings, or announcing an intention to investigate or take other action or proceedings against any member of our Group or any of the chairman, the general manager, our Directors, our Supervisors or our Controlling Shareholders, or any of them being charged with an indictable offence or prohibited by operation of Laws (as defined in the Hong Kong Underwriting Agreement) or otherwise disqualified from taking part in the management of a company or the commencement by any governmental, political, regulatory body of any action against any Director, Supervisor or Controlling Shareholder or any announcement by any governmental, political, regulatory body that it intends to take any such action; or
- (xiv) any material adverse change or prospective material adverse change in the assets, business, prospects, general affairs, management, shareholder's equity, earnings, profits, losses, properties, results of operations, in the position or condition (financial or otherwise) or prospects of any member of our Group (including any litigation or claim of any third party being threatened or instigated against any member of our Group); or

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- (xv) any order or petition for, or any demand by creditors for repayment of indebtedness or a petition being presented for the winding-up or liquidation of any member of our Group, or any member of our Group making any composition or arrangement with its creditors or entering into a scheme of arrangement or any resolution being passed for the winding up of any member of our Group or a provisional liquidator, receiver or manager being appointed over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or
- (xvi) a prohibition on our Company for whatever reason from allotting, issuing or selling our H Shares (including the H Shares that may be issued upon the exercise of the Over-allotment Option (if any)) pursuant to the terms of the Global Offering; or
- (xvii) the imposition of sanctions, in whatever form, directly or indirectly, by, or for, any Relevant Jurisdiction on our Company or any member of our Group; or

which, in any such case individually or in the aggregate, in the sole and absolute opinion of the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters): (A) is or will be or may be materially adverse to, or materially and prejudicially affects, the assets, liabilities, business, general affairs, management, shareholder's equity, profit, losses, results of operations, position or condition (financial or otherwise), or prospects of our Company or our Group as a whole or to any present or prospective shareholder of our Company in its capacity as such; or (B) has or will have or may have a material adverse effect on the success of the Global Offering or the level of Offer Shares being applied for or accepted or subscribed for or purchased or the distribution of Offer Shares and/or has made or is likely to make or may make it impracticable or inadvisable or incapable for any material part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged; or (C) makes or will make it or may make it impracticable or inadvisable or incapable to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by, this prospectus, the **GREEN** Application Form, the Formal Notice (as defined in the Hong Kong Underwriting Agreement), the Preliminary Offering Circular (as defined in the Hong Kong Underwriting Agreement) or the Offering Circular (as defined in the Hong Kong Underwriting Agreement); or (D) would have or may have the effect of making a part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

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- (b) there has come to the notice of the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters):
- (i) that any statement contained in the Offering Documents (as defined in the Hong Kong Underwriting Agreement), the Operative Documents (as defined in the Hong Kong Underwriting Agreement), the Preliminary Offering Circular (as defined in the Hong Kong Underwriting Agreement) and/or any notices, announcements, advertisements, communications issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was or has become untrue, incomplete, incorrect or misleading or any forecasts, estimate, expressions of opinion, intention or expectation expressed in the Hong Kong Public Offering Documents (as defined in the Hong Kong Underwriting Agreement) and/or any notices, announcements, advertisements, communications so issued or used are not fair and honest and made on reasonable grounds or, where appropriate, based on reasonable assumptions, when taken as a whole; or
 - (ii) any contravention by any member of our Group, any Director or any Supervisor of any Law; or
 - (iii) non-compliance of this prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or any aspect of the Global Offering with the Hong Kong Listing Rules or any other applicable Law (as defined in the Hong Kong Underwriting Agreement); or
 - (iv) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto), not having been disclosed in the Offering Documents (as defined in the Hong Kong Underwriting Agreement), constitutes an omission therefrom; or
 - (v) either (i) there has been a breach of any of the representations, warranties, undertakings or provisions of either the Hong Kong Underwriting Agreement or the International Underwriting Agreement by any of our Company and our Controlling Shareholders or (ii) any of the representations, warranties and undertakings given by our Company and our Controlling Shareholders in the Hong Kong Underwriting Agreement or the International Underwriting Agreement, as applicable, is (or would when repeated be) untrue, incorrect, incomplete or misleading; or

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- (vi) any event, act or omission which gives or is likely to give rise to any liability of our Company and our Controlling Shareholders pursuant to the indemnities given by our Company under the Hong Kong Underwriting Agreement; or
- (vii) any litigation or dispute or potential litigation or dispute, which would, or could be reasonably expected to, individually or in the aggregate, have a Material Adverse Effect (as defined in the Hong Kong Underwriting Agreement); or
- (viii) any breach of any of the obligations of our Company and our Controlling Shareholders under the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or
- (ix) any breach of, or any event rendering any of the representations, warranties and undertakings given by our Company and our Controlling Shareholders untrue or incorrect or misleading in any material respect; or
- (x) a significant portion of the orders in the bookbuilding process at the time of the International Underwriting Agreement is entered into, or the investment commitments by any cornerstone investors after signing of agreements with such cornerstone investors, have been withdrawn, terminated or cancelled; or
- (xi) any cornerstone investor is unlikely to fulfil its obligation under the respective agreement; or
- (xii) any expert, whose consent is required for the issue of this prospectus with the inclusion of its reports, letters or opinions and references to its name included in the form and context in which it respectively appears, has withdrawn its consent (other than the Joint Sponsors) prior to the issue of this prospectus; or
- (xiii) any adverse change or prospective adverse change or development involving a prospective adverse change in the assets, business, prospects, general affairs, management, shareholder's equity, earnings, profits, losses, properties, results of operations, in the position or condition (financial or otherwise) or prospects of our Company and our subsidiaries, as a whole; or
- (xiv) the grant or agreement to grant by the Listing Committee of the listing of, and permission to deal in, our H Shares on the Main Board of the Hong Kong Stock Exchange is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, cancelled, qualified (other than by customary conditions), revoked or withheld; or

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- (xv) our Company has withdrawn the Offering Documents (as defined in the Hong Kong Underwriting Agreement) (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering,

then the Joint Sponsors and the Joint Global Coordinators may (for themselves and on behalf of the Hong Kong Underwriters), in their sole and absolute discretion and upon giving notice orally or in writing to our Company, terminate the Hong Kong Underwriting Agreement with immediate effect.

Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by our Company

Pursuant to Rule 10.08 of the Listing Rules, our Company has undertaken to the Stock Exchange that it will not issue any further Shares, or securities convertible into equity securities of our Company (whether or not of a class already listed) or enter into any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except (a) pursuant to the Global Offering and the Over-allotment Option or (b) under any of the circumstances provided under Rule 10.08 of the Listing Rules.

Undertakings by the Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, each of the Controlling Shareholders has irrevocably and unconditionally undertaken to the Stock Exchange and our Company that, except in compliance with the requirements of the Listing Rules, he/it will not and will procure that the relevant registered holder(s) will not, either directly or indirectly:

- (a) in the period commencing on the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date (the “**First Six-Month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the securities of our Company in respect of which he/it is shown in this prospectus to be the beneficial owner(s); and
- (b) in the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the securities referred to in paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company.

UNDERWRITING

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of the Controlling Shareholders has irrevocably and unconditionally undertaken to the Stock Exchange and our Company that, within the period commencing on the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the date which is twelve months from the Listing Date, he/it will and will procure that the relevant registered holder(s) will:

- (a) when he/it pledges or charges any securities of our Company beneficially owned by him/it in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company of such pledge/charge together with the number of the securities so pledged or charged; and
- (b) when he/it receives any indication, either verbal or written, from the pledgee/chargee that any of the pledged/charged securities will be disposed of, immediately inform our Company of such indications.

Our Company will inform the Stock Exchange as soon as we have been informed of the matters referred to in paragraphs (a) and (b) above (if any) by any of the Controlling Shareholders and subject to the then requirements of the Listing Rules disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

Undertakings pursuant to the Hong Kong Underwriting Agreement

Undertakings by our Company and the Controlling Shareholders in respect of our Company

Pursuant to the Hong Kong Underwriting Agreement, our Company has undertaken to each of the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that except pursuant to the Global Offering (including pursuant to the Over-allotment Option), at any time from the date of the Hong Kong Underwriting Agreement up to and including the date falling six months after the Listing Date (the “**First Six-Month Period**”), it will not, and will procure that other members of our Group will not without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Hong Kong Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, assign, mortgage, charge, pledge, assign, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, or repurchase, any legal or beneficial interest in the share capital or any other equity securities of our Company or any H shares or other equity securities

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of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represents the right to receive, or any warrants or other rights to purchase any H Shares or any other share capital or other equity securities of our Company or such other member of our Group, as applicable), or deposit any share capital or other equity securities of our Company or such other member of our Group, as applicable, with a depository in connection with the issue of depository receipts; or

- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership (legal or beneficial) of the H Shares or any other equity securities of our Company or any shares or other equity securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any H Shares or any other equity securities of our Company or any shares or any other equity securities of such other member of our Group, as applicable); or
- (c) enter into any transaction with the same economic effect as any transaction described in paragraph (a) or (b) above; or
- (d) offer to or agree to do any of the foregoing or announce any intention to do so,

in each case, whether any of the foregoing transactions is to be settled by delivery of share capital or such other equity securities, in cash or otherwise (whether or not the issue of such share capital or other equity securities will be completed within the First Six-Month Period). Our Company further agrees that, in the event our Company is allowed to enter into any of the transactions described in paragraph (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction during the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), it will take all reasonable steps to ensure that such an issue or disposal will not, and no other act of our Company will, create a disorderly or false market for any H Shares or other securities of our Company.

Each of the Controlling Shareholders has undertaken to each of the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters to procure our Company and each other member of our Group to comply with the above undertakings.

Our Company has agreed and undertaken to each of the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that it will, and each of the Controlling Shareholders undertakes to procure that the Company will, comply with the minimum public float requirements specified in the Listing Rules or any waiver granted and not revoked by the

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Hong Kong Stock Exchange (the “**Minimum Public Float Requirement**”), and it will not effect any purchase of the Shares, or agree to do so, which may reduce the holdings of the Shares held by the public (as defined in Rule 8.24 of the Listing Rules) to below the Minimum Public Float Requirement on or before the date falling six months after the Listing Date without first having obtained the prior written consent of the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters).

Undertakings by the Controlling Shareholders in respect of themselves

Each of the Controlling Shareholders has undertaken to each of the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters), except pursuant to the Global Offering (including pursuant to the Over-allotment Option):

- (a) he or it will not, and will procure that none of his or its associates will, at any time during the First Six-Month Period, (i) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer, dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, or repurchase any of its share capital or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exercisable or exchangeable for or that represent the right to receive any shares or any other share capital or other equity securities of our Company); or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership (legal or beneficial) of such share capital or securities or any interest therein, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any shares or any other share capital or other equity securities of our Company); or (iii) enter into any transaction with the same economic effect as any transaction specified in paragraph (i) or (ii) above; or (iv) offer to or agree to do any of the foregoing or announce any intention to effect any transactions specified in (i), (ii) or (iii) above, in each case, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise (whether or not the foregoing transactions will be completed within the First Six-Month Period);

- (b) he or it will not, and will procure that none of his or its associates will, at any time during the Second Six-Month Period, enter into any of the transactions specified in paragraphs (a)(i), (ii) or (iii) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal

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or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, he or it will cease to be a controlling shareholder (as defined in the Listing Rules) of our Company; and

- (c) until the expiry of the Second Six-Month period, in the event that he or it enters into any of the transactions specified in paragraphs (a)(i), (ii) or (iii) above or offer to or agrees to or announce any intention to effect any such transaction, he or it will take all reasonable steps to ensure that he, she or it will not create a disorderly or false market in the securities of our Company.

Hong Kong Underwriters' Interests in our Company

Save as disclosed in this prospectus and save for its obligations under the Underwriting Agreements, none of the Hong Kong Underwriters has any shareholding interests, directly or indirectly, in any member of our Company or any right or options (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Company.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the H Shares as a result of fulfilling their respective obligations under the Hong Kong Underwriting Agreement.

International Offering

International Underwriting Agreement

In connection with the International Offering, our Company and the Controlling Shareholders expect to enter into the International Underwriting Agreement with the International Underwriters on or around the Price Determination Date. Under the International Underwriting Agreement and subject to the Over-allotment Option, the International Underwriters would, subject to certain conditions set out therein, agree severally but not jointly to procure subscribers for, or themselves to subscribe for, their respective applicable proportions of the International Offer Shares initially being offered pursuant to the International Offering. It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors should note that in the event that the International Underwriting Agreement is not entered into or is terminated, the Global Offering will not proceed. It is expected that pursuant to the International Underwriting Agreement, our Company will give undertakings similar to those given pursuant to the Hong Kong Underwriting Agreement as described in paragraph headed "Underwriting Arrangements and Expenses – Hong Kong Public Offering – Undertakings pursuant to the Hong Kong Underwriting Agreement" in this section. See the section headed "Structure of the Global Offering – The International Offering" in this prospectus.

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Over-allotment Option

Our Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Representatives (for themselves and on behalf of the International Underwriters) at any time from the Listing Date until 30 days after the last day for lodging applications under the Hong Kong Public Offering, pursuant to which our Company may be required to issue up to an aggregate of 18,744,000 Shares, representing approximately 14.9% of the number of Offer Shares initially available under the Global Offering, at the Offer Price, to cover over-allocations (if any) in the International Offering. See the section headed “Structure of the Global Offering – Over-allotment Option” in this prospectus.

Commissions and Expenses

The Underwriters will receive an underwriting commission of 2.3% of the aggregate Offer Price of all the Offer Shares (including any Offer Shares to be issued pursuant to the exercise of the Over-allotment Option), out of which they will pay any sub-underwriting commissions and other fees.

The Underwriters may receive a discretionary incentive fee of up to 1.0% of the aggregate Offer Price of all the Offer Shares (including any Offer Shares to be issued pursuant to the exercise of the Over-allotment Option).

For any unsubscribed Hong Kong Offer Shares reallocated to the International Offering, the underwriting commission will not be paid to the Hong Kong Underwriters but will instead be paid, at the rate applicable to the International Offering, to the relevant International Underwriters.

The aggregate underwriting commissions and fees, the SFC transaction levy, the FRC transaction levy and the Stock Exchange trading fee, together with the legal and other professional fees, printing and other expenses payable by us relating to the Global Offering are estimated to be approximately HK\$209.0 million (assuming an Offer Price of HK\$37.05 per Offer Share (being the mid-point of the Offer Price range), the full payment of the discretionary incentive fee and the Over-allotment Option is not exercised), which will be made by our Company.

Indemnity

Each of our Company and our Controlling Shareholders has agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer or incur, including losses arising from the performance of their obligations under the Hong Kong Underwriting Agreement and any breach by any of our Company and our Controlling Shareholders of the Hong Kong Underwriting Agreement.

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ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (together, the “**Syndicate Members**”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilization process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In the ordinary course of their various business activities, the Syndicate Members and their respective affiliates may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers. Such investment and trading activities may involve or relate to assets, securities and/or instruments of our Company and/or persons and entities with relationships with our Company and may also include swaps and other financial instruments entered into for hedging purposes in connection with our Group’s loans and other debt.

In relation to the H Shares, the activities of the Syndicate Members and their affiliates could include acting as agent for buyers and sellers of our H Shares, entering into transactions with those buyers and sellers in a principal capacity, including as a lender to initial purchasers of our H Shares (which financing may be secured by our H Shares) in the Global Offering, proprietary trading in our H Shares, and entering into over the counter or listed derivative transactions or listed or unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including our H Shares. Such transactions may be carried out as bilateral agreements or trades with selected counterparties. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of our H Shares, which may have a negative impact on the trading price of our H Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in our H Shares, in baskets of securities or indices including our H Shares, in units of funds that may purchase our H Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having our H Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the stock exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in our H Shares in most cases.

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All such activities may occur both during and after the end of the stabilization period described in “Structure of the Global Offering” in this prospectus. Such activities may affect the market price or value of the H Shares, the liquidity or trading volume in our H Shares and the volatility of the price of our H Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (other than the Stabilization Manager or its affiliates or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilization or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking and other services to our Company and each of our affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

In addition, the Syndicate Members or their respective affiliates may provide financing to investors to finance their subscriptions of Offer Shares in the Global Offering.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. CLSA Limited, BNP Paribas Securities (Asia) Limited and DBS Asia Capital Limited are the Joint Global Coordinators of the Global Offering.

The listing of the H Shares on the Stock Exchange is sponsored by the Joint Sponsors. The Joint Sponsors has made an application on behalf of our Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the H Shares in issue and to be issued as mentioned in this prospectus.

125,466,000 Offer Shares will initially be made available under the Global Offering comprising:

- (a) the Hong Kong Public Offering of initially 12,546,800 H Shares (subject to reallocation) in Hong Kong as described in the paragraph headed “The Hong Kong Public Offering” in this section below; and
- (b) the International Offering of initially 112,919,200 H Shares (subject to reallocation and the Over-allotment Option) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S, as described in the paragraph headed “The International Offering” this section below.

Investors may either:

- (i) apply for Hong Kong Offer Shares under the Hong Kong Public Offering; or
- (ii) apply for or indicate an interest for International Offer Shares under the International Offering,

but may not do both.

The Offer Shares will represent approximately 15.0% of the total Shares in issue immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised and all of the Incentive Shares have been issued. If the Over-allotment Option is exercised in full, the Offer Shares (including H Shares issued pursuant to the full exercise of the Over-allotment Option) will represent approximately 16.9% of the total Shares in issue immediately following the completion of the Global Offering and the issue of Offer Shares pursuant to the Over-Allotment Option.

References in this prospectus to applications, **GREEN** Application Form, application monies or the procedure for applications relate solely to the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

Our Company is initially offering 12,546,800 H Shares (subject to reallocation) for subscription by the public in Hong Kong at the Offer Price, representing approximately 10% of the total number of Offer Shares initially available under the Global Offering. The number of Offer Shares initially offered under the Hong Kong Public Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 1.5% of the total Shares in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised, all of the Incentive Shares have been issued).

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions set out in the paragraph headed “Conditions of the Global Offering” in this section.

Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which could mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering (after taking into account any reallocation referred to below) will be divided equally into two pools (with any odd lots being allocated to pool A): pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, the SFC transaction levy, the FRC transaction levy and the Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, the SFC transaction levy, the FRC transaction levy and the Stock Exchange trading fee payable) and up to the total value in pool B.

STRUCTURE OF THE GLOBAL OFFERING

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If any Hong Kong Offer Shares in one (but not both) of the pools are unsubscribed, such unsubscribed Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of the immediately preceding paragraph only, the “price” for Hong Kong Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B and not from both pools. Multiple or suspected multiple applications under the Hong Kong Public Offering and any application for more than 6,273,400 Hong Kong Offer Shares is liable to be rejected.

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation. Paragraph 4.2 of Practice Note 18 to the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached.

If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (a) 15 times or more but less than 50 times, (b) 50 times or more but less than 100 times and (c) 100 times or more of the total number of Offer Shares initially available under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 37,639,800 Offer Shares (in the case of (a)), 50,186,400 Offer Shares (in the case of (b)) and 62,733,000 Offer Shares (in the case of (c)), representing approximately 30%, 40% and 50% of the total number of Offer Shares initially available under the Global Offering, respectively (before exercise of the Over-allotment Option). In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate.

If the Hong Kong Public Offering is not fully subscribed for, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators deem appropriate. In addition, the Joint Global Coordinators may in their sole discretion reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In particular, if (i) the International Offering is not fully subscribed and the Hong Kong Public Offering is fully subscribed or oversubscribed irrespective of the number of times; or (ii) the International Offering is fully subscribed or oversubscribed and the Hong Kong Public Offering is fully subscribed or oversubscribed with the number of Offer Shares validly applied for in the Hong Kong Public Offering representing less than 15 times of the number of Shares initially available under the

STRUCTURE OF THE GLOBAL OFFERING

Hong Kong Public Offering, the Joint Global Coordinators have the authority to reallocate International Offer Shares originally included in the International Offering to the Hong Kong Public Offering in such number as they deem appropriate, provided that in accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, the number of International Offer Shares reallocated to the Hong Kong Public Offering should not exceed 12,546,800 Shares, representing approximately 10% of the Offer Shares initially available under the Global Offering, increasing the total number of Offer Shares available under the Hong Kong Public Offering to 25,093,600 Shares, representing not more than twice the number of Offer Shares initially available under the Hong Kong Public Offering, and the final Offer Price shall be fixed at the low end of the indicative offer price range (i.e. HK\$33.80 per Offer Share) stated in this prospectus.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate.

Details of any reallocation of Offer Shares between the Hong Kong Public Offering and the International Offering will be disclosed in the results announcement of the Global Offering, which is expected to be published on Thursday, January 13, 2022.

Applications

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him/her/it that he/she/it and any person(s) for whose benefit he/she/it is making the application has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering. Such applicant's application is liable to be rejected if such undertaking and/or confirmation is/are breached and/or untrue (as the case may be) or if he/she/it has been or will be placed or allocated International Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$40.30 per Offer Share in addition to the brokerage, the SFC transaction levy, the FRC transaction levy and the Stock Exchange trading fee payable on each Offer Share, amounting to a total of HK\$8,141.23 for one board lot of 200 H Shares. If the Offer Price, as finally determined in the manner described in the paragraph headed "Pricing and Allocation" in this section below, is less than the maximum Offer Price of HK\$40.30 per Offer Share, appropriate refund payments (including the brokerage, the SFC transaction levy, the FRC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

THE INTERNATIONAL OFFERING

Number of Offer Shares initially offered

The International Offering will consist of an offering of initially 112,919,200 H Shares, representing approximately 90% of the total number of Offer Shares initially available under the Global Offering (subject to reallocation and the Over-allotment Option). The number of Offer Shares initially offered under the International Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 13.5% of the total Shares in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised and all of the Incentive Shares have been issued).

Allocation

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in the paragraph headed “Pricing and Allocation” in this section and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further H Shares and/or hold or sell its H Shares after the Listing. Such allocation is intended to result in a distribution of the H Shares on a basis that would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Group and our Shareholders as a whole.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any allocation of Offer Shares under the Hong Kong Public Offering.

Reallocation

The total number of Offer Shares to be issued or sold pursuant to the International Offering may change as a result of the clawback arrangement described in the paragraph headed “The Hong Kong Public Offering – Reallocation” in this section above, the exercise of the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

OVER-ALLOTMENT OPTION

In connection with the Global Offering, our Company is expected to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Representatives (for themselves and on behalf of the International Underwriters).

Pursuant to the Over-allotment Option, the International Underwriters will have the right, exercisable by the Joint Representatives (for themselves and on behalf of the International Underwriters) at any time from the Listing Date until 30 days after the last day for lodging applications under the Hong Kong Public Offering, to require our Company to issue up to an aggregate of 18,744,000 additional H Shares, representing approximately 14.9% of the total number of Offer Shares initially available under the Global Offering, at the Offer Price under the International Offering to, cover over-allocations (if any) in the International Offering.

If the Over-allotment Option is exercised in full, the additional Offer Shares to be issued pursuant thereto will represent approximately 2.2% of the total Shares in issue immediately following the completion of the Global Offering and the issue of Offer Shares pursuant to the Over-allotment Option. If the Over-allotment Option is exercised, an announcement will be made.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilization Manager (or its affiliates or any person acting for it), on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of the H Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilization Manager (or its affiliates or any person acting for it) to conduct any such stabilization action. Such stabilization action, if taken, (a) will be conducted at the absolute discretion of the Stabilization Manager (or its affiliates or any person acting for it) and in what the Stabilization Manager reasonably regards as the best interest of our Company, (b) may be discontinued at any time and (c) is required to be brought to an end within 30 days of the last day for lodging applications under the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules of the SFO includes (a) over-allocating for the purpose of preventing or minimizing any reduction in the market price of the H Shares, (b) selling or agreeing to sell the H Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the H Shares, (c) purchasing, or agreeing to purchase, the H Shares pursuant to the Over-allotment Option in order to close out any position established under paragraph (a) or (b) above, (d) purchasing, or agreeing to purchase, any of the H Shares for the sole purpose of preventing or minimizing any reduction in the market price of the H Shares, (e) selling or agreeing to sell any H Shares in order to liquidate any position established as a result of those purchases and (f) offering or attempting to do anything as described in paragraph (b), (c), (d) or (e) above.

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- (a) the Stabilization Manager (or its affiliates or any person acting for it) may, in connection with the stabilization action, maintain a long position in the H Shares;
- (b) there is no certainty as to the extent to which and the time or period for which the Stabilization Manager (or its affiliates or any person acting for it) will maintain such a long position;
- (c) liquidation of any such long position by the Stabilization Manager (or its affiliates or any person acting for it) and selling in the open market may have an adverse impact on the market price of the H Shares;
- (d) no stabilization action can be taken to support the price of the H Shares for longer than the stabilization period, which will begin on the Listing Date, and is expected to expire on the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilization action may be taken, demand for the H Shares, and therefore the price of the H Shares, could fall;
- (e) the price of the H Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilization action; and
- (f) stabilization bids or transactions effected in the course of the stabilization action may be made at any price at or below the Offer Price and can, therefore, be done at a price below the price paid by applicants for, or investors in, the Offer Shares.

Our Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilization period.

STRUCTURE OF THE GLOBAL OFFERING

Over-Allocation

Following any over-allocation of H Shares in connection with the Global Offering, the Stabilization Manager (or its affiliates or any person acting for it) may cover such over-allocations by exercising the Over-allotment Option in full or in part, by using H Shares purchased by the Stabilization Manager (or its affiliates or any person acting for it) in the secondary market at prices that do not exceed the Offer Price, or by a combination of these methods. Any such secondary market purchase will be made in compliance with all applicable laws, rules and regulations in place in Hong Kong, including in relation to stabilization, the Securities and Futures (Price Stabilizing) Rules, as amended, made under the SFO. The number of H Shares that can be over-allocated will not exceed the number of H Shares that may be sold under the Over-allotment Option, namely 18,744,000 Shares, representing approximately 14.9% of the H Shares available under the Global Offering.

PRICING AND ALLOCATION

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or about Friday, January 7, 2022 and, in any event, no later than Tuesday, January 11, 2022, by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company, and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK\$40.30 per Offer Share and is expected to be not less than HK\$33.80 per Offer Share, unless otherwise announced, as further explained below. Applicants under the Hong Kong Public Offering must pay, on application, the maximum Offer Price of HK\$40.30 per Offer Share plus brokerage of 1.0%, SFC transaction levy of 0.0027%, FRC transaction levy of 0.00015% and Stock Exchange trading fee of 0.005%, amounting to a total of HK\$8,141.23 for one board lot of 200 H Shares. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the minimum Offer Price stated in this prospectus.**

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building,” is expected to continue up to, and to cease on or about, the last day for lodging applications under the Hong Kong Public Offering.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, where they deem appropriate, based on the level of interest expressed by prospective investors during the book-building process in respect of the International Offering, and with the consent of our Company, reduce the number of Offer Shares offered and/or the Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging

STRUCTURE OF THE GLOBAL OFFERING

applications under the Hong Kong Public Offering. In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published on the websites of our Company at www.jlmag.com.cn and the Stock Exchange at www.hkexnews.hk notices of the reduction. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information that may change as a result of any such reduction.

Our Company will also, as soon as practicable following the decision to make any such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering:

- (a) issue a supplemental prospectus, as the relevant laws or government authority or regulatory authorities may require as soon as practicable following the decision to make the change, updating investors of such reduction together with an update of all financial and other information in connection with such change;
- (b) where appropriate, extend the period under which the Global Offering was open for acceptance to allow potential investors the sufficient time to consider their subscriptions or reconsider their existing subscriptions; and
- (c) give potential investors who had applied for the Offer Shares the right to withdraw their applications given the change in circumstances.

Upon the issue of such a notice, the revised number of Offer Shares and/or the Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company, will be fixed within such revised Offer Price range.

In the absence of any such notice and supplemental prospectus so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), will under no circumstances be set outside the indicative Offer Price range stated in this prospectus. If the number of Offer Shares and/or the Offer Price is reduced, applicants who have submitted an application under the Hong Kong Public Offering will be entitled to withdraw their applications unless positive confirmations from the applicants to proceed are received.

If our Company is unable to reach an agreement with the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the Offer Price by Tuesday, January 11, 2022, the Global Offering will not proceed and will lapse immediately.

STRUCTURE OF THE GLOBAL OFFERING

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the Offer Price range may not be made until the last day for lodging applications under the Hong Kong Public Offering.

The final Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering, the basis of allocations of the Hong Kong Offer Shares and the results of allocations in the Hong Kong Public Offering are expected to be made available through a variety of channels in the manner described in the section headed “How to Apply for Hong Kong Offer Shares – (D) Publication of Results” in this prospectus.

UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms and conditions of the Hong Kong Underwriting Agreement and is subject to, among other things, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company agreeing on the Offer Price.

Our Company expects to enter into the International Underwriting Agreement relating to the International Offering on or around the Price Determination Date.

These underwriting arrangements, including the Underwriting Agreements, are summarized in the section headed “Underwriting” in this prospectus.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares will be conditional on:

- (a) the Listing Committee granting approval for the listing of, and permission to deal in, the H Shares to be issued pursuant to the Global Offering (including any additional H Shares that may be issued pursuant to the exercise of the Over-allotment Option) on the Main Board of the Stock Exchange and such approval and permission not subsequently having been withdrawn or revoked prior to the Listing Date;
- (b) the Offer Price having been agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company;
- (c) the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date; and
- (d) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements.

STRUCTURE OF THE GLOBAL OFFERING

If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company on or before Tuesday, January 11, 2022, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the dates and times specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company on the websites of our Company at www.jlmag.com.cn and the Stock Exchange at www.hkexnews.hk on the next day following such lapse. In such a situation, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for Hong Kong Offer Shares – (F) Refund of Application Monies” in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving banks or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

H Share certificates for the Offer Shares will only become valid at 8:00 a.m. on Friday, January 14, 2022, provided that the Global Offering has become unconditional in all respects at or before that time.

DEALINGS IN THE H SHARES

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, January 14, 2022, it is expected that dealings in the H Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, January 14, 2022.

The H Shares will be traded in board lots of 200 H Shares each and the stock code of the H Shares will be 6680.

HOW TO APPLY FOR HONG KONG OFFER SHARES

IMPORTANT NOTICE TO INVESTORS: FULLY ELECTRONIC APPLICATION PROCESS

Our Company has adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide any printed copies of this prospectus or any printed copies of any application forms for use by the public.

This prospectus is available at the website of the Stock Exchange at www.hkexnews.hk under the “HKEXnews > New Listings > New Listing Information” section, and our website at www.jlmag.com.cn. If you require a printed copy of this prospectus, you may download and print from the website addresses above.

The contents of the electronic version of this prospectus are identical to the printed prospectus as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Set out below are procedures through which you can apply for the Hong Kong Offer Shares electronically. Our Company will not provide any physical channels to accept any application for the Hong Kong Offer Shares by the public.

If you are an intermediary, broker or agent, please remind your customers, clients or principals, as applicable, that this prospectus is available online at the website addresses above.

If you have any question about the application for the Hong Kong Offer Shares, you may call the enquiry hotline of our H Share Registrar and White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited, at +852 2862 8558 on the following dates:

Friday, December 31, 2021	–	9:00 a.m. to 9:00 p.m.
Saturday, January 1, 2022	–	9:00 a.m. to 6:00 p.m.
Sunday, January 2, 2022	–	9:00 a.m. to 6:00 p.m.
Monday, January 3, 2022	–	9:00 a.m. to 9:00 p.m.
Tuesday, January 4, 2022	–	9:00 a.m. to 9:00 p.m.
Wednesday, January 5, 2022	–	9:00 a.m. to 9:00 p.m.
Thursday, January 6, 2022	–	9:00 a.m. to 9:00 p.m.
Friday, January 7, 2022	–	9:00 a.m. to 12:00 noon

HOW TO APPLY FOR HONG KONG OFFER SHARES

(A) APPLICATIONS FOR HONG KONG OFFER SHARES

1. How to Apply

We will not provide any printed application forms for use by the public.

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- (1) apply online via the **White Form eIPO** service at www.eipo.com.hk; or
- (2) apply through the **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf, including by:
 - (i) instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf; or
 - (ii) (if you are an existing CCASS Investor Participant) giving **electronic application instructions** through the CCASS Internet System (<https://ip.ccass.com>) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC's Customer Service Centre at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

If you apply through channel (1) above, the Hong Kong Offer Shares successfully applied for will be issued in your own name.

If you apply through channels (2)(i) or (2)(ii) above, the Hong Kong Offer Shares successfully applied for will be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application, in full or in part, for any reason at their discretion.

HOW TO APPLY FOR HONG KONG OFFER SHARES

2. Who Can Apply

You can apply for Hong Kong Offer Shares if you or any person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States (within the meaning of Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S; and
- are not a legal or natural person of the PRC (except those who have complied with all relevant PRC laws and regulations in relation to such application, including but not limited to qualified domestic institutional investors).

If you apply for Hong Kong Offer Shares online through the **White Form eIPO** service, in addition to the above, you must also:

- have a valid Hong Kong identity card number; and
- provide a valid e-mail address and a contact telephone number.

If an application is made by a person under a power of attorney, our Company and the Joint Global Coordinators, as our Company's agent, may accept it at their discretion, and on any conditions they think fit, including requiring evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of the **White Form eIPO** service for the Hong Kong Offer Shares.

If you are a firm, the application must be in the individual members' names. If you are applying for the Hong Kong Offer Shares online by instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals, please contact them for the items required for the application.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you:

- are an existing beneficial owner of Shares and/or a substantial shareholder of any of our Company's subsidiaries;
- are a director, supervisor or chief executive of our Company and/or any of our Company's subsidiaries;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- are a close associate of any of the above persons;
- are a United States person (as defined in Regulation S under the U.S. Securities Act), or a legal or natural person of the PRC (except those who have complied with all relevant PRC laws and regulations in relation to such application, including but not limited to qualified domestic institutional investors);
- are a person within the United States; or
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. Terms and Conditions of an Application

By applying through the application channels specified in this prospectus, among other things, you:

- (a) undertake to execute all relevant documents and instruct and authorize our Company and/or the Joint Global Coordinators (or their respective agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (b) agree to comply with the Articles of Association, Companies (Winding Up and Miscellaneous Provisions) Ordinance and PRC Company Law and the Special Regulations;
- (c) confirm that you have read the terms and conditions and application procedures set out in this prospectus, on the designated website under the **White Form eIPO** service, and agree to be bound by them;
- (d) confirm that you have received and read this prospectus and have relied only on the information and representations in this prospectus in making your application and will not rely on any other information or representations, except those in any supplement to this prospectus;
- (e) confirm that you are aware of the restrictions on the Global Offering set out in this prospectus;
- (f) agree that none of our Company, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters, any of their or our Company's respective directors, officers, employees, partners, agents or representatives and any other parties involved in the Global Offering (the "**Relevant Persons**") and the **White Form eIPO** Service Provider is or will be liable for any information and representations not in this prospectus (and any supplement to this prospectus);

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (g) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares nor participated in the International Offering;
- (h) agree to disclose to our Company, the H Share Registrar, the receiving bank and the Relevant Persons any personal data which any of them may require about you and the person(s) for whose benefit you have made the application;
- (i) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and neither our Company nor the Relevant Persons will breach any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions in this prospectus, on the designated website under the **White Form eIPO** service;
- (j) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (k) agree that your application will be governed by the laws of Hong Kong;
- (l) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (within the meaning of Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (m) warrant that the information you have provided is true and accurate;
- (n) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (o) authorize (i) our Company to place your name(s) or the name of HKSCC Nominees on the register of members of our Company as the holder(s) of any Hong Kong Offer Shares allocated to you and such other registers as required under the Articles of Association and (ii) our Company and/or its agents to send any H Share certificate(s) and/or any e-Refund payment instructions and/or any refund check(s) to you or the first-named applicant for joint applications by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned in the paragraph headed “– Personal Collection” in this section below to collect the H Share certificate(s) and/or refund check(s) in person;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (p) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (q) understand that the Joint Global Coordinators may reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering and in accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, if such reallocation is done other than pursuant to Practice Note 18 to the Listing Rules, the maximum total number of Offer Shares that may be reallocated to the Hong Kong Public Offering following such reallocation shall be not more than double the initial allocation to the Hong Kong Public Offering (i.e. 25,093,600 Offer Shares). Further details of the reallocation are stated in the section headed “Structure of the Global Offering” in this prospectus;
- (r) understand that our Company, the Directors, the Joint Sponsors, and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (s) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit by giving **electronic application instructions** to HKSCC or through the **White Form eIPO** service by you or by any one as your agent or by any other person; and
- (t) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person by giving **electronic application instructions** to HKSCC and (ii) you have due authority to give **electronic application instructions** on behalf of that other person as its agent.

HOW TO APPLY FOR HONG KONG OFFER SHARES

4. Minimum Application Amount and Permitted Numbers

Your application through the **White Form eIPO** service or the **CCASS EIPO** service must be for a minimum of 200 Hong Kong Offer Shares and in one of the numbers set out in the table below. You are required to pay the amount next to the number you select.

JL MAG Rare-Earth Co., Ltd.
(HK\$40.30 per Hong Kong Offer Share)

NUMBER OF HONG KONG OFFER SHARES THAT MAY BE APPLIED FOR AND PAYMENTS

No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$
200	8,141.23	4,000	162,824.65	60,000	2,442,369.82	600,000	24,423,698.13
400	16,282.47	5,000	203,530.82	70,000	2,849,431.45	800,000	32,564,930.84
600	24,423.70	6,000	244,236.98	80,000	3,256,493.09	1,000,000	40,706,163.55
800	32,564.93	7,000	284,943.15	90,000	3,663,554.72	2,000,000	81,412,327.10
1,000	40,706.17	8,000	325,649.30	100,000	4,070,616.36	3,000,000	122,118,490.65
1,200	48,847.40	9,000	366,355.47	120,000	4,884,739.62	4,000,000	162,824,654.20
1,400	56,988.62	10,000	407,061.63	140,000	5,698,862.89	5,000,000	203,530,817.75
1,600	65,129.86	20,000	814,123.27	160,000	6,512,986.17	6,000,000	244,236,981.30
1,800	73,271.10	30,000	1,221,184.90	180,000	7,327,109.44	6,273,400 ⁽¹⁾	255,366,046.42
2,000	81,412.33	40,000	1,628,246.54	200,000	8,141,232.71		
3,000	122,118.49	50,000	2,035,308.18	400,000	16,282,465.42		

(1) Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of the Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

5. Applying Through the White Form eIPO Service

General

Individuals who meet the criteria in the paragraph headed “– (A) Applications for Hong Kong Offer Shares – 2. Who Can Apply” in this section above may apply through the **White Form eIPO** service for the Offer Shares to be allocated and registered in their own names through the designated website at www.eipo.com.hk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Detailed instructions for application through the **White Form eIPO** service are set out on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

If you have any questions on how to apply through the **White Form eIPO** service for the Hong Kong Offer Shares, please contact the telephone enquiry line of the H Share Registrar and **White Form eIPO** Service Provider at +852 2862 8558 on the following dates:

Friday, December 31, 2021	– 9:00 a.m. to 9:00 p.m.
Saturday, January 1, 2022	– 9:00 a.m. to 6:00 p.m.
Sunday, January 2, 2022	– 9:00 a.m. to 6:00 p.m.
Monday, January 3, 2022	– 9:00 a.m. to 9:00 p.m.
Tuesday, January 4, 2022	– 9:00 a.m. to 9:00 p.m.
Wednesday, January 5, 2022	– 9:00 a.m. to 9:00 p.m.
Thursday, January 6, 2022	– 9:00 a.m. to 9:00 p.m.
Friday, January 7, 2022	– 9:00 a.m. to 12:00 noon

Time for Submitting Applications under the White Form eIPO Service

You may submit your application through the **White Form eIPO** service on the designated website at www.eipo.com.hk (24 hours daily, except on the last day for applications) from 9:00 a.m. on Friday, December 31, 2021 until 11:30 a.m. on Friday, January 7, 2022 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, January 7, 2022, the last day for applications, or such later time as described in the paragraph headed “– (C) Effect of Bad Weather and/or Extreme Conditions on the Opening and Closing of the Application Lists” in this section below.

No Multiple Applications

If you apply by means of the **White Form eIPO** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application will be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under the **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

Only one application may be made for the benefit of any person. If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Commitment to Sustainability

The obvious advantage of **White Form eIPO service** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO Service Provider**, will contribute HK\$2 for each “JL MAG RARE-EARTH CO., LTD.” **White Form eIPO** application submitted via www.eipo.com.hk to support sustainability.

6. Applying By Giving Electronic Application Instructions To HKSCC via CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Center
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

HOW TO APPLY FOR HONG KONG OFFER SHARES

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Global Coordinators and the H Share Registrar.

Applying through the CCASS EIPO Service

Where you have applied through the **CCASS EIPO** service (either indirectly through a broker or custodian or directly) and an application is made by HKSCC Nominees on your behalf:

- (a) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of this prospectus; and
- (b) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Offer Shares to be allocated shall be registered in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares nor participated in the International Offering;
 - (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
 - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as its agent;
 - confirm that you understand that our Company, the Directors, the Joint Sponsors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- authorize our Company to place HKSCC Nominees' name on the H Share register of our Company as the holder of the Hong Kong Offer Shares allocated to you and such other registers as required under the Articles of Association, and dispatch H Share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between our Company and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made and will not rely on any other information or representations, except those in any supplement to this prospectus;
- agree that neither our Company nor the Relevant Persons is or will be liable for any information and representations not in this prospectus (and any supplement to this prospectus);
- agree to disclose to our Company, the H Share Registrar, the receiving bank and the Relevant Persons any personal data which they may require about you;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with our Company, and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering by our Company;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for our Company and on behalf of each Shareholder, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Articles of Association, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the PRC Company Law and the Special Regulations;
- agree with our Company, for itself and for the benefit of each Shareholder and each Director, supervisor, manager and other senior officer of our Company (and so that our Company will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each Shareholder and each Director, supervisor, manager and other senior officer of our Company, with each CCASS Participant giving **electronic application instructions**):
 - (a) to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of our Company to arbitration in accordance with the Articles of Association;
 - (b) that any award made in such arbitration shall be final and conclusive; and
 - (c) that the arbitration tribunal may conduct hearings in open sessions and publish its award;
- agree with our Company (for our Company itself and for the benefit of each Shareholder) that H Shares in our Company are freely transferable by their holders;
- authorize our Company to enter into a contract on its behalf with each Director and officer of our Company whereby each such Director and officer undertakes to observe and comply with his obligations to shareholders stipulated in the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Effect of Applying through the CCASS EIPO Service

By applying through the **CCASS EIPO** service, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees will be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy, FRC transaction levy and Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price initially paid on application, refund of the application monies (including brokerage, SFC transaction levy, FRC transaction levy and Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in this prospectus.

Time for Inputting Electronic Application Instructions⁽¹⁾

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Friday, December 31, 2021	– 9:00 a.m. to 8:30 p.m.
Monday, January 3, 2022	– 8:00 a.m. to 8:30 p.m.
Tuesday, January 4, 2022	– 8:00 a.m. to 8:30 p.m.
Wednesday, January 5, 2022	– 8:00 a.m. to 8:30 p.m.
Thursday, January 6, 2022	– 8:00 a.m. to 8:30 p.m.
Friday, January 7, 2022	– 8:00 a.m. to 12:00 noon

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, December 31, 2021 until 12:00 noon on Friday, January 7, 2022 (24 hours daily, except on Friday, January 7, 2022, the last day for applications).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, January 7, 2022, the last day for applications or such later time as described in this section headed “– (C) Effect of Bad Weather and/or Extreme Conditions on the Opening and Closing of the Application Lists” in this section below.

Note:

- (1) The times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

HOW TO APPLY FOR HONG KONG OFFER SHARES

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC will be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The following Personal Information Collection Statement applies to any personal data held by the Company, the H Share Registrar, the receiving bank, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees. By applying through the **CCASS EIPO** service or the **White Form eIPO** service, you agree to all of the terms of the Personal Information Collection Statement below.

Personal Information Collection Statement

This Personal Information Collection Statement informs applicant for, and holder of, the Hong Kong Offer Shares, of the policies and practices of the Company and its H Share Registrar in relation to personal data and the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong).

Reasons for the Collection of Your Personal Data

It is necessary for applicants and registered holders of the Hong Kong Offer Shares to supply correct personal data to the Company or its agents and the H Share Registrar when applying for the Hong Kong Offer Shares or transferring the Hong Kong Offer Shares into or out of their names or in procuring the services of the H Share Registrar.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Failure to supply the requested data may result in your application for the Hong Kong Offer Shares being rejected, or in delay or the inability of the Company or its H Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfers of the Hong Kong Offer Shares which you have successfully applied for and/or the dispatch of H Share certificate(s) to which you are entitled.

It is important that the holders of the Hong Kong Offer Shares inform the Company and the H Share Registrar immediately of any inaccuracies in the personal data supplied.

Purposes

Your personal data may be used, held, processed, and/or stored (by whatever means) for the following purposes:

- processing your application and refund check or e-Refund payment instruction, where applicable, verification of compliance with the terms and application procedures set out in this prospectus and announcing results of allocation of the Hong Kong Offer Shares;
- compliance with applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the names of the holders of the Company's Shares including, where applicable, HKSCC Nominees;
- maintaining or updating the Company's Register of Members;
- verifying identities of the holders of the Company's Shares;
- establishing benefit entitlements of holders of the Company's Shares, such as dividends, rights issues, bonus issues, etc.;
- distributing communications from the Company and its subsidiaries;
- compiling statistical information and profiles of the holder of the Company's Shares;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable the Company and the H Share Registrar to discharge their obligations to holders of the Company's H Shares and/or regulators and/or any other purposes to which the securities' holders may from time to time agree.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Transfer of Personal Data

Personal data held by the Company and its H Share Registrar relating to the holders of the Hong Kong Offer Shares will be kept confidential but the Company and its H Share Registrar may, to the extent necessary for achieving any of the above purposes, disclose, obtain or transfer (whether within or outside Hong Kong) the personal data to, from or with any of the following:

- the Company's appointed agents such as financial advisers, receiving bankers and overseas principal share registrar;
- where applicants for the Hong Kong Offer Shares request a deposit into CCASS, HKSCC or HKSCC Nominees, who will use the personal data for the purposes of operating CCASS;
- any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to the Company or the H Share Registrar in connection with their respective business operation;
- the Stock Exchange, the SFC and any other statutory regulatory or governmental bodies or otherwise as required by laws, rules or regulations; and
- any persons or institutions with which the holders of the Hong Kong Offer Shares have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers etc..

Retention of Personal Data

The Company and its H Share Registrar will keep the personal data of the applicants and holders of the Hong Kong Offer Shares for as long as necessary to fulfill the purposes for which the personal data were collected. Personal data which is no longer required will be destroyed or dealt with in accordance with the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong).

Access to and Correction of Personal Data

Holders of the Hong Kong Offer Shares have the right to ascertain whether the Company or the H Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. The Company and the H Share Registrar have the right to charge a reasonable fee for the processing of such requests. All requests for access to data or correction of data should be addressed to the Company, at the Company's registered address disclosed in the section headed "Corporate Information" in this prospectus or as notified from time to time, for the attention of the secretary, or the Company's H Share Registrar for the attention of the privacy compliance officer.

HOW TO APPLY FOR HONG KONG OFFER SHARES

7. Warning for Electronic Applications

The application for Hong Kong Offer Shares through the **CCASS EIPO** service is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last day for applications to make your electronic application. Our Company, the Relevant Persons and the **White Form eIPO** Service Provider take no responsibility for such applications and provide no assurance that any CCASS Participant applying through the **CCASS EIPO** service or person applying through the **White Form eIPO** service will be allocated any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System for submission of their **electronic application instructions**, they should go to HKSCC's Customer Service Center to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, January 7, 2022, the last day for applications, or such later time as described in the paragraph headed “– (C) Effect of Bad Weather and/or Extreme Conditions on the Opening and Closing of the Application Lists” in this section below.

8. How Many Applications Can You Make

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees.

All of your applications will be rejected if more than one application through the **CCASS EIPO** service (directly or indirectly through your broker or custodian) or through the **White Form eIPO** service is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**).

If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

HOW TO APPLY FOR HONG KONG OFFER SHARES

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

(B) HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum Offer Price is HK\$40.30 per Offer Share. You must also pay brokerage of 1.0%, SFC transaction levy of 0.0027%, FRC transaction levy of 0.00015% and Stock Exchange trading fee of 0.005%. This means that for one board lot of 200 Hong Kong Offer Shares, you will pay HK\$8,141.23.

You must pay the maximum Offer Price, together with brokerage, SFC transaction levy, FRC transaction levy and Stock Exchange trading fee, in full upon application for Hong Kong Offer Shares.

You may submit an application through the **White Form eIPO** service or the **CCASS EIPO** service in respect of a minimum of 200 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 200 Hong Kong Offer Shares must be in one of the numbers set out in the table in the paragraph headed “4. Minimum Application Amount and Permitted Numbers” in this section, or as otherwise specified on the designated website at www.eipo.com.hk.

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Listing Rules), and the SFC transaction levy, the FRC transaction levy and the Stock Exchange trading fee will be paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure of the Global Offering – Pricing and Allocation” in this prospectus.

(C) EFFECT OF BAD WEATHER AND/OR EXTREME CONDITIONS ON THE OPENING AND CLOSING OF THE APPLICATION LISTS

The application lists will not open or close if there is/are:

- a tropical cyclone warning signal number 8 or above;
- a “black” rainstorm warning; and/or
- Extreme Conditions,

HOW TO APPLY FOR HONG KONG OFFER SHARES

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, January 7, 2022. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have any of those warnings and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, January 7, 2022 or if there is/are a tropical cyclone warning signal number 8 or above, a “black” rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable” in this prospectus, an announcement will be made.

(D) PUBLICATION OF RESULTS

Our Company expects to announce the Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocations of the Hong Kong Offer Shares on Thursday, January 13, 2022 on the websites of our Company at www.jlmag.com.cn and the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and dates and in the manner set out below:

- in the announcement to be posted on the websites of our Company at www.jlmag.com.cn and the Stock Exchange at www.hkexnews.hk by no later than 9:00 a.m. on Thursday, January 13, 2022;
- from the designated results of allocations website at www.iporesults.com.hk (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Thursday, January 13, 2022 to 12:00 midnight on Wednesday, January 19, 2022; and
- from the allocation results telephone enquiry line by calling +852 2862 8555 between 9:00 a.m. and 6:00 p.m. on Thursday, January 13, 2022, Friday, January 14, 2022, Monday, January 17, 2022 and Tuesday, January 18, 2022.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are set out in the section “Structure of the Global Offering” in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(E) CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED HONG KONG OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allocated to you:

- (a) If your application is revoked:

By applying through the **CCASS EIPO** service or the **White Form eIPO** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) in the following circumstances:

- (i) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus; or
- (ii) if any supplement to this prospectus is issued, in which case applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

- (b) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(c) If the allocation of Hong Kong Offer Shares is void:

The allocation of Hong Kong Offer Shares will be void if the Listing Committee does not grant permission to list the H Shares either:

- within three weeks from the closing date of the applications lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(d) If:

- you make multiple applications or are suspected of making multiple applications;
- you or the person for whose benefit you apply for, have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your payment is not made correctly;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website at www.eipo.com.hk;
- you apply for more than 6,273,400 Hong Kong Offer Shares, being 50% of the 12,546,800 Hong Kong Offer Shares initially available under the Hong Kong Public Offering;
- our Company or the Joint Global Coordinators believe that by accepting your application, they would violate applicable securities or other laws, rules or regulations; or
- the Underwriting Agreements do not become unconditional or are terminated.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(F) REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price per Offer Share (excluding brokerage, SFC transaction levy, FRC transaction levy and Stock Exchange trading fee payable thereon) paid on application, or if the conditions of the Global Offering as set out in the section headed “Structure of the Global Offering – Conditions of the Global Offering” in this prospectus are not satisfied or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy, FRC transaction levy and Stock Exchange trading fee, will be refunded, without interest or the check or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on or before Thursday, January 13, 2022.

(G) DISPATCH/COLLECTION OF H SHARE CERTIFICATES/e-REFUND PAYMENT INSTRUCTIONS/REFUND CHECKS

You will receive one H Share certificate for all Hong Kong Offer Shares allocated to you under the Hong Kong Public Offering (except by **electronic application instructions** to HKSCC via CCASS where the H Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Offer Shares. No receipt will be issued for sums paid on application.

Subject to arrangement on dispatch/collection of H Share certificates and refund checks as mentioned below, any refund checks and H Share certificate(s) are expected to be posted on or before Thursday, January 13, 2022. The right is reserved to retain any H Share certificate(s) and any surplus application monies pending clearance of check(s) or banker’s cashier order(s).

H Share certificates will only become valid at 8:00 a.m. on Friday, January 14, 2022, provided that the Global Offering has become unconditional in all respects at or before that time. Investors who trade H Shares on the basis of publicly available allocation details or prior to the receipt of H Share certificates or prior to the H Share certificates becoming valid do so entirely at their own risk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Personal Collection

(a) If you apply through the White Form eIPO service:

- If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service and your application is wholly or partially successful, you may collect your H Share certificate(s) and/or refund check(s) (where applicable) in person from the H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, January 13, 2022, or any other place or date notified by our Company in the newspapers as the date of dispatch or collection of H Share certificates.
- If you do not personally collect your H Share certificate(s) and/or refund check(s) (where applicable) within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post and at your own risk.
- If you apply for less than 1,000,000 Hong Kong Offer Shares through the **White Form eIPO** service, your H Share certificate(s) and/or refund check(s) (where applicable) will be sent to the address specified in your application instructions on or before Thursday, January 13, 2022 by ordinary post and at your own risk.
- If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address as specified in your application instructions in the form of refund check(s) by ordinary post and at your own risk.

(b) If you apply through the CCASS EIPO service:

Allocation of Hong Kong Offer Shares

- For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Deposit of H Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, January 13, 2022, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card/passport/Hong Kong business registration number or other identification code (Hong Kong business registration number for corporations) and the basis of allocations of the Hong Kong Offer Shares in the manner as described in the paragraph headed “– (D) Publication of Results” in this section above on Thursday, January 13, 2022. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, January 13, 2022 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's “An Operating Guide for Investor Participants” in effect from time to time) on Thursday, January 13, 2022. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of the refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy, FRC transaction levy and Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, January 13, 2022.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(H) ADMISSION OF THE H SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the H Shares and our Company complies with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second settlement day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangements as such arrangements may affect their rights and interests.

All necessary arrangements have been made to enable the H Shares to be admitted into CCASS.



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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF JL MAG RARE-EARTH CO., LTD., CLSA CAPITAL MARKETS LIMITED AND BNP PARIBAS SECURITIES (ASIA) LIMITED

Introduction

We report on the historical financial information of JL Mag Rare-Earth Co., Ltd. (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-4 to I-101, which comprises the consolidated statements of profit or loss, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the years ended 31 December 2018, 2019 and 2020, and the six months ended 30 June 2021 (the “Relevant Periods”), and the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2018, 2019 and 2020 and 30 June 2021 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-101 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 31 December 2021 (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 preparation set out in Note 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 preparation set out in Note 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 and the Company as at 31 December 2018, 2019 and 2020 and 30 June 2021 and of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of preparation set out in Note 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, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2020 and other explanatory information (the "Interim Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Interim Comparative Financial Information in accordance with the basis of preparation set out in Note 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 International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the International Auditing and Assurance Standards Board ("IAASB"). 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 International 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 preparation set out in Note 2 to the Historical Financial Information, respectively.

Report on matters under the Rules Governing the Listing of Securities on 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 16 to the Historical Financial Information which contains information about the dividends paid by the Company in respect of the Relevant Periods.

Ernst & Young*Certified Public Accountants*

Hong Kong

31 December 2021

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 in accordance with International Standards on Auditing issued by the IAASB (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

		Year ended 31 December 2018 RMB'000	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Six months ended 30 June 2020 RMB'000 (unaudited)	Six months ended 30 June 2021 RMB'000
Revenue	7	1,282,004	1,630,117	2,288,664	915,534	1,766,459
Cost of sales		(997,893)	(1,285,956)	(1,745,679)	(707,372)	(1,336,655)
Gross profit		284,111	344,161	542,985	208,162	429,804
Other income and gains	10	52,316	31,723	63,178	22,171	40,156
Selling and distribution expenses		(19,694)	(17,793)	(17,053)	(7,822)	(12,558)
Administrative expenses		(60,403)	(61,818)	(104,336)	(34,113)	(88,214)
Research and development expenses		(55,120)	(63,196)	(103,175)	(37,271)	(78,099)
Impairment losses on inventories		(5,304)	(3,875)	(5,444)	(2,137)	(3,183)
Impairment losses on financial assets, net		(942)	(7,328)	(6,953)	(703)	(322)
Other expenses	11	(922)	(1,238)	(4,323)	(3,365)	(757)
Finance costs	12	(32,460)	(42,099)	(73,859)	(35,790)	(34,991)
Foreign exchange differences, net		354	851	(10,564)	(4,532)	(2,451)
Share of losses of associates		(2,924)	(647)	(1,739)	(890)	(2,271)
PROFIT BEFORE TAX	13	159,012	178,741	278,717	103,710	247,114
Income tax expenses	14	(12,665)	(22,144)	(34,017)	(12,156)	(26,531)
PROFIT FOR THE YEAR/PERIOD		146,347	156,597	244,700	91,554	220,583
Attributable to:						
Owners of the parent		147,019	156,889	244,502	91,632	220,342
Non-controlling interests		(672)	(292)	198	(78)	241
		146,347	156,597	244,700	91,554	220,583
EARNINGS PER SHARE						
ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	15					
Basic						
– For profit for the year/period (RMB)		0.23	0.23	0.36	0.14	0.32
Diluted						
– For profit for the year/period (RMB)		0.23	0.23	0.36	0.14	0.32

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Six months ended 30 June 2020 RMB'000 (unaudited)	Six months ended 30 June 2021 RMB'000
PROFIT FOR THE YEAR/PERIOD	146,347	156,597	244,700	91,554	220,583
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods, net of tax: Exchange differences on translation of foreign operations	456	(7)	194	(246)	1,683
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/PERIOD, NET OF TAX	456	(7)	194	(246)	1,683
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD	146,803	156,590	244,894	91,308	222,266
Attributable to:					
Owners of the parent	147,473	156,881	244,742	91,412	221,993
Non-controlling interests	(670)	(291)	152	(104)	273
	146,803	156,590	244,894	91,308	222,266

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<i>Notes</i>	31 December 2018	31 December 2019	31 December 2020	30 June 2021
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS					
Property, plant and equipment	<i>17</i>	337,558	423,041	562,574	737,650
Right-of-use assets	<i>18(a)</i>	34,467	33,249	80,818	202,077
Other intangible assets	<i>19</i>	1,097	5,023	4,440	4,420
Investments in associates	<i>20</i>	10,158	12,511	10,772	8,501
Other non-current assets	<i>22</i>	54,265	71,881	103,741	136,958
TOTAL NON-CURRENT ASSETS		<u>437,545</u>	<u>545,705</u>	<u>762,345</u>	<u>1,089,606</u>
CURRENT ASSETS					
Inventories	<i>23</i>	598,146	637,311	924,987	1,107,259
Trade receivables	<i>24</i>	369,886	704,773	743,067	1,166,138
Notes receivables at amortised cost	<i>25</i>	123,149	56,961	118,571	156,800
Notes receivables at fair value through other comprehensive income ("FVOCI")	<i>25</i>	101,736	116,282	127,167	25,865
Prepayments, other receivables and other assets	<i>26</i>	6,151	11,475	71,740	36,411
Financial assets at fair value through profit or loss	<i>27</i>	744	1,932	2,654	6,824
Other current assets	<i>29</i>	43,414	7,231	15,162	9,868
Restricted cash	<i>28</i>	66,128	134,211	163,423	110,837
Cash and cash equivalents	<i>28</i>	396,686	644,305	593,012	1,055,213
TOTAL CURRENT ASSETS		<u>1,706,040</u>	<u>2,314,481</u>	<u>2,759,783</u>	<u>3,675,215</u>
TOTAL ASSETS		<u><u>2,143,585</u></u>	<u><u>2,860,186</u></u>	<u><u>3,522,128</u></u>	<u><u>4,764,821</u></u>
CURRENT LIABILITIES					
Trade and notes payables	<i>30</i>	321,535	414,555	621,326	657,291
Contract liabilities	<i>31</i>	13,645	5,556	18,045	19,787
Other payables and accruals	<i>32</i>	68,560	65,010	146,522	159,020
Interest-bearing bank and other borrowings	<i>33</i>	520,892	467,789	466,633	1,097,332
Lease liabilities	<i>18(b)</i>	1,486	1,959	1,132	2,235
Tax payables		–	6,499	18,657	19,100
TOTAL CURRENT LIABILITIES		<u>926,118</u>	<u>961,368</u>	<u>1,272,315</u>	<u>1,954,765</u>
NET CURRENT ASSETS		<u>779,922</u>	<u>1,353,113</u>	<u>1,487,468</u>	<u>1,720,450</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,217,467</u>	<u>1,898,818</u>	<u>2,249,813</u>	<u>2,810,056</u>

APPENDIX I

ACCOUNTANTS' REPORT

	<i>Notes</i>	31 December 2018 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>	30 June 2021 <i>RMB'000</i>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,217,467	1,898,818	2,249,813	2,810,056
NON-CURRENT LIABILITIES					
Convertible bonds	34	–	322,027	343,572	353,441
Interest-bearing bank and other borrowings	33	69,240	200,000	267,208	123,126
Lease liabilities	18(b)	2,720	1,742	738	5,253
Deferred income	35	37,073	35,575	58,029	58,123
Deferred tax liabilities	21	805	9,268	12,790	9,467
TOTAL NON-CURRENT LIABILITIES		109,838	568,612	682,337	549,410
NET ASSETS		1,107,629	1,330,206	1,567,476	2,260,646
EQUITY					
Equity attributable to owners of the parent					
Share capital	36	413,424	413,424	415,977	690,733
Equity component of convertible bonds		–	107,464	107,343	107,286
Reserves	38	697,891	809,295	1,043,981	1,462,179
		1,111,315	1,330,183	1,567,301	2,260,198
Non-controlling interests		(3,686)	23	175	448
TOTAL EQUITY		1,107,629	1,330,206	1,567,476	2,260,646

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Year ended 31 December 2018

	Attributable to owners of the parent										
	Share capital RMB'000 (note 36)	Treasury shares* RMB'000	Share premium* RMB'000	Share incentive reserve* RMB'000	Share component of convertible bonds RMB'000 (note 34)	Reserve fund* RMB'000	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2018	371,824	-	235,908	2,067	-	30,675	2,808	175,757	819,039	(3,016)	816,023
Profit for the year	-	-	-	-	-	-	-	147,019	147,019	(672)	146,347
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations	-	-	-	-	-	-	454	-	454	2	456
Total comprehensive income for the year	-	-	-	-	-	-	454	147,019	147,473	(670)	146,803
Dividends declared	-	-	-	-	-	-	-	(40,901)	(40,901)	-	(40,901)
Issue of shares	41,600	-	144,104	-	-	-	-	-	185,704	-	185,704
Transfer from retained profits	-	-	-	-	-	14,932	-	(14,932)	-	-	-
At 31 December 2018	413,424	-	380,012	2,067	-	45,607	3,262	266,943	1,111,315	(3,686)	1,107,629

Year ended 31 December 2019

	Attributable to owners of the parent										
	Share capital RMB'000 (note 36)	Treasury shares* RMB'000	Share premium* RMB'000	Share incentive reserve* RMB'000	Share component of convertible bonds RMB'000 (note 34)	Reserve fund* RMB'000	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2019	413,424	-	380,012	2,067	-	45,607	3,262	266,943	1,111,315	(3,686)	1,107,629
Profit for the year	-	-	-	-	-	-	-	156,889	156,889	(292)	156,597
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(8)	-	(8)	1	(7)
Total comprehensive income for the year	-	-	-	-	-	-	(8)	156,889	156,881	(291)	156,590
Dividends declared	-	-	-	-	-	-	-	(45,477)	(45,477)	-	(45,477)
Issue of convertible bonds	-	-	-	-	107,464	-	-	-	107,464	-	107,464
Contribution from non-controlling shareholders	-	-	-	-	-	-	-	-	-	4,000	4,000
Transfer from retained profits	-	-	-	-	-	16,761	-	(16,761)	-	-	-
At 31 December 2019	413,424	-	380,012	2,067	107,464	62,368	3,254	361,594	1,330,183	23	1,330,206

Year ended 31 December 2020

	Attributable to owners of the parent										
	Share capital RMB'000 (note 36)	Treasury shares* RMB'000	Share premium* RMB'000	Share incentive reserve* RMB'000	Share component of convertible bonds RMB'000 (note 34)	Reserve fund* RMB'000	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2020	413,424	-	380,012	2,067	107,464	62,368	3,254	361,594	1,330,183	23	1,330,206
Profit for the year	-	-	-	-	-	-	-	244,502	244,502	198	244,700
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations	-	-	-	-	-	-	240	-	240	(46)	194
Total comprehensive income for the year	-	-	-	-	-	-	240	244,502	244,742	152	244,894
Dividends declared	-	-	-	-	-	-	-	(45,477)	(45,477)	-	(45,477)
Issue of shares for an incentive plan	2,542	-	52,407	-	-	-	-	-	54,949	-	54,949
Share incentive plan expense	-	-	-	37,522	-	-	-	-	37,522	-	37,522
Repurchase obligation for shares issued under incentive plan (note 32/37)	-	(54,949)	-	-	-	-	-	-	(54,949)	-	(54,949)
Conversion of convertible bonds	11	-	441	-	(121)	-	-	-	331	-	331
Transfer from retained profits	-	-	-	-	-	26,110	-	(26,110)	-	-	-
At 31 December 2020	415,977	(54,949)	432,860	39,589	107,343	88,478	3,494	534,509	1,567,301	175	1,567,476

Six months ended 30 June 2020

	Attributable to owners of the parent										
	Share capital RMB'000 (note 36)	Treasury shares* RMB'000	Share premium* RMB'000	Share incentive reserve* RMB'000	Share component of convertible bonds RMB'000 (note 34)	Reserve fund* RMB'000	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2020	413,424	-	380,012	2,067	107,464	62,368	3,254	361,594	1,330,183	23	1,330,206
Profit for the period (unaudited)	-	-	-	-	-	-	-	91,632	91,632	(78)	91,554
Other comprehensive income for the period:											
Exchange differences on translation of foreign operations (unaudited)	-	-	-	-	-	-	(220)	-	(220)	(26)	(246)
Total comprehensive income for the period (unaudited)	-	-	-	-	-	-	(220)	91,632	91,412	(104)	91,308
Dividends declared (unaudited)	-	-	-	-	-	-	-	(45,477)	(45,477)	-	(45,477)
At 30 June 2020 (unaudited)	413,424	-	380,012	2,067	107,464	62,368	3,034	407,749	1,376,118	(81)	1,376,037

Six months ended 30 June 2021

	Attributable to owners of the parent									
	Share capital RMB'000 (note 36)	Treasury share* RMB'000	Share premium* RMB'000	Share incentive reserve* RMB'000	Share component of convertible bonds RMB'000 (note 34)	Reserve fund* RMB'000	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2021	415,977	(54,949)	432,860	39,589	107,343	88,478	3,494	534,509	175	1,567,476
Profit for the period	-	-	-	-	-	-	-	220,342	241	220,583
Other comprehensive income for the period:										
Exchange differences on translation of foreign operations	-	-	-	-	-	-	1,651	-	32	1,683
Total comprehensive income for the period	-	-	-	-	-	-	1,651	220,342	273	222,266
Dividends declared	-	-	-	-	-	-	-	(86,341)	-	(86,341)
Issue of shares	15,726	-	495,911	-	-	-	-	511,637	-	511,637
Share incentive plan expense	-	-	-	45,452	-	-	-	-	-	45,452
Conversion of convertible bonds	7	-	206	-	(57)	-	-	-	-	156
Transfer from share premium (note 36)	259,023	-	(259,023)	-	-	-	-	-	-	-
At 30 June 2021	690,733	(54,949)	669,954	85,041	107,286	88,478	5,145	668,510	448	2,260,646

* These reserve accounts comprise the consolidated reserves of RMB697,891,000, RMB809,295,000, RMB1,043,981,000, and RMB1,462,179,000 in the consolidated statements of financial position as at 31 December 2018, 2019, 2020 and 30 June 2021, respectively.

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended 31 December 2018 RMB'000	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Six months ended 30 June 2020 RMB'000 (unaudited)	Six months ended 30 June 2021 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax:		159,012	178,741	278,717	103,710	247,114
Adjustments for:						
Finance costs	12	32,460	42,099	73,859	35,790	34,991
Loss on disposal of non-current assets	11	37	414	1,377	1,019	206
Share of losses of associates		2,924	647	1,739	890	2,271
Gain on disposal of items of property, plant and equipment	10	(368)	(120)	-	-	(519)
Fair value changes of forward exchange agreements	10/11	(744)	(1,188)	(722)	1,152	(4,170)
Realised gains of wealth management products	10	-	(550)	(5,702)	(3,704)	(4,606)
Depreciation of property, plant and equipment	13	32,306	39,734	46,202	21,369	29,033
Depreciation of right-of-use assets	13	2,109	2,511	3,026	1,460	3,116
Amortisation of other intangible assets	13	197	211	588	295	291
Amortisation of non-current assets	13	3,561	6,205	8,514	3,842	5,196
Impairment of inventories	13	5,304	3,875	5,444	2,137	3,183
Impairment losses of financial assets	13	942	7,328	6,953	703	322
		237,740	279,907	419,995	168,663	316,428
Increase in inventories		(243,337)	(39,977)	(287,679)	(81,721)	(182,096)
(Increase)/decrease in trade receivables		(17,609)	(342,848)	(44,434)	6,023	(422,010)
(Increase)/decrease in notes receivables		(78,853)	51,969	(73,497)	(67,064)	62,687
(Increase)/decrease in prepayments, other receivables and other assets		5,184	(4,589)	(37,236)	(12,659)	55,150
Decrease in deferred tax assets		7,350	-	-	-	-
(Increase)/decrease in other current assets		(41,637)	36,183	(7,931)	(15,961)	5,294
Increase/(decrease) in trade and notes payables		217,353	169,761	170,096	5,417	(39,877)
Increase in other payables and accruals		4,276	5,054	34,266	7,231	106,077
Increase/(decrease) in contract liabilities		(9,030)	(8,089)	12,489	13,426	1,742
Increase/(decrease) in deferred tax liabilities		805	8,463	3,522	3,249	(3,323)
Increase/(decrease) in deferred income		(2,742)	(1,497)	22,455	(4,405)	93
(Increase)/decrease in restricted cash		(22,556)	(68,083)	(29,212)	16,265	52,586
Cash generated from/(used in) operations		56,944	86,254	182,834	38,464	(47,249)
Income tax paid		(23,041)	(5,424)	(24,799)	(12,052)	(29,410)
Net cash flows from/(used in) operating activities		33,903	80,830	158,035	26,412	(76,659)

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Six months ended 30 June 2020 RMB'000 (unaudited)	Six months ended 30 June 2021 RMB'000
Net cash flows from/(used in) operating activities	33,903	80,830	158,035	26,412	(76,659)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payment for leasehold land	-	-	(83,146)	(11,410)	(91,321)
Purchases of items of property, plant and equipment	(58,615)	(97,408)	(117,607)	(25,958)	(204,722)
Purchases of items of other long-term assets	(50,092)	(17,616)	(18,757)	(17,971)	(5,083)
Proceeds from disposal of items of property, plant and equipment	228	1,371	5,675	5,436	1,011
Additions to other intangible assets	(55)	(4,137)	(5)	(4)	(272)
Investment in an associate	-	(3,000)	-	-	-
Purchases of wealth management products	-	(251,304)	(839,909)	(613,083)	(313,000)
Proceeds from sale of wealth management products	-	251,855	845,611	616,787	317,606
Net cash flows used in investing activities	(108,534)	(120,239)	(208,138)	(46,203)	(295,781)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares	224,224	-	54,949	-	521,000
Share issue expenses	(38,520)	-	-	-	(9,363)
Proceeds from issue of convertible bonds	39	435,000	-	-	-
Convertible bonds issue expenses	39	(9,239)	-	-	-
New bank loans	39	419,633	455,256	274,992	418,925
Repayment of bank loans	39	(195,630)	(452,440)	(198,001)	(8,784)
Settlement of letters of credit	39	(6,390)	(61,085)	(61,085)	(17,995)
Increase/(decrease) in discounted commercial acceptance notes	39	40,566	(32,587)	(13,685)	36,152
Principal portion of lease payments	39	(1,193)	(1,798)	(1,248)	(1,120)
Dividends paid	39	(40,883)	(45,489)	(45,477)	(86,341)
Interest paid	39	(27,084)	(27,495)	(17,468)	(16,278)
Net cash flows from/(used in) financing activities	262,107	285,585	(203)	(61,972)	836,196
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	187,476	246,176	(50,306)	(81,763)	463,756
Cash and cash equivalents at beginning of year/period	205,315	396,686	644,305	644,305	593,012
Effect of foreign exchange rate changes, net	3,895	1,443	(987)	1,158	(1,555)
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	28	396,686	644,305	563,700	1,055,213

STATEMENTS OF FINANCIAL POSITION

	Notes	31 December 2018 RMB'000	31 December 2019 RMB'000	31 December 2020 RMB'000	30 June 2021 RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	17	313,028	384,595	520,651	607,896
Right-of-use assets	18(a)	31,395	30,436	29,592	29,038
Other intangible assets	19	1,061	1,035	860	1,044
Investments in subsidiaries		31,750	54,150	179,394	299,394
Investments in associates	20	10,158	9,662	8,107	5,589
Deferred tax assets	21	1,467	–	–	–
Other non-current assets	22	47,343	71,209	60,116	77,114
TOTAL NON-CURRENT ASSETS		436,202	551,087	798,720	1,020,075
CURRENT ASSETS					
Inventories	23	591,876	628,032	914,827	1,097,300
Trade receivables	24	390,368	727,819	764,775	1,193,402
Notes receivables at amortised cost	25	123,149	56,961	118,571	156,800
Notes receivables at fair value through other comprehensive income ("FVOCI")	25	101,536	116,282	127,167	25,865
Prepayments, other receivables and other assets	26	8,599	29,637	75,402	145,209
Financial assets at fair value through profit or loss	27	744	1,932	2,654	6,824
Other current assets	29	40,412	4,140	12,726	–
Restricted cash	28	66,128	133,387	148,069	62,646
Cash and cash equivalents	28	383,119	618,800	562,985	1,003,753
TOTAL CURRENT ASSETS		1,705,931	2,316,990	2,727,176	3,691,799
TOTAL ASSETS		2,142,133	2,868,077	3,525,896	4,711,874
CURRENT LIABILITIES					
Trade and notes payables	30	316,573	407,736	607,389	609,171
Contract liabilities	31	4,412	1,225	2,314	5,987
Other payables and accruals	32	64,536	61,588	139,881	125,822
Interest-bearing bank borrowings	33	520,892	467,789	466,633	1,097,332
Lease liabilities	18(b)	428	217	262	229
Tax payables		–	6,499	18,657	19,100
TOTAL CURRENT LIABILITIES		906,841	945,054	1,235,136	1,857,641
NET CURRENT ASSETS		799,090	1,371,936	1,492,040	1,834,158
TOTAL ASSETS LESS CURRENT LIABILITIES		1,235,292	1,923,023	2,290,760	2,854,233

	<i>Notes</i>	31 December 2018 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>	30 June 2021 <i>RMB'000</i>
NON-CURRENT LIABILITIES					
Convertible bonds	34	–	322,027	343,572	353,441
Interest-bearing bank and other borrowings	33	69,240	200,000	267,208	123,126
Lease liabilities	18(b)	496	352	104	54
Deferred income	35	37,073	35,575	58,029	58,123
Deferred tax liabilities	21	–	6,871	10,084	6,667
TOTAL NON-CURRENT LIABILITIES		<u>106,809</u>	<u>564,825</u>	<u>678,997</u>	<u>541,411</u>
NET ASSETS		<u>1,128,483</u>	<u>1,358,198</u>	<u>1,611,763</u>	<u>2,312,822</u>
EQUITY					
Share capital	36	413,424	413,424	415,977	690,733
Equity component of convertible bonds		–	107,464	107,343	107,286
Reserves	46	<u>715,059</u>	<u>837,310</u>	<u>1,088,443</u>	<u>1,514,803</u>
TOTAL EQUITY		<u>1,128,483</u>	<u>1,358,198</u>	<u>1,611,763</u>	<u>2,312,822</u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company is a joint stock company with limited liability incorporated in the People's Republic of China (the "PRC"). The registered office of the Company is located at 81 West Jinling Road, Economic and Technological Development Zone, Ganzhou City, Jiangxi Province, PRC. The Company is collectively controlled by Mr. Cai Baogui, Mr. Li Xinnong, and Mr. Hu Zhibin (the "Controlling Shareholders"), which are parties acting in concert. Please refer to the paragraph headed "Parties Acting in Concert" in the section headed "History, Development and Corporate Structure" in the Prospectus for further details.

Permanent Magnet Materials Operation

During the Relevant Periods, the Company and its subsidiaries were involved in the research and development, and the production and sale of NdFeB permanent magnet materials.

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, the particulars of which are set out below:

Name*	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			%	%	
			Direct	Indirect	
Ganzhou Jinli Magnets Processing Co., Ltd. ("JL Processing") (note(a))*	Ganzhou 29 February 2012	RMB20,000,000	100	–	Production
Jiangxi Jinli Bonded Magnetic Co., Ltd. ("JL Bonded") (note(a))*	Ganzhou 12 January 2017	RMB20,000,000	80	–	Production
Jinli Permanent Magnet (Ningbo) Investment Co., Ltd. ("JL Ningbo Investment") (note(b))*	Ningbo 21 December 2018	RMB21,000,000	100	–	Investment
Jinli Permanent Magnet (Ningbo) Technology Co., Ltd. ("JL Ningbo MAG") (note(c))*	Ningbo 15 January 2020	RMB120,000,000	100	–	Production
Jinli Permanent Magnet (Baotou) Technology Co., Ltd. ("JL Baotou") (note(c))*	Baotou 18 August 2020	RMB100,000,000	100	–	Production
JL Mag Rare-Earth (Hong Kong) Co. Limited ("JL HK") (note(d))	Hong Kong 5 September 2014	HKD21,316,330	100	–	Trading and Investment
JL Mag Rare-Earth (Europe) B.V. ("JL Europe") (note(e))	Netherlands 8 October 2012	EUR100	–	85	Trading
JL Mag Rare-Earth (U.S.A.) Inc. ("JL USA") (note(f))	the United States of America ("USA") 29 November 2018	USD600,000	–	100	Trading
JL Mag Rare-Earth Japan ("JL Japan") (note(f))	Japan 6 September 2016	JPY30,000,000	–	100	Trading

Notes:

- (a) The statutory financial statements of these entities for the years ended 31 December 2018, 2019 and 2020 prepared under PRC Generally Accepted Accounting Principles ("PRC GAAP") were audited by BDO China Shu Lun Pan Certified Public Accountants LLP registered in the PRC.

- (b) The statutory financial statements of this entity for the years ended 31 December 2019 and 2020 prepared under PRC Generally Accepted Accounting Principles (“PRC GAAP”) were audited by BDO China Shu Lun Pan Certified Public Accountants LLP registered in the PRC.
 - (c) The statutory financial statements of these entities for the period from the date of incorporation to 31 December 2020 prepared under PRC Generally Accepted Accounting Principles (“PRC GAAP”) were audited by BDO China Shu Lun Pan Certified Public Accountants LLP registered in the PRC.
 - (d) The statutory financial statements of this entity for the years ended 31 December 2018, 2019 and 2020 were audited by Alliance Plus CPA Limited.
 - (e) The statutory financial statements of this entity for the years ended 31 December 2018, 2019 and 2020 prepared under Title 9 Book 2 of the Dutch Civil Code were audited by HLB Van Daal Audit B.V.
 - (f) No audited financial statements have been prepared for these entities for the years ended 31 December 2018, 2019 and 2020 (or since the date of incorporation, where later than the beginning of the Relevant Periods), as the entities were not subject to any statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation.
- * The English names of these entities registered in the PRC represent the best efforts made by management of the Company to directly translate their Chinese names as they did not register any official English names.

2. BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which comprise all standards and interpretations approved by the International Accounting Standards Board (the “IASB”). All IFRSs effective for the accounting period commencing from 1 January 2021, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods and in the period covered by the Interim Comparative Financial Information.

The Historical Financial Information has been prepared on a going concern basis.

The Historical Financial Information has been prepared under the historical cost convention, except for forward exchange agreements, notes receivables at FVOCI and wealth management products which have been measured at fair value.

Basis of consolidation

The consolidated financial statements include the financial statements 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 statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, 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 and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. 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.

3. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The standards and interpretations that have been issued but not yet effective up to the date of this report are disclosed below.

Amendments to IFRS 3	<i>Reference to the Conceptual Framework¹</i>
Amendments to IFRS 4	<i>Extension of the Temporary Exemption from Applying IFRS 9²</i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i>
IFRS 17	<i>Insurance Contracts²</i>
Amendments to IFRS 17	<i>Insurance Contracts^{2, 5}</i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current²</i>
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use¹</i>
Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract¹</i>
Annual Improvements to IFRS Standards 2018-2020	<i>Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41¹</i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021³</i>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies²</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates²</i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction Tax²</i>

¹ Effective for annual periods beginning on or after 1 January 2022

² Effective for annual periods beginning on or after 1 January 2023

³ Effective for annual periods beginning on or after 1 April 2021

⁴ No mandatory effective date yet determined but available for adoption

⁵ As a consequence of the amendments to IFRS 17, issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs may result in changes in accounting policies but are unlikely to have a significant impact on the Group's result of operation and financial position.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

The Group measures certain of its financial assets at fair value at the end of each of the Relevant Periods. 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 Historical Financial Information 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 of the Relevant Periods.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets 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 the statement of 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 the statement of 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. 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 estimated useful lives and the annual depreciation rates used for this purpose are as follows:

	Estimated useful lives	Annual depreciation rates
Machinery and equipment	5 to 10 years	9.5% to 19%
Buildings	20 to 40 years	2.375% to 4.75%
Furniture and fixtures	5 to 10 years	9.5% to 19%
Motor vehicles	4 to 6 years	15.83% to 23.75%
Office and other equipment	4 to 6 years	15.83% to 23.75%

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 the end of each of the Relevant Periods.

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 the statement of profit or loss in the years/periods the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, machinery and equipment under construction or installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds 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.

Other Intangible assets

Other intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

The principal estimated useful lives of other intangible assets are as follows:

Software	10 years
Non-patented technology	10 years

Research and development expenses

All research expenses are charged to the statement of 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.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any 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. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	50 years
Buildings	3 to 5 years
Motor vehicles	2 to 5 years
Office and other equipment	2 to 5 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of office premises (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, 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 or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 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 or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

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. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

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

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

Financial assets at amortised cost (debt instruments)

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

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to profit or loss.

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 designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. 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. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

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.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

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.

Debt investments at fair value through other comprehensive income and 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 or when the Group applies the practical expedient of not adjusting the effect of 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, loans and borrowings, or payables, as appropriate.

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

The Group's financial liabilities include trade and other payables, notes payables and interest-bearing bank and other borrowings, convertible bonds.

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing bank and other 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.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

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 statement 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.

Treasury shares

When the Company is obliged to acquire own equity instruments in accordance with share incentive plan, the consideration paid or payable is deducted directly from equity and is disclosed separately in the statement of changes in equity.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis 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 and associates, 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, and 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, and 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 and associates, 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, for 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 profit or loss over the expected useful life of the relevant asset by equal annual instalments.

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.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Sale of industrial products

Revenue from the sale of industrial products is recognised at the point in time when control of the asset is transferred to the customer, generally on receipts of the chemical products by the customers.

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 instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Share Incentive Plan

The Company operates a share incentive plan for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date on which they are granted. The fair value is determined based on the share price at the grant date, further details of which are given in note 37 to the Historical Financial Information.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each of the Relevant Periods until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognized. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognized for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding share incentive plans is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension schemes

In accordance with applicable PRC regulations, the Company and its subsidiaries operating in Mainland China have currently enrolled in a series of pension schemes regulated by various provincial and municipal governments, under which each of the entities operating in Mainland China is required to contribute a percentage of its employees' salaries to the pension fund. The contributions are charged to profit or loss as they become payable in accordance with the rules of the pension schemes.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or 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 or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the 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.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Declared final dividends are disclosed in the note 16 to the Historical Financial Information.

Foreign currencies

The Historical Financial Information is presented in Renminbi, which is the Company's functional currency. 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.

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 arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of 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).

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 the disclosure of contingent liabilities at the end of each of the Relevant Periods. Uncertainty about these estimates and assumptions could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability 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 reporting periods, are described below.

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 past days due for groupings of various customer segments that have similar loss patterns.

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. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 24 to the Historical Financial Information.

Estimation of inventories under net realisable value

In accordance with the Group's accounting policy for inventories, the Group's management tests whether inventories suffered any impairment based on estimates of the net realisable value of the inventories. For different types of inventories, it requires the estimation on selling prices, costs of conversion, selling expenses and the related tax expense to calculate the net realisable value of inventories. For inventories held for executed sales contracts, management estimates the net realisable value based on the contracted price. For raw materials and work-in-progress, management has established a model in estimating the net realisable value at which the inventories can be realised in the normal course of business after considering the Group's manufacturing cycles, production capacity and forecasts, estimated future conversion costs and selling prices. Management also takes into account the price or cost fluctuations and other related matters occurring after the end of the reporting period which reflect conditions that existed at the end of the reporting period.

It is reasonably possible that if there is a significant change in circumstances including the Group's business and the external environment, outcomes within the next financial year would be significantly affected. Further details are included in note 23 to the Historical Financial Information.

6. OPERATING SEGMENT INFORMATION

For management purposes, the Group considers its business from the perspective of the types of goods or services provided, which mainly include the manufacturing and sale of high performance NdFeB materials.

The Group focuses on the manufacturing and sale of high performance NdFeB materials, and no separate operating segment information is provided for resource allocation and performance assessment. Therefore, no detailed segment information is presented.

Geographical information

(a) Revenue from external customers

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Six months ended 30 June 2020 RMB'000 (unaudited)	Six months ended 30 June 2021 RMB'000
Mainland China	1,104,780	1,349,249	1,947,860	722,074	1,590,460
Other countries/regions	177,224	280,868	340,804	193,460	175,999
	<u>1,282,004</u>	<u>1,630,117</u>	<u>2,288,664</u>	<u>915,534</u>	<u>1,766,459</u>

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

(b) The Group's non-current assets are substantially located in Mainland China.

Information about major customers

Revenue derived from a single customer which accounted for 10% or more of the Group's total revenue is as follows:

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Six months ended 30 June 2020 RMB'000 (unaudited)	Six months ended 30 June 2021 RMB'000
Customer A	298,467	607,427	599,501	225,728	446,694
Customer B	230,617	263,279	508,133	190,166	389,915
Customer C	155,206	N/A*	N/A*	N/A*	N/A*
Customer D	146,251	N/A*	N/A*	N/A*	N/A*

* The corresponding revenue did not contribute over 10% of the total revenue of the Group.

7. REVENUE

An analysis of revenue is as follows:

	Year ended 31 December 2018 <i>RMB'000</i>	Year ended 31 December 2019 <i>RMB'000</i>	Year ended 31 December 2020 <i>RMB'000</i>	Six months ended 30 June 2020 <i>RMB'000</i> <i>(unaudited)</i>	Six months ended 30 June 2021 <i>RMB'000</i>
Revenue from contracts with customers					
– Sale of goods	1,282,004	1,630,117	2,288,664	915,534	1,766,459
	<u>1,282,004</u>	<u>1,630,117</u>	<u>2,288,664</u>	<u>915,534</u>	<u>1,766,459</u>

Revenue from contracts with customers

(a) Disaggregated revenue information

	Year ended 31 December 2018 <i>RMB'000</i>	Year ended 31 December 2019 <i>RMB'000</i>	Year ended 31 December 2020 <i>RMB'000</i>	Six months ended 30 June 2020 <i>RMB'000</i> <i>(unaudited)</i>	Six months ended 30 June 2021 <i>RMB'000</i>
Type of goods					
Sale of NdFeB magnet materials	1,282,004	1,630,117	2,288,664	915,534	1,766,459
	<u>1,282,004</u>	<u>1,630,117</u>	<u>2,288,664</u>	<u>915,534</u>	<u>1,766,459</u>
Geographical markets					
Mainland China	1,104,780	1,349,249	1,947,860	722,074	1,590,460
Other countries/regions	177,224	280,868	340,804	193,460	175,999
	<u>1,282,004</u>	<u>1,630,117</u>	<u>2,288,664</u>	<u>915,534</u>	<u>1,766,459</u>
Timing of revenue recognition					
Goods transferred at a point in time	1,282,004	1,630,117	2,288,664	915,534	1,766,459
	<u>1,282,004</u>	<u>1,630,117</u>	<u>2,288,664</u>	<u>915,534</u>	<u>1,766,459</u>

The following table shows the amounts of revenue recognised in the Relevant Periods and the six months ended 30 June 2020 that were included in the contract liabilities at the beginning of the reporting period:

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Six months ended 30 June 2020 RMB'000 (unaudited)	Six months ended 30 June 2021 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:					
Sale of NdFeB magnet materials	22,674	13,645	5,533	5,105	4,184
	<u>22,674</u>	<u>13,645</u>	<u>5,533</u>	<u>5,105</u>	<u>4,184</u>

All sales of NdFeB magnet are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Six months ended 30 June 2020 RMB'000 (unaudited)	Six months ended 30 June 2021 RMB'000
Fees:	-	-	-	-	-
Other emoluments:					
Salaries, allowances and benefits in kind	2,004	2,002	2,052	806	1,070
Performance related bonuses	818	1,792	1,779	-	-
Restricted share incentive	-	-	6,780	-	8,136
Social insurance and housing fund	147	138	122	53	76
	<u>2,969</u>	<u>3,932</u>	<u>10,733</u>	<u>859</u>	<u>9,282</u>

During the Relevant Periods, certain directors were granted restricted shares, in respect of their services to the Group, under the share incentive plan of the Company, further details of which are set out in note 37 to the Historical Financial Information. The fair value of such restricted shares, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the Historical Financial Information for the Relevant Periods is included in the above directors' and chief executive's remuneration disclosures.

Directors' remuneration for each year/period is as follows:

Year ended 31 December 2018

	Position	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Restricted share incentive RMB'000	Social insurance and housing fund RMB'000	Total RMB'000
Baogui Cai	Chairman, Executive Director and General Manager	807	447	–	79	1,333
Zhigang Cao*	Former Director	100	–	–	–	100
Zhihong Xie**	Former Director	–	–	–	–	–
Zhibing Hu	Director	100	–	–	–	100
Xinnong Li	Director	100	–	–	–	100
Feng Lv	Vice Chairman and Deputy General Manager	597	371	–	68	1,036
Jianxin You	Independent Director	100	–	–	–	100
Zhanheng Chen	Independent Director	100	–	–	–	100
Taifang Yuan	Independent Director	100	–	–	–	100
		<u>2,004</u>	<u>818</u>	<u>–</u>	<u>147</u>	<u>2,969</u>

* Zhigang Cao was appointed as director on 24 June 2015, and resigned on 23 April 2021.

** Zhihong Xie was appointed as director on 24 June 2015, and resigned on 23 April 2021.

Year ended 31 December 2019

	Position	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Restricted share incentive RMB'000	Social insurance and housing fund RMB'000	Total RMB'000
Baogui Cai	Chairman, Executive Director and General Manager	806	960	–	74	1,840
Zhigang Cao*	Former Director	100	–	–	–	100
Zhihong Xie**	Former Director	–	–	–	–	–
Zhibing Hu	Director	100	–	–	–	100
Xinnong Li	Director	100	–	–	–	100
Feng Lv	Vice Chairman and Deputy General Manager	596	832	–	64	1,492
Jianxin You	Independent Director	100	–	–	–	100
Zhanheng Chen	Independent Director	100	–	–	–	100
Taifang Yuan	Independent Director	100	–	–	–	100
		<u>2,002</u>	<u>1,792</u>	<u>–</u>	<u>138</u>	<u>3,932</u>

* Zhigang Cao was appointed as director on 24 June 2015, and resigned on 23 April 2021.

** Zhihong Xie was appointed as director on 24 June 2015, and resigned on 23 April 2021.

Year ended 31 December 2020

	Position	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Restricted share incentive RMB'000	Social insurance and housing fund RMB'000	Total RMB'000
Baogui Cai	Chairman, Executive Director and General Manager	805	928	1,962	67	3,762
Zhigang Cao*	Former Director	100	–	–	–	100
Zhihong Xie**	Former Director	–	–	–	–	–
Zhibing Hu	Director	100	–	2,943	–	3,043
Xinnong Li	Director	100	–	–	–	100
Feng Lv	Vice Chairman and Deputy General Manager	647	851	1,875	55	3,428
Jianxin You	Independent Director	100	–	–	–	100
Zhanheng Chen	Independent Director	100	–	–	–	100
Taifang Yuan	Independent Director	100	–	–	–	100
		<u>2,052</u>	<u>1,779</u>	<u>6,780</u>	<u>122</u>	<u>10,733</u>

* Zhigang Cao was appointed as director on 24 June 2015, and resigned on 23 April 2021.

** Zhihong Xie was appointed as director on 24 June 2015, and resigned on 23 April 2021.

Six months ended 30 June 2020

	Position	Salaries, allowances and benefits in kind RMB'000 (unaudited)	Performance related bonuses RMB'000 (unaudited)	Restricted share incentive RMB'000 (unaudited)	Social insurance and housing fund RMB'000 (unaudited)	Total RMB'000 (unaudited)
Baogui Cai	Chairman, Executive Director and General Manager	192	–	–	27	219
Zhigang Cao*	Former Director	50	–	–	–	50
Zhihong Xie**	Former Director	–	–	–	–	–
Zhibing Hu	Director	50	–	–	–	50
Xinnong Li	Director	50	–	–	–	50
Feng Lv	Vice Chairman and Deputy General Manager	314	–	–	26	340
Jianxin You	Independent Director	50	–	–	–	50
Zhanheng Chen	Independent Director	50	–	–	–	50
Taifang Yuan	Independent Director	50	–	–	–	50
		<u>806</u>	<u>–</u>	<u>–</u>	<u>53</u>	<u>859</u>

* Zhigang Cao was appointed as director on 24 June 2015, and resigned on 23 April 2021.

** Zhihong Xie was appointed as director on 24 June 2015, and resigned on 23 April 2021.

Six months ended 30 June 2021

	Position	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Restricted share incentive RMB'000	Social insurance and housing fund RMB'000	Total RMB'000
Baogui Cai	Chairman, Executive Director and General Manager	438	–	2,354	46	2,838
Zhigang Cao*	Former Director	33	–	–	–	33
Zhihong Xie**	Former Director	–	–	–	–	–
Zhibing Hu	Director	50	–	3,532	–	3,582
Xinnong Li	Director	50	–	–	–	50
Feng Lv	Vice Chairman and Deputy General Manager	332	–	2,250	30	2,612
Fei Li	Director	17	–	–	–	17
Jianxin You	Independent Director	50	–	–	–	50
Zhanheng Chen	Independent Director	50	–	–	–	50
Taifang Yuan	Independent Director	50	–	–	–	50
		<u>1,070</u>	<u>–</u>	<u>8,136</u>	<u>76</u>	<u>9,282</u>

* Zhigang Cao was appointed as director on 24 June 2015, and resigned on 23 April 2021.

** Zhihong Xie was appointed as director on 24 June 2015, and resigned on 23 April 2021.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the years ended 31 December 2018, 2019 and 2020, and six months ended 30 June 2020 and 2021 included two, two, two, one and three directors, respectively, details of whose remuneration are set out in note 8 above. Details of the remuneration for the Relevant Periods of the remaining highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Six months ended 30 June 2020 RMB'000 (unaudited)	Six months ended 30 June 2021 RMB'000
Salaries, allowances and benefits in kind	1,866	3,104	2,671	2,102	700
Performance related bonuses	1,228	2,122	2,356	–	–
Restricted share incentive	–	–	5,724	–	5,089
Social insurance and housing fund	213	196	158	111	49
	<u>3,307</u>	<u>5,422</u>	<u>10,909</u>	<u>2,213</u>	<u>5,838</u>

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

	Year ended 31 December 2018	Year ended 31 December 2019	Year ended 31 December 2020	Six months ended 30 June 2020 <i>(unaudited)</i>	Six months ended 30 June 2021
Nil to HK\$1,000,000	3	–	–	5*	–
HK\$1,000,001 to HK\$1,500,000	–	2	–	–	–
HK\$1,500,001 to HK\$2,000,000	–	1	–	–	–
HK\$2,000,001 to HK\$2,500,000	–	–	–	–	1
HK\$2,500,001 to HK\$3,000,000	–	–	–	–	1
HK\$3,000,001 to HK\$3,500,000	–	–	3	–	–
	<u>3</u>	<u>3</u>	<u>3</u>	<u>5</u>	<u>2</u>

* During the six months ended 30 June 2020, there are two employees with same amount of remuneration, thus the number of non-director and non-chief executive highest paid employees is five.

During the Relevant Periods, restricted shares were granted to the non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 37 to the Historical Financial Information. The fair value of such share incentive plans, which has been recognised in the consolidated statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the Historical Financial Information for the Relevant Periods are included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. OTHER INCOME AND GAINS

	Year ended 31 December 2018 <i>RMB'000</i>	Year ended 31 December 2019 <i>RMB'000</i>	Year ended 31 December 2020 <i>RMB'000</i>	Six months ended 30 June 2020 <i>RMB'000</i> <i>(unaudited)</i>	Six months ended 30 June 2021 <i>RMB'000</i>
Other income					
Government grants	46,364	9,830	17,069	6,179	8,278
Bank interest income	1,442	4,205	6,991	3,497	5,810
Sale of materials and others	3,398	14,751	31,694	8,791	16,773
	<u>51,204</u>	<u>28,786</u>	<u>55,754</u>	<u>18,467</u>	<u>30,861</u>

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Six months ended 30 June 2020 RMB'000 (unaudited)	Six months ended 30 June 2021 RMB'000
Other gains					
Gains on disposal of items of property, plant and equipment	368	120	–	–	519
Fair value changes of forward exchange agreements	744	1,188	722	–	4,170
Gains on wealth management products	–	550	5,702	3,704	4,606
Others	–	1,079	1,000	–	–
	<u>1,112</u>	<u>2,937</u>	<u>7,424</u>	<u>3,704</u>	<u>9,295</u>
	<u>52,316</u>	<u>31,723</u>	<u>63,178</u>	<u>22,171</u>	<u>40,156</u>

11. OTHER EXPENSES

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Six months ended 30 June 2020 RMB'000 (unaudited)	Six months ended 30 June 2021 RMB'000
Donations	820	756	1,632	1,192	550
Loss on disposal of non-current assets	37	414	1,377	1,019	206
Fair value changes of forward exchange agreements	–	–	–	1,152	–
Others	65	68	1,314	2	1
	<u>922</u>	<u>1,238</u>	<u>4,323</u>	<u>3,365</u>	<u>757</u>

12. FINANCE COSTS

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Six months ended 30 June 2020 RMB'000 (unaudited)	Six months ended 30 June 2021 RMB'000
Interest expense	31,491	41,224	72,454	34,611	34,692
Other finance costs	969	875	1,405	1,179	299
	<u>32,460</u>	<u>42,099</u>	<u>73,859</u>	<u>35,790</u>	<u>34,991</u>

13. PROFIT BEFORE TAX

		Year ended 31 December 2018 RMB'000	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Six months ended 30 June 2020 RMB'000 (unaudited)	Six months ended 30 June 2021 RMB'000
Cost of raw materials and consumables		769,338	1,001,532	1,413,872	556,066	1,114,238
Depreciation of property, plant and equipment*	17	32,306	39,734	46,202	21,369	29,033
Depreciation of right-of-use assets*	18	2,109	2,511	3,026	1,460	3,116
Amortisation of other intangible assets*	19	197	211	588	295	291
Amortisation of other non-current assets		3,561	6,205	8,514	3,842	5,196
Research and development costs		55,120	63,196	103,175	37,271	78,099
Lease payments not included in the measurement of lease liabilities		288	49	401	36	209
Auditor's remuneration		1,060	1,233	1,634	1,000	1,565
Expenses related to the initial public offering on the Hong Kong stock exchange		–	–	–	–	1,185
Employee benefit expense (including directors' remuneration):						
Wages, salaries and welfare		162,094	193,646	254,412	109,135	176,833
Expenses for share incentive plan	37	–	–	37,522	–	45,452
Pension and other social insurances		20,777	23,783	22,316	9,385	16,653
Exchange (gains)/losses, net		(354)	(851)	10,564	4,532	2,451
Impairment losses on inventories		5,304	3,875	5,444	2,137	3,183
Impairment losses on financial assets, net		942	7,328	6,953	703	322
(Gains)/losses on disposal of property, plant and equipment	10/11	(331)	294	1,377	1,019	(313)
Government grants	10	46,364	9,830	17,069	6,179	8,278

* The depreciation of property, plant and equipment during the Relevant Periods and the six months ended 30 June 2020 are included in "Cost of sales", "Administrative expenses" and "Research and development expenses" in the consolidated statements of profit or loss. The depreciation of right-of-use assets and amortisation of other intangible assets during the Relevant Periods and the six months ended 30 June 2020 are included in "Cost of sales" and "Administrative expenses" in the consolidated statements of profit or loss.

14. INCOME TAX

In general, the Group's entities in the mainland China are subject to PRC corporate income tax at the standard rate of 25% on their respective estimated taxable profits during the Relevant Periods and the six months ended 30 June 2020. The Company is entitled to tax concessions including a preferential tax rate of 15%, as it is incorporated in Ganzhou, Jiangxi. JL Baotou, which is incorporated in Inner Mongolia, is entitled to a preferential tax rate of 15%. No provision for the Dutch profit tax, the United States corporate income tax, the Japan corporate tax, or the Hong Kong profit tax has been made during the Relevant Periods and the six months ended 30 June 2020, as there was no tax assessable income subject to the Dutch profit tax, the United States corporate income tax, the Japan corporate tax, or the Hong Kong profit tax during the Relevant Periods.

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Six months ended 30 June 2020 RMB'000 (unaudited)	Six months ended 30 June 2021 RMB'000
Current – Mainland China					
Charge for the Relevant Periods	4,124	15,036	31,000	9,412	30,079
Under/(over) provision in prior years	386	(1,355)	(505)	(505)	(225)
Deferred	21 8,155	8,463	3,522	3,249	(3,323)
Total tax charge	<u>12,665</u>	<u>22,144</u>	<u>34,017</u>	<u>12,156</u>	<u>26,531</u>

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for 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 2018 RMB'000	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Six months ended 30 June 2020 RMB'000 (unaudited)	Six months ended 30 June 2021 RMB'000
Profit before tax	<u>159,012</u>	<u>178,741</u>	<u>278,717</u>	<u>103,710</u>	<u>247,114</u>
Tax expense calculated at the statutory tax rate of 25%	39,753	44,685	69,679	25,927	61,778
Effect of different tax rates of subsidiaries operating in other jurisdictions and tax concession	418	78	763	437	291
Tax effect of preferential income tax rates applicable to the Company	(16,090)	(19,125)	(29,641)	(11,300)	(25,959)
Adjustments in respect of current tax of previous periods	386	(1,355)	(505)	(505)	(225)
Profits and losses attributable to associates	439	74	233	119	378
Non-taxable income	(523)	(178)	(108)	(173)	(625)
Non-deductible expenses	204	890	323	75	155

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Six months ended 30 June 2020 RMB'000 (unaudited)	Six months ended 30 June 2021 RMB'000
Tax losses utilised from previous periods	(1,901)	(782)	(1,098)	(589)	(929)
Tax losses not recognised	1,980	4,921	4,741	2,328	2,912
Deductible temporary differences not recognised	88	81	72	159	470
Prior year share incentive expense deductible upon exercising	(6,613)	–	–	–	–
Additional deduction of research and development expenses	(5,476)	(7,145)	(10,442)	(4,322)	(11,715)
Tax charge at the effective rate	<u>12,665</u>	<u>22,144</u>	<u>34,017</u>	<u>12,156</u>	<u>26,531</u>

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

The calculation of the basic earnings per share amounts is based on the profit for the Relevant Periods attributable to ordinary equity holders of the parent. On 13 May 2021, the Company transferred share premium into share capital with six new shares issued for every ten existing shares. After the conversion, the number of shares as at 31 May 2021 was increased by 259,022,953, among which 1,524,960 shares are attributable to restricted share owners. The calculation of basic and diluted earnings per share is adjusted for the proportionate change as if the conversion had occurred at the beginning of the Relevant Periods, therefore the weighted average number of outstanding ordinary shares is 643,188,848, 670,922,181, 671,816,276, 686,661,659, and 670,922,254 during the Relevant Periods and the six months ended 30 June 2020, respectively.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the dilutive effect of the share incentive plan (note 37) issued by the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Six months ended 30 June 2020 RMB'000 (unaudited)	Six months ended 30 June 2021 RMB'000
<u>Earnings</u>					
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:					
From continuing operations	147,019	156,889	244,502	91,632	220,342

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Six months ended 30 June 2020 RMB'000 (unaudited)	Six months ended 30 June 2021 RMB'000
Less: dividends attributable to owners of the restricted shares	—	—	—	—	(474)
	147,019	156,889	244,502	91,632	219,868
Effect of dilution-dividends attributable to owners of the restricted shares	—	—	—	—	474
	147,019	156,889	244,502	91,632	220,342

	Number of Shares			Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2021
	Year ended 31 December 2018	Year ended 31 December 2019	Year ended 31 December 2020		
<u>Shares</u>					
Weighted average number of ordinary shares in issue during the Relevant Periods and the six months ended 30 June 2020 used in the basic earnings per share calculation	643,188,848	670,922,181	671,816,276	670,922,254	686,661,659
Effect of dilution weighted average number of ordinary shares: Share incentive plan (note 37)	—	—	1,062,991	—	2,069,654
	643,188,848	670,922,181	672,879,267	670,922,254	688,731,313

Because the diluted earnings per share amount is increased when taking convertible bonds into account, the convertible bonds had an anti-dilutive effect on the basic earnings per share for the Relevant Periods and the six months ended 30 June 2020 and were ignored in the calculation of diluted earnings per share. Therefore, the diluted earnings per share amounts are based on the profit for the Relevant Periods and the six months ended 30 June 2020 of RMB147,019,000, RMB156,889,000, RMB244,502,000, RMB220,342,000, and RMB91,632,000 respectively, and the weighted average number of ordinary shares of 643,188,848, 670,922,181, 672,879,267, 688,731,313 and 670,922,254 in issue during the Relevant Periods and the six months ended 30 June 2020, considering the adjustment in respect of the share incentive plan granted in 2020.

16. DIVIDENDS

	Year ended 31 December 2018 <i>RMB'000</i>	Year ended 31 December 2019 <i>RMB'000</i>	Year ended 31 December 2020 <i>RMB'000</i>	Six months ended 30 June 2021 <i>RMB'000</i>
Proposed and declared final dividend – RMB0.11 per ordinary share for the year ended 31 December 2018, RMB0.11 per ordinary share for the year ended 31 December 2019, and RMB0.20 per ordinary share for the year ended 31 December 2020	45,477	45,477	86,341	–
	<u>45,477</u>	<u>45,477</u>	<u>86,341</u>	<u>–</u>

The proposed final dividend for the Relevant Periods were approved by the Company's shareholders at the subsequent annual general meeting.

17. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Furniture and fixtures <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Office and other equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2018							
At 31 December 2017 and 1 January 2018:							
Cost	108,971	220,832	14,491	3,551	2,456	39,151	389,452
Accumulated depreciation	(18,898)	(85,794)	(5,948)	(2,294)	(1,815)	–	(114,749)
Net carrying amount	<u>90,073</u>	<u>135,038</u>	<u>8,543</u>	<u>1,257</u>	<u>641</u>	<u>39,151</u>	<u>274,703</u>
At 1 January 2018, net of accumulated depreciation	90,073	135,038	8,543	1,257	641	39,151	274,703
Additions	–	9,396	80	–	889	88,387	98,752
Disposals	–	(2,908)	(634)	(42)	(7)	–	(3,591)
Depreciation provided during the year	(3,725)	(24,706)	(3,127)	(499)	(249)	–	(32,306)
Transfers	40,109	69,572	8,197	233	364	(118,475)	–
At 31 December 2018, net of accumulated depreciation	<u>126,457</u>	<u>186,392</u>	<u>13,059</u>	<u>949</u>	<u>1,638</u>	<u>9,063</u>	<u>337,558</u>
At 31 December 2018:							
Cost	149,079	294,317	21,980	3,297	3,613	9,063	481,349
Accumulated depreciation	(22,622)	(107,925)	(8,921)	(2,348)	(1,975)	–	(143,791)
Net carrying amount	<u>126,457</u>	<u>186,392</u>	<u>13,059</u>	<u>949</u>	<u>1,638</u>	<u>9,063</u>	<u>337,558</u>

At 31 December 2018, the Group's buildings with a net carrying amount of RMB65,908,000 and machinery and equipment with a net carrying amount of RMB61,372,000 were pledged to secure general bank loans, details of which are included in note 33.

	Buildings	Machinery and equipment	Furniture and fixtures	Motor vehicles	Office and other equipment	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Year ended 31 December 2019							
At 31 December 2018 and 1 January 2019:							
Cost	149,079	294,317	21,980	3,297	3,613	9,063	481,349
Accumulated depreciation	(22,622)	(107,925)	(8,921)	(2,348)	(1,975)	–	(143,791)
Net carrying amount	<u>126,457</u>	<u>186,392</u>	<u>13,059</u>	<u>949</u>	<u>1,638</u>	<u>9,063</u>	<u>337,558</u>
At 1 January 2019, net of accumulated depreciation							
Additions	56	13,267	936	–	382	114,990	129,631
Disposals	–	(4,081)	(154)	(166)	(13)	–	(4,414)
Depreciation provided during the year	(4,973)	(29,142)	(4,390)	(558)	(671)	–	(39,734)
Transfers	18,395	58,079	7,300	2,671	496	(86,941)	–
At 31 December 2019, net of accumulated depreciation	<u>139,935</u>	<u>224,515</u>	<u>16,751</u>	<u>2,896</u>	<u>1,832</u>	<u>37,112</u>	<u>423,041</u>
At 31 December 2019:							
Cost	167,530	354,975	29,791	5,108	4,332	37,112	598,848
Accumulated depreciation	(27,595)	(130,460)	(13,040)	(2,212)	(2,500)	–	(175,807)
Net carrying amount	<u>139,935</u>	<u>224,515</u>	<u>16,751</u>	<u>2,896</u>	<u>1,832</u>	<u>37,112</u>	<u>423,041</u>

At 31 December 2019, the Group's buildings with a net carrying amount of RMB64,325,000 and machinery and equipment with a net carrying amount of RMB45,404,000 were pledged to secure general bank loans, details of which are included in note 33.

	Buildings	Machinery and equipment	Furniture and fixtures	Motor vehicles	Office and other equipment	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Year ended 31 December 2020							
At 31 December 2019 and 1 January 2020:							
Cost	167,530	354,975	29,791	5,108	4,332	37,112	598,848
Accumulated depreciation	(27,595)	(130,460)	(13,040)	(2,212)	(2,500)	–	(175,807)
Net carrying amount	<u>139,935</u>	<u>224,515</u>	<u>16,751</u>	<u>2,896</u>	<u>1,832</u>	<u>37,112</u>	<u>423,041</u>

Company

	Buildings <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Furniture and fixtures <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Office and other equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2018							
At 31 December 2017 and 1 January 2018:							
Cost	108,971	203,313	13,617	3,366	2,039	35,375	366,681
Accumulated depreciation	(18,898)	(80,326)	(5,655)	(2,276)	(1,603)	–	(108,758)
Net carrying amount	<u>90,073</u>	<u>122,987</u>	<u>7,962</u>	<u>1,090</u>	<u>436</u>	<u>35,375</u>	<u>257,923</u>
At 1 January 2018, net of accumulated depreciation							
Additions	–	3,423	5	–	–	85,337	88,765
Disposals	–	(2,889)	(631)	(42)	(5)	–	(3,567)
Depreciation provided during the year	(3,725)	(22,767)	(2,983)	(455)	(163)	–	(30,093)
Transfers	33,839	69,572	8,162	232	285	(112,090)	–
At 31 December 2018, net of accumulated depreciation	<u>120,187</u>	<u>170,326</u>	<u>12,515</u>	<u>825</u>	<u>553</u>	<u>8,622</u>	<u>313,028</u>
At 31 December 2018:							
Cost	142,809	270,852	21,153	3,111	2,319	8,622	448,866
Accumulated depreciation	(22,622)	(100,526)	(8,638)	(2,286)	(1,766)	–	(135,838)
Net carrying amount	<u>120,187</u>	<u>170,326</u>	<u>12,515</u>	<u>825</u>	<u>553</u>	<u>8,622</u>	<u>313,028</u>
Year ended 31 December 2019							
At 31 December 2018 and 1 January 2019:							
Cost	142,809	270,852	21,153	3,111	2,319	8,622	448,866
Accumulated depreciation	(22,622)	(100,526)	(8,638)	(2,286)	(1,766)	–	(135,838)
Net carrying amount	<u>120,187</u>	<u>170,326</u>	<u>12,515</u>	<u>825</u>	<u>553</u>	<u>8,622</u>	<u>313,028</u>

	Buildings <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Furniture and fixtures <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Office and other equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2019, net of accumulated depreciation	120,187	170,326	12,515	825	553	8,622	313,028
Additions	55	12,111	483	–	49	99,814	112,512
Disposals	–	(4,081)	(113)	(166)	(13)	–	(4,373)
Depreciation provided during the year	(4,662)	(27,054)	(4,124)	(514)	(218)	–	(36,572)
Transfers	4,409	57,206	7,166	2,671	405	(71,857)	–
At 31 December 2019, net of accumulated depreciation	<u>119,989</u>	<u>208,508</u>	<u>15,927</u>	<u>2,816</u>	<u>776</u>	<u>36,579</u>	<u>384,595</u>
At 31 December 2019: Cost	147,273	336,088	28,689	5,616	2,760	36,579	557,005
Accumulated depreciation	(27,284)	(127,580)	(12,762)	(2,800)	(1,984)	–	(172,410)
Net carrying amount	<u>119,989</u>	<u>208,508</u>	<u>15,927</u>	<u>2,816</u>	<u>776</u>	<u>36,579</u>	<u>384,595</u>
	Buildings <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Furniture and fixtures <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Office and other equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2020							
At 31 December 2019 and 1 January 2020: Cost	147,273	336,088	28,689	5,616	2,760	36,579	557,005
Accumulated depreciation	(27,284)	(127,580)	(12,762)	(2,800)	(1,984)	–	(172,410)
Net carrying amount	<u>119,989</u>	<u>208,508</u>	<u>15,927</u>	<u>2,816</u>	<u>776</u>	<u>36,579</u>	<u>384,595</u>
At 1 January 2020, net of accumulated depreciation	119,989	208,508	15,927	2,816	776	36,579	384,595
Additions	–	127	379	–	34	187,972	188,512
Disposals	–	(6,407)	(370)	(121)	(11)	(3,851)	(10,760)
Depreciation provided during the year	(5,223)	(30,267)	(4,889)	(995)	(322)	–	(41,696)
Transfers	32,641	129,991	13,048	1,512	1,126	(178,318)	–
At 31 December 2020, net of accumulated depreciation	<u>147,407</u>	<u>301,952</u>	<u>24,095</u>	<u>3,212</u>	<u>1,603</u>	<u>42,382</u>	<u>520,651</u>
At 31 December 2020 Cost	179,914	459,799	41,746	7,007	3,909	42,382	734,757
Accumulated depreciation	(32,507)	(157,847)	(17,651)	(3,795)	(2,306)	–	(214,106)
Net carrying amount	<u>147,407</u>	<u>301,952</u>	<u>24,095</u>	<u>3,212</u>	<u>1,603</u>	<u>42,382</u>	<u>520,651</u>

	Buildings	Machinery and equipment	Furniture and fixtures	Motor vehicles	Office and other equipment	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Period ended 30 June 2021							
At 31 December 2020 and 1 January 2021:							
Cost	179,914	459,799	41,746	7,007	3,909	42,382	734,757
Accumulated depreciation	(32,507)	(157,847)	(17,651)	(3,795)	(2,306)	–	(214,106)
Net carrying amount	<u>147,407</u>	<u>301,952</u>	<u>24,095</u>	<u>3,212</u>	<u>1,603</u>	<u>42,382</u>	<u>520,651</u>
At 1 January 2021, net of accumulated depreciation							
Additions	–	–	–	–	–	115,428	115,428
Disposals	–	(454)	(44)	–	(28)	(670)	(1,196)
Depreciation provided during the period	(2,886)	(19,757)	(3,475)	(582)	(287)	–	(26,987)
Transfers	1,517	36,750	9,086	766	1,350	(49,469)	–
At 30 June 2021, net of accumulated depreciation	<u>146,038</u>	<u>318,491</u>	<u>29,662</u>	<u>3,396</u>	<u>2,638</u>	<u>107,671</u>	<u>607,896</u>
At 30 June 2021:							
Cost	181,431	496,095	50,788	7,773	5,231	107,671	848,989
Accumulated depreciation	(35,393)	(177,604)	(21,126)	(4,377)	(2,593)	–	(241,093)
Net carrying amount	<u>146,038</u>	<u>318,491</u>	<u>29,662</u>	<u>3,396</u>	<u>2,638</u>	<u>107,671</u>	<u>607,896</u>

18. LEASES

The Group as a lessee

The Group has lease contracts for various items of leasehold land, buildings, motor vehicles, and office and other equipment. Lump sum payments were made upfront to acquire the land-use right in Mainland China with periods of 50 years, and no ongoing payments will be made.

(a) *Right-of-use assets*

The carrying amounts of the Group's right-of-use assets and the movements during the Relevant Periods are as follows:

	Leasehold land <i>RMB'000</i>	Buildings <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Office and other equipment <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2018					
Cost at 1 January 2018, net of accumulated depreciation	31,178	3,431	–	235	34,844
Additions	–	642	970	41	1,653
Depreciation provided during the year	(744)	(1,192)	(114)	(59)	(2,109)
Exchange realignment	–	58	5	16	79
At 31 December 2018	<u>30,434</u>	<u>2,939</u>	<u>861</u>	<u>233</u>	<u>34,467</u>
At 31 December 2018					
Cost	37,189	4,073	970	276	42,508
Accumulated depreciation	(6,755)	(1,192)	(114)	(59)	(8,120)
Exchange realignment	–	58	5	16	79
Net carrying amount	<u>30,434</u>	<u>2,939</u>	<u>861</u>	<u>233</u>	<u>34,467</u>
Year ended 31 December 2019					
Cost at 1 January 2019, net of accumulated depreciation	30,434	2,939	861	233	34,467
Additions	–	1,128	107	38	1,273
Depreciation provided during the year	(744)	(1,458)	(233)	(76)	(2,511)
Exchange realignment	–	18	(5)	7	20
At 31 December 2019	<u>29,690</u>	<u>2,627</u>	<u>730</u>	<u>202</u>	<u>33,249</u>
At 31 December 2019					
Cost	37,189	5,201	1,077	314	43,781
Accumulated depreciation	(7,499)	(2,650)	(347)	(135)	(10,631)
Exchange realignment	–	76	–	23	99
Net carrying amount	<u>29,690</u>	<u>2,627</u>	<u>730</u>	<u>202</u>	<u>33,249</u>

	Leasehold land <i>RMB'000</i>	Buildings <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Office and other equipment <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2020					
Cost at 1 January 2020, net of accumulated depreciation	29,690	2,627	730	202	33,249
Additions	50,366	234	–	–	50,600
Depreciation provided during the year	(996)	(1,687)	(264)	(79)	(3,026)
Exchange realignment	–	(11)	8	(2)	(5)
At 31 December 2020	<u>79,060</u>	<u>1,163</u>	<u>474</u>	<u>121</u>	<u>80,818</u>
At 31 December 2020					
Cost	87,555	5,435	1,077	314	94,381
Accumulated depreciation	(8,495)	(4,337)	(611)	(214)	(13,657)
Exchange realignment	–	65	8	21	94
Net carrying amount	<u>79,060</u>	<u>1,163</u>	<u>474</u>	<u>121</u>	<u>80,818</u>
Period ended 30 June 2020					
Cost at 1 January 2020, net of accumulated depreciation	29,690	2,627	730	202	33,249
Additions (unaudited)	–	79	–	–	79
Depreciation provided during the period (unaudited)	(372)	(917)	(131)	(40)	(1,460)
Exchange realignment (unaudited)	–	25	10	4	39
At 30 June 2020	<u>29,318</u>	<u>1,814</u>	<u>609</u>	<u>166</u>	<u>31,907</u>
At 30 June 2020					
Cost (unaudited)	37,189	5,280	1,077	314	43,860
Accumulated depreciation (unaudited)	(7,871)	(3,567)	(478)	(175)	(12,091)
Exchange realignment (unaudited)	–	101	10	27	138
Net carrying amount (unaudited)	<u>29,318</u>	<u>1,814</u>	<u>609</u>	<u>166</u>	<u>31,907</u>

	Leasehold land RMB'000	Buildings RMB'000	Motor vehicles RMB'000	Office and other equipment RMB'000	Total RMB'000
Period ended 30 June 2021					
Cost at 1 January 2021, net of accumulated depreciation	79,060	1,163	474	121	80,818
Additions (Note)	117,624	6,798	–	–	124,422
Depreciation provided during the period	(2,052)	(897)	(130)	(37)	(3,116)
Exchange realignment	–	(24)	(16)	(7)	(47)
At 30 June 2021	<u>194,632</u>	<u>7,040</u>	<u>328</u>	<u>77</u>	<u>202,077</u>
At 30 June 2021					
Cost	205,179	12,233	1,077	314	218,803
Accumulated depreciation	(10,547)	(5,234)	(741)	(251)	(16,773)
Exchange realignment	–	41	(8)	14	47
Net carrying amount	<u>194,632</u>	<u>7,040</u>	<u>328</u>	<u>77</u>	<u>202,077</u>

Note: The Group has prepaid RMB35,680,000 as deposit for a land-use right in the year of 2020, which was recognised as right-of-use asset in the year of 2021.

At 31 December 2018, the Group's land-use right with a net carrying amount of RMB30,434,000 was pledged to secure general bank loans, details of which are included in note 33; At 31 December 2019, the Group's land-use right with a net carrying amount of RMB29,690,000 was pledged to secure general bank loans, details of which are included in note 33.

(b) *Lease liabilities*

The carrying amount of lease liabilities and the movements during the Relevant Periods are as follows:

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Six months ended 30 June 2020 RMB'000 (unaudited)	Six months ended 30 June 2021 RMB'000
Carrying amount at 1 January	3,665	4,206	3,701	3,701	1,870
New leases	1,653	1,273	234	79	6,798
Accretion of interest recognised during the year/period	161	156	102	59	68
Payments	(1,355)	(1,954)	(2,166)	(1,307)	(1,188)
Exchange realignment	82	20	(1)	46	(60)
Carrying amount at end of the year/period	<u>4,206</u>	<u>3,701</u>	<u>1,870</u>	<u>2,578</u>	<u>7,488</u>
Analysed into:					
Current portion	<u>1,486</u>	<u>1,959</u>	<u>1,132</u>	<u>1,719</u>	<u>2,235</u>
Non-current portion	<u>2,720</u>	<u>1,742</u>	<u>738</u>	<u>859</u>	<u>5,253</u>

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Six months ended 30 June 2020 RMB'000 (unaudited)	Six months ended 30 June 2021 RMB'000
Interest on lease liabilities	161	156	102	59	68
Depreciation charge of right-of-use assets	2,109	2,511	3,026	1,460	3,116
Expense relating to short- term leases and other leases with remaining lease (included in expenses)	288	49	401	36	209
Total amount recognised in profit or loss	<u>2,558</u>	<u>2,716</u>	<u>3,529</u>	<u>1,555</u>	<u>3,393</u>

The maturity analysis of lease liabilities is disclosed in note 45 to the Historical Financial Information.

The Company as a lessee

The Company has lease contracts for various items of leasehold land and buildings. Lump sum payments were made upfront to acquire the land-use right in Mainland China with periods of 50 years, and no ongoing payments will be made.

(a) Right-of-use assets

The carrying amounts of the Company's right-of-use assets and the movements during the Relevant Periods are as follows:

	Leasehold land RMB'000	Buildings RMB'000	Total RMB'000
Year ended 31 December 2018			
Cost at 1 January 2018, net of accumulated depreciation	31,179	1,078	32,257
Additions	–	188	188
Depreciation provided during the year	<u>(744)</u>	<u>(306)</u>	<u>(1,050)</u>
At 31 December 2018	<u>30,435</u>	<u>960</u>	<u>31,395</u>
At 31 December 2018			
Cost	37,190	1,266	38,456
Accumulated depreciation	<u>(6,755)</u>	<u>(306)</u>	<u>(7,061)</u>
Net carrying amount	<u>30,435</u>	<u>960</u>	<u>31,395</u>
Year ended 31 December 2019			
Cost at 1 January 2019, net of accumulated depreciation	30,435	960	31,395
Additions	–	108	108
Depreciation provided during the year	<u>(744)</u>	<u>(323)</u>	<u>(1,067)</u>
At 31 December 2019	<u>29,691</u>	<u>745</u>	<u>30,436</u>

	Leasehold land <i>RMB'000</i>	Buildings <i>RMB'000</i>	Total <i>RMB'000</i>
At 31 December 2019			
Cost	37,190	1,374	38,564
Accumulated depreciation	(7,499)	(629)	(8,128)
	<u>29,691</u>	<u>745</u>	<u>30,436</u>
Net carrying amount	<u>29,691</u>	<u>745</u>	<u>30,436</u>
Year ended 31 December 2020			
Cost at 1 January 2020, net of accumulated depreciation	29,691	745	30,436
Additions	–	234	234
Depreciation provided during the year	(744)	(334)	(1,078)
	<u>28,947</u>	<u>645</u>	<u>29,592</u>
At 31 December 2020	<u>28,947</u>	<u>645</u>	<u>29,592</u>
At 31 December 2020			
Cost	37,190	1,608	38,798
Accumulated depreciation	(8,243)	(963)	(9,206)
	<u>28,947</u>	<u>645</u>	<u>29,592</u>
Net carrying amount	<u>28,947</u>	<u>645</u>	<u>29,592</u>
	Leasehold land <i>RMB'000</i>	Buildings <i>RMB'000</i>	Total <i>RMB'000</i>
Period ended 30 June 2021			
Cost at 1 January 2021, net of accumulated depreciation	28,947	645	29,592
Additions	–	–	–
Depreciation provided during the period	(372)	(182)	(554)
	<u>28,575</u>	<u>463</u>	<u>29,038</u>
At 30 June 2021	<u>28,575</u>	<u>463</u>	<u>29,038</u>
At 30 June 2021			
Cost	37,190	1,608	38,798
Accumulated depreciation	(8,615)	(1,145)	(9,760)
	<u>28,575</u>	<u>463</u>	<u>29,038</u>
Net carrying amount	<u>28,575</u>	<u>463</u>	<u>29,038</u>

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the Relevant Periods are as follows:

	Year ended 31 December 2018 <i>RMB'000</i>	Year ended 31 December 2019 <i>RMB'000</i>	Year ended 31 December 2020 <i>RMB'000</i>	Six months ended 30 June 2020 <i>RMB'000</i> <i>(unaudited)</i>	Six months ended 30 June 2021 <i>RMB'000</i>
Carrying amount at 1 January	1,077	924	569	569	366
New leases	189	108	234	79	–
Accretion of interest recognised during the year/period	42	28	19	9	7
Payments	(384)	(491)	(456)	(357)	(90)
Carrying amount at end of the year/period	<u>924</u>	<u>569</u>	<u>366</u>	<u>300</u>	<u>283</u>
Analysed into:					
Current portion	428	217	262	232	229
Non-current portion	<u>496</u>	<u>352</u>	<u>104</u>	<u>68</u>	<u>54</u>

19. OTHER INTANGIBLE ASSETS**Group**

	Software <i>RMB'000</i>	Non-patented technology <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2018			
At 1 January 2018:			
Cost	2,900	–	2,900
Accumulated amortisation	<u>(1,661)</u>	<u>–</u>	<u>(1,661)</u>
Net carrying amount	<u>1,239</u>	<u>–</u>	<u>1,239</u>
Cost at 1 January 2018, net of accumulated amortisation			
Additions	55	–	55
Amortisation provided during the year	(197)	–	(197)
At 31 December 2018	<u>1,097</u>	<u>–</u>	<u>1,097</u>
At 31 December 2018:			
Cost	2,955	–	2,955
Accumulated amortisation	<u>(1,858)</u>	<u>–</u>	<u>(1,858)</u>
Net carrying amount	<u>1,097</u>	<u>–</u>	<u>1,097</u>
Year ended 31 December 2019			
Cost at 1 January 2019, net of accumulated amortisation	1,097	–	1,097
Additions	137	4,000	4,137
Amortisation provided during the year	<u>(178)</u>	<u>(33)</u>	<u>(211)</u>
At 31 December 2019	<u>1,056</u>	<u>3,967</u>	<u>5,023</u>

	Software RMB'000	Non-patented technology RMB'000	Total RMB'000
At 31 December 2019:			
Cost	3,092	4,000	7,092
Accumulated amortisation	(2,036)	(33)	(2,069)
	<u>1,056</u>	<u>3,967</u>	<u>5,023</u>
Year ended 31 December 2020			
Cost at 1 January 2020, net of accumulated amortisation	1,056	3,967	5,023
Additions	5	–	5
Amortisation provided during the year	(188)	(400)	(588)
	<u>873</u>	<u>3,567</u>	<u>4,440</u>
At 31 December 2020			
Cost	3,097	4,000	7,097
Accumulated amortisation	(2,224)	(433)	(2,657)
	<u>873</u>	<u>3,567</u>	<u>4,440</u>
At 31 December 2020:			
Cost	3,097	4,000	7,097
Accumulated amortisation	(2,224)	(433)	(2,657)
	<u>873</u>	<u>3,567</u>	<u>4,440</u>
Period ended 30 June 2021			
Cost at 1 January 2021, net of accumulated amortisation	873	3,567	4,440
Additions	272	–	272
Amortisation provided during the period	(91)	(200)	(291)
Exchange realignment	(1)	–	(1)
	<u>1,053</u>	<u>3,367</u>	<u>4,420</u>
At 30 June 2021			
Cost	3,360	4,000	7,360
Accumulated amortisation	(2,306)	(633)	(2,939)
Exchange realignment	(1)	–	(1)
	<u>1,053</u>	<u>3,367</u>	<u>4,420</u>
At 30 June 2021:			
Cost	3,360	4,000	7,360
Accumulated amortisation	(2,306)	(633)	(2,939)
Exchange realignment	(1)	–	(1)
	<u>1,053</u>	<u>3,367</u>	<u>4,420</u>
Net carrying amount	<u>1,053</u>	<u>3,367</u>	<u>4,420</u>

Company	Software <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2018		
At 1 January 2018:		
Cost	1,463	1,463
Accumulated amortisation	(298)	(298)
	<u>1,165</u>	<u>1,165</u>
Net carrying amount	1,165	1,165
Cost at 1 January 2018, net of accumulated amortisation		
Additions	1,165	1,165
Amortisation provided during the year	52	52
	<u>(156)</u>	<u>(156)</u>
At 31 December 2018	1,061	1,061
At 31 December 2018:		
Cost	1,515	1,515
Accumulated amortisation	(454)	(454)
	<u>1,061</u>	<u>1,061</u>
Net carrying amount	1,061	1,061
Year ended 31 December 2019		
Cost at 1 January 2019, net of accumulated amortisation		
Additions	1,061	1,061
Amortisation provided during the year	137	137
	<u>(163)</u>	<u>(163)</u>
At 31 December 2019	1,035	1,035
At 31 December 2019:		
Cost	1,652	1,652
Accumulated amortisation	(617)	(617)
	<u>1,035</u>	<u>1,035</u>
Net carrying amount	1,035	1,035
Year ended 31 December 2020		
Cost at 1 January 2020, net of accumulated amortisation		
Additions	1,035	1,035
Amortisation provided during the year	-	-
	<u>(175)</u>	<u>(175)</u>
At 31 December 2020	860	860
At 31 December 2020:		
Cost	1,652	1,652
Accumulated amortisation	(792)	(792)
	<u>860</u>	<u>860</u>
Net carrying amount	860	860
Period ended 30 June 2021		
Cost at 1 January 2021, net of accumulated amortisation		
Additions	860	860
Amortisation provided during the period	272	272
	<u>(88)</u>	<u>(88)</u>
At 30 June 2021	1,044	1,044
At 30 June 2021:		
Cost	1,924	1,924
Accumulated amortisation	(880)	(880)
	<u>1,044</u>	<u>1,044</u>
Net carrying amount	1,044	1,044

20. INVESTMENTS IN ASSOCIATES

Group

	31 December 2018 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>	30 June 2021 <i>RMB'000</i>
Share of net assets	10,158	12,511	10,772	8,501
	<u>10,158</u>	<u>12,511</u>	<u>10,772</u>	<u>8,501</u>

Particulars of the associates are as follows, which are not material to the Group:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Sichuan Jiangtong Rare Earth Magnetic Material Co., Ltd.	Ordinary shares	Sichuan Province	40%	Mining and processing
Ganzhou Poly-Max Magnetics Co., Ltd. (<i>Note</i>)	Ordinary shares	Jiangxi Province	15%	Research and development of new materials

Note: The percentage of ownership interest of Ganzhou Poly-Max Magnetics Co., Ltd. ("Poly-Max") attributable to the Group is 15%. Pursuant to the articles of association of Poly-Max, the Group is entitled to delegate a director in the board of directors. The Group exercises and accounts for Poly-Max as an associate under the equity accounting method.

The following table illustrates the summarized financial information in respect of the Company's associates, Sichuan Jiangtong Rare Earth Magnetic Material Co., Ltd. ("Jiangtong Cicai") and Ganzhou Poly-Max Magnetics Co., Ltd. ("Poly-Max"), adjusted for any differences in accounting policies and reconciled to the carrying amount in the Historical Financial Information:

31 December 2018

	Jiangtong Cicai <i>RMB'000</i>
Current assets	22,741
Non-current assets	25,286
Current liabilities	(16,685)
Non-current liabilities	(5,946)
Net assets	25,396
Proportion of the Group's ownership	40%
Group's share of net assets	10,158
Revenue	20,637
Loss for the year	(7,309)
Total comprehensive loss for the year	(7,309)
Group's share of loss for the year	(2,924)

31 December 2019

	Jiangtong Cicai <i>RMB'000</i>	Poly-Max <i>RMB'000</i>
Current assets	28,642	8,190
Non-current assets	21,326	16,151
Current liabilities	(18,980)	(5,344)
Non-current liabilities	(6,834)	–
Net assets	24,154	18,997
Proportion of the Group's ownership	40%	15%
Group's share of net assets	9,661	2,850
Revenue	24,763	13,294
Loss for the year	(1,241)	(1,003)
Total comprehensive loss for the year	(1,241)	(1,003)
Group's share of loss for the year	(497)	(150)

31 December 2020

	Jiangtong Cicai <i>RMB'000</i>	Poly-Max <i>RMB'000</i>
Current assets	21,777	12,617
Non-current assets	18,624	15,146
Current liabilities	(14,271)	(9,995)
Non-current liabilities	(5,862)	–
Net assets	20,268	17,768
Proportion of the Group's ownership	40%	15%
Group's share of net assets	8,107	2,665
Revenue	5,789	16,771
Loss for the year	(3,886)	(1,230)
Total comprehensive loss for the year	(3,886)	(1,230)
Group's share of loss for the year	(1,554)	(185)

30 June 2021

	Jiangtong Cicai <i>RMB'000</i>	Poly-Max <i>RMB'000</i>
Current assets	19,772	23,226
Non-current assets	13,708	14,363
Current liabilities	(14,458)	(18,174)
Non-current liabilities	(5,051)	–
Net assets	13,971	19,415
Proportion of the Group's ownership	40%	15%
Group's share of net assets	5,589	2,912
Revenue	54	15,974
(Loss)/profit for the period	(6,297)	1,649
Total comprehensive (loss)/profit for the period	(6,297)	1,649
Group's share of (loss)/profit for the period	(2,518)	247

Company

	31 December 2018 RMB'000	31 December 2019 RMB'000	31 December 2020 RMB'000	30 June 2021 RMB'000
Share of net assets	10,158	9,662	8,107	5,589
	<u>10,158</u>	<u>9,662</u>	<u>8,107</u>	<u>5,589</u>

Particulars of the associates are as follows, which are not material to the Company:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Company	Principal activities
Sichuan Jiangtong Rare Earth Magnetic Material Co., Ltd	Ordinary shares	Sichuan Province	40%	Mining and processing

21. DEFERRED TAX

Group

The components of deferred tax of the Group are as follows:

Deferred tax liabilities	Depreciation allowance in excess of related depreciation RMB'000	Right-of-use assets RMB'000	Deferred tax liabilities RMB'000
At 1 January 2018	–	–	–
Deferred tax charged to profit or loss during the year	7,652	144	7,796
At 31 December 2018	<u>7,652</u>	<u>144</u>	<u>7,796</u>
Deferred tax charged/(credited) to profit or loss during the year	9,424	(32)	9,392
At 31 December 2019	<u>17,076</u>	<u>112</u>	<u>17,188</u>
Deferred tax charged/(credited) to profit or loss during the year	13,621	(15)	13,606
At 31 December 2020	<u>30,697</u>	<u>97</u>	<u>30,794</u>
Deferred tax charged/(credited) to profit or loss during the period	3,470	(27)	3,443
At 30 June 2021	<u>34,167</u>	<u>70</u>	<u>34,237</u>

Deferred tax assets	Deferred income RMB'000	Impairment of financial assets RMB'000	Impairment of inventories RMB'000	Payroll RMB'000	Prepaid interest RMB'000	Lease liabilities RMB'000	Share Incentive Plan RMB'000	Deferred tax assets RMB'000
At 1 January 2018	5,972	778	420	180	-	-	-	7,350
Deferred tax credited/(charged) to profit or loss during the year	(412)	184	(90)	(180)	-	139	-	(359)
At 31 December 2018	<u>5,560</u>	<u>962</u>	<u>330</u>	<u>-</u>	<u>-</u>	<u>139</u>	<u>-</u>	<u>6,991</u>
Deferred tax credited/(charged) to profit or loss during the year	(224)	1,042	121	-	44	(54)	-	929
At 31 December 2019	<u>5,336</u>	<u>2,004</u>	<u>451</u>	<u>-</u>	<u>44</u>	<u>85</u>	<u>-</u>	<u>7,920</u>
Deferred tax credited/(charged) to profit or loss during the year	3,369	1,052	-	-	65	(30)	5,628	10,084
At 31 December 2020	<u>8,705</u>	<u>3,056</u>	<u>451</u>	<u>-</u>	<u>109</u>	<u>55</u>	<u>5,628</u>	<u>18,004</u>
Deferred tax credited/(charged) to profit or loss during the period	(225)	(111)	(27)	-	323	(12)	6,818	6,766
At 30 June 2021	<u>8,480</u>	<u>2,945</u>	<u>424</u>	<u>-</u>	<u>432</u>	<u>43</u>	<u>12,446</u>	<u>24,770</u>

For presentation purposes, certain deferred tax assets and liabilities have been offset in the Historical Financial Information. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	31 December 2018 RMB'000	31 December 2019 RMB'000	31 December 2020 RMB'000	30 June 2021 RMB'000
Net deferred tax liabilities	805	9,268	12,790	9,467

Deferred tax assets have not been recognised in respect of the following items:

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Six months ended 30 June 2020 RMB'000 (unaudited)	Six months ended 30 June 2021 RMB'000
Tax losses	42,224	56,365	75,447	62,976	84,112
Deductible temporary differences	589	542	482	1,055	3,141
	<u>42,813</u>	<u>56,907</u>	<u>75,929</u>	<u>64,031</u>	<u>87,253</u>

The above tax losses are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

Company

The components of deferred tax of the Company are as follows:

Deferred tax liabilities	Depreciation allowance in excess of related depreciation <i>RMB'000</i>	Right-of-use assets <i>RMB'000</i>	Deferred tax liabilities <i>RMB'000</i>
At 1 January 2018	–	–	–
Deferred tax charged to profit or loss during the year	7,653	144	7,797
At 31 December 2018	<u>7,653</u>	<u>144</u>	<u>7,797</u>
Deferred tax charged/(credited) to profit or loss during the year	9,424	(32)	9,392
At 31 December 2019	<u>17,077</u>	<u>112</u>	<u>17,189</u>
Deferred tax charged/(credited) to profit or loss during the year	13,621	(15)	13,606
At 31 December 2020	<u>30,698</u>	<u>97</u>	<u>30,795</u>
Deferred tax charged/(credited) to profit or loss during the period	3,468	(27)	3,441
At 30 June 2021	<u>34,166</u>	<u>70</u>	<u>34,236</u>

Deferred tax assets	Deferred income <i>RMB'000</i>	Impairment of financial assets <i>RMB'000</i>	Impairment of inventories <i>RMB'000</i>	Impairment of investments in subsidiaries <i>RMB'000</i>	Payroll <i>RMB'000</i>	Prepaid interest <i>RMB'000</i>	Lease liabilities <i>RMB'000</i>	Share Incentive Plan <i>RMB'000</i>	Deferred tax assets <i>RMB'000</i>
At 1 January 2018	5,972	669	420	2,225	180	–	–	–	9,466
Deferred tax credited/(charged) to profit or loss during the year	(411)	340	(90)	–	(180)	–	139	–	(202)
At 31 December 2018	<u>5,561</u>	<u>1,009</u>	<u>330</u>	<u>2,225</u>	<u>–</u>	<u>–</u>	<u>139</u>	<u>–</u>	<u>9,264</u>
Deferred tax credited/(charged) to profit or loss during the year	(225)	1,166	122	–	–	44	(53)	–	1,054
At 31 December 2019	<u>5,336</u>	<u>2,175</u>	<u>452</u>	<u>2,225</u>	<u>–</u>	<u>44</u>	<u>86</u>	<u>–</u>	<u>10,318</u>
Deferred tax credited/(charged) to profit or loss during the year	3,368	1,362	–	–	–	65	(30)	5,628	10,393
At 31 December 2020	<u>8,704</u>	<u>3,537</u>	<u>452</u>	<u>2,225</u>	<u>–</u>	<u>109</u>	<u>56</u>	<u>5,628</u>	<u>20,711</u>
Deferred tax credited/(charged) to profit or loss during the period	(226)	(18)	(27)	–	–	323	(12)	6,818	6,858
At 30 June 2021	<u>8,478</u>	<u>3,519</u>	<u>425</u>	<u>2,225</u>	<u>–</u>	<u>432</u>	<u>44</u>	<u>12,446</u>	<u>27,569</u>

For presentation purposes, certain deferred tax assets and liabilities have been offset in the Historical Financial Information. The following is an analysis of the deferred tax balances of the Company for financial reporting purposes:

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deferred tax assets	1,467	–	–	–
Deferred tax liabilities	–	6,871	10,084	6,667
22. OTHER NON-CURRENT ASSETS				
Group				
	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Advance payment for engineering equipment	44,477	56,119	87,043	120,372
Long-term prepaid expenses	9,788	15,762	16,698	16,586
	<u>54,265</u>	<u>71,881</u>	<u>103,741</u>	<u>136,958</u>
Company				
	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Advance payment for engineering equipment	38,530	57,389	44,909	62,750
Long-term prepaid expenses	8,813	13,820	15,207	14,364
	<u>47,343</u>	<u>71,209</u>	<u>60,116</u>	<u>77,114</u>
23. INVENTORIES				
Group				
	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	225,291	226,858	313,961	354,349
Work in progress	130,155	114,047	112,919	171,516
Finished goods	244,897	299,415	501,119	584,230
	<u>600,343</u>	<u>640,320</u>	<u>927,999</u>	<u>1,110,095</u>
Less: Impairment provision				
Work in progress	(362)	(113)	(945)	(917)
Finished goods	(1,835)	(2,896)	(2,067)	(1,919)
	<u>(2,197)</u>	<u>(3,009)</u>	<u>(3,012)</u>	<u>(2,836)</u>
	<u>598,146</u>	<u>637,311</u>	<u>924,987</u>	<u>1,107,259</u>

Company

	31 December 2018 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>	30 June 2021 <i>RMB'000</i>
Raw materials	224,249	220,958	310,198	350,263
Work in progress	129,854	97,893	112,640	171,237
Finished goods	239,970	312,190	495,001	578,636
	<u>594,073</u>	<u>631,041</u>	<u>917,839</u>	<u>1,100,136</u>
Less: Impairment provision				
Work in progress	(362)	(113)	(945)	(917)
Finished goods	(1,835)	(2,896)	(2,067)	(1,919)
	<u>(2,197)</u>	<u>(3,009)</u>	<u>(3,012)</u>	<u>(2,836)</u>
	<u>591,876</u>	<u>628,032</u>	<u>914,827</u>	<u>1,097,300</u>

24. TRADE RECEIVABLES

Group

	31 December 2018 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>	30 June 2021 <i>RMB'000</i>
Trade receivables	374,939	717,787	762,221	1,184,231
Impairment	(5,053)	(13,014)	(19,154)	(18,093)
	<u>369,886</u>	<u>704,773</u>	<u>743,067</u>	<u>1,166,138</u>

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally two months, extending up to three months for major customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified 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 receivables are non-interest-bearing.

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

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Less than 1 year	359,610	698,415	742,130	1,166,117
1 to 2 years	9,980	1,127	388	–
2 to 3 years	296	5,231	549	21
	<u>369,886</u>	<u>704,773</u>	<u>743,067</u>	<u>1,166,138</u>

The movements in the loss allowance for impairment of trade receivables are as follows:

	Year ended 31 December 2018	Year ended 31 December 2019	Year ended 31 December 2020	Six months ended 30 June 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the Relevant Periods	3,728	5,053	13,014	19,154
Impairment provided/(reversed)	<u>1,325</u>	<u>7,961</u>	<u>6,140</u>	<u>(1,061)</u>
At end of the Relevant Periods	<u>5,053</u>	<u>13,014</u>	<u>19,154</u>	<u>18,093</u>

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

	Less than 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Expected credit loss rate	1.00%	10.00%	50.00%	100.00%	1.35%
Gross carrying amount	363,243	11,088	592	16	374,939
Expected credit losses	3,632	1,109	296	16	5,053

As at 31 December 2019

	Less than 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Expected credit loss rate	1.00%	10.00%	50.00%	100.00%	1.81%
Gross carrying amount	705,470	1,252	10,462	603	717,787
Expected credit losses	7,055	125	5,231	603	13,014

As at 31 December 2020

	Less than 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Expected credit loss rate	1.00%	10.00%	50.00%	100.00%	2.51%
Gross carrying amount	749,627	431	1,098	11,065	762,221
Expected credit losses	7,497	43	549	11,065	19,154

As at 30 June 2021

	Less than 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Expected credit loss rate	1.00%	10.00%	50.00%	100.00%	1.53%
Gross carrying amount	1,178,021	–	41	6,169	1,184,231
Expected credit losses	11,903	–	21	6,169	18,093

An impairment analysis was performed at the end of each of the Relevant Periods, using a provision matrix to measure expected credit losses. The provision rates were initially based on the Group's historical observed default rates for groupings of various customer segments with similar loss patterns (i.e., by customer type and rating). The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. The calculation reflects the probability-weighted outcome, reasonable and supportable information that is available at the end of each of the Relevant Periods about past events, current conditions and forecasts of future economic conditions.

As at the end of each of the Relevant Periods, the Group assessed the historical observed default rates and the forward-looking estimates, respectively. Based on the aging analysis and the turnover rates analysis, the historical observed default rates were not materially changed during the Relevant Periods. Based on the current economic conditions as well as reasonable and supportable forecasts of future economic conditions, including the industry and the credit rating of the customers, the forward-looking estimates were consistent during the Relevant Periods. According to the above assessment, the expected credit loss rates were the same during the Relevant Periods.

Company

	31 December 2018 RMB'000	31 December 2019 RMB'000	31 December 2020 RMB'000	30 June 2021 RMB'000
Trade receivables	395,628	741,065	784,148	1,211,646
Impairment	(5,260)	(13,246)	(19,373)	(18,244)
	<u>390,368</u>	<u>727,819</u>	<u>764,775</u>	<u>1,193,402</u>

The movements in the loss allowance for impairment of trade receivables are as follows:

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Six months ended 30 June 2021 RMB'000
At beginning of the Relevant Periods	3,861	5,260	13,246	19,373
Impairment provided/(reversed)	<u>1,399</u>	<u>7,986</u>	<u>6,127</u>	<u>(1,129)</u>
At end of the Relevant Periods	<u>5,260</u>	<u>13,246</u>	<u>19,373</u>	<u>18,244</u>

25. NOTES RECEIVABLES

Group

	31 December 2018 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>	30 June 2021 <i>RMB'000</i>
Notes receivables at amortised cost				
Commercial acceptance notes	123,672	57,157	119,769	158,384
Less: Impairment	(523)	(196)	(1,198)	(1,584)
	<u>123,149</u>	<u>56,961</u>	<u>118,571</u>	<u>156,800</u>
Notes receivables at fair value through OCI				
Bank acceptance notes	<u>101,736</u>	<u>116,282</u>	<u>127,167</u>	<u>25,865</u>

Notes receivables of the Group are bank acceptance notes and commercial acceptance notes. Notes receivables of the Group are usually settled within six months from their respective dates of issuance. Impairment was recognised on commercial acceptance notes as at 31 December 2018, 2019, 2020 and 30 June 2021, respectively. The Group's bank acceptance notes are classified as financial assets measured at fair value through other comprehensive income.

Transferred financial assets that are not derecognised in their entirety:

The Group discounted certain commercial acceptance notes with an aggregate amount of RMB71,381,000, RMB38,795,000, RMB60,970,000 and RMB97,122,000 as at 31 December 2018, 2019, 2020 and 30 June 2021, respectively. The Group has retained the substantial risks and rewards, which include default risks relating to such discounted notes, and accordingly, the full carrying amounts of the discounted notes and the associated interest-bearing bank borrowings are continued to be recognised. None of the discounted notes settled during the Relevant Periods have been recourse as at the end of the Relevant Periods.

Transferred financial assets that are derecognised in their entirety:

The Group endorsed certain notes receivables accepted by banks in Mainland China to certain of its suppliers in order to settle the trade payables due to such suppliers with aggregate carrying amounts of RMB80,605,000, RMB85,941,000, RMB208,655,000 and RMB253,179,000 as at 31 December 2018, 2019, 2020 and 30 June 2021, respectively, and discounted certain bank acceptance notes to banks with an aggregate amount of RMB132,307,000, RMB214,921,000, RMB209,909,000 and RMB364,473,000 as at 31 December 2018, 2019, 2020 and 30 June 2021, respectively. The derecognised notes have a maturity from one to six months at the end of each of the Relevant Periods. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the derecognised notes have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the Directors, the Group has transferred substantially all risks and rewards relating to the derecognised notes. Accordingly, it has derecognised the full carrying amounts of the derecognised notes and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the derecognised notes and the undiscounted cash flows to repurchase these derecognised notes is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the derecognised notes are not significant.

For the Relevant Periods, the Group has not recognised any gain or loss on the dates of transfer of the derecognised notes. No gains or losses were recognised from the Continuing Involvement during the Relevant Periods, or cumulatively.

Company

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Notes receivables at amortised cost				
Commercial acceptance notes	123,672	57,157	119,769	158,384
Less: Impairment	(523)	(196)	(1,198)	(1,584)
	<u>123,149</u>	<u>56,961</u>	<u>118,571</u>	<u>156,800</u>
Notes receivables at fair value through OCI				
Bank acceptance notes	<u>101,536</u>	<u>116,282</u>	<u>127,167</u>	<u>25,865</u>

26. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS**Group**

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments	3,865	9,583	56,706	24,568
Deposits and other receivables	3,567	2,146	15,223	13,178
Including:				
– Prepaid capitalised transaction cost related to A share issuance in January 2021	–	–	2,023	–
Due from a related party	–	122	–	–
Interest receivables	143	313	311	161
Less: impairment of other receivables	(1,424)	(689)	(500)	(1,496)
	<u>6,151</u>	<u>11,475</u>	<u>71,740</u>	<u>36,411</u>

(a) An ageing analysis of the prepayments as at the end of each of the Relevant Periods is as follows:

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Less than 1 year	3,736	9,518	56,575	23,931
1 to 2 years	129	53	104	507
2 to 3 years	–	12	24	104
Over 3 years	–	–	3	26
	<u>3,865</u>	<u>9,583</u>	<u>56,706</u>	<u>24,568</u>

(b) Deposits and other receivables

Deposits and other receivables mainly represent receivables from employees, deposit in relation to the guarantee of investments in Ningbo and the prepaid capitalised transaction cost related to issuance of A shares to the specified shareholders in January 2021.

An ageing analysis of the deposits and other receivables as at the end of each of the Relevant Periods is as follow:

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Less than 1 year	1,134	1,241	14,337	1,359
1 to 2 years	857	255	568	11,425
2 to 3 years	496	–	37	111
Over 3 years	1,080	650	281	283
	<u>3,567</u>	<u>2,146</u>	<u>15,223</u>	<u>13,178</u>

(c) Receivables due from a related party are trade in nature, representing the receivables related to other income and gains.

(d) The movements in the loss allowance for impairment of other receivables are as follows:

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the Relevant Periods	1,443	1,424	689	500
Impairment (reversed)/provided	(19)	(306)	(189)	996
Amount written off as uncollectible	–	(429)	–	–
	<u>1,424</u>	<u>689</u>	<u>500</u>	<u>1,496</u>

Company

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments	3,348	19,619	64,263	30,424
Deposits and other receivables	6,048	10,505	13,837	117,515
Interest receivables	143	569	312	900
Less: Impairment of other receivables	<i>(a)</i> (940)	(1,056)	(3,010)	(3,630)
	<u>8,599</u>	<u>29,637</u>	<u>75,402</u>	<u>145,209</u>

- (a) The movements in the loss allowance for impairment of other receivables are as follows:

	31 December 2018 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>	30 June 2021 <i>RMB'000</i>
At beginning of the Relevant Periods	598	940	1,056	3,010
Impairment provided	342	545	1,954	620
Amount written off as uncollectible	–	(429)	–	–
	<u>940</u>	<u>1,056</u>	<u>3,010</u>	<u>3,630</u>

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**Group and Company**

	31 December 2018 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>	30 June 2021 <i>RMB'000</i>
Derivative financial instruments	744	1,932	2,654	6,824
	<u>744</u>	<u>1,932</u>	<u>2,654</u>	<u>6,824</u>

- (i) The Group has entered into forward foreign exchange contracts to manage its exposure to foreign currency risk, without any speculation purpose, and hedge accounting was not adopted for this kind of transaction.

28. CASH AND CASH EQUIVALENTS, AND RESTRICTED CASH**Group**

	31 December 2018 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>	30 June 2021 <i>RMB'000</i>
Cash and bank balances	462,814	778,516	756,435	1,166,050
Less: Restricted cash	(66,128)	(134,211)	(163,423)	(110,837)
Cash and cash equivalents	<u>396,686</u>	<u>644,305</u>	<u>593,012</u>	<u>1,055,213</u>
Denominated in:				
RMB	439,496	736,014	680,807	1,088,509
EUR	7,130	9,808	27,186	42,153
USD	14,224	30,636	46,281	34,169
JPY	1,783	1,916	2,059	1,168
HKD	171	142	102	51
CAD	10	–	–	–
Total	<u>462,814</u>	<u>778,516</u>	<u>756,435</u>	<u>1,166,050</u>

As at 31 December 2018, 2019 and 2020, and 30 June 2021, the Group's bank balances of approximately RMB66,128,000, RMB134,211,000, RMB163,423,000, and RMB110,837,000 were deposited as a guarantee for the following bank acceptance notes, performance bonds, forward foreign exchange contracts, letters of credit, respectively:

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Guarantee deposits for bank acceptance notes	42,748	90,757	121,390	88,020
Guarantee deposits for performance bonds	–	–	7,864	7,864
Guarantee deposits for forward foreign exchange contracts	3,380	17,346	14,169	14,953
Guarantee deposits for letters of credit	–	6,108	–	–
Frozen deposits (<i>Note</i>)	20,000	20,000	20,000	–
	<u>66,128</u>	<u>134,211</u>	<u>163,423</u>	<u>110,837</u>

Note: On 20 August 2018, a third-party customer filed a litigation preservation application with People's Court of Haicheng District, Beihai City, Guangxi Zhuang Autonomous Region (the "Court") on the dispute over the sale and purchase agreement entered into with the Company. On 11 September 2018, the Court resolved to freeze the Company's bank deposits of RMB20,000,000. On 5 January 2021, the Company paid RMB22,054,000 (note 32) according to the settlement agreement entered into with the third party customer; and the frozen deposit was released accordingly.

RMB is not freely convertible into other currencies, however, under Mainland China'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. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

Company

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash and bank balances	449,247	752,187	711,054	1,066,399
Less: Restricted cash	66,128	133,387	148,069	62,646
	<u>383,119</u>	<u>618,800</u>	<u>562,985</u>	<u>1,003,753</u>

29. OTHER CURRENT ASSETS

Group

	31 December 2018 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>	30 June 2021 <i>RMB'000</i>
Deductible input value added tax recoverable	41,962	6,637	14,310	9,194
Others	1,452	594	852	674
Total	<u>43,414</u>	<u>7,231</u>	<u>15,162</u>	<u>9,868</u>

Company

	31 December 2018 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>	30 June 2021 <i>RMB'000</i>
Deductible input value added tax recoverable	40,412	4,140	12,726	–
Total	<u>40,412</u>	<u>4,140</u>	<u>12,726</u>	<u>–</u>

30. TRADE AND NOTES PAYABLES

Group

	31 December 2018 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>	30 June 2021 <i>RMB'000</i>
Trade payables	236,040	241,621	363,573	510,730
Notes payables	85,495	172,934	257,753	146,561
	<u>321,535</u>	<u>414,555</u>	<u>621,326</u>	<u>657,291</u>

An ageing analysis of the trade and notes payables as at the end of each of the Relevant Periods is as follows:

	31 December 2018 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>	30 June 2021 <i>RMB'000</i>
Less than 1 year	318,710	413,900	620,984	656,879
1 to 2 years	910	408	133	75
2 to 3 years	950	130	113	128
Over 3 years	965	117	96	209
	<u>321,535</u>	<u>414,555</u>	<u>621,326</u>	<u>657,291</u>

Company	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	231,078	235,626	364,990	510,801
Notes payables	85,495	172,110	242,399	98,370
	<u>316,573</u>	<u>407,736</u>	<u>607,389</u>	<u>609,171</u>

31. CONTRACT LIABILITIES**Group**

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Short-term advances received from customers				
Sale of goods	13,645	5,556	18,045	19,787
	<u>13,645</u>	<u>5,556</u>	<u>18,045</u>	<u>19,787</u>

Company

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Short-term advances received from customers				
Sale of goods	4,412	1,225	2,314	5,987
	<u>4,412</u>	<u>1,225</u>	<u>2,314</u>	<u>5,987</u>

Contract liabilities include short-term advances received to deliver NdFeB magnet materials. The increase in contract liabilities in year ended 31 December 2020 and six months ended 30 June 2021 was mainly due to the increase in short-term advances received from customers in relation to deliver NdFeB magnet materials at the end of the year/period. The decrease in contract liabilities in year ended 31 December 2019 was mainly due to the revenue was recognized when the control of NdFeB magnet materials was transferred to the customers.

32. OTHER PAYABLES AND ACCRUALS**Group**

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Dividend payables	18	6	6	6
Other payables (a)	40,064	34,401	102,079	97,730
Salaries, wages and benefits payables	24,707	28,480	39,300	54,016
Taxes other than income tax payables	3,771	2,123	5,137	7,268
	<u>68,560</u>	<u>65,010</u>	<u>146,522</u>	<u>159,020</u>

(a) Other payables

	31 December 2018 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>	30 June 2021 <i>RMB'000</i>
Payables to equipment vendors	13,427	6,873	10,233	31,244
Security deposit	495	2,212	10,180	3,523
Reimbursement payables due to employees	328	870	591	193
Audit fees	1,000	1,028	1,615	3,593
Obligation for share repurchase (note 37)	–	–	54,949	54,949
Others (Note (i))	24,814	23,418	24,511	4,228
	<u>40,064</u>	<u>34,401</u>	<u>102,079</u>	<u>97,730</u>

An ageing analysis of other payables as at the end of each of the Relevant Periods is as follows:

	31 December 2018 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>	30 June 2021 <i>RMB'000</i>
Less than 1 year	14,434	9,568	76,956	35,268
1 to 2 years	2,921	1,466	1,380	60,704
2 to 3 years	273	1,173	855	1,374
Over 3 years	22,436	22,194	22,888	384
	<u>40,064</u>	<u>34,401</u>	<u>102,079</u>	<u>97,730</u>

Note:

- (i) The major component of “Others” relates to the payables due to a third-party customer, amounting to RMB22,054,000, which was settled and paid in the six months ended 30 June 2021. In July 2018, the third-party customer brought lawsuit against the Company claiming for a refund of prepayments it made to the Company in relation to such purchase agreement. In August 2018, the third-party customer filed a litigation preservation application with relevant court. On 11 September 2018, the court resolved to freeze the Company’s bank deposits of RMB20,000,000 (note 28). In December 2020, the court made a final judgment which ruled the Company to refund the prepayment of approximately RMB22,054,000 to the third-party customer.

Company

	31 December 2018 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>	30 June 2021 <i>RMB'000</i>
Dividend payables	18	6	6	6
Other payables	39,870	34,243	101,893	71,486
Salaries, wages and benefits payables	23,184	26,084	36,572	50,844
Taxes other than income tax payables	1,464	1,255	1,410	3,486
	<u>64,536</u>	<u>61,588</u>	<u>139,881</u>	<u>125,822</u>

33. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group and Company

	31 December 2018		31 December 2019		31 December 2020		30 June 2021	
	Effective interest rate (%)	Maturity RMB'000	Effective interest rate (%)	Maturity RMB'000	Effective interest rate (%)	Maturity RMB'000	Effective interest rate (%)	Maturity RMB'000
Current								
Bank loans – credit	4.35-5.22	2019 358,071	4.35-5.17	2020 298,669	3.35-4.35	2021 178,049	3.35-4.10	2021-2022.2 524,383
Current portion of long-term bank loans – credit	4.75-5.70	2019 90,120	4.75	2020 5,700	4.75	2021 200,000	2.92-4.75	2021-2022.3 366,208
Current portion of long-term bank loans – secured	–	–	–	–	–	–	2.70	2022.6 100,000
Current portion of long-term bank loans – mortgage	4.75-6.95	2019 1,320	4.75-6.95	2020 63,540	–	2021 –	–	2021 –
Letters of credit	–	–	–	2020 61,085	–	2021 27,614	–	2021 9,619
Commercial acceptance notes	4.05-4.20	2019 71,381	2.75-3.76	2020 38,795	2.90-3.45	2021 60,970	3.15-3.35	2021 97,122
		<u>520,892</u>		<u>467,789</u>		<u>466,633</u>		<u>1,097,332</u>
Non – current								
Bank loans – credit	4.75	2020 5,700	4.75	2021 200,000	2.92-4.35	2022 167,208	3.85	2022.9 23,126
Bank loans – secured	–	–	–	–	2.70	2022 100,000	0.00	–
Bank loans – mortgage	4.75-6.95	2020 63,540	–	–	–	–	3.85	2023.6 100,000
Convertible bonds	–	2019.11.1-2025.10.31	–	2019.11.1-2025.10.31	–	2019.11.1-2025.10.31	0.00	2019.11.1-2025.10.31 353,441
		<u>69,240</u>		<u>522,027</u>		<u>610,780</u>		<u>476,567</u>

- (a) The mortgage loans due to Ganzhou Bank Co., Ltd. Development Zone Sub-branch are secured by machinery and equipment, land and factory buildings.
- (i) The amounts of mortgages over the Group's land-use right and factory buildings, which had a net carrying value at the end of 2018 was of approximately RMB30,434,000 and RMB65,908,000; the amounts of mortgages over the Group's machinery and equipment, which had a net carrying value at the end of 2018 was of approximately RMB61,372,000.
- (ii) The amounts of mortgages over the Group's land-use right and factory buildings, which had a net carrying value at the end of 2019 was of approximately RMB29,690,000 and RMB64,325,000; the amounts of mortgages over the Group's machinery and equipment, which had a net carrying value at the end of 2019 was of approximately RMB45,404,000.
- (iii) The amounts of mortgages over the Group's factory buildings, which had a net carrying value at the end of the six months ended 30 June 2021 was of approximately RMB136,437,000.
- (b) The secured loans due to The Export-Import Bank of China Jiangxi Branch are guaranteed by Ganzhou Jinshengyuan Financial Guarantee Group Co., Ltd.
- (c) All the interest-bearing bank borrowings are denominated in RMB.
- (d) As disclosed in note 25, the Group discounted certain commercial acceptance notes with an aggregate amount of RMB71,381,000, RMB38,795,000, RMB60,970,000 and RMB97,122,000 as at as at 31 December 2018, 2019, 2020 and 30 June 2021, respectively. The Group has retained the substantial risks and rewards, which include default risks relating to such discounted notes, and accordingly, the full carrying amounts of the discounted notes and the associated interest-bearing bank borrowings to be recognised. None of the discounted notes settled during the Relevant Periods have been recourse as at the end of the Relevant Periods.

Details of the Group's assets pledged for the Group's bank loans and overdrafts, and for a bank loan granted to a major supplier are included in notes 17, 18 and 28, respectively, to the Historical Financial Information.

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Analysed into:				
Bank loans:				
Within one year or on demand	449,511	428,994	405,663	1,000,210
In the second year	69,240	200,000	267,208	123,126
Total	<u>518,751</u>	<u>628,994</u>	<u>672,871</u>	<u>1,123,336</u>
	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Analysed into:				
Convertible bonds:				
In the fourth to fifth years, inclusive	–	–	343,572	353,441
Beyond five years	–	322,027	–	–
Total	<u>–</u>	<u>322,027</u>	<u>343,572</u>	<u>353,441</u>

34. CONVERTIBLE BONDS**Group and Company**

On 1 November 2019, the Company issued 4,350,000 convertible bonds with a nominal value of RMB435,000,000 and a maturity of six years. The convertible bond conversion period starts from the first trading day of the sixth month after the end of the issuance of the convertible bond. The initial conversion price of the convertible bonds is RMB41.20 per share. The conversion price will be adjusted accordingly upon issuance of bonus shares and new shares (excluding the increase in share capital due to the conversion of convertible bonds), conversion of share capital, distribution of allotment and cash dividends, respectively. The interest of the issued convertible bonds will be calculated according to coupon rate of 0.4% in the first year, 1.0% in the second year, 1.5% in the third year, 2.0% in the fourth year, 3.0% in the fifth year and 4.0% in the sixth year, and the principal will be returned at maturity and the interest of the last year will be paid.

In May 2020, the convertible bonds were converted from bonds to shares for the first time. A total of 4,518 bonds were converted in 2020, and a total of 2,124 bonds were converted from January 2021 to June 2021.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

The convertible bonds issued during the Relevant Periods have been split into the liability and equity components as follows:

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Nominal value of convertible bonds issued during the Relevant Periods	–	435,000	429,370	450,858
Equity component*	–	(109,796)	(107,343)	(107,286)
Direct transaction costs attributable to the liability component	–	(6,907)	–	–
	<u>–</u>	<u>(6,907)</u>	<u>–</u>	<u>–</u>
Liability component at 1 January	–	318,297	322,027	343,572
Interest expense	–	3,730	23,616	10,026
Interest paid	–	–	(1,740)	(1)
	<u>–</u>	<u>–</u>	<u>(1,740)</u>	<u>(1)</u>
Transfer from convertible bonds to ordinary shares	–	–	(331)	(156)
	<u>–</u>	<u>–</u>	<u>(331)</u>	<u>(156)</u>
Liability component at 31 December/30 June	<u>–</u>	<u>322,027</u>	<u>343,572</u>	<u>353,441</u>

* The equity component is recognised and included in shareholders' equity, net of the allocated transaction costs of RMB2,332,000.

35. DEFERRED INCOME**Group and Company**

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deferred government grants	37,073	35,575	58,029	58,123
	<u>37,073</u>	<u>35,575</u>	<u>58,029</u>	<u>58,123</u>

36. SHARE CAPITAL

Group and Company

	31 December 2018 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>	30 June 2021 <i>RMB'000</i>
Issued and fully paid:	413,424	413,424	415,977	690,733
	<u>413,424</u>	<u>413,424</u>	<u>415,977</u>	<u>690,733</u>

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital <i>RMB'000</i>
At 1 January 2018	371,824,188	371,824
Issue of shares	41,600,000	41,600
At 31 December 2018 and 1 January 2019	<u>413,424,188</u>	<u>413,424</u>
At 31 December 2019 and 1 January 2020	<u>413,424,188</u>	<u>413,424</u>
Issue of shares	2,541,600	2,542
Transfer from convertible bonds	10,961	11
At 31 December 2020 and 1 January 2021	<u>415,976,749</u>	<u>415,977</u>
Issue of shares	15,725,922	15,726
Transfer from convertible bonds	6,993	7
Transfer from share premium	259,022,953	259,023
At 30 June 2021	<u>690,732,617</u>	<u>690,733</u>

37. SHARE INCENTIVE PLAN

The Company operates a share incentive plan (the "SIP") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the SIP include the Company's directors and other employees of the Group. The SIP became effective on 26 August 2020 and, unless otherwise cancelled or amended, will remain in force for three years from that date.

On 26 August 2020 and 8 September 2020, the Board approved a total of 8,252,000 restricted shares (including Type I Restricted Shares* and Type Two Restricted shares*) to 221 participants to recognize their contribution and offer share incentive. Among them, 218 participants were granted 2,541,600 Type I Restricted Shares (representing 4,066,560 A shares after the increase of share capital in May 2021), 219 participants were granted 5,292,400 Type II Restricted shares (representing 8,467,840 A Shares after the increase of share capital in May 2021), and 418,000 Type II Restricted Shares (representing 666,800 A Shares after the increase of share capital in May 2021) were reserved. On 29 October 2020, the Board further approved the grant of 200,000 (representing 320,000 A Shares after the increase of share capital in May 2021) out of 418,000 reserved Type II Restricted Shares to five participants.

* The price of restricted shares (including Type I Restricted Shares and Type II Restricted Shares) is RMB21.62. Type I Restricted Shares refers to A Shares issued to the participants with certain restrictions stipulated under the SIP. On the grant date of Type I Restricted Shares, the participants of Type I Restricted Shares were entitled to receive newly issued A Shares of the Company, with certain restrictions stipulated under the SIP. Type II Restricted Shares refers to A Shares granted to the participants pursuant to which A Shares could be newly issued and subscribed for upon the satisfaction of certain vesting conditions under the SIP. The participants of Type II Restricted Shares have the right to subscribe new A Shares in the future upon the satisfaction of certain vesting conditions under the SIP. These granted restricted shares have a contractual term of no more than four years and will be unlocked

(in terms of type one restricted shares) or vested (in terms of type two restricted shares) over a three-year period. In the Relevant Periods, Type I Restricted Shares were issued and subscribed by the participants; Type II Restricted Shares were not issued to the participant upon granted, and are not recorded in the share capital.

The following Type I Restricted Shares were outstanding under the SIP during the Relevant Periods:

	Year ended 31 December 2020		Six months ended 30 June 2021	
	Exercise price <i>RMB per share</i>	Subscribed and registered '000	Exercise price <i>RMB per share</i>	Subscribed and registered '000
At 1 January	–	–	21.62	2,542
Granted during the year/period	21.62	2,542	–	–
Forfeited during the year/period	–	–	–	–
Exercised during the year/period	–	–	–	–
Expired during the year/period	–	–	–	–
At the end of the year/period	<u>21.62</u>	<u>2,542</u>	<u>21.62</u>	<u>2,542</u>

The following Type II Restricted Shares were outstanding under the SIP during the Relevant Periods:

	Year ended 31 December 2020		Six months ended 30 June 2021	
	Exercise price <i>RMB per share</i>	Number of shares '000	Exercise price <i>RMB per share</i>	Number of shares '000
At 1 January	–	–	21.62	5,492
Granted during the year/period	21.62	5,492	–	–
Forfeited during the year/period	–	–	–	–
Exercised during the year/period	–	–	–	–
Expired during the year/period	–	–	–	–
At the end of the year/period	<u>21.62</u>	<u>5,492</u>	<u>21.62</u>	<u>5,492</u>

Fair values of the share incentive plans were calculated using the following assumptions:

	<i>SIP</i>
Share price at the granting date, i.e., 26 August 2020	RMB40.00
Exercise price	RMB21.62
Expected life	3
Expected volatility	67.43%
Annual Rate of Dividends	0.54%
Risk free rate	2.60%

As at 31 December 2020, the Company received a total of RMB54,949,000 cash consideration of Type I Restricted Shares of which RMB2,542,000 and RMB52,407,000 were recorded in share capital and share premium, respectively. The Company has credited an amount of RMB54,949,000 to other payables and accruals and debited to treasury shares accordingly.

For the year ended 31 December 2020 and the six months ended 30 June 2021, the Group has recognised amount of RMB37,522,000 and RMB45,452,000 respectively, as share incentive plan expenses.

38. RESERVES

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statement of changes in equity of the Historical Financial Information.

Pursuant to the relevant laws and regulations and the articles of association of the Company, the Company is required to transfer 10% of its profit after income tax, as determined under the PRC GAAP, to the reserve fund until the reserve balance reaches 50% of its registered capital. The transfer to this reserve must be made before the distribution of dividends to equity owners. The statutory reserve can be used to make good previous years' losses, if any, and may be converted into paid-in capital/issued share capital in proportion to the existing interests of equity owners, provided that the balance after such conversion is not less than 25% of its registered capital. This reserve is non-distributable other than in liquidation.

39. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS**(a) Major non-cash transactions**

- (1) The Group had non-cash additions to right-of-use assets and lease liabilities of RMB1,653,000, RMB1,273,000 and RMB234,000 for the years ended 31 December 2018, 2019, 2020, and RMB79,000, and RMB6,798,000 for the six months ended 30 June 2020 and 2021, respectively, in respect of lease arrangements;
- (2) The Group had non-cash additions to the interest-bearing bank borrowings of RMB126,664,000, RMB143,051,000 and RMB28,183,000 for the years ended 31 December 2018, 2019 and 2020, and RMB18,564,000 and RMB58,319,000 for the six months ended 30 June 2020 and 2021, respectively, in respect of financing through letter of credit and reverse factoring arrangement.
- (3) In the year ended 31 December 2019, contribution from non-controlling shareholders was non-patented technology.

(b) Changes in liabilities arising from financing activities

	Interest- bearing bank borrowings	Lease liabilities	Other payables and accruals	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January 2018	317,905	3,665	73,525	395,095
Proceeds from loans and borrowings	307,017	–	–	307,017
Repayment of loans and borrowings	(195,630)	–	–	(195,630)
Settlement of letters of credit	(6,390)	–	–	(6,390)
Increase in discounted commercial acceptance notes	40,566	–	–	40,566
Dividends paid	–	–	(40,883)	(40,883)
Principal portion of lease payments	–	(1,193)	–	(1,193)
Interest expenses	–	(162)	(26,922)	(27,084)
	<hr/>	<hr/>	<hr/>	<hr/>
Changes from financing cash flows	145,563	(1,355)	(67,805)	76,403
Exchange realignment	–	82	–	82
New leases	–	1,653	–	1,653
Interest accrued	–	161	27,011	27,172
Changes from operating activities	–	–	4,276	4,276
Changes from investing activities	–	–	(9,348)	(9,348)
Dividends declared	–	–	40,901	40,901
Financing through letter of credit and reverse factoring arrangement	126,664	–	–	126,664
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 December 2018	590,132	4,206	68,560	662,898

	Interest- bearing bank borrowings	Lease liabilities	Convertible bonds	Other payables and accruals	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January 2019	590,132	4,206	–	68,560	662,898
Proceeds from loans and borrowings	419,633	–	435,000	–	854,633
Repayment of loans and borrowings	(452,440)	–	–	–	(452,440)
Decrease in discounted commercial acceptance notes	(32,587)	–	–	–	(32,587)
Convertible bond issue expenses paid	–	–	(9,239)	–	(9,239)
Dividends paid	–	–	–	(45,489)	(45,489)
Principal portion of lease payments	–	(1,798)	–	–	(1,798)
Interest paid	–	(156)	–	(27,339)	(27,495)
Changes from financing cash flows	(65,394)	(1,954)	425,761	(72,828)	285,585
Exchange realignment	–	20	–	–	20
New leases	–	1,273	–	–	1,273
Change of equity component of convertible bonds	–	–	(107,464)	–	(107,464)
Interest expenses	–	–	3,730	27,756	31,486
Finance charges on lease liabilities	–	156	–	–	156
Changes from operating activities	–	–	–	5,054	5,054
Changes from investing activities	–	–	–	(9,009)	(9,009)
Dividends declared	–	–	–	45,477	45,477
Financing through letter of credit and reverse factoring arrangement	143,051	–	–	–	143,051
As at 31 December 2019	<u>667,789</u>	<u>3,701</u>	<u>322,027</u>	<u>65,010</u>	<u>1,058,527</u>
	Interest- bearing bank borrowings	Lease liabilities	Convertible bonds	Other payables and accruals	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
As at 1 January 2020	667,789	3,701	322,027	65,010	1,058,527
Proceeds from loans and borrowings	274,992	–	–	–	274,992
Repayment of loans and borrowings	(198,001)	–	–	–	(198,001)
Settlement of letter of credit	(61,085)	–	–	–	(61,085)
Decrease in discounted commercial acceptance notes	(13,685)	–	–	–	(13,685)
Dividends paid	–	–	–	(45,477)	(45,477)
Principal portion of lease payments	–	(1,248)	–	–	(1,248)
Interest paid	–	(59)	–	(17,409)	(17,468)
Changes from financing cash flows	2,221	(1,307)	–	(62,886)	(61,972)
Exchange realignment	–	46	–	–	46
New leases	–	79	–	–	79
Transfer of convertible bonds	–	–	(13)	–	(13)
Interest expenses	–	–	11,129	18,349	29,478
Finance charges on lease liabilities	–	59	–	–	59
Changes from operating activities	–	–	–	7,231	7,231
Changes from investing activities	–	–	–	(1,769)	(1,769)
Dividends declared	–	–	–	45,477	45,477
Financing through letter of credit and reverse factoring arrangement	18,564	–	–	–	18,564
As at 30 June 2020	<u>688,574</u>	<u>2,578</u>	<u>333,143</u>	<u>71,412</u>	<u>1,095,707</u>

	Interest- bearing bank borrowings <i>RMB'000</i>	Lease liabilities <i>RMB'000</i>	Convertible bonds <i>RMB'000</i>	Other payables and accruals <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2020	667,789	3,701	322,027	65,010	1,058,527
Proceeds from loans and borrowings	455,256	–	–	–	455,256
Repayment of loans and borrowings	(378,477)	–	–	–	(378,477)
Settlement of letters of credit	(61,085)	–	–	–	(61,085)
Increase in discounted commercial acceptance notes	22,175	–	–	–	22,175
Dividends paid	–	–	–	(45,477)	(45,477)
Principal portion of lease payments	–	(2,064)	–	–	(2,064)
Interest paid	–	(102)	(1,740)	(43,638)	(45,480)
Changes from financing cash flows	37,869	(2,166)	(1,740)	(89,115)	(55,152)
Exchange realignment	–	(1)	–	–	(1)
New leases	–	234	–	–	234
Transfer of convertible bonds	–	–	(331)	–	(331)
Interest expenses	–	–	23,616	44,159	67,775
Finance charges on lease liabilities	–	102	–	–	102
Changes from operating activities	–	–	–	34,266	34,266
Changes from investing activities	–	–	–	(8,224)	(8,224)
Dividends declared	–	–	–	45,477	45,477
Financing through letter of credit and reverse factoring arrangement	28,183	–	–	–	28,183
Obligation for share repurchase	–	–	–	54,949	54,949
As at 31 December 2020	<u>733,841</u>	<u>1,870</u>	<u>343,572</u>	<u>146,522</u>	<u>1,225,805</u>
	Interest- bearing bank borrowings <i>RMB'000</i>	Lease liabilities <i>RMB'000</i>	Convertible bonds <i>RMB'000</i>	Other payables and accruals <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2021	733,841	1,870	343,572	146,522	1,225,805
Proceeds from loans and borrowings	418,925	–	–	–	418,925
Repayment of loans and borrowings	(8,784)	–	–	–	(8,784)
Settlement of letter of credit	(17,995)	–	–	–	(17,995)
Increase in discounted commercial acceptance notes	36,152	–	–	–	36,152
Dividends paid	–	–	–	(86,341)	(86,341)
Principal portion of lease payments	–	(1,120)	–	–	(1,120)
Interest paid	–	(68)	(1)	(16,209)	(16,278)
Changes from financing cash flows	428,298	(1,188)	(1)	(102,550)	324,559
Exchange realignment	–	(60)	–	–	(60)
New leases	–	6,798	–	–	6,798
Transfer of convertible bonds	–	–	(155)	–	(155)
Interest expenses	–	–	10,025	18,685	28,710
Finance charges on lease liabilities	–	68	–	–	68
Changes from operating activities	–	–	–	106,077	106,077
Changes from investing activities	–	–	–	(9,714)	(9,714)
Financing through letter of credit and reverse factoring arrangement	58,319	–	–	–	58,319
As at 30 June 2021	<u>1,220,458</u>	<u>7,488</u>	<u>353,441</u>	<u>159,020</u>	<u>1,740,407</u>

(c) Total cash outflow for leases

The total cash outflow for leases included in the consolidated statements of cash flows is as follows:

	Year ended 31 December 2018 <i>RMB'000</i>	Year ended 31 December 2019 <i>RMB'000</i>	Year ended 31 December 2020 <i>RMB'000</i>	Six months ended 30 June 2020 <i>RMB'000</i> <i>(unaudited)</i>	Six months ended 30 June 2021 <i>RMB'000</i>
Within operating activities	288	49	401	36	209
Within financing activities (Note)	1,355	1,954	2,166	1,248	1,120
	<u>1,643</u>	<u>2,003</u>	<u>2,567</u>	<u>1,284</u>	<u>1,329</u>

Note: Cash outflow for leases in financing activities includes the principal portion of lease payments and their interests.

40. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank loans and overdrafts are included in notes 17, 18 and 28, respectively, to the Historical Financial Information.

41. COMMITMENTS

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

	31 December 2018 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>	30 June 2021 <i>RMB'000</i>
Contracted, but not provided for:				
Property, plant and equipment	59,017	147,734	126,387	190,195
	<u>59,017</u>	<u>147,734</u>	<u>126,387</u>	<u>190,195</u>

42. RELATED PARTY TRANSACTIONS

(a) The Group had the following related parties during the Relevant Periods and the six months ended 30 June 2020:

Name of Company	Relationship
Goldwind Investment Holdings Limited	Major shareholder, holding 14.51%, 13.18%, 11.38%, 8.50% of the Company as at 31 December 2018, 2019, 2020 and 30 June 2021, respectively
Ganzhou Rare Earth Group Co., Ltd.	Major shareholder, holding 6.53%, 6.53%, 6.49%, 6.25% of the Company as at 31 December 2018, 2019, 2020 and 30 June 2021, respectively
Ganzhou Poly-Max Magnetics Co., Ltd.	Associate
Sichuan Jiangtong Rare Earth Magnetic Material Co., Ltd.	Associate
Xinjiang Goldwind Technology Co., Ltd.	The controlling shareholder of Goldwind Investment Holdings Limited, major shareholder of the company
Beijing Goldwind Kechuang Wind Power Equipment Co., Ltd.	Subsidiary of Xinjiang Goldwind Technology Co., Ltd.

Name of Company	Relationship
Goldwind Technology Hebei Co., Ltd.	Subsidiary of Xinjiang Goldwind Technology Co., Ltd.
Beijing Tianxinhui Information Service Co., Ltd.	Subsidiary of Xinjiang Goldwind Technology Co., Ltd.
Southern Rare Earth International Trading Co., Ltd.	Subsidiary of Ganzhou Rare Earth Group Co., Ltd., major shareholder of the company
Ganzhou Rare Earth Mining Co., Ltd.	Subsidiary of Ganzhou Rare Earth Group Co., Ltd., major shareholder of the company
Ganzhou Rare Earth Youli Technology Development Co., Ltd.	Subsidiary of Ganzhou Rare Earth Group Co., Ltd., major shareholder of the company
Longnan Youli Rare Earth Science and Technology Development Co., Ltd	Subsidiary of Ganzhou Rare Earth Group Co., Ltd., major shareholder of the company
Jiangxi Ionic Rare Earth Engineering Technology Research Co., Ltd.	Subsidiary of Ganzhou Rare Earth Group Co., Ltd., major shareholder of the company
CRRC Corporation Limited and its subsidiaries	Other related party**
Nanjing Turbine Motor Changfeng New Energy Co., Ltd.	Other related party**

** During the Relevant Periods and the six months ended 30 June 2020, CRRC Corporation Limited and its subsidiaries and Nanjing Turbine Motor Changfeng New Energy Co., Ltd., suppliers of Xinjiang Goldwind Technology Co., Ltd., purchased NdFeB magnet materials from the Group under the direction of Xinjiang Goldwind Technology Co., Ltd., in order to meet the specific parameters of the production process. Accordingly, management of the Company disclosed these transactions as related party transactions.

- (b) In addition to the transactions detailed elsewhere in the Historical Financial Information, the Group had the following transactions with related parties during the Relevant Periods:

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Six months ended 30 June 2020 RMB'000 (unaudited)	Six months ended 30 June 2021 RMB'000
Service rendering from associate:					
Sichuan Jiangtong Rare Earth Magnetic Material Co., Ltd	–	1,391	474	474	–
Service rendering from subsidiary of the Company's shareholder:					
Ganzhou Rare Earth Youli Technology Development Co., Ltd.	–	210	224	124	–
Jiangxi Ionic Rare Earth Engineering Technology Research Co., Ltd.	–	61	93	39	–
Southern Rare Earth International Trading Co., Ltd.	–	296	–	–	–
	–	567	317	163	–

	Year ended 31 December 2018 <i>RMB'000</i>	Year ended 31 December 2019 <i>RMB'000</i>	Year ended 31 December 2020 <i>RMB'000</i>	Six months ended 30 June 2020 <i>RMB'000</i> <i>(unaudited)</i>	Six months ended 30 June 2021 <i>RMB'000</i>
Purchases of products from companies controlled by a shareholder:					
Longnan Youli Rare Earth Science and Technology Development Co., Ltd	–	–	–	–	743
Ganzhou Rare Earth Mining Co., Ltd.	2,735	–	–	–	–
Ganzhou Rare Earth Youli Technology Development Co., Ltd.	–	–	3,852	3,852	1,796
Jiangxi Ionic Rare Earth Engineering Technology Research Co., Ltd.	–	391	375	375	–
Southern Rare Earth International Trading Co., Ltd.	37,456	142,873	154,155	58,263	234,143
	<u>40,191</u>	<u>143,264</u>	<u>158,382</u>	<u>62,490</u>	<u>236,682</u>
Purchases of products from an associate:					
Ganzhou Poly-Max Magnetics Co., Ltd.	–	–	–	–	1,344
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,344</u>
Purchases of services from company controlled by a shareholder:					
Beijing Tianxinhui Information Service Co., Ltd.	45	–	–	–	–
	<u>45</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Rental income from an associate:					
Ganzhou Poly-Max Magnetics Co., Ltd.	–	44	66	10	40
	<u>–</u>	<u>44</u>	<u>66</u>	<u>10</u>	<u>40</u>
Sales of goods to associate:					
Ganzhou Poly-Max Magnetics Co., Ltd.	–	68	363	18	822
	<u>–</u>	<u>68</u>	<u>363</u>	<u>18</u>	<u>822</u>
Sales of goods to companies controlled by a shareholder:					
Goldwind Technology Hebei Co., Ltd.	15,127	35,591	69,414	28,477	10,260
Xinjiang Goldwind Technology Co., Ltd.	3	–	–	–	–
	<u>15,130</u>	<u>35,591</u>	<u>69,414</u>	<u>28,477</u>	<u>10,260</u>

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Six months ended 30 June 2020 RMB'000 (unaudited)	Six months ended 30 June 2021 RMB'000
Sales of service to company controlled by a shareholder: Xinjiang Goldwind Technology Co., Ltd.	632	–	93	–	–
Sales of goods to other related parties: CRRC Corporation Limited and its subsidiaries: Baotou CRRC Motor Co., Ltd.	–	61,157	74,607	34,521	25,379
Hami CRRC New Energy Motor Co., Ltd.	–	46,321	46,309	9,219	15,163
Hunan CRRC Shangqu Electric Co., Ltd.	–	–	–	–	18
Jiangsu CRRC Electric Co., Ltd.	134,757	171,899	192,772	69,950	164,179
Shandong CRRC Electric Co., Ltd.	–	15,930	82,916	35,925	82,243
Xi'an CRRC Yongdian Jieli Wind Power Co., Ltd.	158,784	299,726	202,836	71,575	159,643
Nanjing Turbine Motor Changfeng New Energy Co., Ltd.	16,093	39,197	43,426	14,150	–
	<u>309,634</u>	<u>634,230</u>	<u>642,866</u>	<u>235,340</u>	<u>446,625</u>

(c) Outstanding balances with related parties:

	31 December 2018 RMB'000	31 December 2019 RMB'000	31 December 2020 RMB'000	30 June 2021 RMB'000
Trade receivables due from associate: Ganzhou Poly-Max Magnetics Co., Ltd.	–	–	291	–
Trade receivables due from companies controlled by a shareholder: Beijing Goldwind Kechuang Wind Power Equipment Co., Ltd.	5,340	2,967	5,933	–
Goldwind Technology Hebei Co., Ltd.	1,588	30,524	27,867	11,570
Xinjiang Goldwind Technology Co., Ltd.	1,268	–	–	–
	<u>8,196</u>	<u>33,491</u>	<u>33,800</u>	<u>11,570</u>

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables due to associate:				
Ganzhou Poly-Max Magnetics Co., Ltd.	–	–	201	111
Sichuan Jiangtong Rare Earth Magnetic Materials Co., Ltd.	–	135	–	–
	<u>–</u>	<u>135</u>	<u>201</u>	<u>111</u>
Trade payables due to companies controlled by a shareholder:				
Southern Rare Earth International Trading Co., Ltd.	3,796	11,075	36,003	56,663
	<u>3,796</u>	<u>11,075</u>	<u>36,003</u>	<u>56,663</u>
Other receivables due from an associate:				
Ganzhou Poly-Max Magnetics Co., Ltd.	–	122	–	–
	<u>–</u>	<u>122</u>	<u>–</u>	<u>–</u>
Notes payables due to a company controlled by a shareholder:				
Southern Rare Earth International Trading Co., Ltd.	4,232	34,866	39,791	14,581
	<u>4,232</u>	<u>34,866</u>	<u>39,791</u>	<u>14,581</u>
Notes receivables due from a company controlled by a shareholder:				
Goldwind Technology Hebei Co., Ltd.	6,821	–	–	–
	<u>6,821</u>	<u>–</u>	<u>–</u>	<u>–</u>

The amounts due from or due to related parties are all trade in nature, relating to sales of NdFeB materials, purchase of rare earths, other income and gains, respectively.

(d) Compensation of key management personnel of the Group:

	Year ended 31 December 2018	Year ended 31 December 2019	Year ended 31 December 2020	Six months ended 30 June 2020	Six months ended 30 June 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, allowances and benefits in kind	7,138	7,280	7,975	3,751	4,033
Performance related bonuses	2,975	5,664	6,632	–	–
Share incentive expense	–	–	17,170	–	20,604
Social insurance and housing fund	574	549	465	220	247
	<u>10,687</u>	<u>13,493</u>	<u>32,242</u>	<u>3,971</u>	<u>24,884</u>

Further details of directors' and the chief executive's emoluments are included in note 8 to the Historical Financial Information.

43. 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:

31 December 2018

Financial assets	Financial assets at amortised cost <i>RMB'000</i>	Financial assets at fair value <i>RMB'000</i>	Financial assets at fair value through other comprehensive income <i>RMB'000</i>	Total <i>RMB'000</i>
Trade receivables	369,886	–	–	369,886
Notes receivables	123,149	–	101,736	224,885
Financial assets included in prepayments, other receivables and other assets	3,710	–	–	3,710
Financial assets at fair value through profit or loss	–	744	–	744
Restricted cash	66,128	–	–	66,128
Cash and cash equivalents	396,686	–	–	396,686
	<u>959,559</u>	<u>744</u>	<u>101,736</u>	<u>1,062,039</u>

Financial liabilities	Financial liabilities at amortised cost <i>RMB'000</i>	Total <i>RMB'000</i>
Trade and notes payables	321,535	321,535
Financial liabilities included in other payables and accruals	40,064	40,064
Interest-bearing bank borrowings	590,132	590,132
	<u>951,731</u>	<u>951,731</u>

31 December 2019

Financial assets	Financial assets at amortised cost <i>RMB'000</i>	Financial assets at fair value <i>RMB'000</i>	Financial assets at fair value through other comprehensive income <i>RMB'000</i>	Total <i>RMB'000</i>
Trade receivables	704,773	–	–	704,773
Notes receivables	56,961	–	116,282	173,243
Financial assets included in prepayments, other receivables and other assets	2,581	–	–	2,581
Financial assets at fair value through profit or loss	–	1,932	–	1,932
Restricted cash	134,211	–	–	134,211
Cash and cash equivalents	644,305	–	–	644,305
	<u>1,542,831</u>	<u>1,932</u>	<u>116,282</u>	<u>1,661,045</u>

Financial liabilities	Financial liabilities at amortised cost <i>RMB'000</i>	Total <i>RMB'000</i>
Trade and notes payables	414,555	414,555
Financial liabilities included in other payables and accruals	34,401	34,401
Convertible bonds	322,027	322,027
Interest-bearing bank borrowings	667,789	667,789
	<u>1,438,772</u>	<u>1,438,772</u>

31 December 2020

Financial assets	Financial assets at amortised cost <i>RMB'000</i>	Financial assets at fair value <i>RMB'000</i>	Financial assets at fair value through other comprehensive income <i>RMB'000</i>	Total <i>RMB'000</i>
Trade receivables	743,067	–	–	743,067
Notes receivables	118,571	–	127,167	245,738
Financial assets included in prepayments, other receivables and other assets	15,534	–	–	15,534
Financial assets at fair value through profit or loss	–	2,654	–	2,654
Restricted cash	163,423	–	–	163,423
Cash and cash equivalents	593,012	–	–	593,012
	<u>1,633,607</u>	<u>2,654</u>	<u>127,167</u>	<u>1,763,428</u>

Financial liabilities	Financial liabilities at amortised cost <i>RMB'000</i>	Total <i>RMB'000</i>
Trade and notes payables	621,326	621,326
Financial liabilities included in other payables and accruals	102,079	102,079
Convertible bonds	343,572	343,572
Interest-bearing bank borrowings	733,841	733,841
	<u>1,800,818</u>	<u>1,800,818</u>

30 June 2021

Financial assets	Financial assets at amortised cost <i>RMB'000</i>	Financial assets at fair value <i>RMB'000</i>	Financial assets at fair value through other comprehensive income <i>RMB'000</i>	Total <i>RMB'000</i>
Trade receivables	1,166,138	–	–	1,166,138
Notes receivables	156,800	–	25,865	182,665
Financial assets included in prepayments, other receivables and other assets	13,339	–	–	13,339
Financial assets at fair value through profit or loss	–	6,824	–	6,824
Restricted cash	110,837	–	–	110,837
Cash and cash equivalents	1,055,213	–	–	1,055,213
	<u>2,502,327</u>	<u>6,824</u>	<u>25,865</u>	<u>2,535,016</u>

Financial liabilities	Financial liabilities at amortised cost <i>RMB'000</i>	Total <i>RMB'000</i>
Trade and notes payables	657,291	657,291
Financial liabilities included in other payables and accruals	97,730	97,730
Convertible bonds	353,441	353,441
Interest-bearing bank borrowings	1,220,458	1,220,458
	<u>2,328,920</u>	<u>2,328,920</u>

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, trade receivables, trade and notes payables, and financial assets included in prepayments, other receivables and other assets approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At the end of each of the Relevant Periods, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2018

	Fair value measurement using			Total <i>RMB'000</i>
	Quoted prices in active markets (Level 1) <i>RMB'000</i>	Significant observable inputs (Level 2) <i>RMB'000</i>	Significant unobservable inputs (Level 3) <i>RMB'000</i>	
Financial assets at fair value through profit or loss	–	744	–	744
Notes receivables	–	–	101,736	101,736
	<u>–</u>	<u>744</u>	<u>101,736</u>	<u>102,480</u>

As at 31 December 2019

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial assets at fair value through profit or loss	–	1,932	–	1,932
Notes receivables	–	–	116,282	116,282
	–	1,932	116,282	118,214

As at 31 December 2020

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial assets at fair value through profit or loss	–	2,654	–	2,654
Notes receivables	–	–	127,167	127,167
	–	2,654	127,167	129,821

As at 30 June 2021

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial assets at fair value through profit or loss	–	6,824	–	6,824
Notes receivables	–	–	25,865	25,865
	–	6,824	25,865	32,689

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at the end of each of the Relevant Periods:

As at 31 December 2018

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Notes receivables	Income approach	Discount rate	4.31%	5% increase/decrease would result in increase/decrease in fair value by 0.09%

As at 31 December 2019

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Notes receivables	Income approach	Discount rate	4.26%	5% increase/decrease would result in increase/decrease in fair value by 0.14%

As at 31 December 2020

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Notes receivables	Income approach	Discount rate	3.91%	5% increase/decrease would result in increase/decrease in fair value by 0.06%

As at 30 June 2021

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Notes receivables	Income approach	Discount rate	3.85%	5% increase/decrease would result in increase/decrease in fair value by 0.08%

The Group did not have any financial liabilities measured at fair value at the end of each of the Relevant Periods.

During the years ended 31 December 2018, 2019, 2020 and six months ended 30 June 2021, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 for both financial assets and financial liabilities. The Group's policy is to recognise transfers between levels of the fair value hierarchy as at the end of each of the Relevant Periods in which they occur.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, convertible bonds, other interest-bearing loans, and cash and short-term deposits. 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 receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, mainly forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 4 to the Historical Financial Information.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate.

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 (or after) tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/(decrease) in basis points <i>RMB'000</i>	Increase/(decrease) in profit before (or after) tax <i>RMB'000</i>
2018		
RMB	5%	78
RMB	(5%)	(78)
2019		
RMB	5%	78
RMB	(5%)	(78)
2020		
RMB	5%	34
RMB	(5%)	(34)
As at 30 June 2021		
RMB	5%	41
RMB	(5%)	(41)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies.

It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

The following table demonstrates the sensitivity at the end of each of the Relevant Periods to a reasonably possible change in the EUR and RMB exchange rate, with all other variables held constant, of the Group's profit before (or after) tax (due to changes in the fair values of monetary assets and liabilities) and the Group's equity (due to changes in the fair value of forward currency contracts).

	Increase/(decrease) in EUR/USD rate <i>RMB'000</i>	Increase/(decrease) in profit before tax <i>RMB'000</i>
2018		
If the RMB weakens against the EUR	5%	768
If the RMB strengthens against the EUR	(5%)	(768)
If the RMB weakens against the USD	5%	3,123
If the RMB strengthens against the USD	(5%)	(3,123)
2019		
If the RMB weakens against the EUR	5%	843
If the RMB strengthens against the EUR	(5%)	(843)
If the RMB weakens against the USD	5%	4,729
If the RMB strengthens against the USD	(5%)	(4,729)
2020		
If the RMB weakens against the EUR	5%	3,526
If the RMB strengthens against the EUR	(5%)	(3,526)
If the RMB weakens against the USD	5%	3,111
If the RMB strengthens against the USD	(5%)	(3,111)
30 June 2021		
If the RMB weakens against the EUR	5%	4,883
If the RMB strengthens against the EUR	(5%)	(4,883)
If the RMB weakens against the USD	5%	1,708
If the RMB strengthens against the USD	(5%)	(1,708)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the management.

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 (or period-end) staging classification as at the end of each of the Relevant Periods. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2018

	12-month ECLs		Lifetime ECLs		Simplified approach	Total
	Stage 1	Stage 2	Stage 3			
	RMB'000	RMB'000	RMB'000		RMB'000	RMB'000
Trade receivables*	–	–	–		374,939	374,939
Notes receivables						
– Normal**	123,672	–	–		–	123,672
Financial assets included in prepayments, other receivables and other assets						
– Normal**	3,710	–	–		–	3,710
Restricted cash						
– Not yet past due	66,128	–	–		–	66,128
Cash and cash equivalents						
– Not yet past due	396,686	–	–		–	396,686
	<u>590,196</u>	<u>–</u>	<u>–</u>		<u>374,939</u>	<u>965,135</u>

As at 31 December 2019

	12-month ECLs		Lifetime ECLs		Simplified approach	Total
	Stage 1	Stage 2	Stage 3			
	RMB'000	RMB'000	RMB'000		RMB'000	RMB'000
Trade receivables*	–	–	–		717,787	717,787
Notes receivables						
– Normal**	57,157	–	–		–	57,157
Financial assets included in prepayments, other receivables and other assets						
– Normal**	2,581	–	–		–	2,581
Restricted cash						
– Not yet past due	134,211	–	–		–	134,211
Cash and cash equivalents						
– Not yet past due	644,305	–	–		–	644,305
	<u>838,254</u>	<u>–</u>	<u>–</u>		<u>717,787</u>	<u>1,556,041</u>

As at 31 December 2020

	12-month ECLs		Lifetime ECLs		Simplified approach RMB'000	Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Stage 3 RMB'000		
Trade receivables*	–	–	–	–	762,221	762,221
Notes receivables						
– Normal**	119,769	–	–	–	–	119,769
Financial assets included in prepayments, other receivables and other assets						
– Normal**	15,534	–	–	–	–	15,534
Restricted cash						
– Not yet past due	163,423	–	–	–	–	163,423
Cash and cash equivalents						
– Not yet past due	593,012	–	–	–	–	593,012
	<u>891,738</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>762,221</u>	<u>1,653,959</u>

As at 30 June 2021

	12-month ECLs		Lifetime ECLs		Simplified approach RMB'000	Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Stage 3 RMB'000		
Trade receivables*	–	–	–	–	1,184,231	1,184,231
Notes receivables						
– Normal**	158,384	–	–	–	–	158,384
Financial assets included in prepayments, other receivables and other assets						
– Normal**	13,881	–	–	–	–	13,881
Restricted cash						
– Not yet past due	110,837	–	–	–	–	110,837
Cash and cash equivalents						
– Not yet past due	1,055,213	–	–	–	–	1,055,213
	<u>1,338,315</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,184,231</u>	<u>2,522,546</u>

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 24 to the Historical Financial Information.

** The credit quality of notes receivables and financial assets included in prepayments, other receivables and other assets is 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 monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers both the maturity of its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of loans and bank borrowings.

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:

	As at 31 December 2018				
	On demand	Within 1 year	1 to 5 years	Over 5 years	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Lease liabilities	–	1,620	2,812	–	4,432
Interest-bearing bank borrowings	–	527,877	74,628	–	602,505
Trade and notes payables	–	321,535	–	–	321,535
Financial liabilities included in other payables and accruals	–	40,064	–	–	40,064
	<u>–</u>	<u>891,096</u>	<u>77,440</u>	<u>–</u>	<u>968,536</u>

	As at 31 December 2019				
	On demand	Within 1 year	1 to 5 years	Over 5 years	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Convertible bonds	–	4,021	137,863	344,767	486,651
Lease liabilities	–	1,997	1,902	–	3,899
Interest-bearing bank borrowings	–	477,272	227,680	–	704,952
Trade and notes payables	–	414,555	–	–	414,555
Financial liabilities included in other payables and accruals	–	34,401	–	–	34,401
	<u>–</u>	<u>932,246</u>	<u>367,445</u>	<u>344,767</u>	<u>1,644,458</u>

	As at 31 December 2020				
	On demand	Within 1 year	1 to 5 years	Over 5 years	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Convertible bonds	–	24,341	458,289	–	482,630
Lease liabilities	–	1,346	793	–	2,139
Interest-bearing bank borrowings	–	481,079	269,586	–	750,665
Trade and notes payables	–	621,326	–	–	621,326
Financial liabilities included in other payables and accruals	–	102,079	–	–	102,079
	<u>–</u>	<u>1,230,171</u>	<u>728,668</u>	<u>–</u>	<u>1,958,839</u>

	As at 30 June 2021				Total RMB'000
	On demand RMB'000	Within 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	
Convertible bonds	–	26,824	404,373	–	431,197
Lease liabilities	–	2,449	5,327	–	7,776
Interest-bearing bank borrowings	–	1,114,336	27,136	–	1,141,472
Trade and notes payables	–	657,291	–	–	657,291
Financial liabilities included in other payables and accruals	–	97,730	–	–	97,730
	–	1,898,630	436,836	–	2,335,466

Capital management

The primary objective of the Group's capital management is to ensure that it maintains strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group regards total equity as its capital and manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies and processes during the Relevant Periods.

During the Relevant Periods, the Group's strategy was to maintain the gearing ratio at a healthy level in order to monitor capital. The principal strategies adopted by the Group include, but are not limited to, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable level of capital to support its business. Gearing ratio is net debt divided by total equity plus net debt. Net debt includes trade and notes payables, other payables and accruals, interest-bearing bank borrowings, convertible bonds and lease liabilities, less cash and cash equivalents and restricted cash.

The gearing ratios at the end of each of the Relevant Periods were as follows:

	Notes	31 December 2018 RMB'000	31 December 2019 RMB'000	31 December 2020 RMB'000	30 June 2021 RMB'000
Trade and notes payables	30	321,535	414,555	621,326	657,291
Other payables and accruals	32	68,560	65,010	146,522	159,020
Interest-bearing bank borrowings	33	590,132	667,789	733,841	1,220,458
Convertible bonds, the liability component	34	–	322,027	343,572	353,441
Lease liabilities	18	4,206	3,701	1,870	7,488
Less: Cash and cash equivalents	28	(396,686)	(644,305)	(593,012)	(1,055,213)
Less: Restricted cash	28	(66,128)	(134,211)	(163,423)	(110,837)
Net debt		521,619	694,566	1,090,696	1,231,648
Equity attributable to owners of the parent		1,111,315	1,330,183	1,567,301	2,260,198
Total equity		1,111,315	1,330,183	1,567,301	2,260,198
Total equity and net debt		1,632,934	2,024,749	2,657,997	3,491,846
Gearing ratio		32%	34%	41%	35%

46. NOTES TO THE STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

A summary of the Company's reserves is as follows:

	Treasury shares <i>RMB'000</i>	Share premium <i>RMB'000</i>	Share incentive reserve <i>RMB'000</i>	Reserve fund <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2018	–	235,908	2,067	30,675	193,854	462,504
Total comprehensive income for the year	–	–	–	–	149,352	149,352
Dividends declared	–	–	–	–	(40,901)	(40,901)
Issue of shares	–	144,104	–	–	–	144,104
Transfer from retained profits	–	–	–	14,932	(14,932)	–
At 31 December 2018 and 1 January 2019	–	380,012	2,067	45,607	287,373	715,059
Total comprehensive income for the year	–	–	–	–	167,728	167,728
Dividends declared	–	–	–	–	(45,477)	(45,477)
Transfer from retained profits	–	–	–	16,761	(16,761)	–
At 31 December 2019 and 1 January 2020	–	380,012	2,067	62,368	392,863	837,310
At 31 December 2019 and 1 January 2020	–	380,012	2,067	62,368	392,863	837,310
Total comprehensive income for the year	–	–	–	–	261,189	261,189
Share incentive plan expense	–	–	37,522	–	–	37,522
Dividends declared	–	–	–	–	(45,477)	(45,477)
Issue of shares according to an incentive plan	–	52,407	–	–	–	52,407
Conversion of convertible bonds	–	441	–	–	–	441
Repurchase obligation for shares issued under incentive plan	(54,949)	–	–	–	–	(54,949)
Transfer from retained profits	–	–	–	26,110	(26,110)	–
At 31 December 2020 and 1 January 2021	(54,949)	432,860	39,589	88,478	582,465	1,088,443

	Treasury shares RMB'000	Share premium RMB'000	Share incentive reserve RMB'000	Reserve fund RMB'000	Retained profits RMB'000	Total RMB'000
At 31 December 2019 and 1 January 2020	–	380,012	2,067	62,368	392,863	837,310
Total comprehensive income for the period (unaudited)	–	–	–	–	100,397	100,397
Dividends declared (unaudited)	–	–	–	–	(45,477)	(45,477)
At 30 June 2020	–	380,012	2,067	62,368	447,783	892,230
At 31 December 2020 and 1 January 2021	(54,949)	432,860	39,589	88,478	582,465	1,088,443
Total comprehensive income for the period	–	–	–	–	230,155	230,155
Cash dividends	–	–	–	–	(86,341)	(86,341)
Share incentive plan expense	–	–	45,452	–	–	45,452
Issue of shares	–	495,911	–	–	–	495,911
Conversion of convertible bonds	–	206	–	–	–	206
Transfer from share premium (note 36)	–	(259,023)	–	–	–	(259,023)
At 30 June 2021	(54,949)	669,954	85,041	88,478	726,279	1,514,803

47. EVENTS AFTER THE RELEVANT PERIODS

- (1) On 14 July 2021, JL Baotou, a subsidiary of the Company, entered into a five-year syndicated loan facility with a principal of RMB340.0 million and an interest rate of PRC inter-bank lending one-year base rate as of drawdown plus five basis points in relation to the construction of Baotou Production Base. Such syndicated loan is guaranteed by the Company. The principal is required to be fully drawn down by 31 December 2023. As of the date of this report, RMB105.0 million of the principal had been drawn down.
- (2) On 29 July 2021, the Board resolved to exercise the redemption right to redeem all the outstanding Convertible Bonds after close of market on 30 August 2021, and all the bonds that are still not converted after the close of market are supposed to be repurchased by the Company. Upon repurchase of the remaining 75,366 Convertible Bonds at a consideration of RMB7.6 million, there was no outstanding convertible bonds after the close of market on 30 August 2021.
- (3) On 29 July 2021, the Board resolved to make a RMB57.0 million investment to JL Ningbo Investment, a subsidiary of the Company, to indirectly participate in the establishment of a fund, which is expected to be engaged in the investment in projects in the rare earth permanent magnets industry, as a limited liability partner to facilitate industry chain expansion of the Group. As of the date of this report, the Company had entered into agreements in respect of such investment and the amount the Company had committed to invest did not exceed the aforementioned RMB57.0 million. The Group will account for its investment in such fund as an investment in an associate using the equity method of accounting.
- (4) On 26 August 2021, the Board approved the grant of 348,800 Type II Restricted Shares to seven participants.

- (5) On 8 December 2021, in light of the conversion of the Convertible Bonds in August 2021, the repurchase and cancellation of 8,960 Type I Restricted Shares in September 2021, and the subscription of 3,372,800 Type II Restricted Shares in November 2021, the Board resolved to increase the Company's registered capital from RMB690.7 million to RMB711.0 million. Such increase in the registered capital is subject to the approval by Shareholders' meeting of the Company which is expected to be held on 24 December 2021.

48. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or its subsidiaries in respect of any period subsequent to 30 June 2021.



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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2021

To the board of directors of JL MAG Rare-Earth Co., Ltd.

Introduction

We have reviewed the interim condensed consolidated financial information set out on pages IA-2 to IA-29, which comprises the condensed consolidated statement of financial position of JL MAG Rare-Earth Co., Ltd. (the “Company”) and its subsidiaries as at 30 September 2021 and the related condensed consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the nine months period then ended, and explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim condensed consolidated financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “*Interim Financial Reporting*” (“IAS 34”). The directors of the Company are responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the International Auditing and Assurance Standards Board (“IAASB”). 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 International 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial information is not prepared, in all material respects, in accordance with IAS34.

Ernst & Young
Certified Public Accountants
Hong Kong
31 December 2021

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2021

	<i>Notes</i>	Nine months ended 30 September 2021 <i>RMB'000</i> <i>(unaudited)</i>	Nine months ended 30 September 2020 <i>RMB'000</i> <i>(unaudited)</i>
Revenue	4	2,761,252	1,559,015
Cost of sales		<u>(2,134,777)</u>	<u>(1,202,887)</u>
Gross profit		626,475	356,128
Other income and gains	5	77,348	33,942
Selling and distribution expenses		(16,979)	(16,409)
Administrative expenses		(135,259)	(61,267)
Research and development expenses		(102,013)	(71,426)
Impairment losses on inventories		(4,061)	(5,172)
Impairment losses on financial assets, net		(1,112)	(2,408)
Other expenses	6	(2,120)	(4,264)
Finance costs	7	(58,027)	(52,039)
Foreign exchange differences, net		(8,250)	(8,173)
Share of losses of associates		<u>(3,067)</u>	<u>(1,384)</u>
PROFIT BEFORE TAX	8	372,935	167,528
Income tax expenses	9	<u>(43,872)</u>	<u>(19,113)</u>
PROFIT FOR THE PERIOD		<u>329,063</u>	<u>148,415</u>
Attributable to:			
Owners of the parent		328,546	148,253
Non-controlling interests		<u>517</u>	<u>162</u>
		<u>329,063</u>	<u>148,415</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	10		
Basic			
– For profit for the period (RMB)		<u>0.48</u>	<u>0.22</u>
Diluted			
– For profit for the period (RMB)		<u>0.47</u>	<u>0.22</u>

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2021**

	Nine months ended 30 September 2021 <i>RMB'000</i> (<i>unaudited</i>)	Nine months ended 30 September 2020 <i>RMB'000</i> (<i>unaudited</i>)
PROFIT FOR THE PERIOD	<u>329,063</u>	<u>148,415</u>
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods, net of tax:		
Exchange differences on translation of foreign operations	<u>1,767</u>	<u>(28)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	<u>1,767</u>	<u>(28)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>330,830</u>	<u>148,387</u>
Attributable to:		
Owners of the parent	<u>330,278</u>	<u>148,268</u>
Non-controlling interests	<u>552</u>	<u>119</u>
	<u>330,830</u>	<u>148,387</u>

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
30 SEPTEMBER 2021

	<i>Notes</i>	30 September 2021 <i>RMB'000</i> <i>(unaudited)</i>	31 December 2020 <i>RMB'000</i> <i>(audited)</i>
NON-CURRENT ASSETS			
Property, plant and equipment	<i>12</i>	898,626	562,574
Right-of-use assets		200,781	80,818
Other intangible assets		4,378	4,440
Investments in associates		7,705	10,772
Other non-current assets		196,755	103,741
TOTAL NON-CURRENT ASSETS		<u>1,308,245</u>	<u>762,345</u>
CURRENT ASSETS			
Inventories	<i>13</i>	1,151,566	924,987
Trade receivables	<i>14</i>	1,252,373	743,067
Notes receivables at amortised cost	<i>15</i>	308,280	118,571
Notes receivables at fair value through other comprehensive income ("FVOCI")	<i>15</i>	43,407	127,167
Prepayments, other receivables and other assets		43,868	71,740
Financial assets at fair value through profit or loss		5,843	2,654
Other current assets		14,712	15,162
Restricted cash		139,731	163,423
Cash and cash equivalents	<i>16</i>	1,118,414	593,012
TOTAL CURRENT ASSETS		<u>4,078,194</u>	<u>2,759,783</u>
TOTAL ASSETS		<u><u>5,386,439</u></u>	<u><u>3,522,128</u></u>
CURRENT LIABILITIES			
Trade and notes payables	<i>17</i>	867,207	621,326
Contract liabilities		24,741	18,045
Other payables and accruals		129,503	146,522
Interest-bearing bank and other borrowings	<i>18</i>	1,162,116	466,633
Lease liabilities		2,226	1,132
Tax payables		18,319	18,657
TOTAL CURRENT LIABILITIES		<u>2,204,112</u>	<u>1,272,315</u>
NET CURRENT ASSETS		<u>1,874,082</u>	<u>1,487,468</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>3,182,327</u>	<u>2,249,813</u>

	<i>Notes</i>	30 September 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
NON-CURRENT LIABILITIES			
Convertible bonds	<i>19</i>	–	343,572
Interest-bearing bank and other borrowings	<i>18</i>	342,885	267,208
Lease liabilities		4,915	738
Deferred income		58,428	58,029
Deferred tax liabilities		15,975	12,790
		<u>422,203</u>	<u>682,337</u>
TOTAL NON-CURRENT LIABILITIES		<u>422,203</u>	<u>682,337</u>
NET ASSETS		<u>2,760,124</u>	<u>1,567,476</u>
EQUITY			
Equity attributable to owners of the parent			
Share capital	<i>20</i>	707,601	415,977
Equity component of convertible bonds		–	107,343
Reserves		2,051,796	1,043,981
		<u>2,759,397</u>	<u>1,567,301</u>
Non-controlling interests		<u>727</u>	<u>175</u>
TOTAL EQUITY		<u>2,760,124</u>	<u>1,567,476</u>

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2021

	Attributable to owners of the parent										
	Share capital RMB'000 (note 20)	Treasury shares* RMB'000	Share premium* RMB'000	Share incentive reserve* RMB'000	Share component of convertible bonds RMB'000 (note 19)	Reserve fund* RMB'000	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2021 (audited)	415,977	(54,949)	432,860	39,589	107,343	88,478	3,493	534,510	1,567,301	175	1,567,476
Profit for the period (unaudited)	-	-	-	-	-	-	-	328,546	328,546	517	329,063
Other comprehensive income for the period:											
Exchange differences on translation of foreign operations (unaudited)	-	-	-	-	-	-	1,732	-	1,732	35	1,767
Total comprehensive income for the period (unaudited)	-	-	-	-	-	-	1,732	328,546	330,278	552	330,830
Dividends declared (unaudited)	-	-	-	-	-	-	-	(86,341)	(86,341)	-	(86,341)
Issue of shares (unaudited)	15,726	-	495,911	-	-	-	-	-	511,637	-	511,637
Share incentive plan expense (unaudited)	-	-	-	59,586	-	-	-	-	59,586	-	59,586
Release of repurchase obligation upon the first batch restricted shares vested (note 21) (unaudited)	-	21,931	20,050	(18,594)	-	-	-	-	23,387	-	23,387
Conversion of convertible bonds (unaudited)	16,875	-	442,636	-	(105,481)	-	-	-	354,030	-	354,030
Redemption of convertible bonds (unaudited)	-	-	1,381	-	(1,862)	-	-	-	(481)	-	(481)
Transfer from share premium (note 20) (unaudited)	259,023	-	(259,023)	-	-	-	-	-	-	-	-
At 30 September 2021 (unaudited)	707,601	(33,018)	1,133,815	80,581	-	88,478	5,225	776,715	2,759,397	727	2,760,124

* These reserve accounts comprise the consolidated reserves of RMB2,051,796,000 in the consolidated statements of financial position as at 30 September 2021.

	Attributable to owners of the parent										
	Equity										
	Share capital	Treasury shares*	Share premium*	Share incentive reserve*	Share component of convertible bonds	Reserve fund*	Exchange fluctuation reserve*	Retained profits*	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020 (audited)	413,424	-	380,012	2,067	107,464	62,368	3,253	361,594	1,330,182	24	1,330,206
Profit for the period (unaudited)	-	-	-	-	-	-	-	148,253	148,253	162	148,415
Other comprehensive income for the period:											
Exchange differences on translation of foreign operations (unaudited)	-	-	-	-	-	-	15	-	15	(43)	(28)
Total comprehensive income for the period (unaudited)	-	-	-	-	-	-	15	148,253	148,268	119	148,387
Dividends declared (unaudited)	-	-	-	-	-	-	-	(45,477)	(45,477)	-	(45,477)
Issue of shares for an incentive plan (unaudited)	2,542	-	52,407	-	-	-	-	-	54,949	-	54,949
Share incentive plan expense (unaudited)	-	-	-	13,621	-	-	-	-	13,621	-	13,621
Repurchase obligation for shares issued under incentive plan (note 21) (unaudited)	-	(54,949)	-	-	-	-	-	-	(54,949)	-	(54,949)
Conversion of convertible bonds (unaudited)	10	-	420	-	(115)	-	-	-	315	-	315
At 30 September 2020 (unaudited)	415,976	(54,949)	432,839	15,688	107,349	62,368	3,268	464,370	1,446,909	143	1,447,052

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2021

	<i>Notes</i>	Nine months ended 30 September 2021 RMB'000 (unaudited)	Nine months ended 30 September 2020 RMB'000 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:		372,935	167,528
Adjustments for:			
Finance costs	7	58,027	52,039
Loss on disposal of non-current assets	6	279	1,075
Share of losses of associates		3,067	1,384
Gain on disposal of items of property, plant and equipment	5	(519)	–
Fair value changes of forward exchange agreements	5/6	(3,189)	1,575
Realised gains of wealth management products	5	(9,221)	(4,279)
Depreciation of property, plant and equipment	8	44,038	32,641
Depreciation of right-of-use assets	8	4,822	2,120
Amortisation of other intangible assets	8	442	432
Amortisation of non-current assets	8	8,161	5,841
Impairment of inventories		4,061	5,172
Impairment losses of financial assets		1,112	2,408
		484,015	267,936
Increase in inventories		(225,963)	(211,421)
Increase in trade receivables		(506,872)	(99,359)
Increase in notes receivables		(108,265)	(109,461)
Decrease/(increase) in prepayments, other receivables and other assets		31,060	(51,145)
Decrease/(increase) in other current assets		450	(5,850)
Increase/(decrease) in trade and notes payables		268,659	(21,811)
Increase in other payables and accruals		80,055	108,835
Increase in contract liabilities		6,696	12,558
Increase in deferred tax liabilities		3,185	3,448
Increase in deferred income		399	23,216
Decrease in restricted cash		23,692	28,307
Cash generated from/(used in) operations		57,111	(54,747)
Income tax paid		(39,569)	(18,337)
Net cash flows from/(used in) operating activities		17,542	(73,084)

	<i>Notes</i>	Nine months ended 30 September 2021 RMB'000 (unaudited)	Nine months ended 30 September 2020 RMB'000 (unaudited)
Net cash flows from/(used in) operating activities		17,542	(73,084)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for leasehold land		(91,321)	(35,680)
Purchases of items of property, plant and equipment		(320,222)	(63,887)
Purchases of items of other long-term assets		(101,893)	(17,971)
Proceeds from disposal of items of property, plant and equipment		1,011	5,515
Additions to other intangible assets		(272)	(4)
Purchases of wealth management products		(333,000)	(753,083)
Proceeds from sale of wealth management products		342,221	757,362
Net cash flows used in investing activities		(503,476)	(107,748)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		521,000	54,950
Share issue expenses		(9,363)	–
Redemption of convertible bonds	19	(7,599)	–
New bank loans		816,054	312,561
Repayment of bank loans		(302,561)	(235,877)
Settlement of letters of credit		(17,995)	(61,085)
Increase/(decrease) in discounted commercial acceptance notes		149,791	(9,922)
Principal portion of lease payments		(1,872)	(1,611)
Dividends paid		(86,341)	(45,477)
Payment of the transaction cost related to the initial public offering on the Hong Kong stock exchange		(18,678)	–
Interest paid		(28,695)	(29,490)
Net cash flows from/(used in) financing activities		1,013,741	(15,951)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		527,807	(196,783)
Cash and cash equivalents at beginning of period		593,012	644,305
Effect of foreign exchange rate changes, net		(2,405)	404
CASH AND CASH EQUIVALENTS AT END OF PERIOD			
	16	1,118,414	447,926

NOTES TO THE INTERIM CONDENSED CONSOLIDATION FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Company is a joint stock company with limited liability incorporated in the People's Republic of China (the "PRC"). The registered office of the Company is located at 81 West Jinling Road, Economic and Technological Development Zone, Ganzhou City, Jiangxi Province, PRC.

The principal activity of the Company and its subsidiaries (together, the "Group") is the research and development, and the production and sale of NdFeB permanent magnet materials.

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial information for the nine months ended 30 September 2021 has been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required for a complete set of financial statements prepared in accordance with the IFRSs, and should be read in conjunction with the Group's financial information as set out in the accountants' report (the "Accountants' Report") included in Appendix I to the Company's prospectus dated December 31, 2021 in connection with the initial public offering of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The interim condensed consolidated financial information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Accountants' Report.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group considers its business from the perspective of the types of goods or services provided, which mainly include the manufacturing and sale of high performance NdFeB materials.

The Group focuses on the manufacturing and sale of high performance NdFeB materials, and no separate operating segment information is provided for resource allocation and performance assessment. Therefore, no detailed segment information is presented.

Geographical information

(a) Revenue from external customers

	Nine months ended 30 September 2021 <i>RMB'000</i> <i>(unaudited)</i>	Nine months ended 30 September 2020 <i>RMB'000</i> <i>(unaudited)</i>
Mainland China	2,453,973	1,302,343
Other countries/regions	307,279	256,672
	<u>2,761,252</u>	<u>1,559,015</u>

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

(b) The Group's non-current assets are substantially located in Mainland China.

4. REVENUE

An analysis of revenue is as follows:

	Nine months ended 30 September 2021 <i>RMB'000</i> <i>(unaudited)</i>	Nine months ended 30 September 2020 <i>RMB'000</i> <i>(unaudited)</i>
Revenue from contracts with customers		
– Sale of goods	2,761,252	1,559,015
	<u>2,761,252</u>	<u>1,559,015</u>
Revenue from contracts with customers		
<i>(a) Disaggregated revenue information</i>		
	Nine months ended 30 September 2021 <i>RMB'000</i> <i>(unaudited)</i>	Nine months ended 30 September 2020 <i>RMB'000</i> <i>(unaudited)</i>
Type of goods		
Sale of NdFeB magnet materials	2,761,252	1,559,015
	<u>2,761,252</u>	<u>1,559,015</u>
Geographical markets		
Mainland China	2,453,973	1,302,343
Other countries/regions	307,279	256,672
	<u>2,761,252</u>	<u>1,559,015</u>
Timing of revenue recognition		
Goods transferred at a point in time	2,761,252	1,559,015
	<u>2,761,252</u>	<u>1,559,015</u>

5. OTHER INCOME AND GAINS

	Nine months ended 30 September 2021 <i>RMB'000</i> <i>(unaudited)</i>	Nine months ended 30 September 2020 <i>RMB'000</i> <i>(unaudited)</i>
Other income		
Government grants	11,420	12,658
Bank interest income	9,676	5,162
Sale of materials and others	40,998	11,843
	<u>62,094</u>	<u>29,663</u>
Other gains		
Gains on disposal of items of property, plant and equipment	519	–
Fair value changes of forward exchange agreements	3,189	–
Gains on wealth management products	9,221	4,279
Others	2,325	–
	<u>15,254</u>	<u>4,279</u>
	<u>77,348</u>	<u>33,942</u>

6. OTHER EXPENSES

	Nine months ended 30 September 2021 <i>RMB'000</i> <i>(unaudited)</i>	Nine months ended 30 September 2020 <i>RMB'000</i> <i>(unaudited)</i>
Donations	1,840	1,532
Loss on disposal of non-current assets	279	1,075
Fair value changes of forward exchange agreements	–	1,575
Others	1	82
	<u>2,120</u>	<u>4,264</u>

7. FINANCE COSTS

	Nine months ended 30 September 2021 <i>RMB'000</i> <i>(unaudited)</i>	Nine months ended 30 September 2020 <i>RMB'000</i> <i>(unaudited)</i>
Interest expense	55,297	50,770
Redemption of convertible bonds	865	–
Other finance costs	1,865	1,269
	<u>58,027</u>	<u>52,039</u>

8. PROFIT BEFORE TAX

	Nine months ended 30 September 2021 <i>RMB'000</i> <i>(unaudited)</i>	Nine months ended 30 September 2020 <i>RMB'000</i> <i>(unaudited)</i>
Cost of raw materials and consumables	1,786,611	968,449
Depreciation of property, plant and equipment*	44,038	32,641
Depreciation of right-of-use assets*	4,822	2,120
Amortisation of other intangible assets*	442	432
Amortisation of other non-current assets	8,161	5,841
Research and development costs	102,013	68,948
Lease payments not included in the measurement of lease liabilities	295	297
Auditor's remuneration	1,565	1,400
Expenses related to the initial public offering on the Hong Kong stock exchange	7,064	–
Wages, salaries and welfare	258,019	173,950
Expenses for share incentive plan	59,586	13,621
Pension and other social insurances	26,500	16,059
Exchange losses, net	8,250	8,173
Impairment losses on inventories	4,061	5,172
Impairment losses on financial assets, net	1,112	2,408
(Gains)/losses on disposal of property, plant and equipment	(240)	1,075
Government grants	11,420	12,658

* The depreciation of property, plant and equipment during the nine months ended 30 September 2021 and 2020 are included in "Cost of sales", "Administrative expenses" and "Research and development expenses" in the consolidated statements of profit or loss. The depreciation of right-of-use assets and amortisation of other intangible assets during the nine months ended 30 September 2021 and 2020 are included in "Cost of sales" and "Administrative expenses" in the consolidated statements of profit or loss.

9. INCOME TAX

In general, the Group's entities in the mainland China are subject to PRC corporate income tax at the standard rate of 25% on their respective estimated taxable profits during the nine months ended 30 September 2021 and 2020. The Company is entitled to tax concessions including a preferential tax rate of 15%. No provision for the Dutch profit tax, the United States corporate income tax, the Japan corporate tax, or the Hong Kong profit tax has been made during the nine months ended 30 September 2021 and 2020, as there was no tax assessable income subject to the Dutch profit tax, the United States corporate income tax, the Japan corporate tax, or the Hong Kong profit tax during the corresponding periods.

	Nine months ended 30 September 2021 <i>RMB'000</i> <i>(unaudited)</i>	Nine months ended 30 September 2020 <i>RMB'000</i> <i>(unaudited)</i>
Current – Mainland China		
Charge for the periods	40,907	15,966
Over provision in prior years	(220)	(505)
Deferred	3,185	3,652
Total tax charge	43,872	19,113

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

The calculation of the basic earnings per share amounts is based on the profit for the periods attributable to ordinary equity holders of the parent. On 13 May 2021, the Company transferred share premium into share capital with six new shares issued for every ten existing shares. After the conversion, the number of shares as at 31 May 2021 was increased by 259,022,953, among which 1,524,960 shares are attributable to restricted share owners (note 21). The calculation of basic and diluted earnings per share is then adjusted for the proportionate change as if the conversion had occurred at the beginning of the nine months ended 30 September 2021 and 2020, therefore the weighted average number of outstanding ordinary shares is 690,630,779 and 670,924,595 during the nine months ended 30 September 2021 and 2020, respectively.

The calculation of the diluted earnings per share amounts is based on the profit for the periods attributable to ordinary equity holders of the parent, adjusted to reflect the dilutive effect of the share incentive plan (note 21) issued by the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the nine months ended 30 September 2021 and 2020, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	Nine months ended 30 September 2021 RMB'000 (unaudited)	Nine months ended 30 September 2020 RMB'000 (unaudited)
<u>Earnings</u>		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:		
From continuing operations	328,546	148,253
Less: dividends attributable to owners of the restricted shares	(284)	–
	<u>328,262</u>	<u>148,253</u>
Effect of dilution-dividends attributable to owners of the restricted shares	<u>284</u>	<u>–</u>
	<u>328,546</u>	<u>148,253</u>
	Number of shares	
	Nine months ended 30 September 2021	Nine months ended 30 September 2020
<u>Shares</u>		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	690,630,779	670,924,595
Effect of dilution weighted average number of ordinary shares:		
Share incentive plan (note 21)	<u>1,910,335</u>	<u>–</u>
	<u>692,541,114</u>	<u>670,924,595</u>

Because the diluted earnings per share amount is increased when taking convertible bonds into account, the convertible bonds had an anti-dilutive effect on the basic earnings per share for the nine months ended 30 September 2020 and were ignored in the calculation of diluted earnings per share. Therefore, the diluted earnings per share amounts are based on the profit for the nine months ended 30 September 2020 of RMB148,253,000, and the weighted average number of ordinary shares of 670,924,595 in issue during the nine months ended 30 September 2020, considering the adjustment in respect of the share incentive plan granted in the nine months ended 30 September 2020. Since the redemption clause was triggered, all the convertible bonds that have not been transferred into shares after the redemption date (31 August 2021) were redeemed by the Company. So convertible bonds are not taken into account when calculating the diluted earnings per share for the nine months ended 30 September 2021.

11. DIVIDENDS

	Nine months ended 30 September 2021 <i>RMB'000</i> <i>(unaudited)</i>	Year ended 31 December 2020 <i>RMB'000</i> <i>(audited)</i>
Proposed and declared final – RMB nil per ordinary share for the nine months ended 30 September 2021 and RMB0.20 per ordinary share for the year ended 31 December 2020	–	86,341
	–	86,341

The proposed final dividend for the periods were approved by the Company's shareholders at the subsequent annual general meeting.

12. PROPERTY, PLANT AND EQUIPMENT

During the nine months ended 30 September 2021, the Group acquired assets with a cost of RMB381,180,000 excluding property, plant and equipment acquired through properties under construction (for the nine months ended 30 September 2020: RMB136,184,000, excluding property, plant and equipment acquired through properties under construction).

Asset with a net book value of RMB1,388,000 were disposed by the Group during the nine months ended 30 September 2021 (for the nine months ended 30 September 2020: RMB9,030,000), resulting in a net gain on disposal of RMB240,000 (net loss for the nine months ended 30 September 2020: RMB1,075,000).

13. INVENTORIES

	30 September 2021 <i>RMB'000</i> <i>(unaudited)</i>	31 December 2020 <i>RMB'000</i> <i>(audited)</i>
Raw materials	435,910	313,961
Work in progress	188,654	112,919
Finished goods	529,398	501,119
	1,153,962	927,999
Less: Impairment provision		
Work in progress	(942)	(945)
Finished goods	(1,454)	(2,067)
	(2,396)	(3,012)
	1,151,566	924,987

14. TRADE RECEIVABLES

	30 September 2021	31 December 2020
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Trade receivables	1,269,093	762,221
Impairment	(16,720)	(19,154)
	<u>1,252,373</u>	<u>743,067</u>

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally two months, extending up to three months for major customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified 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 receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of each of the reporting periods, based on the invoice date, is as follows:

	30 September 2021	31 December 2020
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Less than 1 year	1,252,271	742,130
1 to 2 years	82	388
2 to 3 years	20	549
	<u>1,252,373</u>	<u>743,067</u>

The movements in the loss allowance for impairment of trade receivables are as follows:

	30 September 2021	31 December 2020
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
At beginning of the period/year	19,154	13,014
Impairment (reversed)/provided	(2,434)	6,140
Amount written off as uncollectible	–	–
	<u>16,720</u>	<u>19,154</u>

15. NOTES RECEIVABLES

	30 September 2021 <i>RMB'000</i> <i>(unaudited)</i>	31 December 2020 <i>RMB'000</i> <i>(audited)</i>
Notes receivables at amortised cost	–	–
Commercial acceptance notes	311,794	119,769
Less: Impairment	(3,514)	(1,198)
	<u>308,280</u>	<u>118,571</u>
Notes receivables at fair value through OCI		
Bank acceptance notes	<u>43,407</u>	<u>127,167</u>

Notes receivables of the Group are bank acceptance notes and commercial acceptance notes. Notes receivables of the Group are usually settled within six months from their respective dates of issuance. Impairment was recognised on commercial acceptance notes as at 30 September 2021 and 31 December 2020, respectively. The Group's bank acceptance notes are classified as financial assets measured at fair value through other comprehensive income.

Transferred financial assets that are not derecognised in their entirety:

The Group discounted certain commercial acceptance notes with an aggregate amount of RMB210,761,000 and RMB60,970,000 as at 30 September 2021 and 31 December 2020, respectively. The Group has retained the substantial risks and rewards, which include default risks relating to such discounted notes, and accordingly, the full carrying amounts of the discounted notes and the associated interest-bearing bank borrowings are continued to be recognised. None of the discounted notes settled during the periods have been recourse as at the end of the reporting periods.

Transferred financial assets that are derecognised in their entirety:

The Group endorsed certain notes receivables accepted by banks in Mainland China to certain of its suppliers in order to settle the trade payables due to such suppliers with aggregate carrying amounts of RMB263,584,000 and RMB208,655,000 as at 30 September 2021 and 31 December 2020, respectively, and discounted certain bank acceptance notes to banks with an aggregate amount of RMB446,656,000 and RMB209,909,000 as at 30 September 2021 and 31 December 2020, respectively. The derecognised notes have a maturity from one to six months as at 30 September 2021 and 31 December 2020, respectively. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the derecognised notes have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the derecognised notes. Accordingly, it has derecognised the full carrying amounts of the derecognised notes and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the derecognised notes and the undiscounted cash flows to repurchase these derecognised notes is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the derecognised notes are not significant.

For the periods, the Group has not recognised any gain or loss on the dates of transfer of the derecognised notes. No gains or losses were recognised from the Continuing Involvement during the periods, or cumulatively.

16. CASH AND CASH EQUIVALENTS, AND RESTRICTED CASH

	30 September 2021	31 December 2020
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Cash and bank balances	1,258,145	756,435
Less: Restricted cash	139,731	163,423
	<u>1,118,414</u>	<u>593,012</u>
Cash and cash equivalents	<u>1,118,414</u>	<u>593,012</u>
Denominated in:		
RMB	1,162,483	680,807
EUR	63,409	27,186
USD	31,347	46,281
JPY	758	2,059
HKD	148	102
	<u>1,258,145</u>	<u>756,435</u>
Total	<u>1,258,145</u>	<u>756,435</u>

As at 30 September 2021, 31 December 2020, the Group's bank balances of approximately RMB139,731,000, RMB163,423,000 were deposited as a guarantee as below of bank acceptance notes, banker's letters, letter of credit, respectively:

	30 September 2021	31 December 2020
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Guarantee deposits for bank acceptance notes	121,052	121,390
Guarantee deposits for performance bonds	7,864	7,864
Guarantee deposits for forward foreign exchange contracts	9,698	14,169
Guarantee deposits for letters of credit	1,117	–
Frozen deposits (<i>note</i>)	–	20,000
	<u>139,731</u>	<u>163,423</u>
	<u>139,731</u>	<u>163,423</u>

Note: On 20 August 2018, a third-party customer filed a litigation preservation application with People's Court of Haicheng District, Beihai City, Guangxi Zhuang Autonomous Region (the "Court") on the dispute over the sale and purchase agreement entered into with the Company. On 11 September 2018, the Court resolved to freeze the Company's bank deposits of RMB20,000,000. On 5 January 2021, the Company paid RMB22,054,000 according to the settlement agreement entered into with the third-party customer; and the frozen deposit was released accordingly.

RMB is not freely convertible into other currencies, however, under Mainland China'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. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

17. TRADE AND NOTES PAYABLES

	30 September 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
Trade payables	655,724	363,573
Notes payables	211,483	257,753
	<u>867,207</u>	<u>621,326</u>

An ageing analysis of the trade and notes payables as at the end of each of the reporting periods is as follows:

	30 September 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
Less than 1 year	866,576	620,984
1 to 2 years	382	133
2 to 3 years	41	113
Over 3 years	208	96
	<u>867,207</u>	<u>621,326</u>

18. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 September 2021 (unaudited)			31 December 2020 (audited)		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – credit	4.35-5.17	2022	651,561	3.35-4.35	2021	178,049
Current portion of long-term bank loans – credit	4.75	2022	123,126	4.75	2021	200,000
Current portion of long term bank loans – secured		2022	100,000	–	–	–
Letters of credit	–	2022	76,668	–	2021	27,614
Commercial acceptance notes	2.75-3.76	2022	210,761	2.90-3.45	2021	60,970
			<u>1,162,116</u>			<u>466,633</u>
Non – current						
Bank loans – credit	4.35	2023	200,000	2.92-4.35	2022	167,208
Bank loans – secured	–	–	–	2.70	2022	100,000
Bank loans – mortgage	3.85	2023	100,000	–	–	–
Bank loans – secured & mortgage	3.90	2026	42,885	–	–	–
Convertible bonds (note 19)	–	–	–	–	2019.11.1-2025.10.31	343,572
			<u>342,885</u>			<u>610,780</u>

- (a) The mortgage loans due to The Export-Import Bank of China Jiangxi Branch are secured by factory buildings. The amounts of mortgages over the Group's factory buildings, which had a net carrying value at 30 September 2021 was of approximately RMB137,835,000.
- (b) The secured loans due to The Export-Import Bank of China Jiangxi Branch are guaranteed by Ganzhou Jinshengyuan Financial Guarantee Group Co., Ltd.
- (c) The secured & mortgage loans due to Bank of China Co., Ltd. Baotou Kundulun Sub-branch and Industrial and Commercial Bank of China Co., Ltd. Baotou Binhe Sub-branch are guaranteed by JL MAG Rare-Earth Co., Ltd., and are secured by factory buildings and land. The amounts of mortgages over the Group's factory buildings and land, which had a net carrying value at 30 September 2021 was of approximately RMB49,358,000.
- (d) All the interest-bearing bank borrowings are denominated in RMB.
- (e) As disclosed in note 15, the Group discounted certain commercial acceptance notes with an aggregate amount of RMB210,761,000 and RMB60,970,000 as at as at 30 September 2021 and 31 December 2020, respectively. The Group has retained the substantial risks and rewards, which include default risks relating to such discounted notes, and accordingly, the full carrying amounts of the discounted notes and the associated interest-bearing bank borrowings to be recognised. None of the discounted notes settled during the periods have been recourse as at the end of the reporting periods.

	30 September 2021	31 December 2020
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Analysed into:		
Bank loans:		
Within one year or on demand	951,355	405,663
In the second year	300,000	267,208
Beyond three years	42,885	–
	<u>1,294,240</u>	<u>672,871</u>
Total	<u>1,294,240</u>	<u>672,871</u>

	30 September 2021	31 December 2020
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Analysed into:		
Convertible bonds:		
In the fourth to fifth years, inclusive	–	343,572
Beyond five years	–	–
	<u>–</u>	<u>343,572</u>
Total	<u>–</u>	<u>343,572</u>

19. CONVERTIBLE BONDS

On 1 November 2019, the Company issued 4,350,000 convertible bonds with a nominal value of RMB435,000,000 and a maturity of six years. The convertible bond conversion period starts from the first trading day of the sixth month after the issuance of the convertible bond. The initial conversion price of the convertible bonds is RMB41.20 per share. The conversion price will be adjusted accordingly upon issuance of bonus shares and new shares (excluding the increase in share capital due to the conversion of convertible bonds), conversion of share capital, distribution of allotment and cash dividends, respectively. The interest of the issued convertible bonds will be calculated according to coupon rate of 0.4% in the first year, 1.0% in the second year, 1.5% in the third year, 2.0% in the fourth year, 3.0% in the fifth year and 4.0% in the sixth year, and the principal will be returned at maturity and the interest of the last year will be paid.

In May 2020, the convertible bonds were converted from bonds to shares for the first time. A total of 4,518 bonds were converted in 2020, and a total of 4,270,116 bonds were converted from January 2021 to August 2021.

On 30 August 2021, the remaining 75,366 convertible bonds were redeemed.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

The convertible bonds issued during the periods have been split into the liability and equity components as follows:

	30 September 2021	31 December 2020
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Liability component at 1 January	343,572	322,027
Interest expense	16,747	23,616
Interest paid	(35)	(1,740)
	<hr/>	<hr/>
Transfer from convertible bonds to ordinary shares	(354,030)	(331)
Redemption	(6,254)	–
	<hr/>	<hr/>
Liability component at 30 September/31 December	<u>–</u>	<u>343,572</u>

20. SHARE CAPITAL

	30 September 2021	31 December 2020
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Issued and fully paid:	707,601	415,977
	<hr/>	<hr/>
	<u>707,601</u>	<u>415,977</u>

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital <i>RMB'000</i>
At 31 December 2020 and 1 January 2021	415,976,749	415,977
Issue of shares	15,725,922	15,726
Transfer from convertible bonds (note 19)	16,875,166	16,875
Transfer from share premium (note 10)	259,022,953	259,023
	<u>707,600,790</u>	<u>707,601</u>
At 30 September 2021	<u>707,600,790</u>	<u>707,601</u>

21. SHARE INCENTIVE PLAN

The Company operates a share incentive plan (the "SIP") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the SIP include the Company's directors and other employees of the Group. The SIP became effective on 26 August 2020 and, unless otherwise cancelled or amended, will remain in force for three years from that date.

On 26 August 2020 and 8 September 2020, the Board approved a total of 8,252,000 restricted shares (including Type I Restricted Shares* and Type Two Restricted shares*) to 221 participants to recognize their contribution and offer share incentive. Among them, 218 participants were granted 2,541,600 Type I Restricted Shares (representing 4,066,560 A shares after the increase of share capital in May 2021), 219 participants were granted 5,292,400 Type II Restricted shares (representing 8,467,840 A Shares after the increase of share capital in May 2021), and 418,000 Type II Restricted Shares (representing 666,800 A Shares after the increase of share capital in May 2021) were reserved. On 29 October 2020, the Board further approved the grant of 200,000 (representing 320,000 A Shares after the increase of share capital in May 2021) out of 418,000 reserved Type II Restricted Shares to five participants. On 26 August 2021, the Board further approved the grant of 218,000 (representing 348,800 A Shares after the increase of share capital in May 2021) out of 418,000 reserved Type II Restricted Shares to seven participants. On 22 September 2021, 1,014,400 (representing 1,623,040 A shares after the increase of share capital in May 2021) of Type I Restricted Shares were unlocked.

* The price of restricted shares (including Type I Restricted Shares and Type II Restricted Shares) is RMB21.62. Type I Restricted Shares refers to A Shares issued to the participants with certain restrictions stipulated under the SIP. On the grant date of Type I Restricted Shares, the participants of Type I Restricted Shares were entitled to received newly issued A Shares of the Company, with certain restrictions stipulated under the SIP. Type II Restricted Shares refers to A Shares granted to the participants pursuant to which A Shares could be newly issued and subscribed for upon the satisfaction of certain vesting conditions under the SIP. The Participants of Type II Restricted Shares have the right to subscribe new A Shares in the future upon the satisfaction of certain vesting conditions under the SIP. These granted restricted shares have a contractual term of no more than four years and will be unlocked (in terms of type one restricted shares) or vested (in terms of type two restricted shares) over a three-year period. In the periods, Type I Restricted Shares were issued and subscribed by the participants; Type II Restricted Shares were not issued to the participant upon granted, and are not recorded in the share capital.

The following Type I Restricted Shares were outstanding under the SIP during the periods:

	Nine months ended 30 September 2020 <i>(unaudited)</i>		Nine months ended 30 September 2021 <i>(unaudited)</i>	
	Exercise price <i>RMB per share</i>	Subscribed and registered <i>'000</i>	Exercise price** <i>RMB per share</i>	Subscribed and registered <i>'000</i>
At 1 January	–	–	21.62 (representing 13.3875 after the increase of share capital in May 2021)	2,542 (representing 4,067 after the increase of share capital in May 2021)
Granted during the period	21.62	2,542	–	–
Forfeited during the period***	–	–	–	–
Exercised during the period	–	–	13.3875	1,623
Expired during the period	–	–	–	–
At the end of the period	<u>21.62</u>	<u>2,542</u>	<u>13.3875</u>	<u>2,444</u>

The following Type II Restricted Shares were outstanding under the SIP during the periods:

	Nine months ended 30 September 2020 <i>(unaudited)</i>		Nine months ended 30 September 2021 <i>(unaudited)</i>	
	Exercise price <i>RMB per share</i>	Number of shares <i>'000</i>	Exercise price** <i>RMB per share</i>	Number of shares <i>'000</i>
At 1 January	–	–	21.62 (representing 13.3875 after the increase of share capital in May 2021)	5,492 (representing 8,788 after the increase of share capital in May 2021)
Granted during the period	21.62	5,492	13.3875	349
Forfeited during the period	–	–	–	–
Exercised during the period	–	–	–	–
Expired during the period	–	–	–	–
At the end of the period	<u>21.62</u>	<u>5,492</u>	<u>13.3875</u>	<u>9,137</u>

Fair values of the share incentive plans were calculated using the following assumptions:

	<i>SIP</i>
Share price at the granting date, i.e., 26 August 2020	RMB40.00
Exercise price	RMB21.62
Expected life	3
Expected volatility	67.43%
Annual Rate of Dividends	0.54%
Risk free rate	2.60%

	<i>SIP</i>
Share price at the granting date, i.e., 26 August 2021	RMB36.13
Exercise price**	RMB13.39
Expected life	2
Expected volatility	59.18%
Annual Rate of Dividends	0.54%
Risk free rate	2.42%

** According to the SIP, the grant price was RMB21.62 per share, and would be adjusted if the Company declared cash or share dividends. Since the Company declared cash dividends of RMB0.2 per share and transferred share premium into share capital with six new shares issued for every ten existing shares in May 2021, the grant price was then adjusted to RMB13.3875 per share.

*** Before the unlock day, six participants had resigned and therefore their shares would not be unlocked. The Type I Restricted Shares of the resigned participants, i.e. 5,600 shares amounted to RMB120,000 (representing 8,960 A shares after the increase of share capital in May 2021), which is recorded in the treasury shares amounted to RMB33,018,000 as at 30 September 2021, will be repurchased by the Company according to the SIP.

As at 31 December 2020, the Company received a total of RMB54,949,000 cash consideration of Type I Restricted Shares, of which RMB2,542,000 and RMB52,407,000 were recorded in share capital and share premium, respectively. The Company has credited an amount of RMB54,949,000 to other payables and accruals and debited to treasury shares accordingly.

For the year ended 31 December 2020 and the nine months ended 30 September 2021, the Group has recognised amount of RMB37,522,000 and RMB59,586,000 respectively, as share incentive plan expenses.

22. COMMITMENTS

(a) The Group had the following capital commitments at the end of each of the reporting periods:

	30 September 2021	31 December 2020
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Contracted, but not provided for:		
Property, plant and equipment	64,217	126,387
	<u>64,217</u>	<u>126,387</u>
	<u>64,217</u>	<u>126,387</u>

23. RELATED PARTY TRANSACTIONS

- (a) The Group had the following related parties during the nine months ended 30 September 2021 and 2020:

Name of Company	Relationship
Goldwind Investment Holdings Limited	Major shareholder, holding 14.51%, 13.18%, 11.38%, 8.50% of the Company as at 31 December 2018, 2019, 2020 and 30 September 2021, respectively.
Ganzhou Rare Earth Group Co., Ltd.	Major shareholder, holding 6.53%, 6.53%, 6.49%, 6.25% of the Company as at 31 December 2018, 2019, 2020 and 30 September 2021, respectively.
Ganzhou Poly-Max Magnetics Co., Ltd.	Associate
Sichuan Jiangtong Rare Earth Magnetic Material Co., Ltd.	Associate
Beijing Goldwind Kechuang Wind Power Equipment Co., Ltd.	Subsidiary of Xinjiang Goldwind Technology Co., Ltd.
Goldwind Technology Hebei Co., Ltd.	Subsidiary of Xinjiang Goldwind Technology Co., Ltd.
Southern Rare Earth International Trading Co., Ltd.	Subsidiary of Ganzhou Rare Earth Group Co., Ltd., major shareholder of the company
Ganzhou Rare Earth Youli Technology Development Co., Ltd.	Subsidiary of Ganzhou Rare Earth Group Co., Ltd., major shareholder of the company
Longnan Youli Rare Earth Science and Technology Development Co., Ltd.	Subsidiary of Ganzhou Rare Earth Group Co., Ltd., major shareholder of the company
Jiangxi Ionic Rare Earth Engineering Technology Research Co., Ltd.	Subsidiary of Ganzhou Rare Earth Group Co., Ltd., major shareholder of the company
CRRC Corporation Limited and its subsidiaries	Other related party**
Nanjing Turbine Motor Changfeng New Energy Co., Ltd.	Other related party**

** During the periods, CRRC Corporation Limited and its subsidiaries and Nanjing Turbine Motor Changfeng New Energy Co., Ltd., suppliers of Xinjiang Goldwind Technology Co., Ltd., purchased NdFeB magnet materials from the Group under the direction of Xinjiang Goldwind Technology Co., Ltd., in order to meet the specific parameters of the production process. Accordingly, management of the Company disclosed these transactions as related party transactions.

- (b) In addition to the transactions detailed elsewhere in the interim condensed consolidated financial information, the Group had the following transactions with related parties during the nine months ended 30 September 2021 and 2020:

	Nine months ended 30 September 2021 RMB'000 (unaudited)	Nine months ended 30 September 2020 RMB'000 (unaudited)
Service rendering from associate: Sichuan Jiangtong Rare Earth Magnetic Material Co., Ltd.	–	474
Service rendering from subsidiary of the Company's shareholder: Ganzhou Rare Earth Youli Technology Development Co., Ltd.	–	124
Jiangxi Ionic Rare Earth Engineering Technology Research Co., Ltd.	–	93
	–	217
Purchases of products from companies controlled by a major shareholder: Longnan Youli Rare Earth Science and Technology Development Co., Ltd.	1,301	–
Ganzhou Rare Earth Youli Technology Development Co., Ltd.	3,429	3,852
Jiangxi Ionic Rare Earth Engineering Technology Research Co., Ltd.	518	375
Southern Rare Earth International Trading Co., Ltd.	387,796	108,150
	393,044	112,377
Purchases of products from an associate: Ganzhou Poly-Max Magnetics Co., Ltd.	2,552	–
Rental income from an associate: Ganzhou Poly-Max Magnetics Co., Ltd.	61	45
Sales of goods to associate: Ganzhou Poly-Max Magnetics Co., Ltd.	2,069	–
Sales of goods to companies controlled by a major shareholder: Goldwind Technology Hebei Co., Ltd.	11,064	50,933
Sales of goods to other related parties: CRRC Corporation Limited and its subsidiaries Baotou CRRC Motor Co., Ltd.	38,787	53,093
Hami CRRC New Energy Motor Co., Ltd.	17,659	27,239
Hunan CRRC Shangqu Electric Co., Ltd.	32	–
Jiangsu CRRC Electric Co., Ltd.	237,223	132,561
Shandong CRRC Electric Co., Ltd.	115,232	65,219
Xi'an CRRC Yongdian Jieli Wind Power Co., Ltd.	227,029	143,525
Nanjing Turbine Motor Changfeng New Energy Co., Ltd.	31,079	33,498
	667,041	455,135

(c) Outstanding balances with related parties:

	30 September 2021	31 December 2020
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Trade receivables due from an associate: Ganzhou Poly-Max Magnetics Co., Ltd.	748	291
Trade receivables due from companies controlled by a major shareholder: Beijing Goldwind Kechuang Wind Power Equipment Co., Ltd.	–	5,933
Goldwind Technology Hebei Co., Ltd.	8,237	27,867
	<u>8,237</u>	<u>33,800</u>
Trade payables due to associate: Ganzhou Poly-Max Magnetics Co., Ltd.	305	201
Trade payables due to companies controlled by a major shareholder: Southern Rare Earth International Trading Co., Ltd.	118,272	36,003
Notes payables due to a company controlled by a major shareholder: Southern Rare Earth International Trading Co., Ltd.	10,388	39,791

(d) Compensation of key management personnel of the Group:

	Nine months ended 30 September 2021	Nine months ended 30 September 2020
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Salaries, allowances and benefits in kind	6,035	6,065
Share incentive expense	27,071	6,868
Social insurance and housing fund	399	337
	<u>33,505</u>	<u>13,270</u>

24. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, trade receivables, trade and notes payables, and financial assets included in prepayments, other receivables and other assets approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At the end of each of the reporting periods, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 30 September 2021
(unaudited)

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial assets at fair value through profit or loss	–	5,843	–	5,843
Notes receivables	–	–	43,407	43,407
	–	5,843	43,407	49,250

As at 31 December 2020
(audited)

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial assets at fair value through profit or loss	–	2,654	–	2,654
Notes receivables	–	–	127,167	127,167
	–	2,654	127,167	129,821

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at the end of each of the Relevant Periods:

As at 30 September 2021

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Notes receivables	Income approach	Discount rate	3.85%	5% increase/decrease would result in increase/decrease in fair value by 0.07%

As at 31 December 2020

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Notes receivables	Income approach	Discount rate	3.91%	5% increase/decrease would result in increase/decrease in fair value by 0.06%

The Group did not have any financial liabilities measured at fair value at the end of each of the reporting periods.

During the nine months ended 30 September 2021 and year ended 31 December 2020, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 for both financial assets and financial liabilities. The Group's policy is to recognise transfers between levels of the fair value hierarchy as at the end of each of the reporting periods in which they occur.

25. EVENTS AFTER THE REPORTING PERIODS

- (1) On 29 July 2021, the Board resolved to make a RMB57.0 million investment to JL Ningbo Investment, a subsidiary of the Company, to indirectly participate in the establishment of a fund, which is expected to be engaged in the investment in projects in the rare earth permanent magnets industry, as a limited liability partner to facilitate industry chain expansion of the Group. As of the date of this report, the Company had entered into agreements in respect of such investment and the amount the Company had committed to invest did not exceed the aforementioned RMB57.0 million. The Group will account for its investment in such fund as an investment in an associate using the equity method of accounting.
- (2) On 8 December 2021, in light of the conversion of the Convertible Bonds in August 2021, the repurchase and cancellation of 8,960 Type I Restricted Shares in September 2021, and the subscription of 3,372,800 Type II Restricted Shares in November 2021, the Board resolved to increase the Company's registered capital from RMB690.7 million to RMB711.0 million. Such increase in the registered capital is subject to the approval by Shareholders' meeting of the Company which is expected to be held on 24 December 2021.

The information set forth in this Appendix does not form part of the accountants' report on the historical financial information of the Group for the Track Record Period (the "Accountants' Report") prepared by Ernst & Young, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, and Interim Condensed Consolidated Financial Information for the nine months ended 30 September 2021 (the "Interim Condensed Consolidated Financial Information"), as set out in Appendix I and IA to this prospectus, respectively, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountant's Report and Interim Condensed Consolidated Financial Information set out in Appendix I and IA to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules and with reference to Accounting Guideline ("AG") 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the HKICPA is set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets of our Group attributable to owners of the Company as at 30 September 2021 as if it had taken place on 30 September 2021.

This unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group as at 30 September 2021 or at any future dates following the Global Offering. It is prepared based on our unaudited consolidated net tangible assets of our Group as at 30 September 2021 as derived from the condensed consolidated financial statements set out in Appendix IA of this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted consolidated net tangible assets does not form part of the Accountants' Report and Interim Condensed Consolidated Financial Information.

	Consolidated net tangible assets attributable to owners of the Company as at 30 September 2021 ⁽¹⁾ RMB'000	Estimated net proceeds from the Global Offering ⁽²⁾ RMB'000	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company RMB'000	Unaudited pro forma adjusted consolidated net tangible assets per Share ⁽³⁾⁽⁴⁾⁽⁵⁾ RMB HK\$	
Based on the Offer					
Price of HK\$33.80 per Offer Share	2,755,019	3,304,930	6,059,949	7.24	8.86
Based on the Offer					
Price of HK\$40.30 per Offer Share	2,755,019	3,949,178	6,704,197	8.02	9.82

Notes:

- (1) The consolidated net tangible assets attributable to owners of the Company as at 30 September 2021 is extracted from the Interim Condensed Consolidated Financial Information set out in Appendix IA to this Prospectus, which is based on the consolidated net assets of our Group attributable to owners of the Company as at 30 September 2021 of approximately RMB2,759 million with an adjustment for the intangible assets of RMB4 million.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$33.80 per Offer Share or HK\$40.30 per Offer Share, being the low-end price or high-end price after deduction of the estimated underwriting fees and other related expenses payable by the Company and takes no account of any Share which may be issued upon the exercise of the Over-allotment Option. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into RMB at an exchange rate of HK\$1.00 to RMB0.8170.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share has been arrived at after having made the adjustments referred to in the preceding paragraphs and on the basis of a total of 836,439,590 shares, including 710,973,590 A shares and 125,466,000 H Shares, were in issue assuming that Global Offering has been completed as at 30 September 2021, excluding Shares which may be issued upon the exercise of the Over-allotment Options.
- (4) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share is converted from RMB into Hong Kong dollars at the rate of HK\$1.00 to RMB0.8170. No representation is made that the RMB amounts have been, could have been or could be converted to Hong Kong dollars, or vice versa at that rate or at any other rates or at all.
- (5) No adjustment has been made to reflect any trading results or other transactions entered into by our Group subsequent to 30 September 2021. The redemption of the convertible bonds, as disclosed in Note 47 (2) to Appendix I, which was recorded in the consolidated net assets of the Group attributable to Owners of the Company as at 30 September 2021, has been taken into account in the unaudited pro forma adjusted consolidated net tangible assets per Share.



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B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

To the Directors of JL Mag Rare-Earth Co., Ltd.

We have completed our assurance engagement to report on the compilation of pro forma financial information of JL Mag Rare-Earth Co., Ltd. (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated net tangible assets as at 30 September 2021, and related notes as set out on pages II-1 of the Prospectus dated 31 December 2021 issued by the Company (the “Pro Forma Financial Information”). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in Appendix II to the Prospectus.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the global offering of shares of the Company on the Group’s financial position as at 30 September 2021 as if the transaction had taken place at 30 September 2021. As part of this process, information about the Group’s financial position, has been extracted by the Directors from the Group’s financial statements for the nine months ended 30 September 2021, on which a review report set out in Appendix IA to the prospectus has been published.

Directors’ responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline (“AG”) 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of the Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of the global offering of shares of the Company on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma 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:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Ernst & Young

Certified Public Accountants

Hong Kong

31 December 2021

This appendix contains a summary of the major provisions of the Articles of Association of the Company and will take effect from the listing and trading date of the H Shares of the Company on the Hong Kong Stock Exchange. This appendix mainly aims to provide potential investors with an overview of the Articles of Association of the Company, which not necessarily includes all information that may be significant to potential investors.

SHARES

Issuance of Shares

The Company shall have ordinary shares at all times. With the approval of the companies examination and approval department authorized by the State Council, the Company may have other classes of shares when needed.

The Company shall issue its shares in an open, fair and impartial manner, and each share of the same class shall have the same right.

All shares of the same class issued at the same time shall be issued under the same conditions and at the same price; any entity or individual shall pay the same price for each share to be subscribed by it.

The shares of the Company shall take the form of stocks. All shares issued by the Company shall have a par value of RMB1 per share.

The Company may issue its shares to both domestic and foreign investors with the approval of the relevant securities regulatory authority under the State Council.

The Board of the Company may make arrangement for the Company's separate issuance of overseas listed foreign shares and domestic shares according to the issue scheme as approved by the securities regulatory authority under the State Council.

According to the aforesaid scheme for separate issuance of overseas listed foreign shares and domestic shares, the Company may issue the same separately within 15 months after the date of the approval of the securities regulatory authority under the State Council or the authority authorized by the State Council or within the validity period of its approval document.

Increase, Decrease and Repurchase of Shares

The Company may increase its capital based on the needs of operation and development and in accordance with the requirements of the laws and regulations and a resolution at the general meeting, by way of the following:

- (i) public issuance of shares;
- (ii) non-public issuance of shares;

- (iii) placement of new shares to existing Shareholders;
- (iv) issuance of bonus shares to existing Shareholders;
- (v) conversion of the reserve into share capital;
- (vi) other means as approved by the laws, administrative regulations and the securities regulatory authority under the State Council, the regulatory authorities in the place where the Shares of the Company are listed and other relevant regulatory authorities.

If the Company reduces its registered capital, it shall prepare a balance sheet and a checklist of its assets.

The Company shall notify its creditors within 10 days and publish an announcement for at least three times on the newspaper designated by the Company for information disclosure within 30 days following its resolution approving the reduction of registered capital. The creditors shall be entitled to require the Company to settle its debts or provide corresponding guarantees within 30 days after receipt of such notice or within 45 days after the publication of such announcement in case where the notice is not received.

The registered capital of the Company, upon such reduction, shall not fall below the minimum statutory requirement.

The Company may, pursuant to the laws, administrative regulations, department rules, the listing rules of the place where the Shares of the Company are listed and the Articles of Association, repurchase its shares under the following circumstances:

- (i) to reduce the registered capital of the Company;
- (ii) to merge with another company holding shares in the Company;
- (iii) to use the shares for employee stock ownership scheme or share incentive;
- (iv) to require the Company to acquire the shares held by the Shareholders who object to a resolution proposed at the general meeting relating to the merger or division of the Company;
- (v) to use the shares for conversion of corporate bonds which are convertible into shares issued by the listed company;
- (vi) where it is necessary to safeguard the value of the Company and the interests of its Shareholders;
- (vii) other circumstances as permitted by the laws and administrative regulations.

Except for the abovementioned circumstances, the Company shall not acquire its own shares.

Where the Company repurchases its shares under the circumstances set out in items (i) and (ii) above, it shall be resolved at a general meeting. Where the Company repurchases its shares under the circumstances set out in items (iii), (v) and (vi) above, it shall be resolved by more than two-thirds of the Directors present at a meeting of the Board. In the event that the Company repurchases its shares in accordance with the above provisions, such shares shall be canceled within ten (10) days upon such repurchase under the circumstance set out in item (i); such shares shall be transferred or canceled within 6 months under the circumstances set out in items (ii) and (iv); the aggregate number of the shares held by the Company shall not exceed 10% of the total issued shares of the Company, and such shares shall be transferred or canceled within three years under the circumstances set out in items (iii), (v) and (vi).

With the approval by relevant national competent authorities, the Company may repurchase its shares in any of the following ways:

- (i) to issue a repurchase offer to all Shareholders according to an equal percentage;
- (ii) to repurchase through open transaction in the stock exchange;
- (iii) to repurchase through over-the-counter agreement;
- (iv) other circumstances as permitted by the laws, administrative regulations and relevant competent authorities.

Unless the Company is in the course of liquidation, the Company must comply with the following provisions when repurchasing its outstanding shares:

- (i) Where the Company repurchases shares at par value, the payment shall be deducted from the book balance of the distributable profit of the Company or the proceeds from the issuance of new shares for repurchasing old shares;
- (ii) Where the Company repurchases shares at a price above par value, the part equivalent to the par value shall be deducted from the book balance of the distributable profit of the Company or the proceeds from the issuance of new shares for repurchasing old shares; the part in excess of the par value shall be processed as follows:
 - 1. deducted from the book balance of the distributable profit of the Company if the shares repurchased were issued at par value;

2. deducted from the book balance of the distributable profit of the Company and the proceeds from the issuance of new shares for repurchasing old shares if the shares repurchased were issued at a price above par value, but the amount deducted from the proceeds from the issuance of new shares shall not exceed the total premium obtained at the time of issuance of the shares repurchased, nor exceed the amount (including the premium from the issuance of new shares) in the premium account (or capital reserve account) of the Company at the time of the repurchase;
- (iii) The monies paid by the Company for the following purposes shall be deducted from the distributable profit of the Company:
1. acquisition of the right to repurchase its shares;
 2. modification of any contract for repurchase of its shares;
 3. release of its obligations under any contract for repurchase of its shares.
- (iv) After the aggregate par value of the canceled shares is deducted from the registered capital of the Company pursuant to relevant regulations, the amount deducted from the distributable profit for paying the par value of the shares repurchased shall be included in the premium account (or capital reserve account) of the Company.

Where the laws, regulations, rules, regulatory documents and relevant requirements of the securities regulatory authorities in the place where the shares of the Company are listed have any other provisions in respect of the financial arrangement related to the aforementioned share repurchase, such provisions shall prevail.

Transfer of Shares

Unless otherwise provided by the laws, administrative regulations, regulatory documents and the listing rules of the stock exchange in the place where the Shares of the Company are listed, the paid-up Shares of the Company can be freely transferred in accordance with laws and are not subject to any liens.

All paid-up H Shares shall be freely transferable in accordance with the Articles of Association; unless the following conditions are satisfied, the Board may refuse to recognize any transfer documents without giving any reasons:

- (i) The transfer document and other documents relating to or likely affecting the ownership of any H Shares shall be registered, and the payment therefor shall be made in accordance with the fee standards stipulated by the Hong Kong Listing Rules, and such payment shall not exceed the maximum payment specified in the Hong Kong Listing Rules from time to time;

- (ii) The transfer document only involves H Shares;
- (iii) The stamp tax payable on the transfer instrument has been paid;
- (iv) The relevant share certificate, together with the evidence as reasonably required by the Board showing that the transferor is entitled to transfer the shares, shall be produced;
- (v) If the shares are to be transferred to joint holders, the number of joint holders shall not exceed four;
- (vi) No company shall have any liens over such shares.

If the Board refuses to register the transfer of shares, the Company shall send an evidence for such refusal to the transferor and transferee within two months from the date of the official transfer application.

The Company shall not accept its own shares as the subject of pledge.

The shares of the Company held by the promoters shall not be transferred within one year after the establishment of the Company. The shares already issued before the public issuance of A Shares by the Company shall not be transferred within one year after the A Shares of the Company are listed and traded on the stock exchange.

The Directors, Supervisors and senior management of the Company shall report to the Company about their shareholdings in the Company and changes thereof, and they shall not transfer more than 25% of their shares in the Company in aggregate per annum during their terms of office; the shares held by them in the Company shall not be transferred within one year after the shares of the Company are listed and traded. The aforesaid persons shall not transfer their shares in the Company within half a year after they terminate service with the Company.

Financial Assistance for the Purchase of the Company's Shares

The Company or its subsidiaries (including affiliates of the Company) shall not at any time provide any financial assistance in any form to purchasers or potential purchasers of the Company's shares. The aforesaid purchasers of the Company's shares include persons directly or indirectly undertaking obligations because of the purchase of the Company's shares.

The Company or its subsidiaries shall not at any time provide any financial assistance in any form to the aforesaid obligors for the purpose of reducing or discharging their obligations.

The following acts are not deemed as prohibited under the preceding two paragraphs:

- (i) The Company provides the relevant financial assistance truthfully in the interests of the Company, and the said financial assistance is not mainly intended to repurchase the Company's shares, or the said financial assistance is part of a general plan of the Company;
- (ii) The Company distributes its properties as dividends in accordance with the laws;
- (iii) The Company distributes its shares as dividends;
- (iv) The Company reduces its registered capital, repurchases its shares and adjusts its shareholding structure in accordance with the Articles of Association;
- (v) The Company, within its business scope, provides loan for its normal business operations (but such financial assistance shall not give rise to a decrease in the net assets of the Company, or despite a decrease, such financial assistance is deducted from the distributable profit of the Company);
- (vi) The Company provides loan for the employee stock ownership scheme (but such financial assistance shall not give rise to a decrease in the net assets of the Company, or despite a decrease, such financial assistance is deducted from the distributable profit of the Company).

Financial assistance referred to in the Articles of Association includes (but is not limited to) the following forms:

- (i) gift;
- (ii) guarantee (including the assuming of liability or provision of property by the guarantor to ensure fulfilment of obligations by the obligor), compensation (excluding compensation for the Company's own error), termination or waiver of rights;
- (iii) provision of loan or execution of contract under which the Company fulfils obligations prior to other parties, change of the said loan and the parties to the contract, and transfer of the said loan and rights under the contract, etc.;
- (iv) provision of any other form of financial assistance when the Company is insolvent, has no net assets or its net assets are likely to decrease significantly.

Obligations to be undertaken referred to in the Articles of Association include the obligations to be undertaken by the obligor for entering into a contract or making an arrangement (regardless whether the said contract or arrangement is enforceable, or whether it is undertaken by the obligor individually or jointly with any other persons) or for changing his financial position in any other form.

SHAREHOLDERS

Register of Members

The Company shall maintain a register of members to record the following particulars:

- (i) the name, address (domicile), occupation or nature of each Shareholder;
- (ii) the class and number of the shares held by each Shareholder;
- (iii) the amount paid or payable for the shares held by each Shareholder;
- (iv) the serial number of the share certificate held by each Shareholder;
- (v) the date on which each Shareholder is registered as a Shareholder;
- (vi) the date on which each Shareholder ceases to be a Shareholder.

The register of members shall be a sufficient evidence for the Shareholders' shareholdings in the Company unless there is evidence to the contrary.

Subject to compliance with the Articles of Association and other applicable requirements and upon transfer of the Company's shares, the transferees of the shares will become the holders of such shares with their names being listed in the register of members.

The transfer or assignment of the shares must be registered with the domestic or foreign share transfer registrar appointed by the Company, and shall be recorded in the register of members.

Changes and corrections to each part of the register of members shall be carried out in accordance with the laws of the place where each part is maintained.

Rights and Obligations of Shareholders

A Shareholder of the Company is a person who holds shares in the Company according to the laws with its name registered in the register of members. The Company shall establish a register of members based on the vouchers provided by securities registries. The register of members shall be a sufficient evidence for the Shareholders' shareholdings in the Company. The Shareholders shall enjoy rights and undertake obligations as per the class and proportion of the shares held by them; Shareholders holding the same class of shares shall be entitled to equal rights and undertake equal obligations.

The Shareholders of ordinary shares of the Company shall have the following rights:

- (i) to receive dividends and profit distributions in other forms in proportion to the shares held by them;
- (ii) to lawfully require, convene, preside over or attend general meetings either in person or by proxy and exercise their corresponding voting rights;
- (iii) to supervise, make recommendations or make inquiries about the operations of the Company;
- (iv) to transfer, gift or pledge their shares in accordance with the laws, administrative regulations, department rules, regulatory documents, the listing rules of the stock exchange in the place where the Shares of the Company are listed, and the Articles of Association;
- (v) to obtain relevant information according to the provisions of the Articles of Association, including:
 - 1. obtaining a copy of the Articles of Association after payment of the cost;
 - 2. inspecting and reproducing the following after payment of reasonable fees:
 - (1) copies of all register of members;
 - (2) the personal data of the Directors, Supervisors, general manager and other senior management of the Company, including: (a) present and past name and alias; (b) main address (domicile); (c) nationality; (d) full-time and all other part-time occupations and positions; (e) identity document and number;
 - (3) the share capital condition of the Company;
 - (4) a report on the aggregate par value, quantity, the highest price and the lowest price of every class of shares the Company has repurchased since the previous accounting year, as well as all the expenses the Company has paid in this regard (breakdown by domestic shares and H Shares);
 - (5) the minutes of general meetings.

The Company must prepare the documents set out in items (1) and (5) above at the Hong Kong address of the Company according to the requirements of the Hong Kong Listing Rules for inspection by the Shareholders free of charge;

- (vi) in the event of the termination or liquidation of the Company, to participate in the distribution of the remaining property of the Company in proportion to the shares held by them;
- (vii) to require the Company to acquire the shares held by the Shareholders who object to a resolution proposed at the general meeting concerning the merger or division of the Company;
- (viii) other rights as stipulated by the laws, administrative regulations, department rules, regulatory documents, the listing rules of the stock exchange in the place where the Shares of the Company are listed or the Articles of Association.

Where any person directly or indirectly owning interests does not disclose his/her interests to the Company, the Company shall not therefore exercise any right to freeze or otherwise impair any rights attached to the shares held by such person.

If any resolution of the general meeting or the Board meeting of the Company violates the laws or administrative regulations, the Shareholders shall have the right to request the People's Court to invalidate the resolution. If the convening procedure or voting method of the general meeting or the Board meeting violates the laws, administrative regulations or the Articles of Association, or the contents of a resolution run counter to the Articles of Association, the Shareholders shall have the right to request the People's Court to cancel such resolution within 60 days after passing the resolution.

Where the Company incurs any losses as a result of violation by the Directors and the senior management of the laws, administrative regulations or the Articles of Association in the course of performing their duties with the Company, the Shareholders individually or jointly holding 1% or more of the Shares of the Company for more than 180 consecutive days shall be entitled to request in writing the Supervisory Committee to file a suit to the People's Court; where the Company incurs any losses as a result of violation by the Supervisory Committee of the laws, administrative regulations or the Articles of Association in the course of performing its duties with the Company, such Shareholders may make a request in writing to the Board to file a suit to the People's Court.

In the event that the Supervisory Committee or the Board refuses to file a suit upon receipt of the written request from the Shareholders as set out in the preceding paragraph, or fails to file such suit within 30 days from the date of receiving such request, or in case of emergency where failure to file such suit immediately will result in irreparable damages to the Company's interests, the Shareholders as mentioned in the preceding paragraph shall have the right to, for the benefit of the Company, file such suit to the People's Court directly in their own names.

Where the Company incurs any losses as a result of infringement upon the legitimate rights and interests of the Company by any other persons, the Shareholders as specified in paragraph 1 of this Article may file a suit to the People's Court pursuant to the provisions of the two preceding paragraphs.

Shareholders may file a suit to the People's Court in the event that the Directors or the senior management violate the laws, administrative regulations or the Articles of Association, damaging the interests of Shareholders.

The Shareholders of ordinary shares of the Company shall have the following obligations:

- (i) to observe the laws, administrative regulations, department rules, regulatory documents, the listing rules of the stock exchange in the place where the Shares of the Company are listed and the Articles of Association;
- (ii) to pay capital contribution as per the shares subscribed by them and their method of subscription;
- (iii) not to withdraw shares unless in the circumstances stipulated by the laws and regulations;
- (iv) not to abuse Shareholders' rights to harm the interests of the Company or other Shareholders; not to abuse the Company's position as an independent legal person or Shareholders' limited liability protection to harm the interests of the creditors of the Company;

If any Shareholder of the Company abuses his/her Shareholder's rights, thereby causing any losses to the Company or other Shareholders, the said Shareholder shall be liable for compensation according to law;

If any Shareholder of the Company abuses the Company's position as an independent legal person or Shareholder's limited liability protection for the purpose of evading repayment of debts, thereby seriously damaging the interests of the creditors of the Company, the said Shareholder shall bear joint and several liabilities for the Company's debts.

- (v) to undertake other obligations as stipulated by the laws, administrative regulations, department rules, regulatory documents, the listing rules of the stock exchange in the place where the Shares of the Company are listed and the Articles of Association.

Shareholders are not liable for making any further contribution to the share capital other than the conditions as agreed by the subscribers of the shares at the time of subscription.

Neither the Controlling Shareholder nor the de facto controller of the Company shall prejudice the interests of the Company by taking advantage of its related relationship. Anyone who causes any losses to the Company as a result of violating the provisions shall be liable for the compensation.

The Controlling Shareholder and the de facto controller of the Company owe a fiduciary duty to the Company and its public Shareholders. The Controlling Shareholder shall strictly and lawfully exercise its rights as a subscriber, and shall not impair the legitimate rights and interests of the Company and its public Shareholders in the ways of profit distribution, asset reorganization, external investments, capital use, loans and guarantees, etc., nor impair the interests of the Company and its public Shareholders by using its controlling status in the Company.

GENERAL MEETINGS

Notice of General Meeting

General meetings are classified into annual general meetings and extraordinary general meetings. Annual general meetings shall be convened once a year within six months from the end of the previous accounting year.

The Company shall convene an extraordinary general meeting within 2 months after the occurrence of any one of the following circumstances:

- (i) where the number of Directors falls short of the number specified in the Company Law or is less than two-thirds of the number specified in the Articles of Association;
- (ii) where the unrecovered losses of the Company amount to one-third of its total paid-up share capital;
- (iii) where Shareholders individually or jointly holding 10% or more of the Company's total voting shares request in writing to hold such a meeting;
- (iv) where the Board deems it necessary;
- (v) where the Supervisory Committee proposes to hold such a meeting;
- (vi) other circumstances as stipulated by the laws, administrative regulations, department rules, regulatory documents, the listing rules of the stock exchange in the place where the Shares of the Company are listed or the Articles of Association.

The number of shares held under item (iii) above shall be calculated based on the date when the Shareholders make the written request.

The convener shall notify the Shareholders 20 days prior to the convening of an annual general meeting by way of an announcement, and 15 days prior to the convening of an extraordinary general meeting by way of an announcement. Regarding the calculation of the notice period, the date of the meeting shall be excluded.

An extraordinary general meeting shall not transact matters not stated in the notice thereof.

The notice of a general meeting shall:

- (i) be made in writing;
- (ii) specify the venue, date and time of the meeting;
- (iii) state the matters and proposals to be submitted for consideration at the meeting;
- (iv) provide Shareholders with the information and explanations necessary for them to make informed decisions about the matters to be discussed. This principle includes (but is not limited to) the provision of the specific terms and contracts, if any, of the proposed transactions and serious explanations about the causes and effects when the Company proposes a merger, share repurchase, restructuring of share capital or other restructuring;
- (v) in the event that any of the Directors, Supervisors, general manager and other senior management has material interests in the matters to be discussed, the nature and extent of such interests shall be disclosed. If the matters to be discussed affect such Director, Supervisor, general manager and other senior management as a Shareholder in a manner different from how they affect the same class of other Shareholders, the difference shall be explained;
- (vi) include the full text of any special resolution to be proposed for approval at the meeting;
- (vii) contain a conspicuous statement that a Shareholder which is entitled to attend and vote at the meeting may appoint one or more proxies to attend and vote at the meeting on his/her behalf and such proxy needs not be a Shareholder;
- (viii) state the time and place for serving the power of attorney authorizing the proxy to vote at the meeting;
- (ix) specify the record date for determining the entitlements of Shareholders to attend the general meeting;
- (x) state the names and telephone numbers of the standing contact persons for the meeting.

The notice and supplementary notice of a general meeting shall adequately and completely disclose the specific contents of all proposals. Where the matters to be discussed require the opinions of the independent Directors, the opinions and reasons of the independent Directors shall be disclosed when the notice or supplementary notice of the general meeting is issued.

If a general meeting is held online or otherwise, the designated time and procedure for voting online or through other means shall be expressly stated in the notice of such meeting. The starting time for voting online or through other means at a general meeting shall follow the relevant provisions of the securities regulatory authority and stock exchange in the place where the Shares of the Company are listed.

The interval between the record date and the date of the meeting shall be no more than 7 business days. The record date shall not be changed once confirmed.

Proxies of Shareholders

Any Shareholder entitled to attend and vote at a general meeting may attend the general meeting in person or appoint one or more proxies (who may not be a Shareholder) to attend and vote on his behalf. A proxy so appointed may exercise the following rights pursuant to the authorizations from such Shareholder:

- (i) the same right as such Shareholder to speak at the general meeting;
- (ii) the right to demand by himself or jointly with others to vote by way of poll;
- (iii) the right to vote by show of hands or by poll, except that if a Shareholder has appointed more than one proxy, such proxies may only exercise their voting rights by poll.

The instrument appointing a voting proxy shall be placed at the domicile of the Company or at such other places as specified in the notice of convening the meeting at least 24 hours prior to convening of the meeting at which the proxy is authorized to vote or 24 hours prior to the designated time for voting. Where the power of attorney for voting by proxy is signed by another person authorized by the principal, the power of attorney or other authorization documents authorizing the signatory shall be notarized. The notarized power of attorney or other authorization documents shall be placed, together with the instrument appointing the voting proxy, at the domicile of the Company or at such other places as specified in the notice of convening the meeting.

Where the principal is a legal person, its legal representative or the person authorized by resolution of its board of directors or other decision-making body shall be entitled to attend the Company's general meetings as the representative of such legal person.

Where the principal is deceased, or loses capacity to act, or withdraws appointment, or withdraws the authorization to endorse appointment, or relevant shares have been transferred before voting, the vote made by the proxy of Shareholder according to the power of attorney shall remain valid as long as the Company does not receive a written notice on such matters before commencement of the meeting.

Functions and Powers of and Matters to Be Resolved at General Meetings

The general meeting shall be the organ of authority of the Company and shall exercise the following functions and powers according to laws:

- (i) to decide on the Company's business policies and investment plans;
- (ii) to elect and replace Directors and Supervisors who are not employee representatives, and determine the remunerations of such Directors and Supervisors;
- (iii) to consider and approve the reports of the Board;
- (iv) to consider and approve the reports of the Supervisory Committee;
- (v) to consider and approve the Company's annual financial budget plans and final account proposals;
- (vi) to consider and approve the Company's profit distribution plan and loss recovery plan;
- (vii) to resolve on increase or decrease in the registered capital of the Company;
- (viii) to resolve on the issuance of corporate bonds;
- (ix) to resolve on the merger, division, dissolution, liquidation or alteration of corporate form of the Company;
- (x) to amend the Articles of Association;
- (xi) to consider and approve the guarantee matters as prescribed in Article 70 of the Articles of Association;
- (xii) to consider and approve the financial assistance matters as prescribed in Article 71 of the Articles of Association;
- (xiii) to consider the Company's purchase or sale of major assets within one year with the transaction amount exceeding 30% of the latest audited total assets of the Company;
- (xiv) to consider and approve the matters relating to changes in the use of proceeds;

- (xv) to consider equity incentive plans or employee stock ownership schemes;
- (xvi) to decide on the appointment, dismissal or non-renewal of accounting firms by the Company;
- (xvii) to consider the proposals raised by the Shareholders who, individually or jointly, hold 3% or more of the voting shares of the Company;
- (xviii) to consider other matters required to be resolved by the general meeting pursuant to the laws, administrative regulations, department rules, the listing rules of the place where the Shares of the Company are listed and the Articles of Association.

The aforesaid functions and powers of general meetings shall not be delegated through authorization to the Board or other institution or individual.

Resolutions of a general meeting shall be divided into ordinary resolutions and special resolutions.

An ordinary resolution of a general meeting shall be passed by more than one half of the voting rights held by the Shareholders (including their proxies) present at the general meeting.

A special resolution of a general meeting shall be passed by two-thirds of the voting rights held by the Shareholders (including their proxies) present at the general meeting.

The following matters shall be approved by an ordinary resolution at a general meeting:

- (i) work reports of the Board and the Supervisory Committee;
- (ii) profit distribution plan and loss recovery plan formulated by the Board;
- (iii) appointment and dismissal of the members of the Board and the Supervisory Committee, their remunerations and the method of payment thereof;
- (iv) the Company's annual budget plans, final account proposals, balance sheets, income statements and other financial statements;
- (v) the Company's annual reports;
- (vi) matters other than those subject to approval by way of a special resolution in accordance with the provisions of the laws, administrative regulations, the listing rules of the stock exchange in the place where the Shares of the Company are listed or the Articles of Association.

The following matters shall be approved by a special resolution at a general meeting:

- (i) increase or decrease in the registered capital of the Company and issuance of any class of stocks, warrants and other similar securities;
- (ii) issuance of corporate bonds;
- (iii) the division, merger, dissolution and liquidation of the Company;
- (iv) amendment to the Articles of Association;
- (v) the Company's purchase or sale of major assets or guarantees within one year with the transaction amount exceeding 30% of the latest audited total assets of the Company;
- (vi) guarantee matters as prescribed in Article 70 of the Articles of Association, except for the guarantees provided by the Company to its holding subsidiaries;
- (vii) equity incentive plans;
- (viii) other matters required by the laws, administrative regulations, the listing rules of the stock exchange in the place where the Shares of the Company are listed or the Articles of Association, and concluded by an ordinary resolution at a general meeting that they may have a material impact on the Company and accordingly shall be approved by a special resolution.

Shareholders (including their proxy) shall exercise their voting rights based on the number of voting shares they represent. Each share shall have one vote.

When the general meeting considers any material matters that could affect the interests of minority investors, the votes cast by minority investors shall be counted separately. The results of such separate vote counting shall be disclosed promptly in accordance with the relevant laws and regulations and the rules of the stock exchange in the place where the Shares of the Company are listed.

Shares held by the Company itself do not carry voting rights, and shall not be counted in the total number of voting shares represented by the Shareholders present at a general meeting.

When the general meeting considers matters on related party transactions, the related Shareholders shall not participate in the voting. Their shares held with voting rights will not be counted in the total number of valid votes. The announcement on resolutions of the general meeting shall fully disclose the voting results of the non-related Shareholders.

Special Procedures for Voting at Class Meetings

Shareholders who hold different classes of shares shall be Shareholders of different classes. Shareholders of different classes shall enjoy rights and undertake obligations in accordance with the laws, administrative regulations and the Articles of Association.

Apart from holders of other classes of shares, holders of domestic shares and H Shares are regarded as Shareholders of different classes.

If appropriate, the Company shall ensure enough voting rights of the Shareholders of preferred shares.

The Company shall not proceed to change or abrogate the Shareholders' rights of a class of shares unless such change or abrogation has been approved by way of a special resolution at a general meeting and at a separate class meeting by the Shareholders of the affected class in accordance with the relevant provisions of the Articles of Association.

The rights of Shareholders of a certain class shall be deemed to have been changed or abrogated in the following circumstances:

- (i) to increase or decrease the number of the shares of such class, or to increase or decrease the number of the shares of a class having voting rights, distribution rights or other privileges equal or superior to those of the shares of such class;
- (ii) to convert all or part of the shares of such class into the shares of another class, or to convert all or part of the shares of another class into the shares of such class, or to grant the rights to such conversion;
- (iii) to remove or reduce the rights to accrued dividends or cumulative dividends attached to the shares of such class;
- (iv) to reduce or remove a dividend preference or property distribution preference during the liquidation of the Company attached to the shares of such class;
- (v) to add, remove or reduce the share conversion rights, options, voting rights, transfer rights, preemptive rights or rights to acquire the securities of the Company attached to the shares of such class;
- (vi) to remove or reduce the rights to receive amounts payable by the Company in a particular currency attached to the shares of such class;
- (vii) to create a new class of shares with voting rights, distribution rights or other privileges equal or superior to those of the shares of such class;

- (viii) to impose restrictions or add such restrictions on the transfer or ownership of the shares of such class;
- (ix) to issue the rights to subscribe for, or convert into, the shares of such class or another class;
- (x) to increase the rights and privileges of the shares of another class;
- (xi) to restructure the Company where the proposed restructuring will result in different classes of Shareholders bearing a disproportionate burden of such proposed restructuring;
- (xii) to vary or abrogate the provisions of Section VII Special Procedures for Voting at Class Meetings in the Articles of Association.

Shareholders of the affected class, whether or not otherwise having the right to vote at general meetings, shall nevertheless have the right to vote at class meetings in respect of matters concerning items (ii) to (viii), (xi) and (xii) above, but interested Shareholders shall not be entitled to vote at class meetings.

Resolutions of a class meeting shall be passed by votes representing more than two-thirds of the voting rights of the Shareholders present at the class meeting.

The special procedures for voting at class meetings shall not apply to the following circumstances:

- (i) Where the Company issues domestic listed foreign shares and overseas listed foreign shares, either separately or concurrently, upon approval by a special resolution at a general meeting in every 12 months, with the respective number of the domestic listed foreign shares and overseas listed foreign shares to be issued not exceeding 20% of the outstanding shares of the respective class;
- (ii) Where the Company's plan to issue domestic listed foreign shares and overseas listed foreign shares upon its establishment is completed within 15 months from the date of approval by the securities regulatory authority under the State Council;
- (iii) Where the Shareholders of domestic shares of the Company transfer their shares to overseas investors for listing and trading on an overseas stock exchange with the approval by the securities regulatory authority under the State Council.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**Directors**

Directors shall be elected or changed by the general meeting, and may be removed from their office by the general meeting upon expiry of their term. The term of office of a Director is three years. The term of a Director is renewable by re-election after its expiry. There is no provision in our Articles of Association that imposes any age limit for Directors beyond which retirement of a Director is mandatory.

A Director's term of office commences from the date he takes office, until the term of office of the current session of the Board ends. A Director shall continue to perform his/her duties as a Director in accordance with the laws, administrative regulations, department rules, the listing rules of the stock exchange in the place where the Shares of the Company are listed and the Articles of Association until a re-elected Director takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office.

The general manager or other senior management may concurrently serve as a Director, provided that the aggregate number of the Directors, who concurrently serve as general manager or other senior management, and the Directors, who are employee representatives, shall not exceed one half of all Directors of the Company.

A Director is not required to hold Shares in the Company.

A Director who fails to attend two consecutive meetings of the Board in person or by proxy shall be deemed as unable to perform his/her duties. The Board shall propose to the general meeting for removal of such Director.

A Director may resign before expiry of his/her term of office. When a Director resigns, he shall submit a written resignation report to the Board. The Board shall make relevant disclosures within 2 days.

If the number of Directors of the Company falls below the minimum statutory requirement due to a Director's resignation, the former Director shall still perform his/her duties as a Director in accordance with the requirements of laws, administrative regulations, department rules, the listing rules of the stock exchange in the place where the Shares of the Company are listed and the Articles of Association before the appointment of a re-elected Director.

Save for the circumstances referred to in the preceding paragraph, a Director's resignation takes effect upon delivery of his/her resignation report to the Board.

Board

The Company shall have a Board accountable to the general meetings.

The Board shall comprise 9 Directors, three of whom shall be independent Directors. The Board shall have a chairman and a vice chairman.

The Board shall exercise the following functions and powers:

- (i) to convene general meetings and report to general meetings;
- (ii) to implement resolutions of general meetings;
- (iii) to decide on the Company's business plans and investment plans;
- (iv) to formulate the annual financial budget plans and final account proposals of the Company;
- (v) to formulate the profit distribution plan and loss makeup plan of the Company;
- (vi) to formulate proposals for the Company in respect of increase or reduction in its registered capital, issuance of bonds or other securities and the listing thereof;
- (vii) to formulate plans for material acquisitions, purchase of Shares of the Company, or the merger, division, dissolution and alteration of corporate form of the Company;
- (viii) to determine, within the scope authorized by the general meeting, such matters as external investments, acquisition and disposal of assets, asset mortgage, external guarantees, entrusted wealth management, related party transactions, etc.;
- (ix) to decide on the establishment of internal management organizations of the Company;
- (x) to appoint or dismiss the general manager and the secretary to the Board of the Company in accordance with the nominations by the chairman, and to determine their remunerations, awards and penalties; to appoint or dismiss the senior management including deputy general managers and chief financial officer of the Company in accordance with the nominations by the general manager, and to determine their remunerations, rewards and penalties;
- (xi) to set up the basic management system of the Company;
- (xii) to formulate the proposals for any amendments to the Articles of Association;
- (xiii) to manage information disclosure of the Company;

- (xiv) to propose to the general meeting the appointment or replacement of the accounting firms which provide annual audit services to the Company;
- (xv) to listen to work reports of the general manager of the Company and review his/her work;
- (xvi) to decide on the acquisition of the Company's Shares in the circumstances as set out in items (iii), (v) and (vi) under Article 27 of the Articles of Association;
- (xvii) other functions and powers as stipulated by the laws, administrative regulations, department rules, the listing rules of the stock exchange in the place where the Shares of the Company are listed or the Articles of Association and as conferred by the general meetings.

The Board may resolve on the matters specified in the preceding paragraph by approval of more than half of the Directors, save for those specified in items (vi), (vii) and (xii) as well as the laws, administrative regulations, department rules, the listing rules of the stock exchange in the place where the Shares of the Company are listed and the Articles of Association, which require approval of more than two-thirds of the Directors.

Matters beyond the scope authorized by the general meeting shall be submitted to the general meeting for consideration.

The Board of the Company shall make explanations to the general meeting in relation to the non-standard opinions issued by a certified public accountant on the financial reports of the Company.

A Board meeting shall be held only when over half of the Directors attend the meeting. Unless otherwise provided in the Articles of Association, resolutions made by the Board shall be approved by more than half of all Directors. Resolutions of the Board are voted by way of poll with each Director having one vote. Where there is an equality of votes cast both for and against a resolution, the chairman shall have a casting vote.

If any Director has any relation with the enterprise involved in a resolution made at a Board meeting, the said Director shall not vote on the said resolution for himself or on behalf of another Director. Such Board meeting may be held when more than half of the non-related Directors attend the meeting. The resolution of the Board meeting shall be passed by more than half of the non-related Directors.

If the number of non-related Directors attending the meetings is less than 3, the matter shall be submitted to the general meeting for consideration.

Supervisory Committee

The Company shall have a Supervisory Committee. The Supervisory Committee shall comprise three Supervisors, and shall have a chairman.

The Supervisory Committee shall include Shareholder representatives and a proper proportion of employee representatives. The proportion of employee representatives shall be no less than one third. The employee representatives of the Supervisory Committee shall be elected by employees of the Company at the employee representatives' meeting, employee meeting or otherwise democratically.

The Supervisory Committee shall be accountable to the general meetings and exercise the following functions and powers according to the laws:

- (i) to audit the periodic reports of the Company prepared by the Board and express its written audit opinions thereon, and to sign written confirmation opinions;
- (ii) to check the financial condition of the Company;
- (iii) to monitor the performance of duties in the Company by the Directors and the senior management, and to propose dismissal of the Directors and the senior management who have violated the laws, administrative regulations, the Articles of Association or the resolutions of general meetings;
- (iv) to require the Directors and the senior management to make corrections if their conduct has damaged the interests of the Company;
- (v) to examine the financial information such as financial reports, business reports and profit distribution plans to be submitted by the Board to the general meetings, and to engage a certified public accountant or practicing auditor in the name of the Company to assist in the reexamination whenever queries arise;
- (vi) to propose the convening of an extraordinary general meetings and, in case where the Board does not perform its obligations to convene and preside over a general meeting in accordance with Company Law, to convene and preside over the general meeting;
- (vii) to represent the Company in negotiations with the Directors, or to bring actions against them;
- (viii) to put forward proposals to the general meetings;
- (ix) to bring actions against the Directors or the senior management in accordance with Article 151 of the Company Law;

- (x) to conduct investigation if there is any unusual circumstance in the Company's operations; and if necessary, to engage an accounting firm, law firm or other professional institution to assist in its work at the expenses of the Company;
- (xi) other functions and powers as conferred by the laws, administrative regulations, department rules, the listing rules of the stock exchange in the place where the Shares of the Company are listed or the Articles of Association.

The Supervisory Committee shall hold at least one meeting every six months. The Supervisors may propose to convene an extraordinary meeting of the Supervisory Committee.

A resolution of the Supervisory Committee must be approved by more than two-thirds of the members of the Supervisory Committee.

General Manager

The Company shall have one general manager, who shall be nominated by the chairman, and appointed or dismissed by the Board.

The general manager shall report to the Board and have the following functions and powers:

- (i) to be in charge of the production, operation and management of the Company, to organize and implement the resolutions adopted by the Board, and to report his/her work to the Board;
- (ii) to organize and implement the annual business plans and investment plans of the Company;
- (iii) to draft schemes for the establishment of the Company's internal management organizations;
- (iv) to draft the basic management system of the Company;
- (v) to formulate the detailed rules and regulations of the Company;
- (vi) to make proposals to the Board regarding the appointment or dismissal of the deputy general managers and chief financial officer of the Company;
- (vii) to decide on the appointment or dismissal of managerial officers other than those who shall be appointed or dismissed by the Board;
- (viii) other functions and powers as conferred by the Articles of Association or the Board.

The general manager shall attend the Board meetings, and, if he/she is not a Director, shall not have any voting rights at the Board meetings.

Secretary to the Board

The Company shall have a secretary to the Board, who shall be a member of the senior management of the Company and shall be accountable to the Company and the Board. Secretary to the Board shall have the requisite professional knowledge and experience, and shall be appointed by the Board. The secretary to the Board of the Company is responsible for preparation of the general meeting and the meetings of the Board of the Company, keeping the documents and the management of information of the shareholders of the Company and handling the disclosure of information, etc.

Qualifications

A person may not serve as a Director, Supervisor, general manager or other members of the senior management of the Company if any of the following circumstances apply:

- (i) a person without legal or with restricted legal capacity;
- (ii) a person who has been found guilty of sentenced for corruption, bribery, infringement of property, misappropriation of property or sabotaging the social economic order where less than a term of five years have elapsed since the sentence was served; or a person who has been deprived of his political rights, in each case where less than five years have elapsed since the sentence was served;
- (iii) a person who is a former director, factory manager or general manager of a company or enterprise which has been entered into insolvent liquidation and he/she is personally liable for the insolvency of such company or enterprise, where less than three years have elapsed since the date of the completion of the insolvency and liquidation of the company or enterprise;
- (iv) a person who is a former legal representative of a company or enterprise which had its business license revoked due to a violation of the law and who incurred personal liability, where less than three years has elapsed since the date of the revocation of the business license;
- (v) a person who has a relatively large amount of debts due and outstanding;
- (vi) a person who is under criminal investigation by judicial organization for the violation of the criminal law which is not yet concluded;
- (vii) a person who is not eligible to act as an executive of an enterprise according to laws and administrative regulations;
- (viii) a non-natural person;

- (ix) the prohibition of a person on conducting activities in the security market imposed by the securities regulatory authority of the State Council has not expired;
- (x) a person convicted of the contravention of provisions of relevant securities regulations by a relevant government authority, and such conviction involves a finding that he has acted fraudulently or dishonestly, where less than five years has elapsed since the date of the conviction;
- (xi) other matters stipulated by laws, administrative regulations, departmental rules, regulatory documents or the listing rules of the stock exchange(s) where the shares of the Company are listed.

Where the Company elects and appoints a Director or a Supervisor or employs member of the senior management to which this Article applies, such election, appointment or employment shall be null and void. A Director, a Supervisor and member of the senior management to which any of the above circumstances under this Article applies during his/her term of office shall be released of his/her duties by the Company.

The validity of an act of a Director, general manager and other members of the senior management on behalf of the Company is not, as against a bona fide third party, affected by any irregularity in his office, election or any defect in his qualification.

Duties

Each of the Directors, Supervisors, general manager and other members of the senior management of the Company shall carry on his duties in accordance with the principle of fiduciary and shall not put himself in a position where his duty and his interest may conflict. This principle includes (without limitation) the discharge of the following obligations:

- (i) to act honestly in the best interests of the Company;
- (ii) to exercise powers within the scope of his powers and not to exceed those powers;
- (iii) to exercise the discretion vested in him personally and not to allow himself to act under the control of another and, unless and to the extent permitted by laws, administrative regulations or with the informed consent of shareholders given in general meeting, not to delegate the exercise of his discretion;
- (iv) to treat shareholders of the same class equally and to treat shareholders of different classes fairly;
- (v) except in accordance with the Articles of Association or with the informed consent of shareholders given in general meeting, not to enter into any contract, transaction or arrangement with the Company;

- (vi) without the informed consent of shareholders given in general meeting, not to use the Company's property for his own benefit;
- (vii) not to abuse his position to accept bribes or other illegal income or expropriate the Company's property by any means, including (without limitation) opportunities advantageous to the Company;
- (viii) without the informed consent of shareholders given in general meeting, not to accept commissions in connection with the Company's transactions;
- (ix) to abide by the Articles of Association, faithfully execute his official duties and protect the Company's interests, and not to exploit his position and power in the Company to advance his own private interests;
- (x) not to compete with the Company in any form unless with the informed consent of the general meeting;
- (xi) not to misappropriate the Company's funds or lend such funds to others, not to open accounts in his own name or other names for the deposit of the Company's assets and not to provide a guarantee for debts of a shareholder of the Company or other individual(s) with the Company's assets;
- (xii) unless otherwise permitted by informed consent of the general meeting, to keep in confidence information acquired by him in the course of and during his tenure and not to use the information other than in furtherance of the interests of the Company, save that disclosure of such information to the court or other governmental authorities is permitted if:
 - 1. disclosure is made under compulsion of law;
 - 2. the interests of the public require disclosure;
 - 3. the interests of the relevant Director, Supervisor, general manager and other members of the senior management require disclosure.

The fiduciary duties of the Directors, Supervisors, general manager and other members of the senior management of the Company do not necessarily cease with the termination of their terms of office. The duty of confidence in relation to trade secrets of the Company survives the termination of their terms of office. Other duties may continue for such period as fairness may require depending on the time lapse between the termination and the act concerned and the circumstances under which the relationships between them and the Company are terminated.

Authority to Dispose of Assets of the Company and Any Subsidiary

The Board shall not dispose of or agree to dispose of any fixed assets without approval by the general meeting if the sum of the expected value of the fixed assets to be disposed of and the value derived from the disposal of fixed assets within four months before such proposal to dispose of the fixed assets exceeds 33% of the value of the fixed assets as shown on the latest audited balance sheet considered and approved by the general meeting.

Disposals of the fixed assets mentioned herein include transfer of certain asset interests, but do not include guarantee provided by pledge of fixed assets.

The effectiveness of the Company's disposal of the fixed assets shall not be affected by any breach of the preceding provision of this Article.

Borrowing Power

The Company's Articles of Association do not contain any specific provisions regarding Directors' exercise of lending powers, but there are relevant provisions that require the issuance of corporate bonds to be approved by shareholders through special resolutions at general meetings.

Disclosure of the Rights and Interests in the Contract with the Company

Where a Director, Supervisor, general manager and other members of the senior management of the Company is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company (other than his contract of service with the Company), he shall declare the nature and extent of his interests to the Board at the earliest opportunity, whether or not such contract, transaction or arrangement therefor is otherwise subject to the approval of the Board.

Unless the interested Director, Supervisor, general manager and other members of the senior management disclose his/her interests in accordance with the requirements of the preceding paragraph of this article and the contract, transaction or arrangement is approved by the Board at a meeting in which the interested Director, Supervisor, general manager and other members of the senior management is not counted in the quorum and refrains from voting, such contract, transaction or arrangement is voidable at the instance of the Company except as against a bona fide party thereto acting without notice of the breach of duty by the interested Director, Supervisor, general manager and other members of the senior management.

A Director, Supervisor, general manager and other members of the senior management of the Company is deemed to be interested in a contract, transaction or arrangement in which an associate of him is interested.

Provision of Loans to Director, Supervisor and Senior Management

The Company shall not, directly or indirectly, make a loan to or provide a loan guarantee to any Director, Supervisor, general manager and other member of senior management of the Company and of the Company's parent company or any of the Relevant Persons of the foregoing.

The preceding provision shall not apply to the following circumstances:

- (i) the provision by the Company of a loan or loan guarantee to its subsidiaries;
- (ii) the provision by the Company of a loan or loan guarantee or any other funds available to any of its Directors, Supervisors, general managers and other members of senior managements to meet expenditures incurred by him/her for the purpose of the Company or for the purpose of enabling him to perform his/her duties in accordance with the employment contract approved by the general meeting;
- (iii) if the ordinary course of the business of the Company includes the provision of a loan or loan guarantee, the Company may provide a loan or loan guarantee to the relevant Directors, Supervisors, general managers and other members of senior managements and the relevant persons thereof, provided that such provision are on normal commercial terms.

Any person who receives funds from a loan which has been made by the Company acting in breach of the preceding Article shall, irrespective of the terms of the loan, forthwith repay such funds to the Company.

Remunerations and Compensation for Loss of Office

The Company shall, with the prior approval of the general meeting, enter into a written contract with any Director or Supervisor of the Company in respect of his/her remuneration. The aforesaid remuneration may include:

- (i) remuneration in respect of his/her service as Director, Supervisor or member of senior management of the Company;
- (ii) remuneration in respect of his/her service as Director, Supervisor or member of the senior management of any subsidiary of the Company;
- (iii) remuneration in respect of the provision of other services in connection with the management of the Company and any of its subsidiaries;
- (iv) payment by way of compensation for loss of office or for or in connection with the retirement of such Director or Supervisor from office.

No proceedings may be brought by a Director or Supervisor against the Company for anything due to him in respect of the matters mentioned in this Article except pursuant to any contract described above.

Any contracts for remuneration between the Company and its Directors or Supervisors shall provide that in the event that the Company is to be acquired by others, the Company's Directors and Supervisors shall, subject to the prior approval of the general meeting, have the right to receive compensation or other payment for his/her loss of or retirement from office. For the purposes of the preceding paragraph, the acquisition of the Company includes any of the following:

- (i) an acquisition offer made by any person to all the shareholders;
- (ii) an acquisition offer made by any person with a view to enable the offeror to become a "controlling shareholder", which has the same meaning as that prescribed in Article 300 of the Articles of Association.

If the relevant Director or Supervisor does not comply with this Article, any sum so received by him/her shall belong to those persons who have sold their shares as a result of acceptance such offer. The expenses incurred for distributing such sum on a pro rata basis amongst such persons shall be borne by such Director or Supervisor and shall not be paid out of such sum

Financial and Accounting System

The Company shall establish its financial and accounting systems in accordance with laws, administrative regulations and the requirements of relevant regulatory authorities of the PRC. The Company shall prepare a financial report at the end of each accounting year, and such financial report shall be reviewed and verified in accordance with laws.

The Company shall prepare its financial statements in accordance with the PRC accounting standards and regulations as well as the international accounting standards or the accounting standards of the overseas place where the Company's shares are listed. In case of any material difference between the financial statements prepared in accordance with the two accounting standards, explanations shall be made in the notes to the financial statements. Distribution of the profit after tax for the relevant accounting year shall be based on the lesser of the profit after tax as shown in the two sets of financial statements as prepared in accordance with the international accounting standards or the accounting standards of the overseas place where the shares are listed.

The interim results or financial information announced or disclosed by the Company shall be prepared in accordance with the PRC accounting standards and regulations as well as the international accounting standards or the accounting standards of the overseas place where the Company's shares are listed.

Profit Distribution

When the Company distributes its after tax profits for a given year, it shall allocate 10% of profits to its statutory reserve. The Company shall no longer be required to make allocations to its statutory reserve once the aggregate amount of such reserve reaches at least 50% of its registered capital.

If the Company's statutory reserve is insufficient to make up losses from previous years, the Company shall use its profits from the current year to make up such losses before making the allocation to its statutory reserve in accordance with the preceding paragraph.

After making the allocation from its after-tax profits to its statutory reserve, the Company may, subject to a resolution of the general meeting, make an allocation from its after-tax profits to the discretionary reserve.

After the Company has made up its losses and made allocations to its reserves, the remaining profits of the Company shall be distributed in proportion to the shareholdings of its shareholders, unless the Articles of Association provide that distributions are to be made otherwise than proportionally.

If the general meeting breaches the provisions of the preceding paragraph by distributing profits to shareholders before the Company has made up its losses and made allocations to the statutory reserve, the shareholders must return to the Company the profits that were distributed in breach of the said provisions.

The Company shall not be entitled to any distribution of profits in respect of shares held by it.

The common reserve fund of the Company shall be applied to make good the Company's losses, expand its business operations or increase its capital. The capital reserve fund, however, shall not be used to make good the Company's losses.

Capital reserve fund includes the following items:

- (i) premium on shares issued at a premium price;
- (ii) any other income designated for the capital reserve fund by the regulations of the finance regulatory department of the State Council.

Upon the transfer of the statutory common reserve fund into capital, the balance of the fund shall not be less than 25% of the registered capital of the company before such transfer. Any amount paid up in advance of calls on any share of the Company may carry interest but shall not entitle the holders of the share to participate in a dividend subsequently declared in respect thereof such prepaid amount for said share(s). Subject to the relevant laws, regulations, rules and normative documents, the Company may exercise the power to forfeit unclaimed dividends, provided that it does so only after the expiration of the applicable relevant period.

Accounting Firm

The Company shall appoint such accounting firm which has obtained the (“Qualifications for Engaging in the Business Related to Securities” (從事證券相關業務資格)) for carrying out the audit for the accounting statements and reports, net asset verification and other relevant consultancy service. The accounting firm shall serve a term of one year, from conclusion of one annual general meeting to conclusion of the next annual general meeting, and can be re-appointed.

The appointment of an accounting firm by the Company shall be decided by the general meeting. The Board may not appoint an accounting firm before the decision is made by the general meeting. The accountants appointed by the Company shall have the following rights:

- (i) to access the account books, records or vouchers of the Company at any time, and to ask Directors, general manager or other senior executives to provide relevant documents and explanations;
- (ii) to ask the Company to take every action possible to obtain documents and explanations from its subsidiaries needed for the certified public accountants to perform their duties;
- (iii) to attend at the general meetings, get notice of the general meeting that any shareholder has the right to receive or other information relating to the general meetings, and deliver speeches at any general meeting in relation to the matters concerning the certified public accountants.

The remuneration of the accounting firm or the way to confirm the remuneration shall be determined by the general meeting. The remuneration of such accounting firm appointed by the Board shall be confirmed by the Board.

Merger, Division, Dissolution and Liquidation

For the merger or division of the Company, the Board of the Company shall put forth a plan. After it is approved in the procedure specified in the Articles of Association, relevant examination and approval formalities shall be completed according to law. The shareholders who object to the merger or division plan of the Company shall have the right to require the Company or the shareholders who agree to the merger or division plan of the Company to purchase their shares at a fair price. The content of the resolution on merger or division of the Company shall be made into a special document, for the reference of shareholders.

For shareholders of the H Shares of the Company listed in Hong Kong, the aforesaid document shall also be served by mail or by other means permitted by the Hong Kong Stock Exchange.

In the event of merger of the Company, the parties concerned shall conclude a merger agreement and prepare balance sheets and property inventories. The Company shall notify all creditors within 10 days after adoption of the merger resolution and shall make announcements at least three times in the Company's designated newspaper for disclosure as specified in Article 273 of the Articles of Association within 30 days. The creditors may require the Company to repay debts or provide corresponding guarantees within thirty days after receipt of the notice or within 45 days after the announcement if the creditors haven't received the notice.

If the Company is divided, its properties shall be divided accordingly.

Where the Company is divided, the parties to the division shall execute a division agreement and prepare a balance sheet and an inventory of assets. The Company shall notify all creditors within 10 days after adoption of the division resolution and shall make announcements at least three times in the Company's designated newspaper for disclosure within 30 days.

The Company may be dissolved for the following reasons:

- (i) the operating period stipulated in the Articles of Association has expired or other events of dissolution specified in the Articles of Association have occurred;
- (ii) the general meeting has resolved to dissolve the Company;
- (iii) merger or division of the Company entails dissolution;
- (iv) the Company is declared bankrupt according to law as it is unable to pay off the debts due;
- (v) the business license is revoked according to law, or the Company is ordered to close or is cancelled;
- (vi) if the Company gets into serious trouble in operations and management and continuation may incur material losses of the interests of the shareholders, and no solution can be found through any other channel, the shareholders holding more than 10% of the total voting rights of the Company may request the people's court to dissolve the Company.

If the Board decides to liquidate the Company for any reason other than the Company's declaration of its own insolvency, it shall state in the notice on convening a general meeting for this reason that it has made full investigation on the Company's position and believes the Company is able to pay its debts in full within 12 months from the commencement of the liquidation.

Upon the adoption of the resolution at the general meeting for the liquidation of the Company, all functions and powers of the Board shall cease immediately.

The liquidation committee shall act in accordance with the instructions of the general meeting to make a report at least once every year to the general meeting on the income and expenses of the committee, the business of the Company and the progress of the liquidation; and present a final report to the general meeting on completion of the liquidation.

Amendment to the Articles of Association

The Company shall amend the Articles of Association in any of the following circumstances:

- (i) after amendments are made to the Company Law or other relevant laws and administrative regulations, the Articles of Association run counter to the said amendments;
- (ii) the conditions of the Company have changed, and such change is not covered in the Articles of Association;
- (iii) the general meeting has resolved to amend the Articles of Association.

Any amendment approved by the general meeting to the Articles of Association shall be submitted to the competent authorities for approval where necessary; changes, if any, shall be registered.

Disputes Resolution

The Company shall abide by the following principles of dispute resolution:

- (i) Any dispute or claim arising between holders of overseas listed foreign shares and the Company; holders of overseas listed foreign shares and the Company's Directors, Supervisors, general manager or members of the senior management; or holders of overseas listed foreign shares and holders of domestic shares, in respect of any rights or obligations arising from the Articles of Association, the Company Law or any other relevant laws and administrative regulations concerning the affairs of the Company shall be submitted for arbitration.

When a dispute or claim of rights referred to in the preceding paragraph is submitted for arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall, where such person in the Company, the Company's shareholders, Directors, Supervisors, general manager or members of the senior management, comply with the arbitration.

Dispute in respect of the definition of shareholders and dispute in relation to the register of members need not be resolved by arbitration;

- (ii) A claimant may elect for arbitration to be carried out either at the China International Economic and Trade Arbitration Commission in accordance with its Rules or at Hong Kong International Arbitration Center in accordance with its Securities Arbitration Rules. Once a claimant submits a dispute or claim for arbitration, the other party must submit to the arbitral body elected by the claimant;

If a claimant elects for arbitration to be carried out at Hong Kong International Arbitration Center, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Center;

- (iii) If any disputes or claims of rights are settled by way of arbitration in accordance with item (i) of this Article, the laws of the PRC govern, save as otherwise provided in law and administrative regulations;
- (iv) The award of an arbitral body shall be final and conclusive and binding on all parties.

This appendix sets forth summaries of certain aspects of the PRC laws and regulations which are relevant to the operations and businesses of the Company. Laws and regulations relating to taxation in the PRC are discussed separately in “Regulatory Overview” to this document. This appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain material differences between the PRC and Hong Kong company laws, certain requirements of the Hong Kong Listing Rules and additional provisions required by the Hong Kong Stock Exchange for inclusion in the articles of association of the PRC issuers. This summary aims to provide potential investors with the principal laws and regulatory provisions applicable to the Company, and not intended to include all the data which may be important to the potential investors. For discussion of the laws and regulations which are relevant to the businesses of the Company, please see the section headed “Regulatory Overview” in this document.

PRC LAWS AND REGULATIONS

The PRC Legal System

The PRC legal system is based on the Constitution of the PRC (《中華人民共和國憲法》) (the “Constitution”) and is made up of written laws, administrative regulations, local regulations, separate regulations, autonomous regulations, department regulations, regulations of local government, international treaties entered into or accede to by the PRC government and other regulatory documents. Court judgments do not constitute legally binding precedents, although they are used for the purposes of judicial reference.

According to the Constitution and the Legislation Law of the PRC (《中華人民共和國立法法》) (the “Legislation Law”), the National People’s Congress (the “NPC”) and the Standing Committee of the NPC are empowered to exercise the legislative power of the State. The NPC has the power to formulate and amend basic laws governing civil and criminal matters, state organs and other matters. The Standing Committee of the NPC is empowered to formulate and amend laws other than those required to be enacted by the NPC and to supplement and amend parts of laws enacted by the NPC during the adjournment of the NPC, provided that such supplements and amendments may not contravene the basic principles of such laws.

The State Council is the highest organ of the PRC administration and has the power to formulate administrative regulations based on the Constitution and laws.

The people’s congresses of provinces, autonomous regions and municipalities and their standing committees may formulate local regulations based on the specific circumstances and actual needs of their respective administrative areas, provided that such local regulations may not contravene any provision of the Constitution, laws or administrative regulations.

The ministries and commissions of the State Council, PBOC, the State Audit Administration as well as the other organs endowed with administrative functions directly under the State Council may, in accordance with the laws as well as the administrative regulations, decisions and orders of the State Council and within their authorities, formulate rules.

In light of the specific circumstances and actual needs of a city with districts, the people's congress of the city with districts and its standing committee may formulate local regulations concerning matters of urban and rural development and management, environmental protection, historical and cultural protection, etc., which will become enforceable after being reported to and approved by the standing committees of the people's congresses of the relevant provinces or autonomous regions but such local regulations shall conform with the Constitution, laws, administrative regulations, and the relevant local regulations of the relevant provinces or autonomous regions. People's congresses of national autonomous areas have the power to enact autonomous regulations and separate regulations in light of the political, economic and cultural characteristics of the nationality (nationalities) in the areas concerned.

The people's governments of the provinces, autonomous regions, and municipalities and a city with districts or autonomous prefectures may enact rules, in accordance with laws, administrative regulations and the local regulations of their respective provinces, autonomous regions or municipalities.

The Constitution has supreme legal authority and no laws, administrative regulations, local regulations, autonomous regulations or separate rules and regulations may contravene the Constitution. The authority of laws is greater than that of administrative regulations, local regulations and rules. The authority of administrative regulations is greater than that of local regulations and rules. The authority of local regulations is greater than that of the rules of the local governments at and below the corresponding level. The authority of the rules enacted by the people's governments of the provinces or autonomous regions is greater than that of the rules enacted by the people's governments of the cities with districts or autonomous prefectures within the administrative areas of the provinces and the autonomous regions.

The NPC has the power to alter or annul any inappropriate laws enacted by its Standing Committee, and to annul any autonomous regulations or separate regulations which have been approved by its Standing Committee but which contravene the Constitution or the Legislation Law. The Standing Committee of the NPC has the power to annul any administrative regulations that contravene the Constitution and laws, to annul any local regulations that contravene the Constitution, laws or administrative regulations, and to annul any autonomous regulations or local regulations which have been approved by the standing committees of the people's congresses of any provinces, autonomous regions or municipalities, but which contravene the Constitution and the Legislation Law. The State Council has the power to alter or annul any inappropriate department rules and rules of local governments. The people's congresses of provinces, autonomous regions or municipalities have the power to alter or annul any inappropriate local regulations enacted or approved by their respective standing committees. The people's governments of provinces and autonomous regions have the power to alter or annul any inappropriate rules enacted by the people's governments at a lower level.

According to the Constitution and the Legislation Law, the power to interpret laws is vested in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws (《全國人民代表大會常務委員會關於加強法律解釋工作的決議》) passed on June 10, 1981, laws subject to further clarification or supplement shall be interpreted and provided by the Standing Committee of the NPC, issues related to the application of laws in a court trial should be interpreted by the Supreme People's Court, issues related to the application of laws in a prosecution process of a procuratorate should be interpreted by the Supreme People's Procuratorate. If there is any disagreement in principle between Supreme People's Court's interpretations & Supreme People's Procuratorate's interpretations, such issues shall be reported to the Standing Committee of the NPC for interpretation or judgment. The other issues related to laws other than the abovementioned should be interpreted by the State Council and the competent authorities. The State Council and its ministries and commissions are also vested with the power to give interpretations of the administrative regulations and department rules which they have promulgated. At the regional level, the power to interpret regional laws is vested in the regional legislative and administrative authorities which promulgate such laws.

PRC JUDICIAL SYSTEM

Under the Constitution and the PRC Law on the Organization of the People's Courts (revised in 2018) (《中華人民共和國人民法院組織法(2018年修訂)》), the PRC judicial system is made up of the Supreme People's Court, the local people's courts and special people's courts.

The local people's courts are comprised of the primary people's courts, the intermediate people's courts and the higher people's courts. The primary people's courts can have certain people's courts based on the natures of the region, population and cases. The higher people's courts supervise the lower people's courts. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of people's courts of the same level or lower levels. The Supreme People's Court is the highest judicial body in the PRC. It supervises the judicial administration of the people's courts at all levels and special people's courts.

The PRC Civil Procedure Law (revised in 2017) (《中華人民共和國民事訴訟法》(2017年修訂)) (the "Civil Procedure Law"), which was formulated in 1991 and revised in 2007, 2012 and 2017, sets forth the criteria for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by agreement, select a judicial court where civil actions may be brought, provided that the judicial court is either the plaintiff's or the defendant's domicile, the location actually connecting with disputes such as the place of execution or implementation of the contract or the place of the object of the action, provided that the provisions of this law regarding the level of jurisdiction and exclusive jurisdiction shall not be violated.

A foreign national or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts apply the same limitations to the citizens and enterprises of that foreign country.

If any party to a civil action refuses to comply with a judgment or ruling made by a people's court or an award made by an arbitration panel in the PRC, the other party may apply to the people's court for the enforcement of the same. There are time limits of two years imposed on the right to apply for such enforcement. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by either party, enforce the judgment in accordance with the law.

A party seeking to enforce a judgment or ruling of a people's court against a party who is not personally or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of the judgment or ruling which also may be recognized and enforced by the foreign court as required by the people's court according to the provisions of international treaty entered into or acceded to by the PRC government, or based on principle of reciprocity. A foreign judgment or ruling may also be recognized and enforced by the intermediate people's court with jurisdiction in the case that the party applied. According to PRC enforcement procedures if the PRC has entered into or acceded to an international treaty with the relevant foreign country, which provides for such recognition and enforcement, or if the judgment or ruling satisfies the court's examination according to the principle of reciprocity, unless the people's court finds that the recognition or enforcement of such judgment or ruling will result in a violation of the basic legal principles of the PRC, its sovereignty or security or against social and public interests.

THE COMPANY LAW, SPECIAL REGULATIONS AND MANDATORY PROVISIONS

A joint stock limited company which is incorporated in the PRC and seeking a listing on the Hong Kong Stock Exchange is mainly subject to the following laws and regulations in the PRC:

- (i) The PRC Company Law (《中國公司法》) which was promulgated by the Standing Committee of the NPC on December 29, 1993, came into effect on July 1, 1994, revised on December 25, 1999, August 28, 2004, October 27, 2005 and December 28, 2013 respectively and the latest revision of which has been implemented from October 26, 2018;
- (ii) The Special Regulations of the State Council on Share Offering and Listing Overseas by Joint Stock Limited Companies (《國務院關於股份有限公司境外募集股份及上市的特別規定》) (the "Special Regulations") was passed at the 22nd Standing Committee Meeting of the State Council on July 4, 1994 and promulgated and implemented on August 4, 1994. Special Regulations include regulations on the issue of shares and listing overseas by joint stock limited companies;

- (iii) The Mandatory Provisions of Articles of Association of Companies Listing Overseas (《到境外上市公司章程必備條款》) (the “Mandatory Provisions”) which was issued by the former Securities Commission of the State Council and the former State Economic Restructuring Commission, stating the mandatory provisions which must be incorporated into the articles of association of a joint stock limited company listed overseas. As such, the Mandatory Provisions has been set out in the Articles of Association of the Company, the summary of which is set out in the section headed “Appendix III – Summary of the Articles of Association” in this document; and
- (iv) On October 17, 2019, the State Council promulgated the Official Reply of the State Council regarding Adjusting the Application of Provisions to Matters Including the Notice Period of Overseas Listed Companies for Convening Shareholders’ Meetings (《國務院關於調整適用在境外上市公司召開股東大會通知期限等事項規定的批覆》) (Guo Han [2019] No. 97) (Circular 97 of the State Council, coming into effect on October 17, 2019), which approved that the relevant requirements on the notice period of the general meeting, shareholders’ right to propose and convening procedures for companies registered in the PRC and listed overseas shall be unified and governed by the relevant provisions under the PRC Company Law, instead of the regulations under Articles 20 to 22 of the Special Regulations.

Set out below is a summary of the major provisions of the PRC Company Law, the Special Regulations and the Mandatory Provisions applicable to the Company.

General

A joint stock limited company refers to an enterprise legal person incorporated under the PRC Company Law with its registered capital divided into shares of equal par value. The liability of its shareholders is limited to the amount of shares held by them and the company is liable to its creditors for an amount equal to its all assets.

A joint stock limited company shall conduct its business in accordance with laws and administrative regulations. A company may invest in other limited liability companies and joint stock limited companies. The liabilities of the company to such invested companies are limited to the amount invested. Unless otherwise provided by laws, a joint stock limited company cannot be the capital contributor who has the joint and several liabilities associated with the debts of the invested enterprises.

Incorporation of Joint Stock Limited Company

A company may be established by promotion or subscription. A company shall have a minimum of two but no more than 200 people as its promoters, and over half of the promoters must be resident within the PRC. Companies established by promotion are companies of which the registered capital is the total share capital subscribed for by all the promoters registered with the company’s registration authorities. No share offering shall be made before the shares

subscribed for by the promoters are fully paid up. For companies established by subscription, the registered capital is the total paid-up share capital as registered with the company's registration authorities. If laws, administrative regulations and State Council decisions provide otherwise on paid-in registered capital and the minimum registered capital, the company should follow such provisions.

For companies incorporated by way of promotion, the promoters shall subscribe in writing for the shares required to be subscribed for by them and pay up their capital contributions under the articles of association. Procedures relating to the transfer of titles to non-monetary assets shall be duly completed if such assets are to be contributed as capital. Promoters who fail to pay up their capital contributions in accordance with the foregoing provisions shall assume default liabilities in accordance with the promoters' agreement. After the promoters have subscribed for the capital contribution under the articles of association, a board of directors and a supervisory committee shall be elected and the board of directors shall apply for registration of establishment by filing the articles of association with relevant administration for industry and commerce, and other documents as required by the law or administrative regulations.

Where companies are incorporated by subscription, not less than 35% of their total number of shares must be subscribed for by the promoters, unless otherwise provided by the laws or administrative regulations. A promoter who offers shares to the public must announce a document and prepare a share subscription form to be completed, signed and sealed by subscribers, specifying the number and amount of shares to be subscribed for and the subscribers' addresses. The subscribers shall pay up monies for the shares they subscribe for. Where a promoter is offering shares to the public, such offer shall be underwritten by security companies established under the PRC law, and underwriting agreements shall be entered into. A promoter offering shares to the public shall also enter into agreements with banks in relation to the receipt of subscription monies. The receiving banks shall receive and keep in custody the subscription monies, issue receipts to subscribers who have paid the subscription monies and is obliged to furnish evidence of receipt of those subscription monies to relevant authorities. After the subscription monies for the share issue have been paid in full, a capital verification institution established under the PRC law must be engaged to conduct a capital verification and furnish a certificate thereof. The promoters shall preside over and convene an inauguration meeting within 30 days from the date of the full payment of subscription monies. The inauguration meeting shall be formed by the promoters and subscribers. Where the shares issued remain under subscribed by the cut-off date stipulated in the document, or where the promoter fails to convene an inauguration meeting within 30 days of the subscription monies for the shares issued being fully paid up, the subscribers may demand that the promoters refund the subscription monies so paid together with the interest at bank rates of a deposit for the same period. Within 30 days of the conclusion of the inauguration meeting, the board of directors shall apply to the company registration authority for registration of the establishment of the company. A company is formally established and has the capacity of a legal person after approval of registration has been given by the company registration authority and a business license has been issued.

A company's promoter shall be liable for the followings:

- (i) the debts and expenses incurred in the establishment process jointly and severally if the company cannot be incorporated;
- (ii) the refund of subscription monies paid by the subscribers together with interest at bank rates of deposit for the same period jointly and severally if the company cannot be incorporated; and
- (iii) the compensation of any damages suffered by the company as a result of the promoters' fault in the course of its establishment.

Share Capital

The promoters may make a capital contribution in currencies, or non-monetary assets such as in kind or intellectual property rights or land use rights which can be appraised with monetary value and transferred lawfully, except for assets which are prohibited from being contributed as capital by the laws or administrative regulations. If a capital contribution is made in non-monetary assets, a valuation of the assets contributed must be carried out pursuant to the provisions of the laws or administrative regulations on valuation without any overvaluation or under-valuation.

The issuance of shares shall be conducted in a fair and equitable manner. The same class of shares must carry equal rights. For shares issued at the same time and within the same class, the conditions and price per share must be the same. The share offering price may be equal to or greater than the nominal value of the share, but may not be less than the nominal value.

A company must obtain the approval of China Securities Regulatory Commission (the "CSRC") to offer its shares to the overseas public. According to the Special Regulations and the Mandatory Provisions, the shares issued to foreign investors and listed overseas by a company shall be in registered form, denominated in Renminbi and subscribed for in foreign currency. The shares issued by the Company to investors inside the PRC for subscription in RMB shall be referred to as domestic shares. The shares issued by the Company to investors outside the PRC for subscription in foreign currencies shall be referred to as foreign shares. The foreign shares that are listed overseas shall be referred to as overseas-listed foreign shares. Under the Special Regulations, upon approval of the CSRC, a company may agree, in the underwriting agreement in respect of an issue of overseas listed foreign shares, to retain not more than 15% of the aggregate number of such overseas listed foreign shares proposed to be issued in addition to the number of underwritten shares. The issuance of the retained shares is deemed to be a part of this issuance.

Under the PRC Company Law, a company issuing registered share certificates shall maintain a shareholder register which sets forth the following matters:

- (i) the name and domicile of each shareholder;
- (ii) the number of shares held by each shareholder;
- (iii) the serial numbers of shares held by each shareholder; and
- (iv) the date on which each shareholder acquired the shares.

Increase in Share Capital

Under the PRC Company Law, where a company is issuing new shares, resolutions shall be passed at the general meeting in respect of the class and amount of the new shares, the issue price of the new shares, the commencement and end dates for the issue of the new shares and the class and amount of the new shares proposed to be issued to existing shareholders.

When a company launches a public issue of new shares upon the approval by the CSRC, a new share document and financial accounting report must be published and a subscription form must be prepared. After the issue of new shares the company has been paid up, the change must be registered with the relevant company registration authorities and a public announcement must be made accordingly. Where an increase in registered capital of a company is made by means of an issue of new shares, the subscription of new shares by shareholders shall be made in accordance with the relevant provisions on the payment of subscription monies for the establishment of a company.

Reduction of Registered Capital

A company may reduce its registered capital in accordance with the following procedures prescribed by the PRC Company Law:

- (i) the company shall prepare a balance sheet and an inventory of properties;
- (ii) the reduction of the registered capital must be resolved by the general meeting of Shareholders, while the resolution must be passed by more than two-thirds of the voting rights held by the Shareholders attending the meeting;
- (iii) the company shall inform its creditors within 10 days and publish an announcement in the newspaper within 30 days after the date of the resolution in respect of the capital reduction;

- (iv) the creditors of the company have the rights to require the company to repay its debts or provide guarantees for covering the debts within 30 days of receipt of the notification or within 45 days of the date of the announcement if he/she/it has not received any notification; and
- (v) the company must apply to the relevant company registration authority for registration of the change on the reduction of registered capital.

Repurchase of Shares

A company shall not purchase its own shares except under any of the following circumstances:

- (i) to reduce the registered capital of the company;
- (ii) to merge with another company that holds its shares;
- (iii) to use shares for employee stock plan or equity incentive;
- (iv) with respect to shareholders voting against any resolution adopted at the general meeting on the merger or division of the company, the right to demand the company to acquire the shares held by them;
- (v) to use shares for converting into the convertible corporate bonds issued by a listing company;
- (vi) as required for maintenance of the corporate value and shareholders' rights and interests of a listed company.

A company purchasing its own shares under any of the circumstances set forth in items (i) and (ii) of the preceding paragraph shall be subject to a resolution of the general meeting; and a company purchasing its own shares under any of the circumstances set forth in items (iii), (v) and (vi) of the preceding paragraph may, pursuant to the articles of associations or the authorization of the general meeting, be subject to a resolution of a meeting of the board of directors at which more than two-thirds of directors are present.

After purchasing its own shares pursuant to the provisions of the paragraph 1 of this article, a company shall, under the circumstances set forth in item (i), cancel them within 10 days after the purchase; while under the circumstances set forth in either item (ii) or (iv), transfer or cancel them within six months; and while under the circumstances set forth in item (iii), (v) or (vi), in aggregate hold not more than 10% of the total issued shares of the company, and transfer or cancel them within three years.

A listed company purchasing its own shares shall perform the obligation of information disclosure according to the PRC Securities Law (《中華人民共和國證券法》). A listed company purchasing its own shares under any of the circumstances set forth in items ((iii), (v) and (vi) of paragraph 1 of this article shall carry out trading in a public and centralized manner.

A company shall not accept its own shares as the subject matter of pledge.

Transfer of Shares

Shares held by shareholders may be transferred legally. Under the PRC Company Law, a shareholder should effect a transfer of his/her shares on a stock exchange established in accordance with laws or by any other means as required by the State Council. Registered shares may be transferred after the shareholders endorse the back of the share certificates or in any other manner specified by the laws or administrative regulations. Following the transfer, the company shall enter the names and domiciles of the transferees into its share register. No changes of registration in the share register described above shall be effective during a period of 20 days prior to convening a general meeting or 5 days prior to the record date for the purpose of determining entitlements to dividend distributions, unless otherwise stipulated by laws on the registration of changes in the share register of listed companies. The transfer of bearer share certificates shall become effective upon the delivery of the certificates to the transferee by the shareholder. The Mandatory Provisions provides that changes due to share transfer should not be made to shareholder registry within 30 days before a general meeting or within 5 days before the record date for the purpose of determining entitlements to dividend distributions.

Under the PRC Company Law, shares of the Company held by promoters may not be transferred within one year of the establishment of the company. Shares of the company issued prior to the public issuance of shares may not be transferred within one year of the date of the company's listing on a stock exchange. Directors, supervisors and the senior management of a company shall declare to the company their shareholdings in it and any changes in such shareholdings. During their terms of office, they may transfer no more than 25% of the total number of shares they hold in the company every year. They shall not transfer the shares they hold within one year of the date of the company's listing on a stock exchange, nor within six months after they leave their positions in the company. The articles of association may set out other restrictive provisions in respect of the transfer of shares in the company held by its directors, supervisors and the senior management.

Shareholders

Under the PRC Company Law and the Mandatory Provisions, the rights of holders of ordinary shares of a joint stock limited company include:

- (i) the right to attend or appoint a proxy to attend general meetings and to vote thereat;
- (ii) the right to transfer shares in accordance with laws, administrative regulations and provisions of the articles of association;
- (iii) the right to inspect the company's articles of association, share register, counterfoil of company debentures, minutes of general meetings, resolutions of meetings of the board of directors, resolutions of meetings of the supervisory committee and financial and accounting reports and to make proposals or enquires on the company's operations;
- (iv) the right to bring an action in the people's court to rescind resolutions passed by general meetings and board of directors where the articles of association are violated by the above resolutions;
- (v) the right to receive dividends and other types of interest distributed in proportion to the number of shares held;
- (vi) in the event of the termination or liquidation of the company, the right to participate in the distribution of residual properties of the company in proportion to the number of shares held; and
- (vii) other rights granted by laws, administrative regulations, other regulatory documents and the company's articles of association.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription moneys in respect of the shares subscribed for and in accordance with the form of making capital contributions, to be liable for the company's debts and liabilities to the extent of the amount of his or her subscribed shares and any other shareholders' obligation specified in the company's articles of association.

General Meetings

The general meeting is the organ of authority of the company, which exercises its powers in accordance with the PRC Company Law.

Under the PRC Company Law, the general meeting exercises the following principal powers:

- (i) to decide on the company's operational policies and investment plans;
- (ii) to elect or dismiss the directors and supervisors (other than the staff representative) and to decide on matters relating to the remuneration of directors and supervisors;
- (iii) to consider and approve reports of the board of directors;
- (iv) to consider and approve reports of the supervisory committee;
- (v) to consider and approve the company's annual financial budget and final accounts;
- (vi) to consider and approve the company's profit distribution proposals and loss recovery proposals;
- (vii) to decide on any increase or reduction of the company's registered capital;
- (viii) to decide on the issue of bonds by the company;
- (ix) to decide on issues such as merger, division, dissolution and liquidation of the company;
- (x) to amend the articles of association; and
- (xi) other powers specified in the articles of association.

Annual general meetings are required to be held once every year. Under the PRC Company Law, an extraordinary general meeting is required to be held within two months after the occurrence of any of the following:

- (i) the number of directors is less than the number stipulated by the law or less than two-thirds of the number specified in the articles of association;
- (ii) the aggregate losses of the company which are not recovered reach one-third of the company's total paid-in share capital;

- (iii) when shareholders individually or in aggregate holding 10% or more of the company's shares request the convening of an extraordinary general meeting;
- (iv) whenever the board of directors deems necessary;
- (v) when the supervisory committee proposes to convene; or
- (vi) other circumstances specified in the articles of association.

Under the PRC Company Law, general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors. In the event that the chairman is incapable of performing or does not perform his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by more than half of directors shall preside over the meeting.

Where the board of directors is incapable of performing or not performing its duties of convening the general meeting, the supervisory committee shall convene and preside over such meeting in a timely manner. In case the supervisory committee fails to convene and preside over such meeting, shareholders individually or in aggregate holding more than 10% of the company's shares for 90 days consecutively may unilaterally convene and preside over such meeting.

Under the PRC Company Law, a notice of general meeting shall state the time and venue of and matters to be considered at the meeting and shall be given to all shareholders 20 days before the meeting. A notice of extraordinary general meeting shall be given to all shareholders 15 days prior to the meeting. For the issuance of bearer share certificates, the time and venue of and matters to be considered at the meeting shall be announced 30 days before the meeting. Shareholders individually or in aggregate holding more than three percent of the company's shares may submit an interim proposal in writing to the board of directors ten days before the general meeting is held. The board of directors shall notify other shareholders within two days upon receipt of the proposal, and submit the said interim proposal to the general meeting for deliberation. The contents of the interim proposal shall fall within the scope of powers of the general meeting, and the proposal shall have a clear agenda and specific matters on which resolutions are to be made. The general meeting shall not make any resolution in respect of any matter not set out in the above-mentioned two types of notices. Holders of bearer share certificates who wish to attend a general meeting shall deposit their share certificates with the company five days before the meeting and till the conclusion of the general meeting.

Under the PRC Company Law, shareholders present at the general meeting have one vote for each share they hold, save that the shares held by the company are not entitled to any voting rights.

Pursuant to the provisions of the articles of association or a resolution of the general meeting, the accumulative voting system may be adopted for the election of directors and supervisors at the general meeting. Under the accumulative voting system, each share shall be entitled to vote equivalent to the number of director or supervisor to be elected at the general meeting and shareholders may consolidate their voting rights when casting a vote.

Under the PRC Company Law and the Mandatory Provisions, resolutions of the general meeting shall be adopted by more than half of the voting rights held by the shareholders present at the meeting. However, resolutions of the general meeting regarding the following matters shall be adopted by more than two-third of the voting rights held by the shareholders present at the meeting: (i) amendments to the articles of association; (ii) the increase or decrease of registered capital; (iii) the issue of any types of shares, warrants or other similar securities; (iv) the issue of bonds; (v) the merger, division, dissolution, liquidation or change in the form of the company; (vi) other matters considered by the general meeting, by way of an ordinary resolution, to be of a nature which may have a material impact on the company and should be adopted by a special resolution.

Under the PRC Company Law, meeting minutes shall be prepared in respect of decisions on matters discussed at the general meeting. The chairman of the meeting and directors attending the meeting shall sign to endorse such minutes. The minutes shall be kept together with the shareholders' attendance register and the proxy forms.

The Mandatory Provisions requires a special resolution to be passed at the general meeting and a resolution must be made by affected class shareholders at the class meeting and passed by votes of more than two-thirds of Shareholders attending the relevant class meeting with voting rights at such meet in in the event of a variation or derogation of the class rights of a shareholder class. For this purpose, holders of domestic shares and overseas listed foreign shares (such as H shares) are deemed to be shareholders of different classes.

Board of Directors

Under the PRC Company Law, a joint stock limited company shall have a board of directors, which shall consist of 5 to 19 members. Members of the board of directors may include employee representatives of the company, who shall be democratically elected by the company's staff at an employee representative assembly, general employee meeting or otherwise.

The term of a director shall be stipulated in the articles of association, provided that no term of office shall last for more than three years. A director can be re-elected. A director shall continue to perform his/her duties as a director in accordance with the laws, administrative regulations and the articles of association until a duly re-elected director takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office or if the resignation of director results in the number of board members being less than the quorum.

Under the PRC Company Law, the board of directors mainly exercises the following powers:

- (i) to convene the general meetings and report on its work to the general meetings;
- (ii) to implement the resolutions of the general meetings;
- (iii) to decide on the company's business plans and investment proposals;
- (iv) to formulate the company's annual financial budget and final accounts;
- (v) to formulate the company's profit distribution proposals and loss recovery proposals;
- (vi) to formulate proposals for the increase or reduction of the company's registered capital and the issuance of corporate bonds;
- (vii) to formulate proposals for the merger, division, dissolution and change in the form of the company;
- (viii) to decide on the set-up of the internal management bodies of the company;
- (ix) to decide on the employment or removal of the manager of the company and matters related to the remuneration thereof, and making decisions, according to the manager's nomination, on the employment or removal of the vice manager(s) and the personnel in charge of financial issues of the company and the matters related to their remunerations;
- (x) to formulate the company's basic management system; and
- (xi) any other powers specified in the articles of association.

Meetings of the Board of Directors

Under the PRC Company Law, meetings of the board of directors of a joint stock limited company shall be convened at least twice a year. Notice shall be given to all directors and supervisors 10 days before the meeting by the board of directors. Interim board meetings may be proposed to be convened by shareholders representing more than 10% of voting rights, more than one-third of the directors or the supervisors. The chairman of the Board shall convene and preside over such meeting within 10 days after receiving such proposal. Meetings of the board of directors shall be held only if half or more of the directors are present. Resolutions of the board of directors shall be passed by more than half of all directors. Each director has one vote on the resolution approved by the board of directors. Directors shall attend meetings of the board of directors in person. If a director is unable to attend a board meeting, he/she may appoint another director by a written power of attorney specifying the scope of the authorization to attend the meeting on his/her behalf.

If a resolution of the board of directors violates the laws, administrative regulations or the articles of association, and as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proved that a director expressly objected to the resolution when the resolution was voted on, and that such objection was recorded in the minutes of the meeting, such director may be released from that liability.

Chairman of the Board

Under the PRC Company Law, the board of directors shall have a chairman and a vice chairman. The chairman and the vice chairman are elected with approval of more than half of all the directors. The chairman shall convene and preside over board meetings and examine the implementation of board resolutions. The vice chairman shall assist the work of the chairman. In the event that the chairman is incapable of performing or not performing his duties, the duties shall be performed by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by more than half of the directors shall perform his duties.

Qualification of Directors

The PRC Company Law provides that the following persons may not serve as a director:

- (i) a person who is unable or has limited ability to undertake any civil liabilities;
- (ii) a person who has been convicted of an offense of bribery, corruption, embezzlement or misappropriation of property, or the destruction of socialist market economy order; or who has been deprived of his/her political rights due to his/her crimes, in each case where less than five years have elapsed since the date of completion of the sentence;
- (iii) a person who has been a former director, factory manager or manager of a company or an enterprise that has entered into insolvent liquidation and who was personally liable for the insolvency of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- (iv) a person who has been a legal representative of a company or an enterprise that has had its business license revoked due to violations of the law and has been ordered to close down by law and the person was personally responsible, where less than three years have elapsed since the date of such revocation; or
- (v) a person who is liable for a relatively large amounts of debts that are overdue.

Where a company elects or appoints a director to which any of the above circumstances applies, such election or appointment shall be null and void. A director to which any of the above circumstances applies during his/her term of office shall be released of his/her duties by the company.

Other circumstances under which a person is disqualified from acting as a director are set out in the Mandatory Provisions.

Supervisory Committee

A joint stock limited company shall have a supervisory committee composed of not less than three members. The supervisory committee is made up of representatives of the shareholders and an appropriate proportion of employee representatives of the company. The specific proportion shall be stipulated in the articles of association, provided that the proportion of employee representatives shall not be less than one third of the supervisors. Employee representatives of the company in the supervisory committee shall be democratically elected by the employee at the employee representative assembly, general employee meeting or otherwise.

The directors and senior management may not act concurrently as supervisors.

The supervisory committee shall have a chairman and have vice chairman. The chairman and the vice chairman of the supervisory committee are elected with approval of more than half of all the supervisors. The chairman of the supervisory committee shall convene and preside over the meetings of the supervisory committee. In the event that the chairman of the supervisory committee is incapable of performing or not performing his duties, the vice chairman of the supervisory committee shall convene and preside over the meetings of the supervisory committee. In the event that the vice chairman of the supervisory committee is incapable of performing or not performing his duties, a supervisor nominated by more than half of the supervisors shall convene and preside over the meetings of the supervisory committee.

Each term of office of a supervisor is three years and he or she may serve consecutive terms if re-elected. A supervisor shall continue to perform his/her duties in accordance with the laws, administrative regulations and articles of association until a re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office, or if the resignation of supervisors results in the number of supervisors being less than the quorum.

Meeting of the supervisory committee of the company shall be convened at least once every six months. Under the PRC Company Law, resolutions of the supervisory committee shall be passed by more than half of all supervisors, and under the Letter of Opinions on the Supplementation and Amendment of Articles of Association of Companies to be Listed in Hong Kong (關於到香港上市公司對公司章程作補充修改的意見的函), resolutions of the supervisory committee shall be passed by more than two-thirds of all supervisors.

The supervisory committee exercises the following powers:

- (i) to review the company's financial condition;
- (ii) to supervise the directors and senior management in their performance of their duties and to propose the removal of directors and senior management who have violated laws, regulations, the articles of association or the resolutions of general meetings;
- (iii) when the acts of directors and senior management are harmful to the company's interests, to require to rectify such acts;
- (iv) to propose the convening of extraordinary general meetings and to convene and preside over the general meetings when the board of directors fails to perform the duty of convening and presiding over the general meetings under the PRC Company Law;
- (v) to submit proposals for resolutions to the general meeting;
- (vi) to initiate proceedings against directors and senior management when they perform their duties in violation of laws, administrative regulations or the articles of association of the company; and
- (vii) other powers specified in the articles of association.

Supervisors may attend the meetings of the board of directors and make enquiries or proposals in respect of board resolutions. The supervisory committee may initiate investigations into any irregularities identified in the operation of the company and, where necessary, may engage an accounting firm to assist their work at the company's expense.

Manager and Senior Management

Under the PRC Company Law, the company shall have a manager who shall be appointed or removed by the board of directors. The manager shall report to the board of directors and may exercise the following powers:

- (i) to take charge of the management of the production and business operations of the company and arrange for the implementation of resolutions of the board of directors;
- (ii) to arrange for the implementation of the company's annual business plans and investment proposals;
- (iii) to draft the plans on the set-up of the internal management bodies of the company;

- (iv) to draft the company's basic management system;
- (v) to recommend the appointment and dismissal of the company's deputy managers and person-in-charge of finance;
- (vi) to decide on the appointment or dismissal of the persons in charge of management (other than those required to be appointed or dismissed by the board of directors); and
- (vii) to exercise other powers conferred by the board of directors or the articles of association.

Managers must comply with other provisions of the articles of association related to their powers. The manager shall be present at meetings of the board of directors. However, the manager shall have no voting rights at meetings of the board of directors unless he/she concurrently serves as a director.

Under the PRC Company Law, senior management shall mean the manager, deputy manager(s), person-in-charge of finance, the board secretary of a listed company and other personnel as stipulated in the articles of association.

Duties of Directors, Supervisors and Senior Management

Directors, supervisors and senior management of the company are required under the PRC Company Law to comply with the relevant laws, regulations and the articles of association, and have the fiduciary and diligent duties to the company.

Directors, supervisors and senior management are prohibited from abusing their powers to accept bribes or other unlawful income and from misappropriating of the company's properties.

Directors and senior management are prohibited from:

- (i) misappropriation of the company's capital;
- (ii) depositing the company's capital into accounts under his/her own name or the name of other individuals;
- (iii) loaning the company's capital to others or providing guarantees in favor of others supported by the company's properties in violation of the articles of association or without approval of the board of shareholders, the general meeting or the board of directors;

- (iv) entering into contracts or deals with the company in violation of the articles of association or without approval of the board of shareholders or the general meeting;
- (v) using their position to procure business opportunities for themselves or others that should have otherwise been available to the company or operating for their own benefits or managing on behalf of others businesses similar to that of the company without approval of the board of shareholders or the general meeting;
- (vi) accepting for one's own benefit commissions from others for transactions conducted with the company;
- (vii) unauthorized divulgence of confidential information of the company; or
- (viii) other acts in violation of their duty of loyalty to the company.

Income generated by directors or senior management in violation of the aforesaid provisions shall be reverted to the company.

A director, supervisor or senior management who contravenes any laws, regulations or articles of association of the company in the performance of his/her duties resulting in any loss to the company shall be personally liable to the company.

Where a director, supervisor or senior management attend a general meeting, such director, supervisor or senior management shall attend the meeting and answer the inquiries from shareholders. Directors and senior management shall furnish all true information to the supervisory committee, without impeding the discharge of duties by the supervisory committee or supervisors.

Where a director or senior management contravenes laws, administrative regulations or the articles of association in the performance of his/her duties resulting in any loss to the company, shareholder(s) individually or in aggregate holding no less than 1% of the company's shares for more than 180 consecutive days may request in writing that the supervisory committee institute litigation at a people's court on its behalf. Where a supervisor violates the laws or administrative regulations or the articles of association in the discharge of his/her duties resulting in any loss to the company, such shareholder(s) may request in writing that the board of directors institute litigation at a people's court on its behalf. If the supervisory committee or the board of directors refuses to institute litigation after receiving this written request from the shareholder(s), or fails to institute litigation within 30 days of the date of receiving the request, or in case of emergency where failure to institute litigation immediately will result in irrecoverable damage to the company's interests, such shareholder(s) shall have the power to institute litigation directly at a people's court in its own name for the company's benefit. For other parties who infringe the lawful interests of the company resulting in loss to the company, such shareholder(s) may institute litigation at a people's court in accordance with the procedure described above. Where a director or senior management contravenes any laws, administrative regulations or the articles of association in infringement of shareholders' interests, a shareholder may also institute litigation at a people's court.

The Special Regulations and the Mandatory Provisions provide that a company's directors, supervisors, manager and other senior management shall have duty of loyalty to the company. They are required to faithfully perform their duties, to protect the interests of the company and not to use their positions in the company for their own benefits. The Mandatory Provisions contain detailed stipulations on these duties.

Finance and Accounting

Under the PRC Company Law, a company shall establish financial and accounting systems according to laws, administrative regulations and the regulations of the financial department of the State Council and shall prepare financial and accounting reports at the end of each financial year which shall be audited by an accounting firm as required by law. The company's financial and accounting report shall be prepared in accordance with provisions of the laws, administrative regulations and the regulations of the financial department of the State Council.

Under the PRC Company Law, the company shall deliver its financial and accounting reports to all shareholders within the time limit stipulated in the articles of association and make its financial and accounting reports available at the company for inspection by the shareholders at least 20 days before the convening of an annual general meeting. It must also publish its financial and accounting reports.

When distributing each year's after-tax profits, it shall set aside 10% of its after-tax profits into the statutory reserve fund until the fund has reached 50% of its registered capital.

If its statutory reserve fund is not sufficient to make up losses of the previous year, profits of the current year shall be applied to make up losses before allocation is made to the statutory reserve fund pursuant to the above provisions.

After allocation of the statutory reserve fund from after-tax profits, it may, upon a resolution passed at the general meeting, allocate discretionary reserve fund from after-tax profits.

The remaining after-tax profits after making up losses and allocation of reserve fund shall be distributed in proportion to the number of shares held by the shareholders, unless otherwise stipulated in the articles of association.

Shares held by the company shall not be entitled to any distribution of profit.

The premium received through issuance of shares at prices above par value and other incomes required by the financial department of the State Council to be allocated to the reserve fund shall be allocated to the company's capital reserve fund.

The company's reserve fund shall be applied to make up losses of the company, expand its business operations or be converted to increase the registered capital of the company. However, the reserve fund may not be applied to make up the company's losses. Upon the conversion of statutory reserve fund into capital, the balance of the statutory reserve fund shall not be less than 25% of the registered capital of the company before such conversion.

The company shall have no other accounting books except the statutory accounting books. Its assets shall not be deposited in any accounts opened in the name of any individual.

Appointment and Retirement of Accounting Firms

Under the PRC Company Law, the appointment or dismissal of accounting firms responsible for the auditing of the company shall be determined by the general meeting or the board of directors in accordance with provisions of articles of association. The accounting firm should be allowed to make representations when the general meeting or the board of directors conducts a vote on the dismissal of the accounting firm. The company should provide true and complete accounting evidences, books, financial and accounting reports and other accounting data to the accounting firm it employs without any refusal, withholding and misrepresentation.

The Special Regulations provide that a company shall employ an independent accounting firm complying with the relevant regulations of the State to audit its annual report and review and check other financial reports of the company. The accounting firm's term of office shall commence from their appointment at the annual general meeting to the conclusion of the next annual general meeting. The general meeting may by ordinary resolution remove any accounting firm before the expiration of its term of office, irrespective of the provisions in the contract between the Company and the accounting firm.

Distribution of Profits

According to the PRC Company Law, a company shall not distribute profits before losses are covered and the statutory reserve fund is drawn. The Special Regulations provide that the dividends and other distributions declared by company to shareholders of overseas listed foreign shares shall be calculated and declared in RMB and paid in foreign currencies. Under the Mandatory Provisions, a company shall appoint receiving agents on behalf of holders of the overseas listed foreign shares to receive on behalf of such shareholders dividends and other payables in respect of their overseas listed foreign shares.

Amendments to the Articles of Association

Any amendments to the company's articles of association must be made in accordance with the procedures set out in the company's articles of association. Any amendment of provisions incorporated in the articles of association in connection with the Mandatory Provisions will only be effective after approval by the companies examination and approval department authorized by the State Council and the CSRC. In relation to matters involving the company's registration, its registration with the authority must also be changed.

Dissolution and Liquidation

According to the PRC Company Law, a company shall be dissolved by reason of the following: (i) the term of its operations set down in the articles of association has expired or other events of dissolution specified in the articles of association have occurred; (ii) the general meeting have resolved to dissolve the company; (iii) the company is dissolved by reason of merger or division; (iv) the business license is revoked; the company is ordered to close down or be dissolved; or (v) the company is dissolved by the people's court in response to the request of shareholders holding shares that represent more than 10% of the voting rights of all its shareholders, on the grounds that the company suffers significant hardship in its operation and management that cannot be resolved through other means, and the ongoing existence of the company would bring significant losses for shareholders.

In the event of (i) above, the company may carry on its existence by amending its articles of association. The amendments to the articles of association in accordance with provisions set out above shall require approval of more than two thirds of voting rights of shareholders attending the general meeting.

Where the company is dissolved in the circumstances described in sub-paragraphs (i), (ii), (iv) or (v) above, a liquidation group shall be established and the liquidation process shall commence within 15 days after the occurrence of an event of dissolution.

The members of the company's liquidation group shall be composed of its directors or the personnel appointed by the general meeting. If a liquidation group is not established within the stipulated period, creditors of the company may apply to the people's court and request the court to appoint relevant personnel to form the liquidation group. The people's court should accept such application and form a liquidation group to conduct liquidation in a timely manner.

The liquidation group shall exercise the following powers during the liquidation period:

- (i) to liquidate the company's properties and to prepare a balance sheet and an inventory of properties respectively;
- (ii) to notify creditors through notice or public announcement;
- (iii) to deal with the company's outstanding businesses related to liquidation;
- (iv) to pay any tax overdue as well as tax amounts arising from the process of liquidation;
- (v) to claim credits and pay off debts;
- (vi) to handle the company's remaining properties after its debts have been paid off; and
- (vii) to represent the company in civil lawsuits.

The liquidation group shall notify the creditors within 10 days after its establishment, and issue public notices in newspapers within 60 days. A creditor shall lodge his/her claim with the liquidation group within 30 days after receiving notification, or within 45 days of the public notice if he/she did not receive any notification. When a creditor makes his/her claim, he/she shall state the matters which are relevant to his/her creditor rights and furnish evidence. The liquidation group shall register such creditor rights. The liquidation group shall not make any settlement to creditors during the period of claim.

Upon liquidation of properties and the preparation of the balance sheet and inventory of properties, the liquidation group shall draw up a liquidation plan to be submitted to the general meeting or people's court for confirmation.

The company's remaining properties after payment of liquidation expenses, staff wages, social insurance expenses and statutory compensation, outstanding taxes and debt shall be distributed to shareholders by the company according to their shareholding proportion. It shall continue to exist during the liquidation period, although it cannot engage in any operating activities that are not related to the liquidation. The company's properties shall not be distributed to the shareholders before repayments are made in accordance to the foregoing provisions.

Upon liquidation of the company's properties and the preparation of the balance sheet and inventory of properties, if the liquidation group becomes aware that the company does not have sufficient properties to meet its liabilities, it must apply to the people's court for a declaration for bankruptcy. Following the company being declared insolvent by a ruling of the people's court, the liquidation group shall transfer all matters arising from the liquidation to the people's court.

Upon the completion of the liquidation of the company, the liquidation group shall prepare a liquidation report and submit it to the general meeting or the people's court for confirmation. The liquidation group shall then submit the liquidation report to the registration authority of the company, and apply for cancellation of the company's registration, and a public notice of its termination shall be issued. Members of the liquidation group shall discharge their duties honestly and shall perform the duties regarding liquidation in accordance with the laws. Members of the liquidation group shall be prohibited from abusing of their powers to take bribes or other unlawful income and from misappropriating the company's properties. A member of the liquidation group is liable to indemnify the company or creditors in respect of any loss suffered by the company or creditors due to intentional or gross negligence.

Overseas Listing

According to the Special Regulations, a company shall obtain the approval of the CSRC to list its shares overseas. According to the Rule 2(6) of the Regulatory Guidelines for the Application Documents and Examination Procedures for Overseas Share Issuance and Listing by Joint Stock Limited Companies (《關於股份有限公司境外發行股票和上市申報文件及審核程序的監管指引》) promulgated by the CSRC and effective from January 1, 2013, the validity period for the application documents for overseas share issuance and listing by the company granted by the CSRC is 12 months.

Loss of Share Certificates

If a registered share certificate is lost, stolen or destroyed, the relevant shareholder may apply, in accordance with the relevant provisions set out in the Civil Procedure Law, to a people's court to declare such certificate invalid. After the people's court declares the invalidity of such share certificate, the shareholder may apply to the company for a replacement share certificate. A separate procedure regarding the loss of overseas listed and foreign invested share certificates is provided for in the Mandatory Provisions.

Suspension and Termination of Listing

The PRC Company Law has deleted provisions governing suspension and termination of listing. The PRC Securities Law (revised in 2019) (《中華人民共和國證券法》(2019年修訂)) also deletes provisions regarding the termination of listing. Where listed securities fall under the delisting circumstances stipulated by the stock exchange, the stock exchange shall terminate its listing and trading in accordance with the business rules.

Where the stock exchange decides on delisting of securities, it shall promptly announce and file records with the securities regulatory authority of the State Council.

Merger and Division

For merger of a company, all parties to the merger shall enter into a merger agreement and prepare balance sheets and inventory of properties. The company shall, within 10 days after the decision of merger, notify the creditors, and shall issue public notices in newspapers within 30 days. The creditors may, within 30 days after the receipt of the notice or (if it fails to receive a notice) within 45 days of the public notice, require the company to settle its debts or to provide guarantees. After the merger, the credits and debts of the company involved shall be succeeded by the surviving company or by the newly established company.

For division of a company, the properties of the company shall be divided properly. Balance sheets and inventory of properties shall be prepared for division of a company. The company shall, within 10 days after the decision of division, notify the creditors and issue public notices in newspapers within 30 days. The companies after division shall jointly bear liabilities for the debts of the former company before division, unless it is otherwise prescribed by written agreements entered into between the company and their respective creditors for the settlement of debts before the division.

Changes in the registration as a result of the merger or division of a company shall be registered with the company's registration authorities. Where a company is dissolved, cancellation of registration of the company shall be carried out pursuant to the law; where a new company is established, the registration of the establishment of the company shall be carried out in accordance with the law.

SECURITIES LAW AND REGULATIONS

The PRC has promulgated a number of regulations that relate to the issue and trading of shares and disclosure of information. In October 1992, the State Council established the Securities Committee and the CSRC. The Securities Committee is responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the CSRC. The CSRC is the regulatory arm of the Securities Committee and is responsible for the drafting of regulatory provisions of securities markets, supervising securities companies, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities related statistics and undertaking relevant research and analysis. In April 1998, the State Council consolidated the two departments and reformed the CSRC.

The Interim Provisional Regulations on the Administration of Share Issuance and Trading (《股票發行與交易管理暫行條例》) deals with the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, clearing and transfer of listed equity securities, the disclosure of information with respect to a listed company, investigation, penalties and dispute settlement.

On December 25, 1995, the State Council promulgated and implemented the Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Companies (《國務院關於股份有限公司境內上市外資股的規定》). These regulations deal mainly with the issue, subscription, trading and declaration of dividends and other distributions of domestic listed foreign shares and disclosure of information of joint stock limited companies having domestic listed foreign shares.

The PRC Securities Law took effect on July 1, 1999 and was revised on August 28, 2004, October 27, 2005, June 29, 2013, August 31, 2014 and December 28, 2019, respectively. The PRC Securities Law, which was revised on December 28, 2019 and came into effect on March 1, 2020, is divided into 14 chapters, regulating, among other things, the issue, trading and the listing of securities, and takeovers by listed companies.

Article 224 of the PRC Securities Law provides that the domestic enterprises which, directly or indirectly, issue securities or list and trade their securities outside the PRC shall comply with the relevant regulations of the State Council. Currently, the issue and trading of foreign issued securities (including shares) are principally governed by the administrative regulations and regulatory documents promulgated by the State Council and the CSRC.

ARBITRATION AND ENFORCEMENT OF ARBITRAL AWARDS

The Arbitration Law of the PRC (《中華人民共和國仲裁法》) (the “Arbitration Law”) was promulgated by the Standing Committee of the NPC on August 31, 1994, which became effective on September 1, 1995 and was amended on August 27, 2009 and September 1, 2017, respectively. The Arbitration Law is applicable to, among other matters, economic disputes involving foreign parties where all parties have entered into a written agreement to resolve disputes by arbitration before an arbitration committee constituted in accordance with the Arbitration Law. The Arbitration Law provides that an arbitration committee may, before the promulgation of arbitration regulations by the Arbitration Association, formulate interim arbitration rules in accordance with the Arbitration Law and the Civil Procedure Law. Where the parties have agreed to settle disputes by means of arbitration, a people’s court will refuse to handle a legal proceeding initiated by one of the parties at such people’s court, unless the arbitration agreement is invalid.

The Mandatory Provisions requires an arbitration clause to be included in the articles of association of a company listed in Hong Kong and, in the case of the Listing Rules, also in contracts between the company and each director or supervisor. Pursuant to such clause, whenever a dispute or claim arises from any right or obligation provided in the articles of association, the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of the company between (i) a holder of overseas listed foreign shares and the company; (ii) a holder of overseas listed foreign shares and a holder of domestic shares; or (iii) a holder of overseas listed foreign shares and the company’s directors, supervisors or other management personnel, such parties shall be required to refer such dispute or claim to arbitration at either the China International Economic and Trade Arbitration Commission (“CIETAC”) or the Hong Kong International Arbitration Center (“HKIAC”). Disputes in respect of the definition of shareholder and disputes in relation to the company’s shareholder register need not be resolved by arbitration. If the party seeking arbitration elects to arbitrate the dispute or claim at the HKIAC, then either party may apply to have such arbitration conducted in Shenzhen in accordance with the securities arbitration rules of the HKIAC.

Under the Arbitration Law and the Civil Procedure Law, an arbitral award shall be final and binding on the parties involved in the arbitration. If any party fails to comply with the arbitral award, the other party to the award may apply to a people’s court for its enforcement. The people’s court can issue a ruling prohibiting the enforcement of an arbitral award made by an arbitration commission after verification by collegial bench formed by the people’s court if there is any procedural irregularity (including but not limited to irregularity in the composition of the arbitration tribunal or arbitration proceedings, the jurisdiction of the arbitration commission, or the making of an award on matters beyond the scope of the arbitration agreement).

Any party seeking to enforce an award of a foreign affairs arbitral body of the PRC against a party who or whose property is not located within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of the award. Likewise, an arbitral award made by a foreign arbitral body may be recognized and enforced by a PRC court in accordance with the principle of reciprocity or international treaties concluded or acceded to by the PRC.

The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (《承認及執行外國仲裁裁決公約》, the “New York Convention”) adopted on June 10, 1958 pursuant to a resolution passed by the Standing Committee of the NPC on December 2, 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by other parties thereto subject to their rights to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of that state. At the time of the PRC’s accession to the Convention, the Standing Committee of the NPC declared that (i) the PRC will only apply the Convention to the recognition and enforcement of arbitral awards made in the territories of other parties based on the principle of reciprocity; and (ii) the New York Convention will only be applied to disputes deemed under PRC laws to be arising from contractual or non-contractual mercantile legal relations.

An arrangement for mutual enforcement of arbitral awards between Hong Kong and the Supreme People’s Court of China was reached. The Supreme People’s Court of China adopted the Arrangements on the Mutual Enforcement of Arbitral Awards between the Mainland and the Hong Kong Special Administrative Region (《關於內地與香港特別行政區相互執行仲裁裁決的安排》) on June 18, 1999, which went into effect on February 1, 2000. The arrangements reflect the spirit of the New York Convention. Under the arrangements, the awards by the Mainland China arbitral bodies recognized by Hong Kong may be enforced in Hong Kong and the awards by the Hong Kong arbitral bodies according to the Arbitration Ordinance of Hong Kong Special Administrative Region may also be enforced in the Mainland China. If the Mainland China court finds that the enforcement of awards made by the Hong Kong arbitral bodies in the Mainland China will be against public interests of the Mainland China, or the court of Hong Kong Special Administrative Region decides that the enforcement of the arbitral awards in Hong Kong Special Administrative Region will be against public policies of Hong Kong Special Administrative Region, the awards may not be enforced.

Judicial Judgment and its Enforcement

According to the Arrangement on Mutual Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland China and of the Hong Kong Special Administrative Region Pursuant to Agreed Jurisdiction by Parties Concerned (《最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) promulgated by the Supreme People’s Court on July 3, 2008 and implemented on August 1, 2008, in the case of final judgment, defined with payment amount and enforcement power, made between the court of China and the court of the Hong Kong Special

Administrative Region in a civil and commercial matters with a choice of court agreement in written, any party concerned may apply to the People's Court of China or the court of the Hong Kong Special Administrative Region for recognition and enforcement based on this arrangement. "Choice of court agreement in written" refers to a written agreement defining the exclusive jurisdiction of either the People's Court of China or the court of the Hong Kong Special Administrative Region in order to resolve dispute with particular legal relation occurred or likely to occur by the party concerned. Therefore, the party concerned may apply to the Court of China or the court of the Hong Kong Special Administrative Region to recognize and enforce the final judgment made in China or Hong Kong that meet certain conditions of the aforementioned regulations.

MATERIAL DIFFERENCES BETWEEN CERTAIN ASPECTS OF COMPANY LAW IN THE PRC AND HONG KONG

Hong Kong company law is primarily set out in the Companies Ordinance and the Companies (Winding Up and Miscellaneous Provisions) Ordinance, supplemented by common law and rules of equity that apply to Hong Kong. As a joint stock limited company incorporated in the PRC that is seeking a listing of shares on the Hong Kong Stock Exchange, we are governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law. Set out below is a summary of certain material differences between Hong Kong company law and the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

Corporate Existence

Under Hong Kong company law, a company with share capital is incorporated by the Registrar of Companies in Hong Kong, which issues a certificate of incorporation of the Company upon its incorporation, and will exist as a separate corporate henceforth. A company may be incorporated as a public company or a private company. Pursuant to the Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain certain pre-emptive provisions. A public company's articles of association do not contain such pre-emptive provisions.

Under the Company Law, a joint stock limited company may be incorporated by promotion or public subscription.

Share Capital

Under Hong Kong law, the directors of a Hong Kong company may, with the prior approval of the shareholders if required, issue new shares of the company. The PRC Company Law does not provide for authorized share capital. The Company's registered capital is the amount of its issued share capital. Any increase in the Company's registered capital must be approved by the general meeting and shall be approved by/filed with the relevant PRC governmental and regulatory authorities (if applicable).

Under the PRC Company Law, the shares may be subscribed for in the form of money or non-monetary assets (other than assets not entitled to be used as capital contributions under relevant laws or administrative regulations). For non-monetary assets to be used as capital contributions, appraisals must be carried out to ensure there is no overvaluation or undervaluation of the assets. There is no such restriction on a company incorporated in Hong Kong.

Restrictions on Shareholding and Transfer of Shares

Under the PRC law, A Shares of the Company, which are denominated and subscribed for in Renminbi, can be subscribed for and traded by PRC investors, qualified overseas institutional investors or qualified overseas strategic investors, while also being eligible securities under the Northbound Trading Link, A Shares of the Company can be subscribed for and traded by Hong Kong and other overseas investors in accordance with the rules and limits of Shenzhen-Hong Kong Stock Connect. Overseas listed shares, which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, or qualified domestic institutional investors, except as allowed under Tentative Regulatory Measures for Qualified Domestic Institutional Investors Investing in Overseas Securities (合格境內機構投資者境外證券投資管理試行辦法). If the H shares are eligible securities under the Southbound Trading Link, they are also subscribed for and traded by PRC investors in accordance with the rules and limits of Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect.

Under the PRC Company Law, a promoter of a joint stock limited company is not allowed to transfer the shares it holds for a period of one year after the date of establishment of the company. Shares in issue prior to a public offering of the company cannot be transferred within one year from the listing date of the shares on a stock exchange. Shares in a joint stock limited company held by its directors, supervisors and senior management and transferred each year during their term of office shall not exceed 25% of the total shares they held in a company, and the shares they held in a company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after the said personnel has left office. The articles of association may set other restrictive requirements on the transfer of a company's shares held by its directors, supervisors and senior management. There are no restrictions on shareholdings and transfers of shares under Hong Kong law apart from (i) the restriction on the Company to issue additional Shares within six months after the Global Offering, and (ii) the prohibition of controlling shareholders from disposing of shares within 12 months after the lockup.

Financial Assistance for Acquisition of Shares

The PRC Company Law does not prohibit or restrict a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. However, the Mandatory Provisions contains certain restrictions on a company and its subsidiaries on providing such financial assistance similar to those under Hong Kong company law.

Notice of General Meetings

Under the PRC Company Law, notice of an annual general meeting must be given not less than 20 days before the meeting. Whereas notice of an extraordinary general meeting must be given not less than 15 days before the meeting. If a company issues bearer shares, notice of a general meeting must be given at least 30 days prior to the meeting.

Quorum for General Meetings

The PRC Company Law does not specify any quorum requirement for a general meeting, but the Special Regulations and the Mandatory Provisions provide that meeting may only be convened when replies to the notice of that meeting have been received from shareholders whose shares represent at least 50% of the voting rights at least 20 days before the proposed date of the meeting, or if that 50% level is not achieved, the company shall within five days notify its shareholders again by way of a public announcement and the general meeting may be held thereafter. Under Hong Kong law, the quorum for a general meeting is two members, unless the articles of association of a company specifies otherwise or the company has only one member, in which case the quorum is one.

Voting at General Meetings

Under the PRC Company Law, the passing of any resolution requires more than one-half of the affirmative votes held by the shareholders present in person or by proxy at a general meeting except in cases such as proposed amendments to the articles of association, increase or decrease of registered capital, merger, division, dissolution or change in the form of the company, which require two-thirds of the affirmative votes cast by shareholders present in person or by proxy at a general meeting.

Under Hong Kong law, an ordinary resolution is passed by a simple majority of affirmative votes cast by shareholders present in person, or by proxy, at a general meeting, and a special resolution is passed by not less than three-fourths of affirmative votes cast by shareholders present in person, or by proxy, at a general meeting.

Variation of Class Rights

The PRC Company Law makes no specific provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate requirements relating to other kinds of shares. The Mandatory Provisions contain detailed provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the articles of association, which are summarized in “Appendix III – Summary of the Articles of Association” to this document.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the passing of a special resolution by the shareholders of the relevant class at a separate meeting sanctioning the variation, (ii) with the written consent of shareholders representing at least three-fourths of the total voting rights of shareholders of the relevant class, or (iii) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

As required by the Hong Kong Listing Rules and the Mandatory Provisions, provisions protecting class rights have been incorporated into the articles of association in a similar manner to that required by Hong Kong law. Holders of overseas listed shares and domestic listed shares are defined in the articles of association as different classes. The special procedures for voting by a class of Shareholders shall not apply in the following circumstances: (i) where the company issues domestic shares and overseas-listed foreign shares, upon approval in the form of a special resolution by its shareholders at a general meeting, either separately or concurrently, once every 12 months and the number of each of the domestic shares and overseas-listed foreign shares to be issued is not more than 20% of the same type of shares in issue; (ii) where the plan for the issue of domestic shares and overseas-listed foreign shares upon our establishment is implemented within 15 months following the date of approval or within the valid period of the approval by the securities regulatory authorities under the State Council or within the stated period as stipulated by applicable requirements.

Derivative Action by Minority Shareholders

Under Hong Kong company law, minority shareholders may start a derivative action against directors who have committed a breach of their fiduciary duties to the company, if such directors control a majority of votes at a general meeting, thereby effectively preventing a company from suing the directors in breach of their duties in its own name.

Under the PRC Company Law, in the event where the directors and senior management of a joint stock limited company violate laws, administrative regulations or the articles of association, resulting in losses to the company, the shareholders individually or in aggregate holding over 1% of the company’s shares for more than 180 consecutive days may request in writing the supervisory committee to initiate proceedings in the people’s court. In the event that the supervisors violate as such, the above said shareholders may send written request to

the board of directors to initiate proceedings in the people's court. Upon receipt of such written request from the shareholders, if the supervisory committee or the board of directors refuses to initiate such proceedings, or has not initiated proceedings within 30 days upon receipt of the request, or if under urgent situations, failure of initiating immediate proceeding may cause irreparable damages to the company, the above said shareholders shall, for the benefit of the company's interests, have the right to initiate proceedings directly to the court in their own name.

In addition, the Mandatory Provisions provide us with certain remedies against the directors, supervisors and senior management who breach their duties to the Company. In addition, as a condition to the listing of overseas listed foreign shares on the Hong Kong Stock Exchange, each director and supervisor of a joint stock limited company is required to give an undertaking to observe the articles of association in favor of the company. This allows minority shareholders to take action against our directors and supervisors in default.

Minority Shareholder Protection

Under the Companies Ordinance, a shareholder who alleges that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his/her interests may petition to the Court to make an appropriate order to give relief to the unfairly prejudicial conduct. In addition, on the application of a specified number of members, the Financial Secretary of Hong Kong may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated or registered in Hong Kong.

The PRC Company Law provides that any shareholders holding 10% or above of voting rights held by all shareholders of company may request a people's court to dissolve the company to the extent that the operation or management of the company experiences any serious difficulties and its continuous existence would cause serious losses to them, and no other alternatives can resolve such difficulties.

The Company, as required by the Mandatory Provisions, has adopted in its Articles of Association minority shareholder protection provisions similar to (though not as comprehensive as) those available under Hong Kong law. These provisions state that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of other shareholders, may not relieve a director or supervisor of his/her duty to act honestly in best interests of the company or may not approve the expropriation by a director or supervisor of assets of the company or the individual rights of other shareholders.

Directors

The PRC Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration of directors' interests in material contracts, restrictions on directors' authority in making major dispositions, restrictions on companies providing certain benefits to directors and indemnification in respect of directors' liability as well as

prohibitions against compensation for loss of office without shareholders' approval. The Mandatory Provisions, however, contain certain requirements and restrictions on major disposals and specify the circumstances under which a director may receive compensation for loss of office.

Supervisory Committee

Under the PRC Company Law, a joint stock limited company's directors and senior management are subject to the supervision of a supervisory committee. There is no mandatory requirement for the establishment of a supervisory committee for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his/her powers, to act in good faith and honestly in what he/she considers to be in the best interests of the Company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Fiduciary Duties

In Hong Kong, directors owe fiduciary duties to the company, including the duty not to act in conflict with the company's interests. Furthermore, the Companies Ordinance has codified the directors' statutory duty of care. Under the Special Regulations, directors, supervisors, managers and other senior management of the company shall honestly and diligently perform their duties for the company.

Financial Disclosure

Under the PRC Company Law, a joint stock limited company is required to make available at the company for inspection by shareholders its financial report 20 days before its annual general meeting. In addition, a joint stock limited company of which the shares are publicly offered must publish its financial report.

The Companies Ordinance requires a company incorporated in Hong Kong to send to every shareholder a copy of its financial statements, auditors' report and directors' report, which are to be presented before the company in its annual general meeting, not less than 21 days before such meeting. According to the PRC laws, a company shall prepare its financial and accounting reports as at the end of each accounting year, and submit the same to accounting firms for auditing as required by law. The Mandatory Provisions require that a company must, in addition to preparing financial statements according to the Chinese accounting standards and regulations, have its financial statements prepared and audited in accordance with international or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC accounting standards.

The Special Regulations requires that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

Information on Directors and Shareholders

The PRC Company Law gives shareholders the right to inspect the company's articles of association, minutes of the general meetings, resolution at the board meeting, resolution at the meeting of supervisory committee and financial and accounting reports. Under the Mandatory Provisions, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors which is similar to the rights of shareholders of Hong Kong companies under the Companies Ordinance.

Receiving Agent

Under the PRC Company Law and Hong Kong laws, dividends once declared will become debts payable to shareholders. The limitation period for debt recovery action under Hong Kong laws is six years, while under the PRC laws this limitation period is three years. The Mandatory Provisions provides that the relevant company shall appoint a receiving agent for shareholders who hold overseas listed foreign shares, and the receiving agent shall receive on behalf of such holders of shares dividends declared and other monies owed by the company in respect of its overseas listed foreign shares.

Corporate Reorganization

Corporate reorganization involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of voluntary winding up to another company pursuant to Section 237 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to Section 673 and Division 2 of Part 13 of the Companies Ordinance, which requires the sanction of the court. In addition, subject to the shareholders' approval, an intra-group wholly-owned subsidiary may also be amalgamated horizontally or vertically under the Companies Ordinance. Under the PRC law, merger, division, dissolution of the company or change in the form of the company has to be approved by shareholders attending the general meeting and holding two-thirds or more of the voting rights.

Mandatory Transfers

Under the PRC Company Law, a company is required to make transfers equivalent to certain prescribed percentages of its after tax profit to the statutory reserve fund. There are no corresponding provisions under Hong Kong law.

Arbitration of Disputes

In Hong Kong, disputes between shareholders and a company or its directors, managers and other senior management may be resolved through the courts. The Mandatory Provisions provides that disputes between a holder of overseas-listed foreign shares and the Company, a holder of overseas-listed foreign shares and directors, supervisors, managers and other senior management of the Company or a holder of H shares and a holder of domestic listed shares, arising from the articles of association, the PRC Company Law or other relevant laws and administrative regulations which concerns the affairs of the Company should, with certain exceptions, be referred to arbitration at either the HKIAC or the CIETAC, at the claimant's choice. The award rendered by an arbitral body shall be final and binding on all parties.

Remedies of A Company

Under the PRC Company Law, if a director, supervisor or senior management in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or manager should be responsible to the company for such damages. In addition, in compliance with the Hong Kong Listing Rules, remedies of the company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits from a director, supervisor or senior management) have been set out in the articles of association.

Dividends

Pursuant to relevant PRC laws and regulations, the company in certain circumstances shall withhold, and pay to the relevant tax authorities, any tax payable on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of declared dividends) is six years, whereas under the PRC laws, the relevant limitation period is three years. The company must not exercise its powers to forfeit any unclaimed dividend in respect of shares until after the expiry of the applicable limitation period.

Closure of Register of Shareholders

The Companies Ordinance provides that the register of shareholders of a company must not be closed for the registration of transfers of shares for more than thirty days (extendable to sixty days in certain circumstances) in a year, whereas, as required by the Mandatory Provisions, share transfers shall not be registered within thirty days before the date of convening a general meeting or within five days before the base date of distribution of dividends.

**SUMMARY OF MATERIAL DIFFERENCES BETWEEN THE HONG KONG LISTING
RULES AND SHENZHEN STOCK EXCHANGE LISTING RULES**

As our A Shares are listed on the Shenzhen Stock Exchange, we are also subject to the Shenzhen Stock Exchange Listing Rules. Set out below is a summary of the material differences between the Hong Kong Listing Rules and the Shenzhen Stock Exchange Listing Rules:

Periodic Financial Reporting

There are material differences in financial reporting standards and practices regarding, for example, industry-specific financial reporting requirements, announcement of preliminary results, form and content of periodic financial reports and post-vetting of periodic financial reports.

Classification and Disclosure Requirements for Notifiable Transactions

The method of classification of notifiable transactions under the Hong Kong Listing Rules and the disclosure requirement pertaining to such transactions differ from those under the Shenzhen Stock Exchange Listing Rules.

Connected Transactions

The definition of a connected person under the Hong Kong Listing Rules and the definition of a related party under the Shenzhen Stock Exchange Listing Rules are different. In addition, the disclosure and shareholder approval requirements for connected transactions under the Hong Kong Listing Rules and for related party transactions and shareholders' approval requirements under the Shenzhen Stock Exchange Listing Rules, as well as the respective exemptions are different.

Disclosure of Inside Information

The scope, timing and method of disclosure of inside information are different between the Hong Kong Listing Rules and Shenzhen Stock Exchange Listing Rules.

1. FURTHER INFORMATION ABOUT OUR COMPANY

A. Incorporation of our Company

Our Company was incorporated as a limited liability company in the PRC on August 19, 2008 and converted into a joint stock company with limited liability under the PRC Company Law on June 26, 2015. The registered address of our Company is Industrial area, Economic and Technological Development Zone, Ganzhou City, Jiangxi Province, the PRC. Our Company has incorporated a principal place of business in Hong Kong at 40/F, Dah Sing Financial Centre, 248 Queen's Road East, Wanchai, Hong Kong, and has been registered as a non-Hong Kong company in Hong Kong under Part 16 of the Hong Kong Companies Ordinance on August 3, 2021. Ms. Zhang Xiao has been appointed as our authorized representative for the acceptance of service of process in Hong Kong. The address for service of process on the Company in Hong Kong is the same as the Company's principal place of business in Hong Kong.

As we are incorporated in the PRC, our corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. A summary of the relevant provisions of our Articles of Association is set out in Appendix III. A summary of certain relevant aspects of the laws and regulations of the PRC is set out in Appendix IV.

B. Changes in the Share Capital of our Company

Save as disclosed below, there has been no alteration in our share capital within two years immediately preceding the date of this Prospectus.

On August 26, 2020, as approved by the second extraordinary Shareholders' meeting in 2020, the Company approved and adopted the Restricted Share Incentive Plan which was further amended on September 8, 2020. The Company completed the share registration of a total of 2,541,600 Type I Restricted Shares on September 22, 2020. Due to the conversion of the Convertible Bonds into a total of 12,254 A Shares as of February 28, 2021, and the registration and listing of 15,725,922 A Shares issued by the Company to target subscribers was completed on January 27, 2021, as of February 28, 2021, the share capital of the Company was increased from RMB413,424,188 to RMB431,703,964.

On July 19, 2021, as approved by the second extraordinary Shareholders' meeting in 2021 dated July 19, 2021, due to the conversion of the Convertible Bonds and the new issue of 1,038 A Shares from March 1, 2021 to May 31, 2021 and the increase of share capital of 6 A Shares for every 10 A Shares resolved on the Shareholders' meeting in 2021 dated April 23, 2021, our Company's share capital increased from RMB431,703,964 to RMB690,727,955.

On December 24, 2021, as approved by the third extraordinary Shareholders' meeting in 2021 dated December 24, 2021, due to the issue of the Convertible Bonds by the Company, the completion of vesting of the first vesting period of Type II Restricted Shares initially granted under the 2020 Restricted Share Incentive Plan and the repurchase and cancellation of restricted shares granted but subject to lock up restrictions to certain participants under the 2020 Restricted Share Incentive Plan, our Company's total share capital increased from 690,727,955 shares to 710,964,630 shares with registered capital increased from RMB690,727,955 to RMB710,964,630.

Immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised), our share capital will increase to RMB836,439,590, comprising 710,973,590 A Shares and 125,466,000 H Shares fully paid up or credited as fully paid up, representing approximately 85% and 15% of our share capital, respectively.

C. Resolutions of our Shareholders

At an extraordinary general meeting of our Company held on July 19, 2021, among other things, the following resolutions were passed by the Shareholders of our Company:

- (a) the issue of the H Shares of nominal value of RMB1.00 each and such H Shares be listed on the Hong Kong Stock Exchange;
- (b) the number of H Shares to be issued initially shall not be more than 15% of the total number of issued Shares as enlarged by the Global Offering, and the number of H Shares to be issued pursuant to the exercise of the Over-allotment Option shall not be more than 15% of the number of H Shares to be offered initially issued pursuant to the Global Offering;
- (c) subject to the completion of the Global Offering, the Articles of Association be approved and adopted, which shall only become effective on the Listing Date and the Board be authorized to amend the Articles of Association in accordance with any comments from the Stock Exchange and the relevant PRC regulatory authorities; and
- (d) the Board be authorized to handle all matters relating to, among other things, all matters relating to the Global Offering, the issue and listing of the H Shares.

D. Changes in the Share Capital of Our Subsidiaries

The following alternations in the share capital of our subsidiaries have taken place within the two years immediately preceding the date of this document:

- (a) The registered capital of JL MAG Baotou, a wholly-owned subsidiary of our Company, was increased from RMB50,000,000 to RMB100,000,000 on November 3, 2020 by way of capital injection by our Company. Later next year, its registered capital was increased from RMB100,000,000 to RMB120,000,000 on June 9, 2021 by way of capital injection of our Company.
- (b) The registered capital of JL MAG USA, a wholly-owned subsidiary of our Company, was increased from US\$300,000 to US\$600,000 on August 1, 2019 by way of capital injection of our Company.
- (c) The paid-up share capital of JL MAG HK, a wholly-owned subsidiary of our Company, was increased from HK\$15,109,770 to HK\$21,316,330 on December 8, 2020 by way of capital injection of our Company.

2. FURTHER INFORMATION ABOUT OUR BUSINESS

A. Summary of our material contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within two years preceding the date of this prospectus which are or may be material:

- (1) a JL MAG RARE-EARTH CO., LTD. share issuance and subscription agreement dated January 8, 2021 entered into between the Company and China Galaxy Securities Co., Ltd. (中國銀河證券股份有限公司), pursuant to which China Galaxy Securities Co., Ltd. (中國銀河證券股份有限公司) agreed to subscribe for 6,036,824 A Shares at a price of RMB33.13 per A Share;
- (2) a JL MAG RARE-EARTH CO., LTD. share issuance and subscription agreement dated January 8, 2021 entered into between the Company and CCB International Capital Management (Tianjin) Co., Ltd. (建銀國際資本管理(天津)有限公司), pursuant to which CCB International Capital Management (Tianjin) Co., Ltd. (建銀國際資本管理(天津)有限公司) agreed to subscribe for 1,811,047 A Shares at a price of RMB33.13 per A Share;
- (3) a JL MAG RARE-EARTH CO., LTD. share issuance and subscription agreement dated January 7, 2021 entered into between the Company and Nanchang Jiumu New Century Industrial Investment Partnership (Limited Partnership) (南昌玖沐新世紀產業投資合夥企業(有限合夥)), pursuant to which Nanchang Jiumu New Century Industrial Investment Partnership (Limited Partnership) (南昌玖沐新世紀產業投資合夥企業(有限合夥)) agreed to subscribe for 1,358,285 A Shares at a price of RMB33.13 per A Share;
- (4) a JL MAG RARE-EARTH CO., LTD. share issuance and subscription agreement dated January 7, 2021 entered into between the Company and CITIC Securities Company Limited (中信證券股份有限公司), pursuant to which CITIC Securities Company Limited (中信證券股份有限公司) agreed to subscribe for 452,761 A Shares at a price of RMB33.13 per A Share;
- (5) a JL MAG RARE-EARTH CO., LTD. share issuance and subscription agreement dated January 8, 2021 entered into between the Company and CITIC Securities Company Limited (on behalf of Asset Management Plan) (中信證券股份有限公司(代資產管理計劃)), pursuant to which CITIC Securities Company Limited (on behalf of Asset Management Plan) (中信證券股份有限公司(代資產管理計劃)) agreed to subscribe for 784,787 A Shares at a price of RMB33.13 per A Share;

- (6) a JL MAG RARE-EARTH CO., LTD. share issuance and subscription agreement dated January 6, 2021 entered into between the Company and Liu Shisheng (劉世生), pursuant to which Liu Shisheng (劉世生) agreed to subscribe for 1,207,364 A Shares at a price of RMB33.13 per A Share;
- (7) a JL MAG RARE-EARTH CO., LTD. share issuance and subscription agreement dated January 6, 2021 entered into between the Company and Shanghai Chi Tai Asset Management Co., Ltd. (on behalf of “Chi Tai Xin Fu Ding Zeng No. 1 Private Securities Investment Fund”) (上海馳泰資產管理有限公司(代“馳泰鑫富定增一號私募證券投資基金”)), pursuant to which Shanghai Chi Tai Asset Management Co., Ltd. (on behalf of “Chi Tai Xin Fu Ding Zeng No. 1 Private Securities Investment Fund”) (上海馳泰資產管理有限公司(代“馳泰鑫富定增一號私募證券投資基金”)) agreed to subscribe for 1,116,812 A Shares at a price of RMB33.13 per A Share;
- (8) a JL MAG RARE-EARTH CO., LTD. share issuance and subscription agreement dated January 6, 2021 entered into between the Company and Hengli (Beijing) Equity Investment Co., Ltd. (恆力(北京)股權投資有限公司), pursuant to which Hengli (Beijing) Equity Investment Co., Ltd. (恆力(北京)股權投資有限公司) agreed to subscribe for 814,971 A Shares at a price of RMB33.13 per A Share;
- (9) a JL MAG RARE-EARTH CO., LTD. share issuance and subscription agreement dated January 6, 2021 entered into between the Company and Zhen Guozhen (甄國振), pursuant to which Zhen Guozhen (甄國振) agreed to subscribe for 603,682 A Shares at a price of RMB33.13 per A Share;
- (10) a JL MAG RARE-EARTH CO., LTD. share issuance and subscription agreement dated January 6, 2021 entered into between the Company and Shenzhen Zhongjin Lingnan Capital Operation Co., Ltd. (深圳市中金嶺南資本運營有限公司), pursuant to which Shenzhen Zhongjin Lingnan Capital Operation Co., Ltd. (深圳市中金嶺南資本運營有限公司) agreed to subscribe for 603,682 A Shares at a price of RMB33.13 per A Share;
- (11) a JL MAG RARE-EARTH CO., LTD. share issuance and subscription agreement dated January 6, 2021 entered into between the Company and Hunan Xiangtou Junrong Industrial Investment Fund Enterprise (Limited Partnership) (湖南湘投軍融產業投資基金企業(有限合夥)), pursuant to which Hunan Xiangtou Junrong Industrial Investment Fund Enterprise (Limited Partnership) (湖南湘投軍融產業投資基金企業(有限合夥)) agreed to subscribe for 603,682 A Shares at a price of RMB33.13 per A Share;
- (12) a JL MAG RARE-EARTH CO., LTD. share issuance and subscription agreement dated January 6, 2021 entered into between the Company and Zhang Chunyang (張春陽), pursuant to which Zhang Chunyang (張春陽) agreed to subscribe for 332,025 A Shares at a price of RMB33.13 per A Share;

- (13) a cornerstone investment agreement dated December 20, 2021 entered into among our Company, China State-owned Enterprise Mixed Ownership Reform Fund Co., Ltd. (中國國有企業混合所有制改革基金有限公司), CLSA Capital Markets Limited, CLSA Limited, BNP Paribas Securities (Asia) Limited and DBS Asia Capital Limited, pursuant to which China State-owned Enterprise Mixed Ownership Reform Fund Co., Ltd. (中國國有企業混合所有制改革基金有限公司) agreed to subscribe for H Shares at the Offer Price in the aggregate amount of the Hong Kong dollar equivalent of US\$148,500,000;
- (14) a cornerstone investment agreement dated December 28, 2021 entered into among our Company, CR Alpha Investment II Limited, CLSA Capital Markets Limited, CLSA Limited and BNP Paribas Securities (Asia) Limited, pursuant to which CR Alpha Investment II Limited agreed to subscribe for H Shares at the Offer Price in the aggregate amount of the Hong Kong dollar equivalent of US\$49,500,000;
- (15) a cornerstone investment agreement dated December 28, 2021 entered into among our Company, HHLR Fund, L.P., YHG Investment, L.P., CLSA Capital Markets Limited, CLSA Limited and BNP Paribas Securities (Asia) Limited, pursuant to which HHLR Fund, L.P. and YHG Investment, L.P. agreed to subscribe for 6,260,600 H Shares at the Offer Price;
- (16) a cornerstone investment agreement dated December 24, 2021 entered into among our Company, CITIC-Prudential Life Insurance Company Limited, CLSA Capital Markets Limited, CLSA Limited, BNP Paribas Securities (Asia) Limited and DBS Asia Capital Limited, pursuant to which CITIC-Prudential Life Insurance Company Limited agreed to subscribe for H Shares at the Offer Price in the aggregate amount of the Hong Kong dollar equivalent of US\$30,000,000;
- (17) a cornerstone investment agreement dated December 28, 2021 entered into among our Company, SINO-BLR Industrial Investment Fund, L.P., CLSA Capital Markets Limited, CLSA Limited and BNP Paribas Securities (Asia) Limited, pursuant to which SINO-BLR Industrial Investment Fund, L.P. agreed to subscribe for H Shares at the Offer Price in the aggregate amount of the Hong Kong dollar equivalent of US\$19,798,000;
- (18) Hong Kong Underwriting Agreement.

B. Our intellectual property rights*Patents*

As at the Latest Practicable Date, we have registered the following patents which we consider to be or may be material to our business:

Patent	Patentee	Type	Patent No.	Application Date	Date of		Place of registration	
					Authorization Proclamation	Expiry Date		
1	Magnetic material powder forming device (磁性材料粉末成型裝置)	Company	Utility Model	ZL201220509092.2	October 7, 2012	March 20, 2013	October 6, 2022	PRC
2	Inserting slice feeding device (一種插片上料裝置)	Company	Utility Model	ZL201721429208.0	October 31, 2017	May 15, 2018	October 30, 2027	PRC
3	Detection system for direction of orientation of anisotropic magnetic material (一種各向異性磁性材料取向方向的檢測系統)	Company	Utility Model	ZL201721585761.3	November 23, 2017	June 22, 2018	November 22, 2027	PRC
4	Continuous magnetron sputtering device (一種連續式磁控濺射裝置)	Company	Utility Model	ZL201721674593.5	December 5, 2017	July 24, 2018	December 4, 2027	PRC
5	Positioning system for surface treatment equipment and its track (一種表面處理設備及其軌道定位系統)	Company	Utility Model	ZL201721431332.0	October 31, 2017	July 24, 2018	October 30, 2027	PRC
6	Blanking device (下料裝置)	Company	Utility Model	ZL201721566092.5	November 21, 2017	September 11, 2018	November 20, 2027	PRC
7	Casting piece crushing device (一種鑄片破碎裝置)	Company	Utility Model	ZL201820247902.9	February 11, 2018	November 16, 2018	February 10, 2028	PRC
8	Automatic slice placement equipment (一種自動擺片設備)	Company	Utility Model	ZL201820535629.X	April 16, 2018	December 7, 2018	April 15, 2028	PRC
9	Double-station single-side vertical grinder (一種雙工位單面立式磨床)	Company	Utility Model	ZL201820737124.1	May 17, 2018	December 28, 2018	May 16, 2028	PRC
10	Probe-type equipment for detection of go-gauge (一種探頭式檢測通規設備)	Company	Utility Model	ZL201821482915.0	September 11, 2018	April 12, 2019	September 10, 2028	PRC

Patent	Patentee	Type	Patent No.	Application Date	Date of		Place of registration	
					Authorization Proclamation	Expiry Date		
11	Manufacturing equipment of continuous sintered magnet (一種連續式燒結磁體的製造設備)	Company	Utility Model	ZL201921171615.5	July 24, 2019	April 14, 2020	July 23, 2029	PRC
12	Constant temperature hydraulic device for magnetic field molding press (一種磁場成型壓機恒溫液壓裝置)	Company	Utility Model	ZL201921363586.2	August 21, 2019	April 14, 2020	August 20, 2029	PRC
13	High-speed and general-purpose square slice feeding and arranging machine (一種高速通用方片上料排列機)	Company	Utility Model	ZL201921828062.6	October 29, 2019	July 10, 2020	October 28, 2029	PRC
14	High-efficiency general-purpose inserting slice machine (一種高效通用插片機)	Company	Utility Model	ZL201921828025.5	October 29, 2019	July 10, 2020	October 28, 2029	PRC
15	Electrophoresis workpiece feeding and blanking device for NdFeB magnet (一種釹鐵硼磁體的電泳工件上下料裝置)	Company	Utility Model	ZL201921845281.5	October 30, 2019	July 10, 2020	October 29, 2029	PRC
16	Magnetic material powder forming mold (磁性材料粉末成型模具)	Company	Invention	ZL201210374171.1	October 7, 2012	July 2, 2014	October 6, 2032	PRC
17	Magnetic material powder forming device (磁性材料粉末成型裝置)	Company	Invention	ZL201210374174.5	October 7, 2012	July 2, 2014	October 6, 2032	PRC
18	Magnetic material powder forming mold with un-conducted magnetic isolation structure (具有不導磁隔離結構的磁性材料粉末成型模具)	Company	Invention	ZL201210374172.6	October 7, 2012	November 19, 2014	October 6, 2032	PRC
19	Production process and equipment of rare earth permanent magnet (一種稀土永磁體生產工藝及設備)	Company	Invention	ZL201310346342.4	August 12, 2013	December 2, 2015	August 11, 2033	PRC

Patent	Patentee	Type	Patent No.	Application Date	Date of		Place of registration	
					Authorization Proclamation	Expiry Date		
20	NdFeB magnet and preparation method (一種鈰鐵硼磁體及其製備方法)	Company	Invention	ZL201510975781.0	December 18, 2015	February 23, 2018	December 17, 2035	PRC
21	Modified NdFeB magnet and its manufacturing method (一種改性鈰鐵硼磁體和其製造方法)	Company	Invention	ZL201610715923.4	August 24, 2016	April 13, 2018	August 23, 2036	PRC
22	Light and heavy rare earth mixture for NdFeB magnet, NdFeB magnet and preparation method (鈰鐵硼磁體用輕重稀土混合物、鈰鐵硼磁體及其製備方法)	Company	Invention	ZL201510975767.0	December 18, 2015	April 20, 2018	December 17, 2035	PRC
23	NdFeB magnet and preparation method (一種鈰鐵硼磁體及其製備方法)	Company	Invention	ZL201610305312.2	May 10, 2016	March 12, 2019	May 9, 2036	PRC
24	Preparation method for NdFeB magnet and aluminium alloy coating on the surface of NdFeB magnet (一種鈰鐵硼磁體及鈰鐵硼磁體表面製備鋁合金鍍層的方法)	Company	Invention	ZL201711237333.6	November 30, 2017	July 9, 2019	November 29, 2037	PRC
25	Preparation method for NdFeB magnet (一種鈰鐵硼磁體的製備方法)	Company	Invention	ZL201610962943.1	October 28, 2016	August 27, 2019	October 27, 2036	PRC
26	Powder mixing system and powder mixing device (粉料混料系統及粉料混料裝置)	Company	Invention	ZL201711014639.5	October 26, 2017	October 18, 2019	October 25, 2037	PRC
27	Stacking equipment (一種疊料設備)	Company	Invention	ZL201810410320.2	May 2, 2018	May 5, 2020	May 1, 2038	PRC
28	Phase-rich alloy used for magnet waste recycling and waste magnet recycling method (一種用於磁體廢料循環利用的富相合金及廢舊磁體循環再利用的方法)	Company	Invention	ZL201710983104.2	October 20, 2017	August 25, 2020	October 19, 2037	PRC

Patent	Patentee	Type	Patent No.	Application Date	Date of		Place of registration	
					Authorization Proclamation	Expiry Date		
29	High-speed and general-purpose square slice feeding machine (一種高速通用方片上料機)	Company	Utility Model	ZL201921828323.4	October 29, 2019	August 4, 2020	October 28, 2029	PRC
30	Butterfly valve sealing device for connecting port of NdFeB powder forming equipment (一種鈹鐵硼粉料成型設備連接口的蝶閥密封裝置)	Company	Utility Model	ZL201922075282.2	November 27, 2019	August 4, 2020	November 26, 2029	PRC
31	NdFeB magnet and method for coating the surface of NdFeB magnet (一種鈹鐵硼磁體及鈹鐵硼磁體表面鍍層的方法)	JL MAG Ningbo Technology	Invention	ZL201711236461.9	November 30, 2017	August 25, 2020	November 29, 2037	PRC
32	High-performance sintered NdFeB magnet and preparation method (一種高性能燒結鈹鐵硼磁體及其製備方法)	JL MAG Ningbo Technology	Invention	ZL201810154877.4	February 23, 2018	August 25, 2020	February 22, 2038	PRC
33	NdFeB magnet featuring gradient distribution and preparation method (梯度分佈的鈹鐵硼磁體及其製備方法)	Company	Invention	ZL202010698191.9	July 20, 2020	February 2, 2021	July 19, 2040	PRC
34	High-speed and general-purpose square slice feeding and arranging machine (一種高速通用方片上料排列機)	Company	Invention	ZL201911034592.8	October 29, 2019	January 26, 2021	October 28, 2039	PRC
35	A special equipment for discharging and palletising products (一種產品排料裝盤專用設備)	Company	Utility Model	ZL202021389522.2	July 15, 2020	March 23, 2021	July 14, 2030	PRC
36	Magnetic grabbing mechanism for magnetic products (一種磁性產品的磁吸抓料機構)	Company	Utility Model	ZL202021389515.2	July 15, 2020	March 23, 2021	July 14, 2030	PRC
37	Forming dry spraying device (一種成型幹噴裝置)	Company	Utility Model	ZL202021840762.X	August 28, 2020	May 25, 2021	August 27, 2030	PRC

Patent	Patentee	Type	Patent No.	Application Date	Date of		Place of registration	
					Authorization Proclamation	Expiry Date		
38	Special positioning device for multi-line viscose (一種多線粘膠專用定位裝置)	Company	Utility Model	ZL202021842577.4	August 28, 2020	May 25, 2021	August 27, 2030	PRC
39	Butterfly valve sealing device for connecting port of NdFeB powder forming equipment (一種應用於鈹鐵硼粉料成型設備連接口的密封式蝶閥)	Company	Utility Model	ZL202022411230.0	October 27, 2020	June 22, 2021	October 26, 2030	PRC
40	Preparation method for R-Fe-B magnet with low heavy rare earth content (一種低重稀土含量的R-Fe-B類磁體的製備方法)	JL MAG Baotou	Invention	ZL201910257731.7	April 1, 2019	May 28, 2021	March 31, 2039	PRC
41	Electrophoresis hanging fixture and electrophoresis workpiece feeding and blanking device for NdFeB magnet (一種鈹鐵硼磁體的電泳掛具和電泳工件上料及下料裝置)	JL MAG Baotou	Invention	ZL201911044810.6	October 30, 2019	September 7, 2021	October 29, 2039	PRC
42	Automatic production equipment of magnetic material surface modification (一種磁性材料表面改性自動化生產設備)	Company	Utility Model	ZL202022211281.9	October 2, 2020	August 10, 2021	October 1, 2030	PRC
43	Constant flow device for molten steel (一種鋼液恒流設備)	Company	Utility Model	ZL202022486761.6	November 2, 2020	August 6, 2021	November 1, 2030	PRC
44	Automatic device for multi-line viscose (一種多線自動粘膠設備)	Company	Utility Model	ZL202023075829.8	December 18, 2020	August 10, 2021	December 17, 2030	PRC
45	NdFeB powder mixing process and mixing system and NdFeB magnet manufacturing process (鈹鐵硼粉料攪拌工藝及攪拌系統和鈹鐵硼磁鋼製造工藝)	Company	Invention	ZL201911189224.0	November 28, 2019	October 15, 2021	November 27, 2039	PRC
46	A device for testing the magnetic flux of motor rotors (一種測試電機轉子磁通量裝置)	Company	Utility Model	ZL202120490824.7	March 8, 2021	November 26, 2021	March 7, 2031	PRC
47	Magnetic assembly equipment for Halbach Array magnet (一種海爾貝克陣列磁鋼帶磁組裝設備)	Company	Utility Model	ZL202120492484.1	March 8, 2021	November 26, 2021	March 7, 2031	PRC

Patent	Patentee	Type	Patent No.	Application Date	Date of		Place of registration	
					Authorization Proclamation	Expiry Date		
48	Neodymium Iron Boron Magnet and Preparation Method Thereof	Company	Invention	US9947447B2	September 19, 2016	April 17, 2018	September 18, 2036	US
49	Neodymium Iron Boron Magnet and Preparation Method Thereof	Company	Invention	EP3182423	August 23, 2016	March 20, 2019	August 22, 2036	EU
50	ネオジム鉄ホウ素磁石およびその調製法 (Neodymium Iron Boron Magnet and Preparation Method Thereof)	Company	Invention	JP2016190585	September 29, 2016	October 25, 2019	September 28, 2036	Japan

Trademarks

As at the Latest Practicable Date, we have registered the following trademarks which we consider to be or may be material to our business:

No.	Trademark	Owner	Class	Registration Number	Validity Period	Place of registration
1	精力磁	Company	Verified service projects class 35	9764975	October 14, 2012 to October 13, 2022	PRC
2	精力磁	Company	Verified use of commodities class 9	9764976	September 21, 2012 to September 20, 2022	PRC
3	精力永磁	Company	Verified service projects class 35	9764977	October 14, 2012 to October 13, 2022	PRC
4	精力永磁	Company	Verified use of commodities class 9	9764978	September 21, 2012 to September 20, 2022	PRC
5	尽力磁	Company	Verified service projects class 35	9764979	October 14, 2012 to October 13, 2022	PRC
6	尽力磁	Company	Verified use of commodities class 9	9764980	December 21, 2012 to December 20, 2022	PRC
7	尽力磁	Company	Verified use of commodities class 6	9764981	October 28, 2013 to October 27, 2023	PRC
8	尽力永磁	Company	Verified service projects class 35	9765002	October 14, 2012 to October 13, 2022	PRC

No.	Trademark	Owner	Class	Registration Number	Validity Period	Place of registration
9	尽力永磁	Company	Verified use of commodities class 9	9765003	December 21, 2012 to December 20, 2022	PRC
10	尽力永磁	Company	Verified use of commodities class 6	9765004	September 14, 2013 to September 13, 2023	PRC
11	金力永磁 JLMAG	Company	Verified service projects class 35	9765005	October 14, 2012 to October 13, 2022	PRC
12	金力永磁 JLMAG	Company	Verified use of commodities class 9	9765006	December 21, 2012 to December 20, 2022	PRC
13	金力永磁 JLMAG	Company	Verified use of commodities class 6	9765007	September 14, 2013 to September 13, 2023	PRC
14	金力恒磁 JLMAG	Company	Verified service projects class 35	9765008	October 14, 2012 to October 13, 2022	PRC
15	金力恒磁 JLMAG	Company	Verified use of commodities class 9	9765009	September 21, 2012 to September 20, 2022	PRC
16	金力恒磁 JLMAG	Company	Verified use of commodities class 6	9765010	September 21, 2013 to September 20, 2023	PRC
17	劲力磁 JLMAG	Company	Verified service projects class 35	9765011	October 14, 2012 to October 13, 2022	PRC
18	劲力磁 JLMAG	Company	Verified use of commodities class 9	9765012	December 21, 2012 to December 20, 2022	PRC
19	劲力磁 JLMAG	Company	Verified use of commodities class 6	9765013	December 14, 2012 to December 13, 2022	PRC
20	金力磁 JLMAG	Company	Verified service projects class 35	9765014	October 14, 2012 to October 13, 2022	PRC
21	金力磁 JLMAG	Company	Verified use of commodities class 9	9765015	December 21, 2012 to December 20, 2022	PRC
22	金力磁 JLMAG	Company	Verified use of commodities class 6	9765016	September 14, 2013 to September 13, 2023	PRC

No.	Trademark	Owner	Class	Registration Number	Validity Period	Place of registration
23	金力永磁	Company	Verified service projects class 35	9765017	October 14, 2012 to October 13, 2022	PRC
24	金力永磁	Company	Verified use of commodities class 9	9765018	December 21, 2012 to December 20, 2022	PRC
25	金力永磁	Company	Verified use of commodities class 7	9765019	September 14, 2013 to September 13, 2023	PRC
26	金力永磁	Company	Verified use of commodities class 6	9765020	September 14, 2013 to September 13, 2023	PRC
27	金力永磁 JLMAG	Company	Verified use of commodities/service projects international classification: 9	21034354A	October 28, 2017 to October 27, 2027	PRC
28	JL MAG	Company	International classification: 9	41001519	May 21, 2020 to May 20, 2030	PRC
29	金力永磁	Company	International classification: 9	41001520A	August 14, 2020 to August 13, 2030	PRC
30	金力永磁 JL MAG	Company	International classification: 9	41001521A	August 14, 2020 to August 13, 2030	PRC
31	JL MAG 金力永磁	Company	International classification: 9	41001522A	August 14, 2020 to August 13, 2030	PRC
32	JLMAG	Company	International classification: 6, 7, 9	013611108	December 30, 2014 to December 30, 2024	EU
33	JLMAG	Company	International classification: 9	5767687	May 29, 2015 to May 29, 2025	Japan
34	JLMAG	Company	International classification: 9	4933747	April 5, 2016 to April 5, 2026	US
35	金力永磁 JLMAG	Company	International classification: 9	305646493	June 3, 2021 to June 2, 2031	Hong Kong
36	金力永磁	Company	International classification: 9	305646484	June 3, 2021 to June 2, 2031	Hong Kong
37	JLMAG	Company	International classification: 9	305646475	June 3, 2021 to June 2, 2031	Hong Kong

Software Copyright

As at the Latest Practicable Date, the Company had registered the following software copyright:

Owner of copyright	Software name	Registration number	Development completion date	Date of first publication	Acquiring method of the right	Expiry date	Scope of right	Place of registration
Company	Magnetic flux measurement software for magnet V1.0 (磁鋼磁通測量軟件V1.0)	2021SR0973701	April 10, 2021	April 12, 2021	Original acquisition	December 31, 2071	All rights	PRC

Domain Name

As at the Latest Practicable Date, the Company had registered the following Domain Name:

Domain Name	Registrant	Date of registration	Expiry date
jlmag.com.cn	Company	December 18, 2008	December 18, 2022 ^(note)

Note: The domain name will be renewed on an annual basis.

3. FURTHER INFORMATION ABOUT OUR DIRECTORS, OUR SUPERVISORS AND SUBSTANTIAL SHAREHOLDERS

A. Disclosure of Interests

(a) Substantial Shareholders

For information on the persons (other than Directors, Supervisors and chief executive of the Company) who, immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), will or will be deemed or taken to have interests and/or short positions in the Company's Shares or underlying Shares which would be required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of any other member of our Group, please see "Substantial Shareholders" in this Prospectus for details.

Save as disclosed in the section headed "Substantial Shareholders" in this Prospectus, as of the Latest Practicable Date, our Directors were not aware of any persons who would, immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), having or be deemed or taken to the beneficial interests or short position in our Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or directly or indirectly be interested in 10% or more of the issued voting shares of any member of our Group or had option in respect of such capital.

The substantial Shareholders of the Company does not have interests in any member of the Group (other than the Company).

B. Disclosure of the Directors' and Supervisors' interests in the registered capital of our Company or associated corporations of the Company

Immediately following the completion of the Global Offering and assuming the Over-allotment Option is not exercised, the interests or short positions of our Directors, Supervisors and chief executive of our Company in the shares, underlying shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant

to the Model Code for Securities Transactions by Directors and Listed Issuers to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, will be as follows:

Name of Director/ Supervisor	Nature of interest	Class	Number of Shares directly or indirectly held	Approximate percentage of shareholding in the relevant class of Shares after the Global Offering	Approximate percentage of shareholding in the total share capital of the Company after the Global Offering
Mr. Cai Baogui ⁽¹⁾⁽²⁾	Interest in a controlled corporation	A Shares	241,937,600	34.03%	28.92%
	Interest in a controlled corporation	A Shares	14,710,272	2.07%	1.76%
	Beneficial owner	A Shares	640,000	0.09%	0.08%
	Interest of person acting in concert	A Shares	280,353,456	39.43%	33.52%
Mr. Hu Zhibin ⁽¹⁾	Interest in a controlled corporation	A Shares	241,937,600	34.03%	28.92%
	Beneficial owner	A Shares	960,000	0.13%	0.11%
	Interest of person acting in concert	A Shares	280,353,456	39.42%	33.52%
Mr. Li Xinnong ⁽¹⁾⁽³⁾	Interest in a controlled corporation	A Shares	241,937,600	34.03%	28.92%
	Interest in a controlled corporation	A Shares	22,105,584	3.11%	2.64%
	Interest of person acting in concert	A Shares	280,353,456	39.43%	33.52%
Mr. Lyu Feng ⁽⁴⁾	Interest in a controlled corporation	A Shares	2,787,264	0.39%	0.33%
	Beneficial owner	A Shares	1,290,880	0.18%	0.15%

(1) Our ultimate controlling shareholders, Mr. Cai Baogui, Mr. Hu Zhibin and Mr. Li Xinnong are parties acting in concerts. Please refer to “History, Development and Corporate Structure – Our Ultimate Controlling Shareholders and Parties Acting in Concert – Parties Acting in Concert” for further details.

(2) Mr. Cai is the general partner of Ganzhou Xincheng, which will directly hold 14,710,272 A Shares upon the completion of the Cancellation.

(3) Mr. Li is the general partner of Ganzhou Geshuo, which will directly hold 22,105,584 A Shares upon the completion of the Cancellation.

(4) Mr. Lyu is the general partner of Ganzhou Huirui, which will directly hold 2,787,264 A Shares upon the completion of the Cancellation.

C. Particulars of service contracts

Pursuant to Rules 19A.54 and 19A.55 of the Listing Rules, the Company has entered into a service contract with each of the Directors and Supervisors in respect of, among other things (i) compliance with relevant laws and regulations; (ii) observation of the Articles of Association; and (iii) provisions on arbitration.

Save as disclosed above, the Company has not entered, and does not propose to enter, into any service contracts with any of the Directors or Supervisors in their respective capacities as Directors/Supervisors (other than contracts expiring or terminable by the employer within one year without the payment of compensation (other than statutory compensation)).

D. Directors' and Supervisors' remuneration

The aggregate remuneration paid and benefits in kind granted to the Directors and the Supervisors in respect of each of the three years ended 2018, 2019 and 2020 and the six months ended June 30, 2021 were approximately RMB4.1 million, RMB4.6 million, RMB11.6 million and RMB9.9 million, respectively. Save as disclosed under Note 8 to the financial statements in the Accountants' Report set out in Appendix I to this prospectus, no Director or Supervisor received other remuneration or benefits in kind from the Company in respect of the three financial years ended 2018, 2019 and 2020 and the six months ended June 30, 2021.

Under the current arrangements, the Directors will be entitled to receive compensation (including remuneration (excluding performance related bonuses) and benefits in kind) from our Company for the year ended December 31, 2021, which is expected to be approximately RMB2.3 million in aggregate.

Under the current arrangements, the Supervisors will be entitled to receive compensation (including remuneration (excluding performance related bonuses) and benefits in kind) from our Company for the year ended December 31, 2021, which is expected to be RMB0.99 million in aggregate.

E. Personal guarantees

The Directors and Supervisors have not provided personal guarantees in favor of lenders in connection with banking facilities granted to the Company.

F. Agency fees or commissions received

Save as disclosed in the section headed "Underwriting" in this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries within the two years preceding the date of this prospectus.

G. Related party transactions

During the two years preceding the date of this prospectus, we have engaged in the material related party transactions as described in Note 42 to the financial statements in the Accountants' Report set out in Appendix I to this prospectus.

H. Disclaimers

Save as disclosed in this prospectus:

- (a) none of the Directors, Supervisors or chief executive of our Company has any interests and/or short positions in the shares, underlying shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors and Listed Issuers to be notified to us and the Stock Exchange, in each case once our H Shares are listed. For this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the Supervisors;
- (b) none of the Directors or Supervisors nor any of the parties listed in the paragraph headed "E. Qualification of experts" of this Appendix is interested in our promotion, or in any assets which have, within the two years immediately preceding the issue of this prospectus, been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to our Company;
- (c) none of the Directors or Supervisors is a director or employee of a company which is expected to have an interest in the Shares falling to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO once the H Shares are listed on the Stock Exchange; save as disclosed in this prospectus, none of the Directors or Supervisors nor any of the parties listed in paragraph headed "E. Qualification of experts" of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business;
- (d) none of the parties listed in the paragraph headed "E. Qualification of experts" of this Appendix:
 - (i) is interested legally or beneficially in any of our Shares or any shares in any of our subsidiaries; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our securities; and

- (e) none of the Directors or Supervisors or their respective associates or any Shareholders of our Company (who to the knowledge of the Directors owns more than 5% of our issued share capital) has any interest in our five largest suppliers or our five largest customers.

4. RESTRICTED SHARE INCENTIVE PLAN

The following is a summary of the principal terms of the Restricted Share Incentive Plan approved and adopted by our Shareholders' meeting on August 26, 2020. The Restricted Share Incentive Plan is not subject to the provisions of Chapter 17 of the Listing Rules as the Restricted Share Incentive Plan does not involve the grant of options by our Company to subscribe for new Shares after the Listing.

A. Purpose of the Restricted Share Incentive Plan

The purpose of the Restricted Share Incentive Plan is to establish and improve our Company's long-term incentive mechanism, attract and retain outstanding personnel, to motivate our senior management and core technical and business personnel, to effectively combine together the interest of our Company and the Shareholders and the core team of our Company and to promote our long-term development.

B. The restricted shares

Pursuant to the Restricted Share Incentive Plan, there are two types of restricted shares, namely Type I Restricted Shares and Type II Restricted Shares. On the grant date of Type I Restricted Shares, the grantee of Type I Restricted Shares shall be entitled to received newly issued A Shares of the Company, with certain restrictions stipulated under the Restricted Share Incentive Plan. Such A Shares had been issued as of the Latest Practicable Date. The grantees of Type II Restricted Shares shall have the right to subscribe new A Shares in the future upon the vesting conditions under the Restricted Share Incentive Plan are satisfied. As of the date of this Prospectus, 3,372,800 new A Shares have been issued to the grantees of the Type II Restricted Shares.

The terms of the Restricted Share Incentive Plan are not subject to the provisions of Chapter 17 of the Listing Rules as the Restricted Share Incentive Plan will not involve the grant of options by the Company to subscribe for Shares after the Listing.

C. Terms of the Restricted Share Incentive Plan

The Restricted Share Incentive Plan will be valid and effective for a period commencing from the registration date of the grant of the restricted shares until the date when all the restricted shares are unlocked, vested or repurchased and canceled, which shall be no longer than 48 months.

D. The grantees

As of the date of this Prospectus, there are 232 grantees (including Type I Restricted Shares and Type II Restricted Shares) in total who are eligible to the restricted shares, including Mr. Cai Baogui, Mr. Hu Zhibin and Mr. Lyu Feng, who are members of our Directors, core management personnel and core technical and business personnel and six former employees. Notwithstanding the foregoing, independent non-executive Directors and Supervisors shall not be eligible to the restricted shares.

The table below set forth the details of the grantees of the Type I Restricted Shares:

Name of the grantee	Position	Address	Grant price	Number of Type I Restricted Shares granted	Number of A Shares represented by the Type I Restricted Shares	Date of grant	Unlocking period ^(note 1)	Underlying A Shares of granted Type I Restricted Shares as a percentage of issued Shares immediately after completion of the Global Offering ^(note 2)
Mr. Cai Baogui (蔡報貴)	Chairman, executive Director and general manager	Room 2903, Unit 2 Building No. 2, Huafujing Garden No. 99 Hong Gu Zhong Avenue, Honggutan New District, Nanchang, Jiangxi Province, PRC	RMB21.62	400,000	640,000	August 26, 2020	4 years	0.076%
Mr. Hu Zhibin (胡志濱)	Non-executive director	7E, Building 2 Donghai Garden, Fuluju Futian District, Shenzhen, PRC	RMB21.62	600,000	960,000	August 26, 2020	4 years	0.115%
Mr. Mao Huayun (毛華雲)	Deputy general manager	No. 245, Nanfeng Village, Xiaozhi Town, Linhai, Zhejiang Province, PRC	RMB21.62	80,000	128,000	August 26, 2020	4 years	0.015%
Mr. Lyu Feng (呂峰)	Executive director and deputy general manager	Room 1605, Building 11 Xianglu International Garden No. 61, Lufeng Road, Yuelu District, Changsha, Hunan Province, PRC	RMB21.62	80,000	128,000	August 26, 2020	4 years	0.015%
Mr. Huang Changyuan (黃長元)	Deputy general manager	Room 801, Building No. 6, Yujing Jiangshan, Huangjinling, Zhanggong District, Ganzhou, Jiangxi Province, PRC	RMB21.62	80,000	128,000	August 26, 2020	4 years	0.015%

Name of the grantee	Position	Address	Grant price	Number of Type I Restricted Shares granted	Number of A Shares represented by the Type I Restricted Shares	Date of grant	Unlocking period (note 1)	Underlying A Shares of granted Type I Restricted Shares as a percentage of issued Shares immediately after completion of the Global Offering (note 2)
Ms. Xie Hui (謝輝)	Finance director	No. 311, Unit 1, Building 10, Bing, Xuanyijiayuan, Jiugong Town, Daxing District, Beijing, PRC	RMB21.62	40,000	64,000	August 26, 2020	4 years	0.008%
Mr. Yu Han (于涵)	Deputy general manager	No. 15, Jiamen, Building No. 53, Courtyard No. 28, Wanshou Road, Haidian District, Beijing, PRC	RMB21.62	180,000	288,000	August 26, 2020	4 years	0.034%
Other 211 grantees	Core employees (note 3)	-	RMB21.62	1,081,600	1,730,560	August 26, 2020	4 years	0.207%
Total				2,541,600	4,066,560			0.486%

Notes:

- for details of the unlocking period, please refer to “F. Lock-up period and unlocking arrangement (Type I Restricted Shares)” for details.
- assuming that the Over-allotment Option is not exercised.
- as of the date of this Prospectus, out of 211 grantees, 6 are former employees.

The table below set forth the details of the grantees of the Type II Restricted Shares as of the date of this Prospectus:

Name of the grantee	Position	Address	Grant price	Number of Type II Restricted Shares granted	Number of A Shares represented by the Type II Restricted Shares	Date of grant	Vesting period (note 1)	Underlying A Shares of granted Type II Restricted Shares as a percentage of issued Shares immediately after completion of the Global Offering (note 2)
Mr. Lyu Feng (呂鋒)	Executive director and deputy general manager	Room 1605, Building 11, Xianglu International Garden, No. 61, Lufeng Road, Yuelu District, Changsha, Hunan Province, PRC	RMB21.62	320,000	512,000	August 26, 2020	4 years	0.061%
			RMB13.39	220,800	220,800	August 26, 2021	3 years	0.026%
Mr. Mao Huayun (毛華雲)	Deputy general manager	No. 245, Nanfeng Village, Xiaozhi Town, Linhai, Zhejiang Province, PRC	RMB21.62	320,000	512,000	August 26, 2020	4 years	0.061%

APPENDIX V

STATUTORY AND GENERAL INFORMATION

Name of the grantee	Position	Address	Grant price	Number of Type II Restricted Shares granted	Number of A Shares represented by the Type II Restricted Shares	Date of grant	Vesting period <i>(note 1)</i>	Underlying A Shares of granted Type II Restricted Shares as a percentage of issued Shares immediately after completion of the Global Offering <i>(note 2)</i>
Mr. Huang Changyuan (黃長元)	Deputy general manager	Room 801, Building No. 6, Yujing Jiangshan, Huangjinling, Zhanggong District, Ganzhou, Jiangxi Province, PRC	RMB21.62	320,000	512,000	August 26, 2020	4 years	0.061%
Mr. Lu Ming (鹿明)	Deputy general manager, secretary to the Board and Joint Company Secretary	Room 2004, Unit 2, Building No. 9, No. 63 West Da Wang Road, Chaoyang District, Beijing, PRC	RMB21.62	320,000	512,000	August 26, 2020	4 years	0.061%
Ms. Xie Hui (謝輝)	Finance director	No. 311, Unit 1, Building 10, Bing, Xuanyijiyuan, Jiugong Town, Daxing District, Beijing, PRC	RMB21.62	240,000	384,000	August 26, 2020	4 years	0.046%
Mr. Yu Han (于涵)	Deputy general manager	No. 15, Jiamen, Building No. 53, Courtyard No. 28, Wanshou Road, Haidian District, Beijing, PRC	RMB21.62	320,000	512,000	August 26, 2020	4 years	0.061%
Mr. Yi Pengpeng (易鵬鵬)	Deputy general manager	No. 519, Zhuangshi Avenue, Zhuangshi, Zhenhai District, Ningbo, Zhejiang Province, PRC	RMB21.62	320,000	512,000	August 26, 2020	4 years	0.061%
Mr. Liu Kan (劉侃)	Core employee	24324 Delta Drive, Diamond Bar, California, USA 91765	RMB21.62	300,000	480,000	August 26, 2020	4 years	0.057%
Mr. Liao Minghuo (廖明活)	Core employee	Room 501, Zonghe Building, No. 70 Hongqi Road, Ganzhou, Jiangxi Province, PRC	RMB21.62	264,000	422,400	August 26, 2020	4 years	0.051%
Mr. Sun Changshan (孫長山)	Core employee	Building No.4, Huafang Compound, Hua Yang He Zong Chang, Susong County, Anqing, Anhui Province, PRC	RMB21.62	144,000	230,400	August 26, 2020	4 years	0.028%

Name of the grantee	Position	Address	Grant price	Number of Type II Restricted Shares granted	Number of A Shares represented by the Type II Restricted Shares	Date of grant	Vesting period ^(note 1)	Underlying A Shares of granted Type II Restricted Shares as a percentage of issued Shares immediately after completion of the Global Offering ^(note 2)
Mr. Wang Yinghai (王英海)	Core employee	Room 306, Unit 3, Building 16, No. 16 Jinling Road, Huangjinling, Zhanggong District, Ganzhou, Jiangxi Province, PRC	RMB21.62	126,000	201,600	August 26, 2020	4 years	0.024%
Other 213 grantees	Core employees	-	RMB21.62	2,476,000	3,961,600	From August 26, 2020 to October 29, 2020	4 years	0.474%
			RMB13.3875	128,000	128,000	August 26, 2021	3 years	0.015%
Total				5,818,800	9,100,800			1.088%

Notes:

1. vesting period(s) shall have the same meaning as exercise period(s) under the Restricted Share Incentive Plan. For details of the vesting period, please refer to “G. Vesting period and arrangement (initially granted Type II Restricted Shares)” and “H. Vesting period and arrangement (reserved Type II Restricted Shares)” for details.
2. assuming that the Over-allotment Option is not exercised.

E. Grant of restricted shares

(a) The grant price

The grant price of each of the Type I Restricted Shares and Type II Restricted Shares is RMB21.62. The grantees of Type I Restricted Shares are entitled to purchase the newly issued A Shares (with restriction to transfer) at the grant price upon the satisfaction of the granting conditions, and the grantees of Type II Restricted Shares are entitled to purchase the newly issued A Shares upon the satisfaction of the vesting conditions.

(b) The grant date

The grant date (including for Type I Restricted Shares and for Type II Restricted Shares) shall be a trading date (excluding certain periods around release dates of important announcement) upon the confirmation by the Board. Our Company shall announce and register the granted restricted shares within 60 days and grant the reserved restricted shares within 12 months (excluding certain periods around release dates of

important announcement) after the approval date of the Restricted Share Incentive Plan by the Shareholders' meeting. Failure to complete the procedures within such time will result in termination of the Restricted Share Incentive Plan and lapse of the remaining restricted shares.

Any grant of a restricted share to any connected person of the Group shall be subject to compliance with the requirements of Chapter 14A of the Listing Rules.

F. Lock-up period and unlocking arrangement (Type I Restricted Shares)

The Type I Restricted Shares are subject to different lock-up periods, starting from September 22, 2020, being the registration date of the restricted shares under the first grant (the "Registration Date"), which shall be 12 months, 24 months, and 36 months. The Type I Restricted Shares shall not be transferred, pledged or used to repay debts during the lock-up period.

The initially granted Type I Restricted Shares shall be unlocked and available for disposal during the following period:

- (a) the first unlocking period: as to 40% of the aggregate number of Shares underlying the granted restricted shares from the first trading day after the 12 month anniversary of the Registration Date to the last trading day before the 24 month anniversary of the Registration Date;
- (b) the second unlocking period: as to 30% of the aggregate number of Shares underlying the granted restricted shares from the first trading day after the 24 month anniversary of the Registration Date to the last trading day before the 36 month anniversary of the Registration Date; and
- (c) the third unlocking period: as to 30% of the aggregate number of Shares underlying the granted restricted shares from the first trading day after the 36 month anniversary of the Registration Date to the last trading day before the 48 month anniversary of the Registration Date.

G. Vesting period and arrangement^(note) (initially granted Type II Restricted Shares)

The vesting periods of the Type II Restricted Shares shall be trading day when the corresponding vesting conditions are met excluding the followings:

- (a) within 30 days before the announcement of the Company's periodic report. If the Company delays the announcement for special reasons, it shall count from 30 days before the original announcement date till 1 day before the announcement date;
- (b) within 10 days before the announcement of the company's performance forecast and brief performance report;

- (c) the period from the day of the occurrence of a major event that may have significant influence on the trading prices of the company's stocks and their derivatives or the day on which the decision-making procedure is entered to within two trading days from the date of disclosure according to law; and
- (d) such other periods as may be prescribed by the China Securities Regulatory Commission and the Shenzhen Stock Exchange.

The initially granted Type II Restricted Shares shall be vested during the following period:

- (a) the first vesting period: as to 40% of the aggregate number of Shares underlying the granted restricted shares from the first trading day after the 12 month anniversary of the Grant Date to the last trading day before the 24 month anniversary of the Grant Date;
- (b) the second vesting period: as to 30% of the aggregate number of Shares underlying the granted restricted shares from the first trading day after the 24 month anniversary of the Grant Date to the last trading day before the 36 month anniversary of the Grant Date; and
- (c) the third vesting period: as to 30% of the aggregate number of Shares underlying the granted restricted shares from the first trading day after the 36 month anniversary of the Grant Date to the last trading day before the 48 month anniversary of the Grant Date.

Note: vesting period(s) shall have the same meaning as exercise period(s) under the Restricted Share Incentive Plan.

H. Vesting period and arrangement (reserved Type II Restricted Shares)

If the reserved Type II Restricted Shares are granted within the year of 2020, the reserved ones shall be vested during the following period:

- (a) the first vesting period: as to 40% of the aggregate number of Shares underlying the granted restricted shares from the first trading day after the 12 month anniversary of the Reserved Grant Date to the last trading day before the 24 month anniversary of the Reserved Grant Date;
- (b) the second vesting period: as to 30% of the aggregate number of Shares underlying the granted restricted shares from the first trading day after the 24 month anniversary of the Reserved Grant Date to the last trading day before the 36 month anniversary of the Reserved Grant Date; and
- (c) the third vesting period: as to 30% of the aggregate number of Shares underlying the granted restricted shares from the first trading day after the 36 month anniversary of the Reserved Grant Date to the last trading day before the 48 month anniversary of the Reserved Grant Date.

If the reserved Type II Restricted Shares are granted in the year of 2021, the reserved ones shall be vested during the following period:

- (a) the first vesting period: as to 60% of the aggregate number of Shares underlying the granted restricted shares from the first trading day after the 12 month anniversary of the Reserved Grant Date to the last trading day before the 24 month anniversary of the Reserved Grant Date; and
- (b) the second vesting period: as to 40% of the aggregate number of Shares underlying the granted restricted shares from the first trading day after the 24 month anniversary of the Reserved Grant Date to the last trading day before the 36 month anniversary of the Reserved Grant Date.

I. Grant Conditions

The grantees are entitled to be granted the restricted shares (including Type I Restricted Shares and Type II Restricted Shares):

- (a) with respect to the Company, none of the following circumstances occurs:
 - (i) The accountant issues an audit report with a negative opinion or without an appropriate opinion in regards to the accountants' report or internal control of the financial report of the most recent fiscal year;
 - (ii) The Company has not distributed dividends in accordance with the laws and regulations, our Articles of Association or our public commitment within the most recent 36 months after the listing; or
 - (iii) The Company shall not execute the incentive plans according to applicable laws and regulations or other circumstances recognized by the CSRC.
- (b) with respect to the grantee, none of the following circumstances occurs:
 - (i) The grantee has been regarded as an inappropriate person by the Shenzhen Stock Exchange or by the CSRC or its dispatched office within the most recent 12 months;
 - (ii) The grantee has been punished or prohibited from entering into the securities market by the CSRC or its dispatched office within the most recent 12 months;
 - (iii) The grantee is not qualified to serve as a director or senior management according to the Company Law; or
 - (iv) The grantee shall not participate the incentive plan according to applicable laws and regulations or other circumstances recognized by the CSRC.

J. The Unlocking or Vesting Conditions

Subject to the lock-up period and unlocking arrangement described in “Statutory and General Information – F. Lock-up period and unlocking arrangement (Type I Restricted Shares)” in this Appendix V above, the grantees are entitled to dispose the Type I Restricted Shares upon the satisfaction of the following conditions, while the failure to satisfy such conditions will result in the repurchase and cancelation of the relevant restricted shares.

Similarly, subject to the vesting period and arrangement described in “Statutory and General Information – G. Vesting period and arrangement (initially granted Type II Restricted Shares)” in this Appendix V above, the grantees are entitled to dispose the Type II Restricted Shares upon the satisfaction of the following conditions, while the failure to satisfy such conditions will result in the repurchase and cancelation of the relevant restricted shares.

- (a) with respect to the Company, none of the following circumstances occurs:
 - (i) The accountant issues an audit report with a negative opinion or without an appropriate opinion in regards to the accountants’ report or internal control of the financial report of the most recent fiscal year;
 - (ii) The Company has not distributed dividends in accordance with the laws and regulations, our Articles of Association or our public commitment within the most recent 36 months after the listing; or
 - (iii) The Company shall not execute the incentive plans according to applicable laws and regulations or other circumstances recognized by the CSRC.
- (b) with respect to the grantee, none of the following circumstances occurs:
 - (i) The grantee has been regarded as an inappropriate person by the Shenzhen Stock Exchange or by the CSRC or its dispatched office within the most recent 12 months;
 - (ii) The grantee has been punished or prohibited from entering into the securities market by the CSRC or its dispatched office within the most recent 12 months;
 - (iii) The grantee is not qualified to serve as a director or senior management according to the Company Law; or
 - (iv) The grantee shall not participate the incentive plan according to applicable laws and regulations or other circumstances recognized by the CSRC.

(c) The Company achieve the following performance assessment targets:

(i) The initially granted restricted shares (including Type I Restricted Shares and Type II Restricted Shares)

The unlocking period/vesting period	Assessment year	Annual net profit compared 2019 net profit (A) Target rate (Am)	Trigger rate (An)
the first unlocking period/vesting period	2020	the net profit growth rate of 2020 is no less than 30% comparing to the net profit of 2019	20%
the second unlocking period/vesting period	2021	the net profit growth rate of 2021 is no less than 60% comparing to the net profit of 2019	40%
the third unlocking period/vesting period	2022	the net profit growth rate of 2022 is no less than 90% comparing to the net profit of 2019	70%

Assessment index	Achievement	Unlocking/Vesting proportion
Annual net profit compared 2019 net profit (A)	$A \geq A_m$	$X=100\%$
	$A_n \leq A < A_m$	$X=(A - A_n)/(A_m - A_n) * 50\% + 50\%$
	$A < A_n$	$X=0$

(ii) The reserved Type II Restricted Shares

The assessment year of the reserved Type II Restricted Shares, if granted within 2020, is the same as the initially granted restricted shares. While granted in the year of 2021, the assessment year is the following:

The vesting period	Assessment year	Annual net profit compared 2019 net profit (A) Target rate (Am)	Trigger rate (An)
the first vesting period	2021	the net profit growth rate of 2021 is no less than 60% based on the net profit of 2019	40%
the second vesting period	2022	the net profit growth rate of 2022 is no less than 90% based on the net profit of 2019	70%

- (d) The individual achieve the following performance assessment targets:

Assessment grade (G)	G\geq70	G<70
Unlocking/vesting proportion	100%	0

If the Company achieves the performance assessment targets, the actual unlocking or vesting restricted shares of a grantee = the number of shares an individual plans to be unlocked or vested * the proportion of shares the Company plans to be unlocked or vested * the proportion of shares an individual plans to be unlocked or vested.

K. Lapse of restricted shares

- (a) The Board has the right to decide that the locked restricted shares held by a grantee shall not be unlocked or vested and shall be repurchased and canceled by the Company, and the grantee or his/her heirs shall pay the relevant tax of the unlocked or vested restricted shares in accordance with applicable laws, if the following circumstances occurs:
- (i) The circumstances described in I-(a) and J-(a) above in this Appendix V occurs;
 - (ii) The grantee's position in our Company changed or the grantee ceased to be employed by our Company due to the breach of laws, professional ethics, confidential duties, dereliction of duty, malfeasance or disqualification in the former position;
 - (iii) The grantee ceased to be employed by our Company due to resignation, layoffs;
 - (iv) The grantee ceased to be employed by our Company due to disability or death, other than as a result of performing his/her professional duties in our Company.
- (b) The Board has the right to decide that the locked restricted shares or unvested shares held by a grantee shall be totally unlocked or vested if the grantee is disabled or died as a result of performing his/her professional duties in our Company.
- (c) The Restricted Share Incentive Plan shall not be affected even if a change in control takes place without triggering a reorganization of major assets, or a merger or spin-off takes place without affecting the Company's status as a going concern.

L. Repurchase price of the restricted shares

The repurchase price of the restricted shares (including Type I Restricted Shares and Type II Restricted Shares) shall be the granting price, subject to the adjustment as follows upon the occurrence of the relevant circumstances below:

- (a) conversion of capital reserves into share capital, dividends distribution or share splits: $P=P_0 \div (1+n)$
- (b) share allotment: $P=P_0 \times (P_1 + P_2 \times n) \div [P_1 \times (1+n)]$
- (c) reduction in share capital: $P=P_0 \div n$
- (d) dividends distribution: $P=P_0 - V$

P_0 is the granting price of the restricted shares; P is the repurchase price after adjustment; n is the number of the newly issued Shares after the relevant conversion of shares, dividends distribution, share splits, share allotment or reduction in share capital; P_1 is the closing price of our Shares on the Registration Date; P_2 is the share allotment price; V is the amount of distributed dividends per share.

M. Adjustment of the number of the restricted shares and the granting price

- (a) The number of the restricted shares (including Type I Restricted Shares and Type II Restricted Shares) shall be subject to the adjustment as follows upon the occurrence of the relevant circumstances below:
 - (i) conversion of capital reserves into share capital, dividends distribution or share splits: $Q=Q_0 \times (1+n)$
 - (ii) share allotment: $Q=Q_0 \times P_1 \times (1+n) \div (P_1 + P_2 \times n)$
 - (iii) reduction in share capital: $Q=Q_0 \times n$

Q_0 is the number of restricted shares prior to the adjustment; Q is the number of restricted shares after the adjustment; n is the number of the newly issued Shares after the relevant conversion of shares, dividends distribution, share splits, share allotment or reduction in share capital; P_1 is the closing price of our Shares on the Registration Date; P_2 is the share allotment price.

- (b) The granting price of the restricted shares shall be subject to the adjustment as follows upon the occurrence of the relevant circumstances below:
 - (i) conversion of capital reserves into share capital, dividends distribution or share splits: $P=P_0 \div (1+n)$

(ii) share allotment: $P = P_o \times (P_1 + P_2 \times n) \div [P_1 \times (1 + n)]$

(iii) reduction in share capital: $P = P_o \div n$

(iv) dividends distribution: $P = P_o - V$

P_o is the granting price of the restricted shares; P is the repurchase price after adjustment; n is the number of the newly issued Shares after the relevant conversion of shares, dividends distribution, share splits, share allotment or reduction in share capital; P_1 is the closing price of our Shares on the Registration Date; P_2 is the share allotment price; V is the amount of distributed dividends per share.

N. Dilution effect on earnings per share

Subject to any alterations set out under the conditions of Restricted Share Incentive Plan in the event of any rights issue, open offer, sub-division, consolidation of shares, or reduction of registered capital of our Company that may take place after the Listing, the total number of A Shares that could be issued and subscribed for in relation to Type II Restricted Shares shall be no more than 9,100,800 A Shares, representing approximately 1.09% of the issued share capital of our Company immediately upon completion of the Global Offering (excluding any Share which may fall to be allotted and issued upon the exercise of the Over-allotment). As such, taking into account the A Shares could be issued and subscribed for in relation to Type II Restricted Shares, the shareholding of our Shareholders immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised) will be diluted by approximately 1.09%. The consequent impact on the earnings per share for the year ended December 31, 2020 and six months ended June 30, 2021 is nil and nil, respectively.

5. OTHER INFORMATION

A. Estate Duty

We have been advised that no material liability for estate duty under PRC law is likely to fall upon us.

B. Litigation

Save as disclosed in “Business – Legal Proceedings and Compliance” as at the Latest Practicable Date, our Company is not involved in any material litigation, arbitration or administrative proceedings. So far as we are aware, no such litigation, arbitration or administrative proceedings are pending or threatened.

C. Joint Sponsors

The Joint Sponsors have made an application on our behalf to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, our H Shares, including any Offer Shares which may be issued pursuant to the exercise of the Over-allotment Option. All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

The Joint Sponsors satisfy the independence criteria as set out in Rule 3A.07 of the Listing Rules. For completeness, (i) affiliates of CLSA Capital Markets Limited (“**CLSA**”) hold certain A Shares on a proprietary basis, on clients’ accounts or under managed portfolios; and (ii) no affiliate of BNP Paribas Securities (Asia) Limited (“**BNP Paribas Securities**”) holds any A Share on a proprietary basis. Neither (i) nor (ii) exceeds 5% of the total number of our Shares and is not expected to affect the independence of CLSA or BNP Paribas Securities in the context of the independence criteria as set out in Rule 3A.07 of the Listing Rules.

The Joint Sponsors’ fees payable by us in respect of the Joint Sponsors’ services as sponsors for the proposed listing are US\$1 million.

D. Preliminary expenses

Our Company has not incurred any material preliminary expense.

E. Qualification of experts

The qualifications of the experts who have given opinions in this prospectus are as follows:

Name	Qualification
CLSA Capital Markets Limited	A corporation licenced to conduct type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
BNP Paribas Securities (Asia) Limited	A corporation licenced to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Ernst & Young	Certified public accountants Registered Public Interest Entity Auditor
China Commercial Law Firm, Guangdong	Legal advisers as to PRC law to our Company
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Independent industry consultant
BDO Belastingadviseurs	Transfer pricing consultant

F. No material adverse change

The Directors confirm that there has been no material adverse change in our financial or trading position since June 30, 2021 (being the date on which the latest audited consolidated financial statements of the Company were made up).

G. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Hong Kong Companies Ordinance so far as applicable.

H. Bilingual Document

The English language and Chinese language version of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Hong Kong Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

I. Miscellaneous

- (a) save as disclosed in this prospectus, within the two years preceding the date of this prospectus, we have not issued nor agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash;
- (b) no share or loan capital of our Company, if any, is under option or is agreed conditionally or unconditionally to be put under option;
- (c) we have not issued nor agreed to issue any founder shares, management shares or deferred shares;
- (d) save as disclosed in “History, Development and Corporate Structure – Major Shareholding Changes of our Company – 5. The issuance of Convertible Bonds in November 2019” in this prospectus, the Company has no outstanding convertible debt securities or debentures;
- (e) within the two years immediately preceding the date of this prospectus, no commission, discount, brokerage or other special term has been granted in connection with the issue or sale of any capital of the Company;
- (f) there is no arrangements under which future dividends are waived or agreed to be waived;
- (g) there has been no interruptions in our business which may have or have had a significant effect on the financial position in the last 12 months; and

- (h) save for the A Shares and the corporate bond of our Company that are listed on the Shenzhen Stock Exchange, none of the equity and debt securities of our Company, if any, is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought. We currently do not intend to apply for the status of a Sino-foreign investment joint stock limited company and do not expect to be subject to the PRC Sino-Foreign Joint Venture Law.

J. Consents

Each of the experts as referred to in the paragraph headed “E. Qualification of experts” in this Appendix has given, and has not withdrawn, their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or valuation certificates and/or the references to their names included herein in the form and context in which they are respectively included.

Save as disclosed in this prospectus, none of the experts named above has any shareholding interests in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

K. Promoters

The promoters of our Company as of the time of our Company’s conversion are Ruide Venture, Goldwind Holdings, Ganzhou Qianchang (formerly known as Xinjiang Qianshi) and Ganzhou Rare Earth.

Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given to the promoters named above in the related transactions described in this prospectus.

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this Prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (a) a copy of the **GREEN** Application Form;
- (b) the written consents referred to in the section headed “Statutory and General Information – 5. Other Information – E. Qualification of experts” in Appendix V to this Prospectus; and
- (c) a copy of each of the material contracts referred to in the section headed “Statutory and General Information – 2. Further Information about Our Business – A. Summary of our material contracts” in Appendix V to this Prospectus.

2. DOCUMENTS AVAILABLE ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.jlmag.com.cn up to and including the date which is 14 days from the date of this prospectus:

- (a) the Articles of Association;
- (b) the accountants’ report for the years ended December 31, 2018, 2019 and 2020 and for the six months ended June 30, 2021 issued by Ernst & Young, the text of which is set out in Appendix I;
- (c) the audited consolidated financial statements of our Company for the financial years ended December 31, 2018, 2019 and 2020 and for the six months ended June 30, 2021;
- (d) the report on the unaudited pro forma financial information for Ernst & Young, the text of which is set out in Appendix II;
- (e) the material contracts referred to in “2. Further Information about our Business – A. Summary of our material contracts” in Appendix V;
- (f) the written consents referred to in “5. Other Information – E. Qualification of experts” in Appendix V;
- (g) the service contracts referred to in “3. Further Information About our Directors, our Supervisors and Substantial Shareholders – C. Particulars of service contracts” in Appendix V;

- (h) the PRC legal opinions issued by China Commercial Law Firm, Guangdong, our PRC Legal Advisor, in respect of certain aspects of our Group and our property interests;
- (i) the PRC Company Law, the Mandatory Provisions and the Special Regulations together with their unofficial English translation;
- (j) the industry report issued by Frost & Sullivan, our industry consultant;
- (k) the transfer pricing report referred to in the section headed “Financial Information – Description of Selected Components of Statement of Profit or Loss – Income Tax Expenses”; and
- (l) the Shenzhen Listing Rules, together with an unofficial English translation.

3. DOCUMENT AVAILABLE FOR INSPECTION

Copy of the following document will be available for inspection at the Company’s principal place of business in Hong Kong at 40/F, Dah Sing Financial Centre, 248 Queen’s Road East, Wanchai, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the terms of the Restricted Share Incentive Plan and list of grantees of Type II Restricted Shares under the Restricted Share Incentive Plan, containing certain details as required under the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

