稀美資源控股有限公司
XIMEI RESOURCES HOLDING LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 9936

Annual Report 2019

Corporate Profile

The Group is a producer of tantalum- and niobium-based metallurgical products in China and one of the earliest non-state owned PRC-based market participants in this industry.

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

Our history started on 9 May 2006, when Guangdong Zhiyuan New Material Co., Ltd. was established in Yingde, Guangdong Province, the PRC by Fogang Jiata and Jiata International. Zhiyuan New Material was principally engaged in the production and sale of tantalum- and niobium-based metallurgical products. We conduct substantially all of our business operations through Zhiyuan New Material, our PRC subsidiary.

We were one of the 15 major market players in the tantalum and niobium metallurgy industry in China in 2018, and we were the largest producer of tantalum- and niobium-based hydrometallurgical products in China for FY2016, FY2017 and FY2018 in terms of total annual production volume for external sales.

Contents

Corporate Information

DIRECTORS

Executive Directors

Mr. Wu Lijue *(Chairman)*
Ms. Wu Shandan

Non-executive Director

Mr. Zeng Min

Independent Non-executive Directors

Mr. Lau Kwok Fai Patrick
Mr. Zhong Hui
Mr. Yin Fusheng

AUDIT COMMITTEE MEMBERS

Mr. Lau Kwok Fai Patrick *(Chairman)*
Mr. Zhong Hui
Mr. Yin Fusheng

NOMINATION COMMITTEE MEMBERS

Mr. Wu Lijue *(Chairman)*
Mr. Zhong Hui
Mr. Yin Fusheng

REMUNERATION COMMITTEE MEMBERS

Mr. Yin Fusheng *(Chairman)*
Mr. Zhong Hui
Mr. Lau Kwok Fai Patrick

COMPANY SECRETARY

Mr. Chan Hon Wan *(HKICPA)*

AUTHORISED REPRESENTATIVES

Ms. Wu Shandan
Mr. Chan Hon Wan *(HKICPA)*

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Hongqiao Village
Qiaotou Town
Yingde City
Guangdong Province
People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room E, 7th Floor, Derrick Industrial Building
No. 49 Wong Chuk Hang Road
Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East, Wanchai
Hong Kong

LEGAL ADVISER

Chiu & Partners
40th Floor, Jardine House
1 Connaught Place, Central
Hong Kong

Corporate Information (Continued)

AUDITOR

Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

COMPLIANCE ADVISER

Cinda International Capital Limited
45th Floor
COSCO Tower
183 Queen's Road Central
Hong Kong

PRINCIPAL BANKERS

Industrial and Commercial Bank of China Limited
Fogang Sub-branch
No. 120, Middle Zhenxing Road
Fogang County, Qingyuan City
Guangdong Province
People's Republic of China

Bank of China
Qingyuan Branch
No. 2, Beijiang Road, Xincheng
Qingyuan City
Guangdong Province
People's Republic of China

COMPANY'S WEBSITE

www.zhiyuanm.com

STOCK CODE

9936

Financial Highlights

	For the year ended 31 December 2019 RMB'000	2018 RMB'000	Changes Increase/ (decrease)
Financial Highlights			
Revenue	**600,644**	514,718	16.7%
Cost of sales	**(441,640)**	(349,485)	26.4%
Gross profit	**159,004**	165,233	(3.8)%
Profit before taxation	**83,941**	90,094	(6.8)%
Profit attributable to owners of the Company	**69,652**	77,071	(9.6)%
Basic earnings per share (in RMB)	**0.31**	0.34	(8.8)%
Proposed final dividend per share (HK cents)	**Nil**	Nil	0.0%

	As at 31 December 2019 RMB'000	2018 RMB'000	Changes Increase/ (decrease)
Liquidity and Gearing			
Current ratio *(Note 1)*	**2.45**	2.20	11.4%
Quick ratio *(Note 2)*	**1.65**	1.20	37.5%
Gearing ratio *(Note 3)*	**26.4%**	19.4%	7.0% pts

Notes:

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

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

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

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Ximei Resources Holding Limited (the "Company", together with its subsidiaries, the "Group"), I hereby take pride and pleasure in presenting the annual report of the Company for the year ended 31 December 2019 (the "Year Under Review") to our shareholders (the "Shareholders") and potential investors.

The Company's shares were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 March 2020 (the "Listing"). It is a new milestone for the business development of the Group. It helps the Group enhance its corporate image and status, consolidate the Group's capital and shareholding structure, so as to further expand its business.

Since its establishment in 2006, the Group has been focusing on the production and sales of tantalum and niobium based metallurgical products, and has gradually expanded our production and operations to become one of the 15 major market players in the tantalum and niobium based metallurgy industry in China. In terms of annual total output for external sales, we are the largest producer of tantalum and niobium based hydrometallurgical products in China for three consecutive years from 2016 to 2018, accounting for approximately 30.0%, 31.5% and 35.8% of the market share in China for 2016, 2017 and 2018, respectively.

In 2019, the world economic and political situation remained restless. The Sino-US trade war and the adjustment on the economic structure in China have brought various challenges to the operations of the entities in China. The tantalum and niobium based metallurgical industry was also facing the risk of the prices of tantalum and niobium based metallurgical products being declined. However, standing firm on our corporate philosophy of "be brave in pioneering, keep improving, improve in an all-round way, and create great achievements," the Group performed well and delivered brilliant results in 2019. In particular, the output and sales volume of niobium pentoxide and tantalum pentoxide, the Group's main products, have reached historical peak, with a year-on-year output growth of approximately 19.3% and approximately 49.0%, and a year-on-year sales growth of approximately 42.7% and approximately 138.7%, respectively, driving the Group's revenue to record approximately RMB600.6 million, representing a year-on-year increase of approximately 16.7%. Mainly affected by a relatively significant increase of listing fee in 2019 compared to that of the previous year, a profit of approximately RMB69.7 million was recorded, representing a year-on-year decrease by approximately 9.6%.

The Group has always emphasized on the importance to environmental protection, and research and development. They are regarded as an important guarantee for the sustainable development of enterprises and the creation of long-term shareholders' value. In 2019, there were no major safety and environmental accidents in the Group throughout the year. As for research and development, save for the research and development projects for new technologies and new products, the research topics on the recycling and utilization of waste also accounted for a considerable weighting. Some of the research and development results have been used in our daily production process, which has generated actual benefits.

Chairman's Statement (Continued)

FUTURE OUTLOOK

Looking ahead, while the Group continues to consolidate its leading position in the tantalum and niobium hydrometallurgy industry, it also extends its product lines to downstream tantalum and niobium based metallurgical products, continues to invest resources in research and development projects of new products and innovative production methods, strengthens the sales network in the Group's overseas markets, and further secures the source of major raw materials. The Group believes that through the implementation of the aforementioned business strategies, the continuous improvement of corporate governance level, and the Group's risk management and profitability, the Group will be able to create long-term Shareholders' value for all Shareholders and realize the Group's commitment to "**developing rare resources and creating a better world**".

APPRECIATION

On behalf of the Board, I would like to express our gratitude for the unfailing support from the distinguished Shareholders, customers and business partners, and we are sincerely thankful to our management team and employees for your valuable contributions towards the development of the Group.

Mr. Wu Lijue
Chairman of the Board

Hong Kong, 28 March 2020

Management Discussion and Analysis

MARKET AND INDUSTRY OVERVIEW

Tantalum and niobium based hydrometallurgical products include tantalum pentoxide, niobium pentoxide and potassium heptafluorotantalate. According to the China Insights Consultancy's industry report ("CIC Report"), a summary of which was included in the prospectus of the Company dated 26 February 2020 (the "Prospectus"), primarily due to the growing demand from various downstream industries, the production volume for external sales of tantalum pentoxide in China increased from 280.0 tonnes in 2014 to 590.0 tonnes in 2018, representing a CAGR of 20.5%, and is expected to further increase to 851.9 tonnes in 2023, representing a CAGR of 7.6%; the production volume for external sales of niobium pentoxide in China increased from 1,352.0 tonnes in 2014 to 2,250.0 tonnes in 2018 representing a CAGR of 13.6%, and is expected to further increase to 3,248.9 tonnes in 2023, representing a CAGR of 7.6%; the production volume for external sales of potassium heptafluorotantalate in China increased from 458.0 tonnes in 2014 to 850.0 tonnes in 2018, representing a CAGR of 16.7%, and is expected to further increase to 1,109.3 tonnes in 2023, representing a CAGR of 5.5%. According to the CIC Report, mainly due to an expected stable supply of tantalum ores and niobium ores in the upstream industries, the average selling prices for tantalum- and niobium-based hydrometallurgical products in China are expected to drop in 2019.

According to the CIC Report, a number of factors will drive the growth of the People's Republic of China ("PRC") market for pentoxide products and potassium heptafluorotantalate: (1) Growing demand from various downstream industries. Given the favourable properties of tantalum and niobium metal such as high melting point, corrosion-resistance, and superconductivity, tantalum- and niobium-based metallurgical products are essential in the downstream manufacture of various products used in high-tech industries, including special alloys, chemical, electronic ceramics, aeronautics, aerospace, high-end electronics, defence and hard alloy. As market size for hard alloy, aviation equipment manufacturing, erosion-resistant equipment industry in China is expected to grow at CAGRs of 8.6%, 28.6%, and 9.8%, respectively, between 2018 and 2023, the demand for tantalum- and niobium-based metallurgical products is anticipated to grow accordingly; (2) Technology upgrade. New advances in tantalum- and niobium-based hydrometallurgical products manufacturing technologies have driven and will continue to drive the development of high-purity tantalum- and niobium-based hydrometallurgical products, while at the same time reduce production costs; and (3) Strengthening stability in raw materials supplies. As tantalum ores and niobium ores are the key raw materials required for the manufacturing of tantalum- and niobium-based hydrometallurgical products and over 85% of the tantalum ores and niobium ores consumed by PRC enterprises are imported from overseas, access to and stable supply of tantalum ores and niobium ores are critical to the timely delivery of products and the expansion of production capacity for enterprises in the PRC tantalum and niobium metallurgy industry. To ensure the stable supply of raw materials, the PRC Government and the manufacturers of tantalum- and niobium-based hydrometallurgical products in the PRC have built good cooperative relationships with, and seek opportunities to invest in, suppliers of tantalum ores and niobium ores, which in turn will drive the growth of the PRC tantalum and niobium metallurgy industry.

Management Discussion and Analysis

BUSINESS REVIEW

In 2019, there were a lot of uncertainties in the development of world economy. Sino-US trade war was ongoing, and the structural adjustment pace for Chinese economy speeded up. The price of tantalum and niobium based metallurgical products showed a declining trend. Despite the severe external operating environment, with the effort of all our staff, the Company managed to achieve a satisfactory operating result.

Production: Output of single-month tantalum and niobium based metallurgical products achieved record high of over 150 tonnes. As the production cost was optimized, the total consumption of various auxiliary materials decreased year-on-year. The improved product quality resulted in nearly 98% of one-time passing rate for products. Safety production and environmental protection measures were in place to strictly implement all requirements on national production safety and environmental protection. No significant safety and environmental protection accidents occurred throughout the year. During the Year Under Review, the output of industrial grade niobium pentoxide, high-purity niobium pentoxide, industrial grade tantalum pentoxide, high-purity tantalum pentoxide and potassium heptafluorotantalate amounted to 944.4 tonnes, 240.3 tonnes, 176.6 tonnes, 1.8 tonnes and 100.9 tonnes, representing a year-on-year increase of 19.3%, 19.2%, 49.0%, a decrease of 81.8% and a decrease of 49.4%, respectively.

Sales: The results of the development of new customers and new products were significant. The sales of electronic grade tantalum and niobium based metallurgical products increased by 98.9% year-on-year. Customized niobium pentoxide products (such as target material grade niobium pentoxide and spherical niobium pentoxide) achieved scale sales. During the Year Under Review, the sales volume of industrial grade niobium pentoxide, high-purity niobium pentoxide, industrial grade tantalum pentoxide, high-purity tantalum pentoxide and potassium heptafluorotantalate amounted to 1,072.4 tonnes, 228.4 tonnes, 194.8 tonnes, 6.2 tonnes and 83.5 tonnes, representing a year-on-year increase of 42.7%, 35.1%, 138.7%, a decrease of 4.6% and a decrease of 47.5%, respectively.

Revenue: In 2019, the Company recorded a revenue amounted to approximately RMB600.6 million, representing an increase of approximately RMB85.9 million as compared to that of the previous year and a year-on-year increase of 16.7%. In 2019, the Company's revenue increase is mainly due to the significant growth of revenue from the tantalum pentoxide and niobium pentoxide products. The sales revenue of tantalum pentoxide increased by approximately RMB93.4 million as compared to that of the previous year, representing a year-on-year increase of 77.0%, while the sales revenue of niobium pentoxide increased by approximately RMB31.3 million as compared to that of the previous year, representing a year-on-year increase of 18.1%. However, the revenue generated from the sales of potassium heptafluorotantalate and provision of processing services decreased by approximately RMB85.0 million and approximately RMB5.8 million, respectively, as compared to that of the previous year.

Profit: For the year ended 31 December 2019, the Company recorded a profit of approximately RMB69.7 million, representing a decrease of approximately RMB7.4 million as compared to that of the previous year, which is mainly due to the effect of that the listing fee in 2019 increased by approximately RMB7.3 million as compared to that of the previous year.

Management Discussion and Analysis (Continued)

Research and development: In 2019, the Company obtained 2 authorised patents and 5 patents applications accepted, and received technological support funding of over approximately RMB10.0 million from the government, which is a historical high record. The production process and application belonged to the new extraction skill which reached the advanced level in the industry. It effectively reduced the sulfate in the niobium liquid, which facilitated a good separation between tantalum and niobium, such that a level of 20ppm of tantalum in niobium and niobium in tantalum was realised. It also achieved a significant decrease on consumption of auxiliary materials, which favoured the resource treatment of alkaline wastewater, whereby reducing the production cost and alleviating the pressure from environmental protection. With the successful implementation of washing water recycling project, the washing water recycling rate reached 75%, which signifies that the Company became the first manufacturer in the industry to utilise such technology. In addition, the reformation on production technology has also made big progress. The production technology of high purity niobium pentoxide for lithium battery materials, the production technology for industrial spherical niobium pentoxide, as well as the organic technology for optimisation of extraction and refinement, the extraction pickling process, and the technology of utilisation of fluoride salt original solution instead of sulphuric acid for the treatment system of integrated recovery workshop exhaust gas have been developed.

FINANCIAL REVIEW

Revenue

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

	For the year ended 31 December			
	2019		2018	
	RMB'000	**%**	RMB'000	%
Sales of products	**595,805**	**99.2%**	504,098	97.9%
Provision of processing services	**4,839**	**0.8%**	10,620	2.1%
Total revenue	**600,644**	**100.0%**	514,718	100.0%

Management Discussion and Analysis (Continued)

The following table sets forth the breakdown of our revenue by product categories for the years indicated:

	For the year ended 31 December			
	2019		2018	
	RMB'000	%	RMB'000	%
Pentoxide products	485,522	80.8%	350,050	68.0%
Tantalum pentoxide				
— Industrial grade tantalum pentoxide	214,734	35.8%	121,313	23.6%
— High-purity tantalum pentoxide	8,216	1.4%	10,098	2.0%
Niobium pentoxide				
— Industrial grade niobium pentoxide	203,923	34.0%	172,652	33.5%
— High-purity niobium pentoxide	58,649	9.8%	45,987	8.9%
Potassium heptafluorotantalate	50,726	8.4%	135,732	26.4%
Recycled products	17,191	2.9%	3,697	0.7%
Others	47,205	7.9%	25,239	4.9%
Total revenue	600,644	100.0%	514,718	100.0%

During the two years ended 31 December 2019 and 2018, our products sold included: (i) pentoxide products; (ii) potassium heptafluorotantalate; (iii) recycled products; and (iv) others. Out of the products we sold, pentoxide products accounted for approximately 80.8% and 68.0% of our total revenue for the two years ended 31 December 2019 and 2018, respectively.

Our revenue increased by approximately RMB85.9 million or 16.7% from approximately RMB514.7 million for the year ended 31 December 2018 to approximately RMB600.6 million for the Year Under Review. The increase was mainly due to the increase in revenue generated from sale of products of tantalum pentoxide and niobium pentoxide, offset by the decrease in revenue generated from sale of products of potassium heptafluorotantalate and the provision of processing services.

Pentoxide Products

For the Year Under Review, our revenue generated from sale of pentoxide products amounted to approximately RMB485.5 million, representing an increase of approximately RMB135.5 million or 38.7% from approximately RMB350.0 million for the year ended 31 December 2018. Such increase was driven by the increase in revenue from sale of both tantalum pentoxide and niobium pentoxide.

Potassium Heptafluorotantalate

For the Year Under Review, our revenue generated from sale of potassium heptafluorotantalate amounted to approximately RMB50.7 million, representing a significant decrease of approximately RMB85.0 million or 62.6% from approximately RMB135.7 million for the year ended 31 December 2018. Such decrease was mainly due to the significant decrease in sales volume and the decrease in average selling price.

Management Discussion and Analysis (Continued)

Recycled Products

During the Year Under Review, our recycled products sold mainly included three types of products produced by recycling our waste materials, namely tin hydroxide, potassium fluorosilicate and tungsten acid. The increase in revenue generated from sale of recycled products from the year ended 31 December 2018 of approximately RMB3.7 million to the Year Under Review of approximately RMB17.2 million was primarily because we mainly sold tin hydroxide, potassium fluorosilicate and tungsten acid for the Year Under Review while we only sold potassium fluorosilicate for the year ended 31 December 2018.

Others

For the two years ended 31 December 2019 and 2018, we sold ferro niobium tantalum alloy, which is a kind of impurity included in our raw materials. Considering its higher impurity, we resold ferro niobium tantalum alloy to utilise our inventories. For the Year under Review, our revenue generated from sale of others amounted to approximately RMB47.2 million, representing an increase of approximately RMB22.0 million or 87.0% from approximately RMB25.2 million for the year ended 31 December 2018.

Provision of Processing Services

During the Year Under Review, we provided processing services for processing tantalum ores and niobium ores supplied by our customers into pentoxide products and potassium heptafluorotantalate. For the Year Under Review, our revenue generated from the provision of processing services amounted to approximately RMB4.8 million, representing a decrease of approximately RMB5.8 million or 54.4% from approximately RMB10.6 million for the year ended 31 December 2018. The decrease in revenue from the provision of processing services was mainly because we allocated our production capacity to focus more on production for sale of products than for provision of processing services in view of the higher average selling price for sale of products than that for provision of processing services.

Cost of sales

Cost of sales represented the direct costs of production, which comprised raw materials costs, factory overheads, electricity and fuels costs, labour costs and processing fee in respect of our processed products. For the two years ended 31 December 2019 and 2018, our cost of sales amounted to approximately RMB441.6 million and RMB349.5 million, respectively. The following table sets forth the breakdown of our cost of sales for the years indicated:

	For the year ended 31 December			
	2019		2018	
	RMB'000	**%**	RMB'000	%
Raw materials	**400,257**	**90.6%**	322,688	92.3%
Factory overheads	**19,198**	**4.4%**	11,468	3.3%
Electricity and fuels	**8,979**	**2.0%**	6,989	2.0%
Labour *(Note)*	**8,084**	**1.8%**	6,335	1.8%
Processing fee	**5,122**	**1.2%**	2,005	0.6%
Total cost of sales	**441,640**	**100.0%**	349,485	100.0%

Note: Labour costs mainly included salaries and benefits for our production personnel.

Management Discussion and Analysis (Continued)

Our raw materials costs mainly represented the cost for purchasing tantalum ores and niobium ores, and accounted for approximately 90.6% and 92.3% of our total cost of sales for the Year Under Review and the year ended 31 December 2018, respectively. Our cost of sales increased by approximately RMB92.1 million or 26.4% from approximately RMB349.5 million for the year ended 31 December 2018 to approximately RMB441.6 million for the Year Under Review. Such increase was mainly attributable to the increase in purchase volume of raw materials which was in line with the increase in our total production volume and total sales volume.

Gross profit and gross profit margin

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

	For the year ended 31 December			
	2019		2018	
	Gross Profit RMB'000	**Gross Profit Margin %**	Gross Profit RMB'000	Gross Profit Margin %
Sales of products	**157,159**	**26.4%**	160,171	31.8%
Provision of processing services	**1,845**	**38.1%**	5,062	47.7%
Total gross profit/overall gross profit margin	**159,004**	**26.5%**	165,233	32.1%

Our gross profit decreased by approximately RMB6.2 million or 3.8% from approximately RMB165.2 million for the year ended 31 December 2018 to approximately RMB159.0 million for the Year Under Review, mainly driven by the increase in our cost of sales.

Our gross profit margin decreased from approximately 32.1% for the year ended 31 December 2018 to approximately 26.5% for the Year Under Review. Such decrease during the Year Under Review was mainly to (i) the decrease in our average selling price of pentoxide products and potassium heptafluorotantalate; and (ii) the utilisation of our inventories as at 31 December 2018 which was purchased when the market price of our raw material was higher.

Management Discussion and Analysis (Continued)

Other income and gains

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

	For the year ended 31 December			
	2019		2018	
	RMB'000	%	RMB'000	%
Government grants	6,416	84.2%	2,580	85.6%
Bank interest income	908	11.9%	414	13.7%
Others	298	3.9%	22	0.7%
Total other income and gains	7,622	100.0%	3,016	100.0%

Our other income and gains primarily comprised government subsidies, bank interest income and others. We received government grants from local government authorities for engaging in research and development activities. Subsidies vary from year to year.

Our other income and gains increased by approximately RMB4.6 million from approximately RMB3.0 million for the year ended 31 December 2018 to approximately RMB7.6 million for the Year Under Review. Such increase was mainly attributable to the increase in government grants of approximately RMB3.8 million from approximately RMB2.6 million for the year ended 31 December 2018 to approximately RMB6.4 million for the Year Under Review.

Selling and distribution expenses

Our selling and distribution expenses primarily comprised expenses for transportation and packaging for delivery of products, salaries and benefits for personnel of our sales and procurement department and travelling and entertainment expenses. The table below sets forth the breakdown of our selling and distribution expenses for the years indicated:

	For the year ended 31 December			
	2019		2018	
	RMB'000	%	RMB'000	%
Distribution costs	2,573	35.7%	2,199	38.7%
Staff costs	3,294	45.8%	2,632	46.3%
Travelling and entertainment expenses	691	9.6%	627	11.0%
Advertising and promotion expenses	114	1.6%	—	—%
Office expenses	113	1.6%	131	2.3%
Others	408	5.7%	99	1.7%
Total selling and distribution expenses	7,193	100.0%	5,688	100.0%

Management Discussion and Analysis (Continued)

Our selling and distribution expenses increased by approximately RMB1.5 million from approximately RMB5.7 million for the year ended 31 December 2018 to approximately RMB7.2 million for the Year Under Review. Such increase was mainly attributable to the increase in distribution costs of approximately RMB0.4 million from approximately RMB2.2 million for the year ended 31 December 2018 to approximately RMB2.6 million for the Year Under Review. Our increase in distribution costs was generally in line with the increase in our sale of products. Besides, staff costs increased by RMB0.7 million from the year ended 31 December 2018 of approximately RMB2.6 million to approximately RMB3.3 million for the Year Under Review.

Administrative expenses

Our administrative expenses primarily comprised expenses for research and development expenses, staff costs of our administrative and management staff and listing expenses. The table below sets forth the breakdown of our administrative expenses for the years indicated:

	For the year ended 31 December			
	2019		2018	
	RMB'000	%	RMB'000	%
Research and development expenses	23,951	42.2%	22,705	43.6%
Staff costs	14,724	25.9%	14,897	28.6%
Other tax expenses	2,635	4.7%	2,061	4.0%
Legal advisory and professional fees	2,378	4.2%	377	0.7%
Depreciation and amortisation	3,710	6.5%	1,749	3.4%
Travelling and entertainment expenses	1,706	3.0%	804	1.5%
Bank charges	702	1.2%	1,893	3.6%
Others *(Note)*	6,971	12.3%	7,585	14.6%
Total administrative expenses	56,777	100.0%	52,071	100.0%

Note: Others primarily mainly comprised audit fees, insurance, office expenses, motor vehicle expenses maintenance fee and handling charges.

Our research and development expenses amounted to approximately RMB24.0 million and RMB22.7 million for the Year Under Review and the year ended 31 December 2018, respectively. Such expenses were primarily used to improve the purity level of tantalum pentoxide and niobium pentoxide, develop niobium pentoxide with different physical properties to be applied in different industries, and enhance our capabilities in recycling waste materials for environmental protection.

Our administrative expenses increased by approximately RMB4.7 million from approximately RMB52.1 million for the year ended 31 December 2018 to approximately RMB56.8 million for the Year Under Review. Such increase was mainly attributable to (i) the increase in research and development expenses of approximately RMB1.2 million from approximately RMB22.7 million for the year ended 31 December 2018 to approximately RMB23.9 million for the Year Under Review; and (ii) the increase in legal advisory and professional fees of approximately RMB2.0 million from approximately RMB0.4 million for the year ended 31 December 2018 to approximately RMB2.4 million for the Year Under Review.

Management Discussion and Analysis (Continued)

Other expenses

Our other expenses mainly comprised loss arising from changes in the fair value of derivative financial instruments and foreign exchange loss. Our other expenses decreased by approximately RMB10.4 million from approximately RMB12.4 million for the year ended 31 December 2018 to approximately RMB2.0 million for the Year Under Review. Such decrease was mainly attributable to the foreign exchange loss of approximately RMB10.5 million recognised for the year ended 31 December 2018 arising from settlement of USD.

Finance costs

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

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Finance costs on interest-bearing bank borrowings	**7,214**	6,161
Interest on lease liabilities	**239**	60
Less: interest capitalised	**(2,869)**	(3,022)
Total net finance costs	**4,584**	3,199

Our finance costs on interest-bearing bank borrowings before capitalisation for the Year Under Review and the year ended 31 December 2018 amounted to approximately RMB7.2 million and RMB6.2 million, respectively. For the Year Under Review and the year ended 31 December 2018, we capitalised interest of approximately RMB2.9 million and RMB3.0 million, respectively, in respect of the interest that was directly attributable to the construction of our production facilities. As a result, our net finance costs charged to the consolidated statements of profit or loss amounted to approximately RMB4.6 million and RMB3.2 million, respectively.

Income tax expense

Our Group was accredited as a high and new technology enterprise (高新技術企業) and allowing us to enjoy a lower applicable tax rate of 15%, as compared to 25% pursuant to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法). In addition, we enjoyed tax refund at the rate of 9% for our export sales of tantalum bars.

Our income tax expense for the Year Under Review and the year ended 31 December 2018 amounted to approximately RMB14.3 million and RMB13.0 million, respectively. Our effective tax rate for the Year Under Review and the year ended 31 December 2018 was approximately 17.1% and 14.5%, respectively. The increase in our effective tax rate was mainly due to increase in expense not deductible for tax. The details are set out in Note 8 to the Financial Statements.

Management Discussion and Analysis (Continued)

Profit for the year

As a result of the foregoing, we recorded net profit for the Year Under Review and the year ended 31 December 2018 of approximately RMB69.7 million and RMB77.1 million, respectively, representing a decrease of approximately RMB7.4 million. Our net profit margin was approximately 11.6% and 15.0% for Year Under Review and the year ended 31 December 2018, respectively.

ANALYSIS OF MAJOR BALANCE SHEET ITEMS

Property, plant and equipment

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

The carrying amount of our property, plant and equipment increased by approximately RMB16.0 million from approximately RMB73.5 million as at 31 December 2018 to approximately RMB89.5 million as at 31 December 2019. Such increase was mainly driven by (i) the increase in construction in progress; and (ii) the increase in plant and machinery transferred from construction in progress in respect of our new production facilities.

Right-of-use assets

Our right-of-use assets comprised our leased properties and prepaid land lease payments. Our leased properties are recognised as pursuant to HKFRS 16. Our leased properties decreased from approximately RMB3.9 million as at 31 December 2018 to approximately RMB3.4 million as at 31 December 2019, mainly due to our rental payment.

Our prepaid land lease payments represented the prepaid land lease payments in respect of our production facilities in Yingde, Guangdong Province, the PRC. Prepaid land lease payments decreased from approximately RMB23.1 million as at 31 December 2018 to approximately RMB22.6 million as at 31 December 2019, mainly due to our amortisation.

Management Discussion and Analysis (Continued)

Inventories

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

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Raw materials	**81,053**	68,979
Work in progress	**23,345**	37,151
Finished goods	**25,481**	56,592
Total inventories	**129,879**	162,722
Average inventories *(Note 1)*	**146,301**	119,198
Average inventories to revenue from sale of products *(Note 2)*	**24.4%**	23.6%

Notes:

(1) Represents the average of inventories as at 31 December of the previous year and 31 December of the current year.

(2) Represents the average of inventories divided by the revenue generated from sale of products for the relevant year.

Our inventories amounted to approximately RMB129.9 million and RMB162.7 million as at 31 December 2019 and 2018, respectively. Our average inventories increased from approximately RMB119.2 million as at 31 December 2018 to approximately RMB146.3 million as at 31 December 2019, which was in line with the growth of our revenue. Our average inventories to revenue from sale of products was approximately 24.4% and 23.6% for the year ended 31 December 2019 and 2018, respectively.

Management Discussion and Analysis (Continued)

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

	For the year ended 31 December	
	2019	2018
	(Days)	(Days)
Average inventory turnover days *(Note)*	**121.0**	124.5

Note: Average inventory turnover days equal to average inventories divided by cost of sales for the year and multiplied by 365. Average inventories are calculated as inventories at the beginning of the year plus inventories at the end of the year, divided by two.

Our average inventory turnover days decreased from approximately 124.5 days for the year ended 31 December 2018 to 121.0 days for the Year Under Review. The decrease was mainly due to the decrease of our inventories as at 31 December 2019.

Trade and bills receivables

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

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Trade receivables	**101,475**	31,691
Bills receivables	**67,683**	36,993
Total trade and bills receivables	**169,158**	68,684
Average trade and bills receivables *(Note 1)*	**118,921**	69,960
Average trade and bills receivables to total revenue *(Note 2)*	**19.8%**	13.6%

Notes:

(1) Represents the average of trade and bills receivables as at 31 December of the previous year and 31 December of the current year.

(2) Represents the average of trade and bills receivables divided by total revenue for the relevant year.

Our trade and bills receivables increased from approximately RMB68.7 million as at 31 December 2018 to approximately RMB169.2 million as at 31 December 2019. Such increase was mainly due to the increase of our revenue.

Management Discussion and Analysis (Continued)

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

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

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Within 30 days	**115,757**	47,348
31 days to 60 days	**30,251**	1,540
61 days to 90 days	**10,087**	2,265
Over 90 days	**13,063**	17,531
Total trade and bills receivables	**169,158**	68,684

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity. As at 31 December 2019, the expected credit loss rate for our Group's trade and bills receivables is minimal for all the above bands of trade and bills receivables. The following table sets forth the average turnover days of our trade and bills receivables for the years indicated:

	For the year ended 31 December	
	2019	2018
	(Days)	(Days)
Average turnover days of trade and bills receivables *(Note)*	**72.3**	49.6

Note: Average turnover days of trade and bills receivables equal average trade and bills receivables divided by revenue for the year and multiplied by 365. Average trade and bills receivables are calculated as trade and bills receivables at the beginning of the year plus trade and bills receivables at the end of the year, divided by two.

Our average turnover days of trade and bills receivables increased from 49.6 days for the year ended 31 December 2018 to 72.3 days for the Year Under Review. The increase was mainly due to the increase of our trade and bills receivables as at 31 December 2019.

Management Discussion and Analysis (Continued)

Prepayments, deposits and other receivables

Our prepayments, deposits and other receivables mainly represented advance prepayments to our suppliers for purchasing raw materials, advance prepayments for purchasing our equipment and machinery and prepaid land lease payments for acquiring land use rights. We prepaid land lease payments prior to obtaining the relevant land use rights certificates and reclassified such prepayments to "prepaid land lease payments" when the land use rights certificate is granted. The following table sets forth a breakdown of our prepayments, deposits and other receivables as at balance sheet dates indicated:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Prepayments — Non-current	**11,967**	7,285
Prepayments — Current	**40,682**	30,367
Deposits and other receivables	**1,516**	4,266
Total prepayments, deposits and other receivables	**42,198**	34,633

Our prepayments, deposits and other receivables increased from approximately RMB41.9 million as at 31 December 2018 to approximately RMB54.2 million as at 31 December 2019, mainly driven by prepaid listing expenses, offset by the decrease in prepayment for plant and machinery.

Trade payables

Our trade payables decreased significantly from approximately RMB39.6 million as at 31 December 2018 to approximately RMB17.2 million as at 31 December 2019 mainly due to settlement and decrease in purchase during the Year Under Review as we consumed our inventories carried forward from as at 31 December 2018. The following is an ageing analysis of trade payables, based on the invoice date, as at balance sheet dates indicated:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Within 30 days	**13,126**	20,251
31 days to 60 days	**4,077**	16,679
61 days to 90 days	**2**	322
Over 90 days	**—**	2,306
Total trade payables	**17,205**	39,558

Management Discussion and Analysis (Continued)

Our trade payables were non-interest-bearing and normally settled with terms of 40 days. The following table sets forth the average turnover days of our trade payables for the years indicated:

	For the year ended 31 December	
	2019	2018
	(Days)	(Days)
Average turnover days of trade payables *(Note)*	**23.5**	31.3

Note: Average turnover days of trade payables equal average trade payables divided by cost of sales for the year and multiplied by 365. Average trade payables are calculated as trade payables at the beginning of the year plus trade payables at the end of the year, divided by two.

Our average turnover days of trade payables decreased from approximately 31.3 days for the year ended 31 December 2018 to 23.5 days for the Year Under Review, mainly because the decrease in our purchase.

Other payables and accruals

Our other payables and accruals comprised accruals, deferred income, contract liabilities, and other payables. Our accruals mainly represented accrued staff costs and accrued listing expenses. Our contract liabilities mainly represented short-term advances received to deliver goods. Our deferred income mainly represented government grants received from the PRC local government authorities in relation to our research and development activities and acquisition of property, plant and equipment. The following table sets forth a breakdown of our other payables and accruals as at balance sheet dates indicated:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Accruals	**19,767**	13,204
Deferred income	**8,980**	5,481
Contract liabilities	**1,239**	1,873
Other payables	**4,635**	2,093
Total other payables and accruals	**34,621**	22,651

Our other payables and accruals increased from approximately RMB22.7 million as at 31 December 2018 to approximately RMB34.6 million as at 31 December 2019. Such increase was mainly driven by the increase in deferred income as a result of increased receipt of government grant and payables for acquisition of property, plant and equipment.

Management Discussion and Analysis (Continued)

Bank borrowings

Bank borrowings were our principal component of our total liabilities, constituting approximately 72.0% and 66.8% of our total liabilities as at 31 December 2019 and 31 December 2018, respectively. The following table sets forth the breakdown of our bank borrowings by current and non-current classification as at balance sheet dates indicated:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Non-current	**40,247**	48,509
Current	**103,015**	99,564
Total bank borrowings	**143,262**	148,073

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

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Secured	**48,497**	55,300
Unsecured	**94,765**	92,773
Total bank borrowings	**143,262**	148,073

As at 31 December 2019 and 31 December 2018, our bank borrowings were secured by the pledge of certain of our Group's leasehold land with an aggregate carrying amount of approximately RMB9.5 million and RMB9.7 million, respectively.

Our total bank borrowings decreased from approximately RMB148.1 million as at 31 December 2018 to approximately RMB143.3 million as at 31 December 2019. Such decrease was mainly due to our repayment.

LIQUIDITY AND CAPITAL RESOURCES

Working capital

During the Year Under Review, we financed our operations by cash generated from operating activities and bank borrowings. As at 31 December 2019, we had cash and cash equivalents of approximately RMB58.5 million (2018: approximately 99.2 million). In the future, we intend to finance our operations by cash generated from operating activities, bank borrowings and proceeds from the Listing.

We monitor our cash flows and cash balance on a regular basis and strive to maintain an optimum liquidity that can meet our working capital needs while supporting a viable business scale and future plans.

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

Cash flows

During the Year Under Review, the Group's cash and cash equivalents decreased by approximately RMB40.7 million, which mainly comprised the net cash outflow from operating activities with the amount of approximately RMB4.7 million, net cash outflow used in investing activities with the amount of approximately RMB25.0 million, net cash outflow used in financing activities with the amount of approximately RMB10.3 million, and the foreign exchange loss of approximately RMB0.7 million.

CAPITAL STRUCTURE

Indebtedness

The total indebtedness of the Group as at 31 December 2019 was approximately RMB143.3 million (2018: approximately RMB148.1 million). During the Year Under Review, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

Gearing ratio

As at 31 December 2019, the Group's gearing ratio was approximately 26.4% (2018: 19.4%), calculated as the total interest-bearing bank borrowings, less cash and cash equivalents, divided by total equity as at the end of the relevant year multiplied by 100%. The increase was mainly due to a decrease in cash and cash equivalents.

Pledge of assets

As at 31 December 2019 and 31 December 2018, our bank borrowings were secured by the pledge of certain of our Group's leasehold land with an aggregate carrying amount of approximately RMB9.5 million and RMB9.7 million, respectively.

Management Discussion and Analysis (Continued)

Capital expenditures

Our capital expenditures primarily comprised expenditures for purchases of property, plant and equipment. Our capital expenditures amounted to approximately RMB25.9 million and RMB31.0 million for the Year Under Review and the year ended 31 December 2018, respectively.

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

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2019, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings (2018: Nil).

CAPITAL COMMITMENT

As at 31 December 2019, the Group had capital commitment of approximately RMB5.1 million (as at 31 December 2018: approximately RMB10.1 million).

SEGMENT INFORMATION

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

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

For the year ended 31 December 2019, the Group had not made any material acquisition or disposal.

SIGNIFICANT INVESTMENTS

The Company had not held any significant investments during the year ended 31 December 2019.

FUTURE PLANS FOR CAPITAL ASSETS

Future plans for capital assets of the Company are set out in the relevant disclosure in the section headed "Future Plans and Use of Proceeds" in the Prospectus and the section headed "Comparison of Business Objectives with Actual Business Progress" in this report.

FUTURE OUTLOOK

Looking forward, we remain true to where we started. We strive to pursue the vision of "creating the world's leading manufacturer of tantalum and niobium based products". We would not stop from there. The development of global tantalum and niobium market is expected to experience growth, mainly evidenced by:

1. Industrial upgrade

Industrial integration will be accelerated, such that industry participants will continuously upgrade manufacturing technologies, improve production efficiency, reduce production costs and develop new products.

2. Increasing demand for high-purity products

The rapid development of high-end electronics industry and super-conducting materials industry among downstream industries will drive the growth demand for the high-purity products.

3. Downstream application areas continue to expand

As the downstream application areas continue to expand, various new materials will be successfully developed on the basis of tantalum and niobium based metallurgical products as raw materials, which will facilitate the growth demand for tantalum and niobium based metallurgical products.

To better capture the opportunities from the industry development and explore new business growth points, on the basis of further consolidating the Company's leading position in tantalum and niobium based hydrometallurgy, we will increase the investment in aspects such as industrial chain expansion, research and development of new technologies and new products, and global strategies, in an attempt to bringing satisfactory returns to our Shareholders.

At first, we will commence building a tantalum powder production line with an annual capacity of 100 tonnes in 2020 to meet the growing demand from downstream customers for tantalum powder and tantalum bar products. Secondly, we will speed up the pace in the research and development of new technologies and new products, and starting to study the subjects on high purity tantalum powder used in semiconductor coating target materials, and production technology of niobium pentoxide used in lithium battery materials. In addition, in order to better develop the overseas market and raw material sourcing channels, we will set up an office in the United Kingdom to increase the sales efforts in the European market. Meanwhile, we also plan to cooperate with different agents in Europe, and participate in relevant exhibitions to enhance the communication with customers.

In order to further ensure the supply of raw materials, we will set up an office in Brazil, one of the major tantalum and niobium sources in the world, to strengthen cooperation with the local small to medium mining companies or suppliers.

Management Discussion and Analysis (Continued)

HUMAN RESOURCES AND TRAINING

We believe that our long-term growth depends on the expertise and experience of our employees. We primarily recruit our personnel through campus recruiting, career fairs, recruitment websites and internal recommendation. We provide regular training programs to our employees, including, among others, introductory training, safety training and technical training, to enhance their skill and knowledge. As at 31 December 2019, the Group had a total of 220 employees, total staff cost for the Year Under Review amounted to RMB39.1 million (2018: approximately RMB24.9 million).

The salaries of our employees depend mainly on their position, nature of work and results of their annual performance evaluation. For employees of our PRC subsidiary, we made contributions to social insurance funds, including pension, medical, unemployment, maternity and occupational injury insurance, and housing provident funds for our employees in accordance with applicable PRC laws and regulations. We have established a labour union that aims to protect our employees' legal rights, assist us in attaining our economic objectives and encourage employees to participate in management decisions.

DIVIDENDS

The Board did not recommend the payment of any final dividends for the year ended 31 December 2019 (2018: Nil).

Comparison of Business Objectives with Actual Business Progress

OUR BUSINESS OBJECTIVES AND STRATEGIES

Our business objectives are to achieve sustainable growth and strengthen our market position in the tantalum and niobium metallurgical industry in the PRC. In furtherance of this goal, we plan to adopt the following strategies:

(1) Extend our production and sales to downstream products

We plan to build and set up new production facilities to extend our production to tantalum powder and tantalum bars. In the abstract, we would like to extend our production and sales to tantalum powder and tantalum bars for the following reasons: (1) according to the CIC Report, there is expected growth in the markets for tantalum powder and tantalum bars; (2) there are opportunities for leading market players in the other segments of the supply chain of the metallurgical industry to enter into the markets for the production of tantalum powder and tantalum bars as there were only few market players and the utilisation rate of the production capacity of the key manufacturers have reached a reasonable range between 60% and 80% as compared with other manufacturing industry; (3) we are well-positioned to extend our production to tantalum powder and tantalum bars, in particular we will have a stable supply of the raw materials required as well as we have experienced management team and employees; (4) we have been experiencing steady growth in the demand from our customers for tantalum bars during the Track Record Period; (5) our reliance on third party metallurgical company to provide processing services for the production of tantalum bars is not desirable and cannot satisfy the needs of our customers, and we have rejected some orders for tantalum bars from our customers because of unavailability of processing services; (6) it is an industry trend for market players in the tantalum and niobium metallurgy industry to achieve supply chain integration; and (7) the economic benefit from extending our production to tantalum powder and tantalum bars is expected to outweigh its cost.

(2) Continue to devote resources on research and development projects on new products and innovative production methods

We believe that our research and development capabilities are critical to development of our Group. Therefore, we will continue to invest in research and development. Through our research and development efforts, we have been able to expand our production capacity, improve the purity level of tantalum pentoxide and niobium pentoxide, develop pentoxide products with special physical properties to meet the demands of our customers, and enhance our capabilities in recycling waste materials for environmental protection.

(3) Strengthening our sales network in overseas markets

A majority of the total output of tantalum and niobium metallurgical products produced by China-based tantalum and niobium metallurgy and processing companies is exported to international markets. We plan to continue to strengthen our sales network in overseas market and explore business opportunities in overseas markets in order to broaden our customer base, increase our market share and diversify our operations.

Comparison of Business Objectives with Actual Business Progress (Continued)

(4) Further secure sources of our principal raw materials

Most of the ores supplied by our suppliers come from mines in Brazil and African countries. We have established long-term cooperative relationships with our suppliers, which enable us to procure the raw materials that are required for our production. In light of the expansion of our hydrometallurgical production facilities in 2017 and our planned production of downstream products, we will explore avenues to further secure the supply of raw materials to us, such as: (i) entering into strategic alliances with some of our suppliers; and (ii) setting up an office in Brazil to enhance relationship with the local small and medium mine owners or suppliers, which in return will enable us to secure stable raw materials supply in Brazil.

As such, we would be able to have a stable supply of raw materials by gaining access to the resources of the ores at market price, and reduce the order lead time for raw materials at a competitive price to meet our production plan and reduce reliance on suppliers which obtain ores from overseas mines and then resell them at a profit.

ACTUAL BUSINESS PROGRESS AND USE OF PROCEEDS FROM THE LISTING

The shares of the Company were listed on the Main Board of the Stock Exchange on 12 March 2020. Net proceeds from the placing of the shares were approximately RMB109.5 million (equivalent to approximately HK$124.6 million), after deduction of the underwriting commission and relevant expenses. As the Company was listed on the Main Board of the Stock Exchange on 12 March 2020, as at 31 December 2019 there was no proceeds from the Listing. After the Listing, the Company will launch the plans mentioned above in 2020 and intends to apply such net proceeds from the placing of the shares as follows:

(1) Approximately 68.8% or approximately RMB75.3 million would be used to extend our production to downstream products, such as tantalum powder and tantalum bars; (i)among which approximately 28.9% or approximately RMB31.7 million would be used on the construction of the new production facilities to produce tantalum powder and tantalum bars; (ii)among which approximately 36.0% or approximately RMB39.4 million would be used on acquiring and installing the relevant machinery and equipment to be used to produce tantalum powder and tantalum bars; and (iii)among which approximately 3.9% or approximately RMB4.2 million would be used for other expenses in connection with the setting up of our new production facilities, including survey and design fee;

(2) Approximately 17.9% or approximately RMB19.7 million would be used to finance the expected cost for purchasing the raw materials, chemicals, electricity and water needed for five of our upcoming research and development projects , which are expected to commence in 2020, with a term of one to two years;

Comparison of Business Objectives with Actual Business Progress (Continued)

(3) Approximately 3.5% or approximately RMB3.8 million would be used for strengthening our sales network in Europe and our sourcing channels in Brazil; (i)among which approximately 2.8% or approximately RMB3.1 million would be used for setting up an office in the United Kingdom for strengthening our sales network, developing our relationship with customers and expanding our customer base in Europe and hiring one supervisor and four sales representatives to focus on the European market; and (ii)among which approximately 0.7% or approximately RMB0.7 million would be used for setting up an office in Brazil to secure stable supplies of raw materials from small and medium size mining companies or suppliers and to hire three employees to liaise with suppliers in Brazil; and

(4) Approximately 9.8% or approximately RMB10.7 million would be used as our working capital and for general corporate purposes.

Directors' and Senior Management's Biographies

DIRECTORS

Executive Directors

Mr. Wu Lijue (吳理覺), aged 56, is the founder of our Group, the chairman of our Board, an executive Director, our chief executive officer and one of our Controlling Shareholders. He is also a director of each of Xinjia Group Limited ("Xinjia Seychelles"), Xite Group Limited ("Xite Hong Kong") and Guangdong Zhiyuan New Material Co., Ltd.* ("Zhiyuan New Material") (廣東致遠新材料有限公司). He was appointed as a Director on 26 May 2017, and is currently responsible for our Group's strategic planning, overall operation, financing and investment activities, and management of our Board. Mr. Wu established our Group in May 2006 and has been the chairman of the board of Zhiyuan New Material since its establishment. Mr. Wu obtained his bachelor's degree from Central South University (中南大學) (formerly known as Central South Institute of Mining and Metallurgy* (中南礦冶學院) before merger) majoring in powder metallurgy in July 1984. He also obtained his degree of executive master of business and administration~from Sun Yat-sen University (中山大學) in June 2011. He obtained the qualification of senior engineer from the China Non-ferrous Metals Industry Corporation* (中國有色金屬工業總公司) in December 1997.

Mr. Wu has over 30 years of experience in the tantalum and niobium metallurgy industry. Prior to founding our Group, Mr. Wu served in Guangdong Guangsheng Rare Metal Photoelectric New Material Co. Ltd.* (廣東廣晟稀有金屬光電新材料有限公司) (formerly known as Conghua Tantalum and Niobium Smelter* (從化鉭鈮冶煉廠)), a company which was principally engaged in production and sale of tantalum- and niobium-based metallurgical products, as (i) technologist from September 1984 to April 1989 mainly responsible for production and technical work; (ii) section chief of production department from May 1989 to September 1989 responsible for all kinds of works in a section of the production department; and (iii) deputy manager from October 1989 to December 2000 mainly responsible for the operation management and strategic planning. Mr. Wu founded Fogang Jiata Metal Co., Ltd.* (佛岡佳特金屬有限公司) ("Fogang Jiata") in January 2000, a company which was principally engaged in production and trading of tantalum- and niobium-based metallurgical products. From January 2001 to April 2006, he served in Fogang Jiata, initially as the general manager and was then promoted to the chairman and was mainly responsible for overall operation management and strategic planning. Mr. Wu is the uncle of Ms. Wu Shuangzhu, the audit director of our Group.

As at the date of Listing, Mr. Wu was interested in 157,500,000 shares of the Company, representing 52.5% of total issued shares of the Company, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") (Cap 571 of the Laws of Hong Kong), all of which was held by Jiawei Resources Holding Limited ("Jiawei Resources Seychelles"), which was wholly owned by Mr. Wu.

Ms. Wu Shandan (吳珊丹), aged 37, joined our Group in January 2014 as the chief financial officer of Zhiyuan New Material. She was appointed as a Director on 26 May 2017, and was redesignated as an executive Director and appointed as the chief financial officer of our Company on 8 September 2017. She is also a director of each of Xinjia Seychelles and Xite Hong Kong. She is mainly responsible for managing our Group's financial matters. Ms. Wu graduated from South China University of Technology (華南理工大學) majoring in accounting (an online learning programme) in July 2009. In October 2018 and December 2018, Ms. Wu was awarded the Executive Management Career Award — Financial Management (Higher Professional Module Certificate with Merit) and Financial Analysis (Higher Professional Module Certificate with Distinction) by Cambridge Assessment International Education and by Cambridge International Examinations, respectively. Ms. Wu attained the directorate secretary qualification from the Shenzhen Stock Exchange in December 2016 and from the Shanghai Stock Exchange in November 2018.

Directors' and Senior Management's Biographies (Continued)

Ms. Wu has over 10 years of experience in financial management. Prior to joining our Group, she was the financial manager of Seraphim Group Limited, a company which was principally engaged in investment, from October 2007 to June 2016 and was mainly responsible for supervision of daily management of the finance department. Ms. Wu was admitted as an associate member of the Association of International Accountants in January 2019.

Non-executive Director

Mr. Zeng Min (曾敏), aged 56, joined our Group in May 2011 as a director of Zhiyuan New Material. He was appointed as a Director on 26 May 2017 and was re-designated as an executive Director and a non-executive Director on 8 September 2017 and 6 August 2019, respectively. He is also a director of each of Xinjia Seychelles, Xite Hong Kong and Zhiyuan New Material. He participates in the decision making of our Board with respect to major issues of our Group. Mr. Zeng obtained his bachelor's degree in metalworking from Central South University (中南大學) (formerly known as Central South Institute of Mining and Metallurgy* (中南礦冶學院) before merger) in July 1983.

Prior to joining of our Group, Mr. Zeng served in MACRO-LINK Mineral Inc.* (新華聯礦業有限公司) as chairman from May 2006 to January 2009. Mr. Zeng served in Tonghua Winery Co., Ltd.* (通化葡萄酒股份有限公司), a company which was principally engaged in the sale of wine and whose shares are listed on the Shanghai Stock Exchange (stock code: 600365), as general manager from January 2009 to September 2009. Mr. Zeng returned and served in MACRO-LINK Mineral Inc.* as general manager from September 2009 to October 2013 and has been its chairman since October 2013, respectively. He also served as the senior vice president of MACRO-LINK Group since February 2020.

Independent Non-executive Directors

Mr. Lau Kwok Fai Patrick (劉國煇), HKICPA, FCCA, aged 47, was appointed as an independent non-executive Director on 19 February 2020. Mr. Lau obtained an honours diploma in accounting from Hong Kong Shue Yan College (now known as Hong Kong Shue Yan University) in July 1996. He later obtained a master's degree in Corporate Governance and Directorship (Distinction) from Hong Kong Baptist University in November 2014. He also obtained his HKICPA Diploma in Insolvency awarded by the Hong Kong Institute of Certified Public Accountants in June 2004. Mr. Lau has been a fellow member of the Association of Chartered Certified Accountants and an associate of the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants) since December 2007 and July 2003, respectively. He has also been a member of Beta Gamma Sigma Hong Kong Baptist University Chapter since April 2014.

Mr. Lau has more than 20 years of experience in the fields of accounting, auditing, financial advisory and corporate governance. He served as an auditor in Baker Tilly Hong Kong (formerly known as Glass Radcliffe Chan & Wee Certified Public Accountants) from September 1996 to November 1997 mainly responsible for statutory audit. From December 1997 to April 1999, Mr. Lau served as an associate in PricewaterhouseCoopers Ltd. and was mainly responsible for statutory audit, internal control review and enterprise listing audit. From October 1999 to June 2011, Mr. Lau worked at KPMG at which his last position was manager, mainly responsible for financial due diligence, corporate reorganisation and liquidation, analysis for corporate acquisitions, financial modeling and consultation services. From July 2011 to June 2016, Mr. Lau served in various positions, including deputy general manager, financial controller and company secretary in China City Railway Transportation Technology Holdings Company Limited (now known as BII Railway Transportation Technology Holdings Company Limited), the shares of which are listed on the Main Board of the Stock Exchange in December 2013 (stock code: 1522).

Directors' and Senior Management's Biographies (Continued)

Mr. Lau was the chief financial officer and company secretary of International Alliance Financial Leasing Co., Ltd., a company listed on the Main Board of the Stock Exchange (stock code: 1563) from July 2016 to October 2019 and from May 2018 to October 2019, respectively. Mr. Lau was also an independent non-executive director of Jinhai International Group Holdings Limited (formerly known as Kakiko Group Limited), a company listed on the Main Board of the Stock Exchange (stock code: 2225) since September 2017 and Dafy Holdings Limited (formerly known as FDB Holdings Limited) (stock code: 1826) since January 2018, the shares of which are listed on the Main Board of Stock Exchange.

Mr. Zhong Hui (鐘暉), aged 52, was appointed as an independent non-executive Director on 19 February 2020. Mr. Zhong graduated from Central South University (中南大學) (formerly known as Central South University of Technology (中南工業大學)) majoring in science technology information in June 1988 and a master's degree in non-ferrous metallurgy in May 1991. He graduated from Nagoya University of Japan (日本國立名古屋大學) with a doctor's degree in materials science and engineering in March 1995.

Mr. Zhong has over 20 years of experience in the research and development of the non-ferrous metal industry. Prior to joining our Group, Mr. Zhong worked at the research and development department in IBIDEN Co., Ltd. of Japan* (日本IBIDEN 株式會社), a company which was principally engaged in industrial production and research and development of technology, between April 1995 and June 2001. Mr. Zhong has served the College of Metallurgy and Environment, Central South University (中南大學冶金與環境學院) since July 2001 and is currently a professor.

Mr. Yin Fusheng (尹福生), aged 55, was appointed as an independent non-executive Director on 19 February 2020. Mr. Yin obtained his bachelor of laws degree majoring in political education from Central China Normal University (華中師範大學) in June 1987. He obtained his master's degree and doctor's degree in political economics from Wuhan University (武漢大學) in August 1993 and December 2004, respectively. Mr. Yin was appointed as a lecturer by Jinan University (暨南大學) in December 1995 and an associate professor in October 2016.

Mr. Yin has over 20 years of experience in finance and investment. He served in South China Securities Brokerage Co., Ltd.* (CIFCO) (華南期貨經紀有限公司) as a deputy general manager from September 1993 to July 2000 and was mainly responsible for market development and management. He then served as the chairman of the board of Shenzhen Anchengxin Investment Co., Ltd* (深圳市安誠信投資有限公司), a company which was principally engaged in investment in property and business, from July 2000 to June 2014 and was mainly responsible for overall management of the company. Mr. Yin has also served as (i) director of Changsha Juxing Light Weight Building Materials Co., Ltd.* (長沙巨星輕質建材股份有限公司), a company which was principally engaged in research and development of high-technology and manufacturing and sale of new construction material and decoration material, and the shares of which are quoted on the National Equities Exchange and Quotations in the PRC (stock code: 870281), from April 2001 to April 2015; (ii) director of Shanghai Xietong Technology Inc.* (上海協同科技股份有限公司), a company which was principally engaged in technology service and design, development, manufacturing, sale and service of electrical automation products, from March 2001 to April 2010; and (iii) director of Jiangxi Runtian Drinks Co., Ltd.* (江西潤田飲料股份有限公司), a company which was principally engaged in manufacturing and sale of beverages, from October 2001 to June 2013. Mr. Yin has been the chairman of the board of directors of Jiangxi Purui Biological Technology Co., Ltd.* (江西普鋭生物科技有限公司), a company which was principally engaged in research, development and application of precision immunity function assessment technology since December 2018, where Mr. Yin has been mainly responsible for overall business management.

Directors' and Senior Management's Biographies (Continued)

SENIOR MANAGEMENT

Mr. Zhong Yuelian (**鐘嶽聯**), aged 52, joined our Group in January 2010. He serves as vice president of our Group, director and general manager of Zhiyuan New Material and is mainly responsible for overall operation and management of Zhiyuan New Material. Mr. Zhong obtained his bachelor's degree in physical chemistry of metallurgy from Central South University (中南大學) (formerly known as Central South University of Technology (中南工業大學) before merger) in July 1989, and completed his research programme specialising in world economy at Sun Yat-sen University (中山大學) in October 2004. He obtained the qualification of senior engineer of rare metal smelting* (稀有金屬冶煉高級工程師) from the Personnel Department of Guangdong Province* (廣東省人事廳) in December 2000.

Mr. Zhong has over 25 years of experience working in the tantalum and niobium metallurgy industry. Prior to joining our Group, Mr. Zhong worked in Guangdong Guangsheng Rare Metal Photoelectric New Material Co. Ltd.* (廣東廣晟稀有金屬光電新材料有限公司) (formerly known as Conghua Tantalum and Niobium Smelter* (從化鉭鈮冶煉廠)) from August 1989 to May 2005, with his last position as the director and deputy general manager, mainly responsible for planning of high purity metallurgy projects and operation management. Mr. Zhong also served as deputy general manager in Fogang Jiata, a company which was then principally engaged in manufacturing of tantalum and niobium metal compound and products, from May 2005 to April 2007, and from February 2009 to December 2009 and was mainly responsible for project planning and production management, and deputy general manager in JMT MINING SPRL, from April 2007 to January 2009 and was mainly responsible for operation management and planning of copper projects, respectively.

Mr. Shi Bo (石波), aged 46, joined our Group in May 2012 as research and development manager of Zhiyuan New Material and he was promoted to be the research and development director of our Company in July 2017, and was further promoted as the assistant of the general manager of our Group in July 2019. He is primarily responsible for the overall management of our Group's research and development. Mr. Shi obtained his bachelor's degree in non-ferrous metallurgy from Central South University (中南大學) (formerly known as Central South University of Technology (中南工業大學)) in July 1994. He also obtained his metallurgy engineer qualification from China Non-ferrous Metal Industry Co., Ltd. Guangzhou Branch Intermediate Technology Qualification Review Committee* (中國有色金屬工業總公司廣州公司中級技術職務評審委員會) in November 1999.

Mr. Shi has over 20 years of experience in the tantalum and niobium metallurgy industry. Prior to joining our Group, from August 1994 to August 2008, Mr. Shi served as workshop manager of Guangdong Guangsheng Rare Metal Photoelectric New Material Co. Ltd.* (廣東廣晟稀有金屬光電新材料有限公司) (formerly known as Conghua Tantalum and Niobium Smelter* (從化鉭鈮冶煉廠)) and was mainly responsible for production management.

Ms. Wu Shuangzhu (吳雙珠), aged 35, joined our Group in July 2017 as the audit director of our Group and is mainly responsible for our Group's internal control and audit supervision. Ms. Wu graduated from Guangzhou University majoring in accounting in January 2013.

Directors' and Senior Management's Biographies (Continued)

Ms. Wu has over 15 years of experience in accounting and financial matters. Prior to joining our Group, Ms. Wu served as an accountant in Guangzhou City Jieda Trading Co., Ltd.* (廣州市捷大貿易有限公司), a company which was principally engaged in import and export trade of coatings, from June 2004 to April 2007, and was mainly responsible for accounting processing in the daily operation of the company, preparation of accounting statements and management of accounting files. She served as a finance manager of Guangdong Shidate Trading Co., Ltd.* (廣東時達特貿易有限公司), a company which was principally engaged in import and export trade of metallic ores, from May 2007 to June 2010 and she was mainly responsible for account processing, auditing and financial analysis of the company.

She also served as an audit manager from July 2010 to July 2017 in Guangzhou Haipu Investment Co., Ltd.* (廣州海浦投資有限公司), a company which was principally engaged in property and investment management, and investment products of securities, futures and private equity, and was mainly responsible for internal control and audit supervision. Ms. Wu is the niece of Mr. Wu Lijue, the Chairman and chief executive officer of the Company.

COMPANY SECRETARY

Mr. Chan Hon Wan (陳漢雲), aged 58, graduated with a bachelor's degree in economics at Macquarie University Australia in April 1986 and a master's degree in accountancy at The Hong Kong Polytechnic University in December 2005. He became an associate member of the Hong Kong Institute of Certified Public Accountants (HKICPA) (formerly known as Hong Kong Society of Accountants) in June 1991 and an associate member of the Institute of Chartered Accountants in Australia in November 1990. He was appointed as the company secretary and authorised representative of our Company in May 2019.

Mr. Chan has over 25 years of experience in accounting and capital markets with an international accounting firm and various listed companies. From July 1991 to May 1995, Mr. Chan worked for Culturecom Limited and his last position held was the finance manager. From May 1995 to April 1998, he served as financial controller in Fairwood Fast Food Limited. From April 2000 to July 2005, he was the corporate finance director of Texwood Limited. From October 2006 to February 2008, he was a business director of Texwood Group. From March 2008 to June 2018, he served as technical director of Grace Profit Consultants Ltd., where he was mainly responsible for accounting, company secretary and compliance of listed companies.

* For identification purposes only

Corporate Governance Report

CORPORATE GOVERNANCE FUNCTIONS

The Board strives to uphold the principles of corporate governance set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and adopted various measures to enhance the internal control system, the Directors' continuing professional training and other areas of practice of the Company. While the Board strives to maintain a high level of corporate governance, it also works hard to create value and achieve maximum return for its Shareholders. The Board will continue to conduct review and improve the quality of corporate governance practices with reference to local and international standards.

As at the end of the reporting period, the shares of the Company were not yet listed on the Main Board of the Stock Exchange as the shares of the Company were listed on 12 March 2020 (the "Listing Date"). The code provisions were not applicable to the Company during the Year under Review. Throughout the period since the Listing Date and up to the date of this report, the Company has complied with the code provisions, other than code provisions A.2.1 of the CG Code as set out in Appendix 14 to the Listing Rules

According to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, Mr. Wu Lijue is our chairman and also the chief executive officer of our Company and he has been managing our Group's business and supervising the overall operations of our Group since its establishment. Having considered (i) the nature and extent of our Group's operations; (ii) Mr. Wu's in-depth knowledge and experience in the tantalum and niobium metallurgy industry and familiarity with the operations of our Group which is beneficial to the management and business development of our Group; and (iii) all major decisions are made in consultation with members of our Board and relevant Board committees, which consist of three independent non-executive Directors on our Board offering independent perspectives, our Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers and authorities between our Board and the management of our Company and that it is in the best interest of our Group to have Mr. Wu taking up both roles. Our Board will continue to review and consider splitting the roles of the chairman of our Board and the chief executive officer at a time when it is appropriate and suitable by taking into account the circumstances of our Group as a whole.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of listed issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code governing securities transactions of the Directors. As the shares of the Company were not yet listed on the Main Board of the Stock Exchange until 12 March 2020, the Model Code was not applicable to the Company during the Year under Review. However, specific enquiries have been made to all Directors and all Directors have confirmed that they have fully complied with the required standard of dealings as set out in the Model Code since the Listing Date and up to the date of this report.

Corporate Governance Report (Continued)

BOARD OF DIRECTORS

The Board is the core of the Company's corporate governance framework and its role is clearly separated from that of senior management. The Board is responsible for providing guidance for senior management and maintaining effective supervision over senior management.

The Board currently comprises a total of six Directors, being two executive Directors, one non-executive Director and three independent non-executive Directors. Mr. Wu Lijue and Ms. Wu Shandan, served as executive Directors, Mr. Zeng Min served as non-executive Director, Mr. Lau Kwok Fai Patrick, Mr. Zhong Hui and Mr. Yin Fusheng served as independent non-executive Directors. These non-executive Director and independent non-executive Directors, who have different business and professional backgrounds, have brought valuable experience and expertise for the best interests of the Group and its Shareholders. One of the independent non-executive Directors is a qualified accountant who has appropriate professional quantifications or accounting or related financial management expertise.

There is no financial, business, family or other material/relevant relationship amongst Directors and senior management members, except (i) Mr. Wu Lijue is the uncle of Ms. Wu Shuangzhu, the audit director of our Group; and (ii) Ms. Wu Shuangzhu is the niece of Mr. Wu Lijue, the chairman and chief executive officer of the Company.

Biographical details of and the relationship between the Directors are set out in the section headed "Directors' and Senior Management's Biographies" of this report.

Each independent non-executive Director has given an annual confirmation of his independence to the Company, and the Company considers them to be independent under the Listing Rules.

Every Director is entitled to have access to Board papers and related materials and has access to the advice and services of the Company Secretary. The Board and each Director also have separate and independent access to the Company's senior management.

Pursuant to the Articles of Association of the Company, the Board shall have power to appoint a Director whose appointment shall only be until the first general meeting after his/her appointment and be subject to re-election at the next general meeting but eligible for re-election. Accordingly, Mr. Wu Lijue, Ms. Wu Shandan, Mr. Zeng Min, Mr. Lau Kwok Fai Patrick, Mr. Zhong Hui and Mr. Yin Fusheng shall retire at the forthcoming annual general meeting of the Company. The retiring Directors, all being eligible, offer themselves for re-election.

RESPONSIBILITIES OF THE BOARD

All the Directors (including the independent non-executive Directors) have acquired a proper understanding of the Company's operation and business and are fully aware of his/her functions and responsibilities under statute and common law, the Listing Rules and other applicable legal and regulatory requirements. Every Director has given the Company the details on the number and nature of offices held in other companies and significant commitments at the time of his/her appointment.

The Board is responsible for leadership and control of the Group and be collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board focuses on formulating the Group's overall strategies, authorizing the development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the internal control system; supervising and managing management's performance of the Group; and setting the Group's values and standards. Though the Board delegates the day-to-day management, administration and operation of the Group to management, all the Directors continue to give sufficient time and attention to the Company's affairs. The delegated functions are reviewed by the Board periodically to ensure that they accommodate the needs of the Group.

APPOINTMENT AND RE-ELECTION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Independent non-executive Directors are appointed for a specific term subject to retirement by rotation and re-election in accordance with the Articles of Association. Each independent non-executive Director is required to inform the Company as soon as practicable if there is any change that may affect his independence and must provide an annual confirmation of his independency to the Company. Specific enquiry has been made to each of the independent non-executive Director to confirm their independence under the Listing Rules, and each of them confirms that he is independent and there has been no circumstances which would render them not to be independent as contemplated under the Listing Rules. Up to the date of this report, no independent non-executive Director has served the Company more than 9 years.

Our non-executive Director and each of our independent non-executive Directors has been appointed for an initial term of two years commencing from 19 February 2020 renewable automatically for a term of one year commencing from the next day after the expiry of the initial term of appointment, and can be terminated by not less than three months' notice in writing served by our non-executive Director and our independent non-executive Directors or our Company after the end of the initial term.

BOARD COMMITTEES

We have established the following three committees: an audit committee, a remuneration committee and a nomination committee. The committees operate in accordance with their terms of reference established by our Board.

Audit Committee

We have established an audit committee on 19 February 2020 with written terms of reference in compliance with Rule 3.21 of the Listing Rules.

Our audit committee has three members, namely Mr. Lau Kwok Fai Patrick, Mr. Zhong Hui and Mr. Yin Fusheng, all of whom are our independent non-executive Directors. Mr. Lau Kwok Fai Patrick, who has appropriate professional qualifications and experience in accounting matters, has been appointed as the chairman of the audit committee.

Corporate Governance Report (Continued)

The primary responsibilities of our audit committee include, among others, (i) providing an independent view of the effectiveness of the financial reporting process, internal control, compliance and risk management systems of our Group; (ii) overseeing the audit process and performing other duties and responsibilities as assigned by our Board; (iii) developing and reviewing our policies and practices on corporate governance, compliance with legal and regulatory requirements and requirements under the Listing Rules; and (iv) developing, reviewing and monitoring the code of conduct applicable to our employees and Directors.

No meeting was held by the Audit Committee during the year ended 31 December 2019 because the Company only became listed on the Main Board of the Stock Exchange on 12 March 2020. Pursuant to the meeting of the Audit Committee held on 28 March 2020 attended by all the members of the Audit Committee, the Audit Committee has, together with the management of the Company and external independent auditor, reviewed the consolidated financial statements for the year ended 31 December 2019, the results announcement, this 2019 annual report and accounting principles and practices adopted for the Group for the Year Under Review, and agreed with the accounting treatments adopted by the Group.

Remuneration Committee

We have established a remuneration committee on 19 February 2020 with written terms of reference in compliance with Rule 3.25 of the Listing Rules.

Our remuneration committee has three members, namely Mr. Yin Fusheng, Mr. Zhong Hui and Mr. Lau Kwok Fai Patrick, all are our independent non-executive Directors. The chairman of our remuneration committee is Mr. Yin Fusheng.

The primary responsibilities of our remuneration committee include, among others, (i) making recommendations to our Board on our policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) reviewing and approving the management's remuneration proposals with reference to our Board's corporate goals and objectives; and (iii) making recommendations to our Board on the remuneration packages of Directors and senior management.

No meeting was held by the Remuneration Committee during the year ended 31 December 2019 and up to the date of this report since the Company only became listed on the Main Board of the Stock Exchange on 12 March 2020.

Nomination Committee

We have established a nomination committee on 19 February 2020 with written terms of reference in compliance with the code provisions of the CG Code and Corporate Governance Report set out in Appendix 14 to the Listing Rules.

Our nomination committee has three members, namely Mr. Wu Lijue, Mr. Yin Fusheng and Mr. Zhong Hui, of whom Mr. Yin Fusheng and Mr. Zhong Hui are our independent non-executive Directors and Mr. Wu Lijue is the founder of our Group, an executive Director, the chairman of our Board, our chief executive officer and one of our Controlling Shareholders. The chairman of our nomination committee is Mr. Wu Lijue.

The primary responsibility of our nomination committee is to make recommendations to our Board regarding candidates to fill vacancies on our Board and/or in senior management.

No meeting was held by the Nomination Committee during the year ended 31 December 2019 and up to the date of this report since the Company only became listed on the Main Board of the Stock Exchange on 12 March 2020.

Nomination criteria

Pursuant to the mandatory disclosure requirements effective in 2019, the Company should disclose its policy for nomination of directors in the summary of work performed by the Nomination Committee in its corporate governance report. In evaluating and selecting any candidate for the directorship, the following criteria should be considered:

(i) character and integrity;

(ii) qualifications including professional qualifications, skills, knowledge and experience, and diversity aspects under the board diversity policy that are relevant to the Company's business and corporate strategy;

(iii) any measurable objectives adopted for achieving diversity on the Board;

(iv) for independent non-executive Directors, whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules;

(v) any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;

(vi) willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company; and

(vii) such other perspectives that are appropriate to the Company's business and succession plan and where applicable may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning.

Nomination Procedures

The Company has put in place the following director nomination procedures:

Appointment of New and Replacement Directors

(i) If the Board determines that an additional or replacement Director is required, it will deploy multiple channels for identifying suitable director candidates, including referral from Directors, shareholders, management, advisors of the Company and external executive search firms.

(ii) Upon compilation and interview of the list of potential candidates, the relevant Nomination Committee will shortlist candidates for consideration by the Nomination Committee/Board based on the selection criteria and such other factors that it considers appropriate. The Board has the final authority on determining suitable director candidate for appointment.

Corporate Governance Report (Continued)

Re-election of Directors and Nomination from Shareholders

(i) Where a retiring Director, being eligible, offers himself for re-election, the Board shall consider and, if consider appropriate, recommend such retiring Director to stand for re-election at a general meeting. A circular containing the requisite information on such retiring Director will be sent to shareholders prior to a general meeting in accordance with the Listing Rules.

(ii) Any shareholder of the Company who wishes to nominate a person to stand for election as a Director at a general meeting must lodge with the Company Secretary of the Company within the lodgement period specified in the relevant shareholder circular (a) a written nomination of the candidate, (b) written confirmation from such nominated candidate of his willingness to stand for election, and (c) biographical details of such nominated candidate as required under the Listing Rules. Particulars of the candidate so proposed will be sent to all shareholders for information by a supplementary circular.

REMUNERATION OF MEMBERS OF THE SENIOR MANAGEMENT BY BAND

Pursuant to code provision B.1.5 of the CG Code, the remuneration of members of the senior management by band for the year ended 31 December 2019 is set out below:

	Number of members of senior management
Nil to RMB1,000,000	5
Over RMB1,000,000	—

Details of the remuneration of each Director for the year ended 31 December 2019 are set out in Note 10 to the Financial Statements for the year ended 31 December 2019.

BOARD DIVERSITY POLICY

We have adopted the board diversity policy (the "Board Diversity Policy") with a view to achieving a sustainable and balanced development. Our Board has a balanced composition comprising six Directors, including one female Director and five male Directors. Our Directors aged between late-thirty and mid-fifty as at the date of this report, and were from different backgrounds including the metallurgy industry and the academia. Our Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. Selection of candidates of our Directors will be based on a range of diversity perspectives, including but not limited to gender, age, cultural, race, educational background, professional experience, skills and knowledge. We aim to achieve a balanced composition of our Board by ensuring appropriate balance of diversity in various aspects, including gender diversity, so as to enable our Board to discharge its duties and responsibilities effectively. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

In recognition of the importance of board diversity, we will continue to promote diversity of our Company at all levels, including at the Board and senior management level, to enhance the effectiveness of our corporate governance. We will continue to provide diversified career development opportunities to our staff and engage different training resources for our staff in order to develop future candidates for Director and senior management.

Our Nomination Committee is responsible for the implementation of the Board Diversity Policy and compliance with relevant codes governing board diversity under the CG Code as set forth in Appendix 14 to the Listing Rules. Our Nomination Committee will review the board diversity policy and our diversity profile (including gender balance) from time to time to ensure its continued effectiveness. We will also disclose in our corporate governance report about the implementation of the board diversity policy on an annual basis. The effective implementation of the Board Diversity Policy will also depend on our Shareholders' judgement on the suitability of individual candidates and their views on the scale of gender diversity of our Board. As such, we will provide our Shareholders with detailed information of each candidate for appointment or re-election to the Board through announcements and circulars published prior to general meetings of our Company.

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

All Directors are aware of their responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, in pursuit of the development of the Group. Every newly appointed Director receives an induction to ensure that he/she has a proper understanding of the business and operations of the Group and that he/she is fully aware of his/her duties and responsibilities as a director under applicable rules and requirements.

All Directors are provided with regularly updates on the Company's performance and financial position to enable the Board as a whole and each Director to discharge his/her duties. In addition, briefings and updates on the latest development regarding the Listing Rules and other applicable regulatory requirements are provided to each of the Directors during Board meetings to ensure compliance and enhance their awareness of good corporate governance practices. In December 2019, a training session was provided to each of the Directors with topics of legal and regulatory duties of directors and the Listing Rules.

BOARD PROCEEDINGS AND INDIVIDUAL ATTENDANCE

Regular Board meetings are held at quarterly intervals with additional meetings convened as and when necessary to discuss the overall strategic directions, the Group's operations, financial performance, and to approve quarterly, interim and annual results and other significant matters. For regular meetings, Board members are given at least 14 days prior notice and agenda with supporting papers are sent to Directors not less than 3 days before the relevant meeting is held. Directors may propose to the chairman or the company secretary to include matters in the agenda for regular Board meetings.

Directors are requested to declare their direct or indirect interests, if any, in any proposals or transactions to be considered by the Board at Board meetings and abstain from voting in favour of the related board resolutions as appropriate.

Corporate Governance Report (Continued)

Minutes of meetings of the Board and board committees are kept by the company secretary in sufficient details of the matters considered and decisions reached, including dissenting views expressed, and are open for inspection on reasonable notice by any Director. Draft and final versions of minutes are sent to all Directors for their comments and records respectively within a reasonable time after the board meeting is held.

All Directors have access to the advice and services of the company secretary with a view to ensuring the Board procedures are followed.

Since the Listing Date and up to date of this report, the Board held one Board meeting on 28 March 2020 for the main purposes of approving the annual results of the Group for the year ended 31 December 2019 for publication, this annual report and formulating business development strategies. All Directors attended such meeting.

COMPANY SECRETARY

Mr. Chan Hon Wan was appointed as the company secretary of the Company in May 2019. He is responsible for ensuring a good information flow within the Board and the compliance of the board policy and procedures.

Mr. Chan is required to comply with the relevant professional training requirements under Rule 3.29 of the Listing Rules starting from the year 2020, as the Company only became listed on the Main Board of the Stock Exchange on 12 March 2020. His biographical details are set out in the paragraph headed "Directors' and Senior Management's Biographies" in this report.

FINANCIAL REPORTING, INTERNAL CONTROL AND RISK MANAGEMENT

Financial reporting

The Board acknowledges its responsibility, as set out in the section headed "Independent Auditor's Report" in this annual report, to prepare the Company's financial statements which give a true and fair view of the Group's state of affairs, results and cash flows for the year and in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the disclosure requirements of the Hong Kong Companies Ordinance. The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates. The Board considers that the Group has adequate resources to continue in business for the foreseeable future and not aware of any material uncertainties relating to events or conditions that may affect the business of the Company or cast doubts on its ability to continue as going concern.

The responsibilities of Ernst & Young, the Company's external auditor, with respect to financial reporting are set out in the section headed "Independent Auditor's Report" in this annual report.

Internal control and risk management

The Board recognizes its responsibility to ensure the Company maintains a sound and effective internal control system and the Board has conducted a review of the effectiveness of the internal control system of the Group during the Year Under Review. The Group's internal control system is designed to safeguard assets against misappropriation and unauthorized disposition and to manage operational risks. Review of the Group's internal controls covering major financial, operational and compliance controls, as well as risk management functions of different systems has been done on a systematic basis based on the risk assessments of the operations and controls. The controls built into the risk management system are intended to manage, not eliminate, significant risks in the Group's business environment. The Group's risk management framework includes the following elements: (i) identify significant risks in the Group's operation environment and evaluate the impacts of those risks on the Group's business; (ii) develop necessary measures to manage those risks; and (iii) monitor and review the effectiveness of such measures. The implementation of risk management framework of the Group was assisted by the Group's internal audit department so that the Group could ensure new and emerging risks relevant to the Group's operation are promptly identified by management, assess the adequacy of action plans to manage these risks and monitor and evaluate the effectiveness of the action plans. These are on-going processes and our Audit Committee reviews the Group's risk management systems from time to time in accordance with the prevailing Group's business environment. The Board considered the risk management and internal control systems effective and adequate in all material aspects in both design and operations.

HANDLING AND DISSEMINATION OF INSIDE INFORMATION

For the purpose of handling and disseminating inside information in accordance with the Listing Rules and the SFO, the Group has taken various procedures and measures, including: (i) promoting the awareness to preserve confidentiality of inside information within the Group; (ii) sending blackout period and securities dealing restrictions notification to the relevant directors and employees before the commencement of blackout or other trade restriction period; and (iii) disseminating information to specified persons on a need-to-know basis and regarding closely to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission in June 2012.

EXTERNAL AUDITOR

Ernst & Young has been appointed as the external auditor of the Company. The Audit Committee has been notified of the nature and the service charges of the services performed by Ernst & Young.

For the year ended 31 December 2019, the total remuneration paid to the external auditors for audit services amounted to approximately RMB1.3 million. The external auditor did not provide non-audit services for the Company for the year ended 31 December 2019.

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor during the year ended 31 December 2019.

Corporate Governance Report (Continued)

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting ("EGM").

Right to convene extraordinary general meeting

According to the Articles of Association, any Shareholder(s) who individually or jointly hold 10% or more of the Company's issued voting shares at the date of the deposit of the requisition, shall at all times have the right, by written requisition sent to the Company's principal place of business in Hong Kong as set out in the manner below, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

The written requisition must state the purposes of the meeting, signed by the requisitionist(s) and deposit it to the Board or the company secretary of the Company at the Company's principal place of business in Hong Kong at Room E, 7th Floor, Derrick Industrial Building, No. 49 Wong Chuk Hang Road, Hong Kong, and such may consist of several documents in like form, each signed by one or more requisitionists.

The request will be verified with the Company's branch share registrars in Hong Kong and upon their confirmation that the request is proper and in order, the company secretary of the Company will ask the Board to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered members. On the contrary, if the request which has been verified is not in order, the Shareholders will be advised of this outcome and accordingly, an EGM will not be convened as requested. If within thirty days from the date of the deposit of the requisition the Board fails to proceed to convene such meeting, the requisitionist(s), may convene a meeting in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed by the Company to the requisitionist(s).

Right to put enquires to the Board

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the Company's principal place of business in Hong Kong at Room E, 7th Floor, Derrick Industrial Building, No. 49 Wong Chuk Hang Road, Hong Kong. Shareholders may also make enquiries with the Board at the general meetings of the Company.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2019, there had been no significant change in the Company's constitutional documents. In preparation of the Listing, the new Articles of Association of the Company was adopted on 19 February 2020, a copy of which is available on the websites of the Stock Exchange and the Company.

DIRECTORS' INSURANCE

The Company has arranged appropriate insurance cover in respect of the legal action against the Directors.

INVESTOR RELATIONS

The Company believes that maintaining effective communication with the investment industry is crucial to having a deeper understanding of the Company's business and its development among investors. To achieve this goal and increase transparency, the Company will continue to adopt proactive measures to foster better investor relations and communications. As such, the purpose for the Company to formulate investor relations policies is to let investors have access to information of the Group in a fair and timely manner, so that they can make an informed decision.

We welcome investors to write to the Company or send their inquiries to the Company's website www.zhiyuanm.com to share their opinions with the Board. The Company's website also discloses the latest business information of the Group to investors and the public.

On behalf of the Board
Ximei Resources Holding Limited
Mr. Wu Lijue
Chairman of the Board

Hong Kong, 28 March 2020

Report of the Directors

The Directors are pleased in presenting the Directors' report together with the audited consolidated financial statements of the Company for the year ended 31 December 2019 (the "Financial Statements").

CORPORATE REORGANISATION

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 26 May 2017. Pursuant to a group reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's shares (the "Shares") on the Main Board of the Stock Exchange, the Company has become the holding company of our Group for the purpose of the listing and holds the entire interests of three subsidiaries, namely, Xinjia Seychelles, Xite Hong Kong and Zhiyuan New Material. The Company's shares were listed on the Main Board of the Stock Exchange on 12 March 2020.

Details of the group reorganisation are set out in the paragraph headed "Reorganisation" in the section "History, Reorganisation and Corporate Structure" in the Prospectus.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

Profit of the Group for the year ended 31 December 2019 and the state of affairs of the Company and the Group at that date are set out in the Financial Statements on pages 67 to 127.

The Board did not recommend the payment of any final dividends for the year ended 31 December 2019 (2018: Nil).

POLICY ON PAYMENT OF DIVIDENDS

The Company has adopted a policy on payment of dividends (the "Dividend Policy"), which establishes an appropriate procedure on declaring and recommending the dividend payment of the Company.

The Company will declare and/or recommend the payment of dividends to the Shareholders after considering the Company's ability to pay dividends, which will depend upon, among other things, its actual and expected financial results, cash flow, general business conditions and strategies, current and future operations, statutory, contractual and regulatory restrictions. The Board has complete discretion on whether to pay a dividend, subject to the Shareholders' approval, where applicable. Even if the Board decides to recommend and pay dividends, the form, frequency and amount will depend upon the operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors affecting the Group. The Board may also consider declaring special dividends from time to time, in addition to the interim and/or final dividends.

The Company shall review and reassess the Dividend Policy and its effectiveness on a regular basis or as required.

CLOSURE OF THE REGISTER OF MEMBERS OF SHARES

To be eligible to attend and vote in the forthcoming annual general meeting

For the purposes of determining the shareholders' eligibility to attend and vote at the forthcoming annual general meeting to be held on Friday, 29 May 2020, the register of members of the Company will be closed from Tuesday, 26 May 2020 to Friday, 29 May 2020 (both dates inclusive) during which period no transfer of Shares will be registered. To be qualified for attending and voting at the forthcoming annual general meeting, all Share transfer documents must be lodged with Computershare Hong Kong Investor Services Limited, the Company's share registrar in Hong Kong, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:00 p.m. on Monday, 25 May 2020.

BUSINESS REVIEW

A review of the business of the Group for the Year Under Review and a discussion on the Group's future business development are provided in the "Management Discussion and Analysis" section on pages 7 to 26. Financial highlights of the Group's performance during the Year Under Review using financial key performance indicators is provided in the "Financial Highlights" section on page 4. A financial summary for the last four years is provided in the "Financial Summary" section on page 128.

ENVIRONMENTAL POLICY

The Group is committed to supporting the environmental sustainability. Our commitment to protect the environment is well reflected by our continuous efforts in promoting green measures and awareness in our daily business operations. Our Group encourages environmental protection and promote awareness towards environmental protection to the employees. Our Group adheres to the principle of recycling and reducing. It implements green office practices such as double-sided printing and copying, setting up recycling bins, promoting using recycled paper and reducing energy consumption by switching off idle lightings and electrical appliance.

Our Group will review its environmental practices from time to time and will consider implementing further ecofriendly measures and practices in the operation of our Group's businesses to move towards adhering the 3Rs — Reduce, Recycle and Reuse and enhance environmental sustainability.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the Year Under Review, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by our Group that has a significant impact on the business and operations of our Group.

Report of the Directors (Continued)

RELATIONSHIPS WITH STAKEHOLDERS

The Company recognizes that employees are our valuable assets. Thus, our Group provides competitive remuneration package to attract and motivate the employees. Our Group regularly reviews the remuneration package of employees and makes necessary adjustments to conform to the market standard.

Our Group also understands that it is important to maintain good relationship with business partners and bank enterprises to achieve its long-term goals. Accordingly, our senior management have kept good communication, promptly exchanged ideas and shared business update with them when appropriate. During the Year Under Review, there was no material and significant dispute between our Group and its business partners or bank enterprises.

KEY RISKS AND UNCERTAINTIES

Our Group's financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to our Group's businesses. For details of the risks and uncertainties faced by the Group, please refer to the section headed "Risk Factors" in the Prospectus, in addition, the followings are the other key risks and uncertainties identified by our Group. There may be other risks and uncertainties in addition to those shown below which are not known to our Group or which may not be material now but could turn out to be material in the future.

Market risk

Market risk is the risk that deteriorates profitability or affects ability to meet business objectives arising from the movement in market prices. The management of our Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign exchange risk

The Group's principal business is located in the PRC and its major transactions are conducted in Renminbi. Most of its assets and liabilities are denominated in Renminbi, except for certain payables to suppliers, bank borrowings and professional parties that are denominated in U.S. dollars and Hong Kong dollars.

During the Year Under Review, we entered into forward currency contracts to mitigate our exposures to risks relating to the fluctuations of exchange rates of Renminbi against the U.S. dollar. According to the terms of such forward currency contracts, we are obliged to buy a certain amount of U.S. dollars based on the exchange rates of Renminbi against U.S. dollar specified in each forward currency contract, which may be lower or higher than the exchange rates of Renminbi against U.S. dollar at the time when such forward currency contracts were executed.

There is no assurance we may successfully mitigate our exposure to foreign currency fluctuation risks through these forward currency contracts in the future. In addition, we may incur loss on these forward currency contracts in the future if the exchange rates of Renminbi against U.S. dollar move in a different direction than we expected, which may in turn adversely affect our cash flows and financial position.

The Renminbi is not freely convertible. There is a risk that the Chinese government may take actions affecting exchange rates which may have a material adverse effect on the Group's net assets, earnings and any dividends it declares if such dividend is to be exchanged or converted into foreign exchange.

Liquidity risk

Liquidity risk is the potential that our Group will be unable to meet its obligations when they fall due because of an inability to obtain adequate funding or liquidate assets. In managing liquidity risk, our Group monitors cash flows and maintains an adequate level of cash and cash equivalent to ensure the ability to finance the Group's operations and reduce the effects of fluctuation in cash flows.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels.

Key functions in our Group are guided by their standard operating procedures, limits of authority and reporting framework. Our management will identify and assess key operational exposures regularly so that appropriate risk response can be taken.

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2019, the Group did not have any material contingent liabilities, on-going legal proceedings or potential proceedings threatened to be brought against the Group.

GOING CONCERN

Based on the current financial position and the available financing facilities, the Group has sufficient financial resources for ongoing operation in the foreseeable future. As such, the Financial Statements were prepared on a "going concern" basis.

PUBLIC FLOAT

According to the information disclosed publicly and as far as the Directors are aware, upon the Listing on the Main Board of the Stock Exchange on 12 March 2020 and up to the date of this report, at least 25% of the issued shares of the Company was held by public shareholders as required under the Listing Rules.

Report of the Directors (Continued)

CHARITY DONATIONS

During the Year Under Review, the Group did not have any charity donations (2018: Nil).

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 23 to the Financial Statements.

PURCHASES, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Upon the Listing on the Main Board of the Stock Exchange on 12 March 2020 and up to the date of this report, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

RESERVES

Details of change in reserves of the Group are set out on page 71 of the "Consolidated Statement of Changes in Equity" of this report.

DISTRIBUTABLE RESERVES

The amount of the Company's reserves available for distribution at 31 December 2019, calculated in accordance with the Companies Law of the Cayman Islands, was retained profits of approximately RMB273.0 million. Detail of movements in reserves of the Group during the year are set out in the "Consolidated Statement of Changes in Equity" on page 71 of this report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group for the year ended 31 December 2019 are set out in Note 13 to the Financial Statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

SUBSIDIARY COMPANIES

Details of the major subsidiary companies of the Company as at 31 December 2019 are set out in Note 1 to the Financial Statements.

INTEREST OF COMPLIANCE ADVISER

As notified by Cinda International Capital Limited ("Cinda"), the Company's compliance adviser, neither Cinda nor any of its directors or employees or close associates had any interest in the securities of the Company or any member of the Group (including options or rights to subscribe for such securities) during the Year Under Review pursuant to the Listing Rules.

PLEDGE OF ASSETS

As at 31 December 2019 and 2018, certain of the Group's bank loans are secured by the pledge of certain of the Group's leasehold lands with an aggregate carrying amount of approximately RMB9.5 million and RMB9.7 million, respectively.

SHARE OPTION SCHEME

On 19 February 2020, the Company conditionally adopted a share option scheme (the "Share Option Scheme"). Under the Share Option Scheme, the Board may, at their absolute discretion, at any time within a period of ten years commencing from 19 February 2020 offer to grant to any Eligible Persons (as defined herein below), including employees, directors, consultants, suppliers, customers and shareholders of any member of the Group, options to subscribe for Shares.

The principal terms of the Share Option Scheme are summarised as follows:

1. The purpose of the Share Option Scheme is to enable us to grant options to selected participants as incentives or rewards for their contribution to us. Our Directors consider the Share Option Scheme, with its broadened basis of participation, will enable us to reward the employees, our Directors and other selected participants for their contributions to us. Given that our Directors are entitled to determine any performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by our Directors, it is expected that grantees of an option will make an effort to contribute to our development so as to bring about an increased market price of the Shares in order to capitalise on the benefits of the options granted.

Report of the Directors (Continued)

2. Our Directors shall, in accordance with the provisions of the Share Option Scheme and the Listing Rules, be entitled but shall not be bound at any time within a period of ten years commencing from the date of the adoption of the Share Option Scheme to make an offer to any of the following classes:

    (i) any employee (whether full-time or part-time including any executive director but excluding any non-executive director) of our Company, any of our subsidiaries or any entity (the "Invested Entity") in which our Group holds an equity interest ("Eligible Employee");

    (ii) any non-executive directors (including independent non-executive directors) of our Company, any of our subsidiaries or any Invested Entity;

    (iii) any supplier of goods or services to any member of our Group or any Invested Entity;

    (iv) any customer of any member of our Group or any Invested Entity;

    (v) any person or entity that provide research, development or other technological support to any member of our Group or any Invested Entity;

    (vi) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;

    (vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of our Group or any Invested Entity; and

    (viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement and growth of our Group,

    and, for the purpose of the Share Option Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants.

3. The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by our Group shall not exceed 30% of the share capital of our Company in issue from time to time. The maximum number of Shares that may be granted under the Share Option Scheme was 30,000,000 Shares, representing 10% of the total issued Shares as at the Listing Date. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting with such participant and his associates abstaining from voting. As at the date of this annual report, the total number of Shares available for issue upon the exercise of the options granted under the Share Option Scheme was 30,000,000, representing 10% of the total issued Shares as at the date of this annual report.

4. The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of our Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being (the "Individual Limit"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to our Shareholders and our Shareholders' approval in general meeting of our Company with such participant and his associates abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before Shareholders' approval and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

5. An option may be accepted by a participant within 21 days from the date of the offer of grant of the option. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by our Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

6. The subscription price in respect of any option shall, subject to any adjustments made pursuant to paragraph(s) below, be at the discretion of our Directors, provided that it shall not be less than the highest of:

   (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the date of the offer of grant, which must be a business day;

   (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the offer of grant; and

   (iii) the nominal value of a Share.

7. Unless terminated by the Company by resolution in general meeting, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date of its adoption (i.e. 19 February 2020). As at the date of this annual report, the Share Option Scheme had a remaining life of approximately 10 years.

Report of the Directors (Continued)

TAX RELIEF AND EXEMPTION

The Company is not aware that any holders of securities of the Company are entitled to any tax relief or exemption by reason of their holding of such securities.

DIRECTORS

The Directors of the Company as at the date of this report have been:

Executive Directors

Mr. Wu Lijue *(Chairman)* (appointed on 26 May 2017)
Ms. Wu Shandan (appointed on 26 May 2017)

Non-executive Directors

Mr. Zeng Min (appointed on 26 May 2017)

Independent Non-executive Directors

Mr. Lau Kwok Fai Patrick (appointed on 19 February 2020)
Mr. Zhong Hui (appointed on 19 February 2020)
Mr. Yin Fusheng (appointed on 19 February 2020)

BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Company are set out in pages 30 to 34 under the paragraph headed "Directors' and Senior Management's Biographies" in this report.

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received the confirmation of independence pursuant to the Listing Rules from each of the independent non-executive Director and the Company considers such Directors to be independent from their date of appointment and up to the date of this report.

REMUNERATIONS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

The Remuneration Committee considers and makes recommendation to the Board on the remuneration and other benefits payable to the Directors. The committee regularly oversees the remuneration of all Directors to ensure that their remuneration and compensation are at appropriate level. The Group maintains competitive remuneration packages with reference to the industry standard and according to the business development of the Group to attract and retain its Directors as well as to control costs.

The Board determines the remuneration of the Directors on the basis of the Company's performance, together with the relevant Directors' qualifications, responsibilities, experience, contributions to and positions held with the Company. Details of the remuneration of the Directors are set out in Note 10 to the Financial Statements.

The five highest paid individuals of the Group in the Year under Review include 3 Directors (2018: 3 Directors). Details of the five highest paid individuals are set out in Note 11 to the Financial Statements.

DIRECTORS' SERVICE CONTRACTS

Executive Directors

Each of our executive Directors has entered into a service contract with our Company pursuant to which they agreed to act as executive Directors for an initial term of three years with effect from 19 February 2020. The terms and conditions of each of such service agreements are similar in all material aspects. The term of service shall be renewed and extended automatically by one year on the expiry of such initial term, unless either party has given at least three months' written notice of non-renewal before the expiry of the initial term.

Non-executive Director and independent non-executive Directors

Our non-executive Director and each of our independent non-executive Directors has been appointed for an initial term of two years commencing from 19 February 2020 renewable automatically for a term of one year commencing from the next day after the expiry of the initial term of appointment, and can be terminated by not less than three months' notice in writing served by our non-executive Director and our independent non-executive Directors or our Company after the end of the initial term.

None of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN TRANSACTION, ARRANGEMENT AND CONTRACT

Save as disclosed in the paragraph headed "Related Party Transactions" below in this report, none of the Directors, the controlling shareholders, nor their respective associates had a material interest, either directly or indirectly, in any transaction, arrangement and contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party during the Year Under Review.

Report of the Directors (Continued)

DISCLOSURE OF INTERESTS

(a) Interests and Short Positions of Directors and Chief Executive in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporation

As at the date of Listing, the interests and short positions held by the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

(i) Interest in the shares in the Company:

Name of Director	Capacity/Nature of interest	Number of Shares *(Note 1)*	Approximate percentage of shareholding %
Mr. Wu Lijue *(Note 2)*	Interest of controlled corporation	157,500,000 (L)	52.5%

Notes:

(1) The letter "L" denotes long position in our Shares.

(2) These represents Shares to be held by Jiawei Resources Seychelles, which was wholly owned by Mr. Wu as at the date of Listing.

(ii) Interests in the shares of the associated corporation of the Company:

Name of Director	Name of associated corporation	Capacity/Nature of interest	Percentage of shareholding
Mr. Wu Lijue	Jiawei Resources Seychelles	Beneficial owner	100%

Save as disclosed above, as at the date of Listing, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

Report of the Directors (Continued)

Save as disclosed above, as at the date of Listing, none of the Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(b) Substantial Shareholders' Interests and Short Positions in the Shares and Underlying Shares of the Company

As at the date of Listing, so far as was known to the Directors, the interests or short positions held by the following persons (other than the Directors) in the shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or the interests or short positions recorded in the register kept by the Company under section 336 of the SFO were as follows:

Interests in the Shares:

Name of Substantial Shareholders	Capacity/Nature of interest	Number of Shares *(Note 1)*	Approximate percentage of shareholding %
Jiawei Resources Seychelles	Beneficial owner	157,500,000 (L)	52.5%
Ms. Ruan Xiaomei *(Note 2)*	Interest of spouse	157,500,000 (L)	52.5%
MACRO-LINK International Mining Limited ("MACRO-LINK Cayman") *(Note 3)*	Beneficial owner	67,500,000 (L)	22.5%
MACRO-LINK International Investment Co, Ltd. ("MACRO-LINK International") *(Note 3)*	Interest in controlled corporation	67,500,000 (L)	22.5%
MACRO-LINK Industrial Investment Limited ("MACRO-LINK Industrial") *(Note 3)*	Interest in controlled corporation	67,500,000 (L)	22.5%
MACRO-LINK Holding Co., Ltd.* (新華聯控股有限公司) ("MACRO-LINK Holding") *(Note 3)*	Interest in controlled corporation	67,500,000 (L)	22.5%
XiZang ChangShi *(Note 3)*	Interest in controlled corporation	67,500,000 (L)	22.5%
Mr. Fu Kwan *(Note 3)*	Interest in controlled corporation	67,500,000 (L)	22.5%
Ms. Wu Xiangming *(Note 4)*	Interest of spouse	67,500,000 (L)	22.5%
Ms. Xiao Wenhui *(Note 3)*	Interest in controlled corporation	67,500,000 (L)	22.5%
Mr. Chen Bin *(Note 5)*	Interest of spouse	67,500,000 (L)	22.5%

* *For identification purpose only*

Report of the Directors (Continued)

Notes

(1) The Letter "L" denotes long position in our Shares.

(2) Ms. Ruan Xiaomei is the spouse of Mr. Wu Lijue. By virtue of the SFO, Ms. Ruan Xiaomei is deemed to be interested in all the Shares held by Mr. Wu. Jiawei Resources Seychelles is wholly owned by Mr. Wu. By virtue of the SFO, Mr. Wu is deemed to be interested in all the Shares held by Jiawei Resources Seychelles.

(3) As at the date of Listing, MACRO-LINK Cayman was owned by MACRO-LINK International as to approximately 96.33%, which was in turn wholly owned by MACRO-LINK Industrial, which was in turn wholly-owned by MACRO-LINK Holding, which was in turn owned by, among others, XiZang ChangShi, Mr. Fu Kwan and Ms. Xiao Wenhui as to approximately 93.40%, 2.83% and 0.11%, respectively. As at the date of Listing, XiZang ChangShi was owned by, among others, Mr. Fu Kwan and Ms. Xiao Wenhui by approximately 59.76% and 33.46%, respectively.

(4) Ms. Wu Xiangming is the spouse of Mr. Fu Kwan. By virtue of the SFO, Ms. Wu Xiangming is deemed to be interested in all the Shares held by Mr. Fu Kwan.

(5) Mr. Chen Bin is the spouse of Ms. Xiao Wenhui. By virtue of the SFO, Mr. Chen Bin is deemed to be interested in all the Shares held by Ms. Xiao Wenhui.

Save as disclosed above, to the best knowledge of the Directors of the Company, as at the date of Listing, no person (other than the Directors) had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or any interest or short positions recorded in the register kept by the Company under section 336 of the SFO.

RELATED PARTY TRANSACTIONS

During the Year Under Review, other than compensation of key management personnel of our Group, our major related party transactions was the payment of loan guarantee fee to our related party, MACRO-LINK Holding. We have incurred approximately RMB0.1 million and RMB0.4 million of loan guarantee fee for certain bank borrowings guaranteed by MACROLINK Holding for the Year Under Review and the year ended 31 December 2018, respectively. In August 2019, all the guarantees provided by MACRO-LINK Holding were released.

For details of the related party transactions, please refer to Note 27 to the Financial Statements. Save as disclosed in Note 27 to the Financial Statements, during the Year Under Review, we have not engaged in any other material related party transactions. None of those related party transactions constitutes a discloseable connected transaction as defined under the Listing Rules.

CONNECTED TRANSACTIONS

As the Company was not listed on the Stock Exchange as of 31 December 2019, provisions relating to disclosure of connected transactions under Chapter 14A of the Listing Rules were not applicable to the Company during the Year Under Review.

As of the date of this annual report, the Group has not entered into any connected transactions or continuing connected transactions which are subject to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

DIRECTORS' INTEREST IN COMPETING BUSINESS

During the Year Under Review, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the business of the Group.

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long and short-term bank borrowings. For the Year Under Review, the effective interest rate for fixed rate borrowings was from 2.5% to 5.4%. The currency of the borrowings is in Renminbi or U.S. dollars. Taking into account the cash flow generated from operations and the long and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 31 December 2019, the Group had cash and cash equivalents of RMB58.5 million (as at 31 December 2018: approximately RMB99.2 million) which was mainly generated from operations of the Group and various long and short-term bank borrowings.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year Under Review, the total turnover of the Group's five largest customers accounted for approximately 51.9% of the Group's revenue, in which turnover from the largest customer of the Group accounted for approximately 25.2% of the total revenue of the Group. During the same period, total purchases of the Group's five largest suppliers accounted for approximately 65.3% of the Group's total cost of sales, in which purchase from the largest supplier of the Group accounted for approximately 22.5% of the total cost of sales of the Group.

None of the Directors, their respective associates or any Shareholders (interested in 5% or more of the share capital to the best knowledge of the Board) has any interest in any of the five largest suppliers or the Group's five largest customers.

USE OF PROCEEDS FROM THE LISTING OF THE COMPANY

The shares of the Company were listed on the Main Board of the Stock Exchange on 12 March 2020. Net proceeds from the placing of the shares were approximately RMB109.5 million (equivalent to approximately HK$124.6 million), after deduction of the underwriting commission and relevant expenses. As at the date of this report, no net proceeds from listing of Shares had been utilized. Details of the expected usage of proceeds from the placing of the shares are set forth in the section headed "Future Plans and Use of Proceeds" of the Company's Prospectus.

Report of the Directors (Continued)

EMPLOYEE BENEFITS

Details of the employee benefits of the Group for the year ended 31 December 2019 are set out in Note 2.4 to the Financial Statements. No forfeited contributions (by the Group on behalf of employees who leave the defined contribution plans prior to vesting fully in such contributions) can be used by the Group to reduce the existing level of contributions.

PERMITTED INDEMNITY PROVISION

At no time during the Year Under Review and up to the date of this report, there was or is, any permitted indemnity provision being in force for the benefit at any of the Directors of the Company (whether made by the Company or otherwise) or an associated company (if made by the Company).

COMPANY SECRETARY

Mr. Chan Hon Wan is our Company Secretary. Please refer to Mr. Chan's biographies in the section headed "Directors' and Senior Management's Biographies" of this report for details.

EVENTS AFTER THE REPORTING PERIOD

(a) On 12 March 2020, the Listing Date, 300,000,000 shares of the Company were listed on the Main Board of the Stock Exchange, pursuant to which 224,999,990 shares were issued by the Company to existing shareholders by way of capitalisation from the share premium account and 75,000,000 shares were issued by the Company's initial public offering at the offer price of HK$2.23 per share. The gross proceeds and the estimated net proceeds amounted to approximately HK$167.3 million and HK$124.6 million, respectively.

(b) The outbreak of coronavirus disease 2019 (COVID-19) since early 2020 has brought about additional uncertainties in the Group's operating environment and may impact the Group's operations and financial position. The Group has been closely monitoring the impact from the epidemic on the Group's businesses and has commenced to put in place various measures. Based on the information currently available, the Directors confirm that there has been no material adverse change in the financial or trading position of the Group up to the date of this report. However, the actual impacts may differ from these estimates as the situation continues to evolve as further information becomes available.

AUDITOR

The Financial Statements for the year ended 31 December 2019 have been audited by Ernst & Young, who shall retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Ernst & Young as auditor of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board
Ximei Resources Holding Limited
Mr. Wu Lijue
Chairman of the Board

Hong Kong, 28 March 2020

Independent Auditor's Report

EY 安永

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

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

To the shareholders of Ximei Resources Holding Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Ximei Resources Holding Limited (the "Company") and its subsidiaries (the "Group") set out on pages 67 to 127, which comprise the consolidated statement of financial position as at 31 December 2019, and 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 year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

Independent Auditor's Report (Continued)

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Net realisable value of inventories	
As at 31 December 2019, the Group's inventories amounted to RMB129.9 million, representing 24.6% of total assets of the Group. The measurement required significant management judgement in assessing whether the net realisable value was lower than the carrying amount of the inventories as at the year end. There were also significant judgements and estimates required in determining inventory excess and obsolescence provisions as these were based on forecast inventory usage and sales. The related disclosures are included in notes 3 and 14 to the consolidated financial statements.	Our procedures included: • Evaluating the methodology and performing test of controls over the costing basis of inventories; • Attending inventory counts to observe the physical condition of samples of inventories selected as at the year end; • Assessing management's judgement about the inventory excess and obsolescence provision policy by checking to the historical data and current market conditions; and • Assessing the net realisable values by checking the unit prices of latest sales transactions on a sampling basis.

Independent Auditor's Report (Continued)

Key audit matter	How our audit addressed the key audit matter
Provision for expected credit losses on trade receivables	
As at 31 December 2019, the Group's trade receivables amounted to RMB101.5 million, representing 19.2% of total assets of the Group. The measurement of expected credit loss ("ECL") required the application of significant judgement which included the identification of exposures with a significant deterioration in credit quality, and assumptions used in the ECL model, such as the probability of default and forward-looking information. Due to the significance of the trade receivables and the significant judgement involved in determining the ECL, we considered this as a key audit matter. The related disclosures are included in notes 3 and 15 to the consolidated financial statements.	Our procedures included: • Assessing the Group's policies and procedures in the estimations of the ECL; • Checking subsequent settlements after the year end; • Assessing the assumptions and inputs in the ECL model by considering the historical customer payment behaviour, the creditworthiness of customers, the ageing of the trade receivables and macroeconomic consideration; and • Evaluating the ECL model design and the ECL model assumptions, including the probability of default and forward-looking information, with the assistance of our internal valuation specialists.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent Auditor's Report (Continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lam Wai Ming, Ada.

Ernst & Young
Certified Public Accountants
Hong Kong
28 March 2020

Consolidated Statement of Profit or Loss

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	**600,644**	514,718
Cost of sales		**(441,640)**	(349,485)
Gross profit		**159,004**	165,233
Other income and gains	5	**7,622**	3,016
Selling and distribution expenses		**(7,193)**	(5,688)
Administrative expenses		**(56,777)**	(52,071)
Listing expenses		**(12,129)**	(4,829)
Other expenses		**(2,002)**	(12,368)
Finance costs	6	**(4,584)**	(3,199)
PROFIT BEFORE TAX	7	**83,941**	90,094
Income tax expense	8	**(14,289)**	(13,023)
PROFIT FOR THE YEAR		**69,652**	77,071
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic (in RMB)	12	**0.31**	0.34

Consolidated Statement of Comprehensive Income

Year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
PROFIT FOR THE YEAR	**69,652**	77,071
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(319)**	(478)
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of the Company's financial statements	**(255)**	(35)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(574)**	(513)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**69,078**	76,558

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**89,530**	73,541
Right-of-use assets	22(a)	**26,017**	26,993
Prepayments	16	**11,967**	7,285
Total non-current assets		**127,514**	107,819
CURRENT ASSETS			
Inventories	14	**129,879**	162,722
Trade and bills receivables	15	**169,158**	68,684
Prepayments, deposits and other receivables	16	**42,198**	34,633
Cash and cash equivalents	17	**58,475**	99,224
Total current assets		**399,710**	365,263
CURRENT LIABILITIES			
Trade payables	18	**17,205**	39,558
Other payables and accruals	19	**34,621**	22,651
Financial liabilities at fair value through profit or loss	20	**—**	80
Interest-bearing bank borrowings	21	**103,015**	99,564
Lease liabilities	22(b)	**1,229**	979
Tax payable		**7,010**	6,509
Total current liabilities		**163,080**	169,341
NET CURRENT ASSETS		**236,630**	195,922
TOTAL ASSETS LESS CURRENT LIABILITIES		**364,144**	303,741

Consolidated Statement of Financial Position (Continued)

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	21	**40,247**	48,509
Lease liabilities	22(b)	**3,297**	3,710
Total non-current liabilities		**43,544**	52,219
Net assets		**320,600**	251,522
EQUITY			
Share capital	23	**—**	—
Reserves	24	**320,600**	251,522
Total equity		**320,600**	251,522

Mr. Wu Lijue
Director

Ms. Wu Shandan
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

	Share capital RMB'000	Capital reserve RMB'000 (Note 24)	Merger reserve RMB'000 (Note 24)	Other reserve RMB'000	Specific reserve RMB'000 (Note 24)	Exchange reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2018	—	34,347	8,803	9	—	(193)	131,998	174,964
Profit for the year	—	—	—	—	—	—	77,071	77,071
Other comprehensive loss for the year:								
Exchange differences on translation of foreign operations	—	—	—	—	—	(478)	—	(478)
Exchange differences on translation of the Company's financial statements	—	—	—	—	—	(35)	—	(35)
Total comprehensive income for the year	—	—	—	—	—	(513)	77,071	76,558
Appropriation to specific reserve	—	—	—	—	2,822	—	(2,822)	—
At 31 December 2018 and 1 January 2019	—	34,347*	8,803*	9*	2,822*	(706)*	206,247*	251,522
Profit for the year	—	—	—	—	—	—	69,652	69,652
Other comprehensive loss for the year:								
Exchange differences on translation of foreign operations	—	—	—	—	—	(319)	—	(319)
Exchange differences on translation of the Company's financial statements	—	—	—	—	—	(255)	—	(255)
Total comprehensive income for the year	—	—	—	—	—	(574)	69,652	69,078
Appropriation to specific reserve	—	—	—	—	2,770	—	(2,770)	—
At 31 December 2019	—	34,347*	8,803*	9*	5,592*	(1,280)*	273,129*	320,600

* These reserve accounts comprise the consolidated reserves of RMB320,600,000 (2018: RMB251,522,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**83,941**	90,094
Adjustments for:			
Finance costs	6	**4,584**	3,199
Depreciation of property, plant and equipment	7	**9,662**	5,263
Depreciation of right-of-use assets	7	**1,716**	794
Loss on disposal of items of property, plant and equipment	7	**264**	319
Write-down of inventories	7	**42**	651
Fair value loss of derivative financial instruments	7	**439**	554
Interest income	5	**(908)**	(414)
		99,740	100,460
Decrease/(increase) in inventories		**32,801**	(87,700)
Increase in trade and bills receivables		**(100,474)**	(1,250)
(Increase)/decrease in prepayments, deposits and other receivables		**(12,247)**	33,435
Decrease in financial liabilities at fair value through profit or loss		**(519)**	—
(Decrease)/increase in trade payables		**(22,214)**	19,215
Increase/(decrease) in other payables and accruals		**11,970**	(4,599)
Cash generated from operations		**9,057**	59,561
Taxes paid		**(13,788)**	(9,560)
Net cash flows (used in)/from operating activities		**(4,731)**	50,001
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(25,901)**	(30,951)
Proceeds from disposal of items of property, plant and equipment		**—**	162
Additions of right-of-use assets		**—**	(2,541)
Interest received		**908**	414
Net cash flows used in investing activities		**(24,993)**	(32,916)

Consolidated Statement of Cash Flows (Continued)

Year ended 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		199,758	124,104
Repayment of bank loans		(204,569)	(78,052)
Repayment of lease liabilities		(1,140)	(405)
Interest paid		(4,345)	(3,139)
Net cash flows (used in)/from financing activities		(10,296)	42,508
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(40,020)	59,593
Cash and cash equivalents at beginning of year		99,224	37,570
Effect of foreign exchange rate changes, net		(729)	2,061
CASH AND CASH EQUIVALENTS AT END OF YEAR		58,475	99,224
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	17	58,475	99,224

Notes to the Consolidated Financial Statements

31 December 2019

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 March 2020 (the "Listing").

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

The Company and its subsidiaries now comprising the Group underwent a reorganisation (the "Reorganisation") which was completed on 31 August 2017 as set out in the prospectus of the Company dated 26 February 2020 (the "Prospectus").

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

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

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

* The English name of the company is direct translation of its Chinese name as no English name has been registered or is available.

A wholly-foreign-owned enterprise under the PRC law.

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

They have been prepared under the historical cost convention, derivative financial instruments, which have been measured at fair value. These consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

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 year ended 31 December 2019. 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.

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's consolidated financial statements.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

The amendments to HKFRS 9, HKAS 19 and HKAS 28, and *Annual Improvements to HKFRSs 2015–2017 Cycle* are not relevant to the preparation of the Group's consolidated financial statements. The nature and the impact of HK(IFRIC)-Int 23 are described below:

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective, in these consolidated financial statements.

Amendments to HKFRS 3	*Definition of a Business*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

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

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

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

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

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

Impairment of non-financial assets

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

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

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

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

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

Property, plant and equipment and depreciation

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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

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

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

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

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

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

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.

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

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 lease terms.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (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). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Initial recognition and measurement

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

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

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

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

Financial assets at amortised cost (debt instruments)

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

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

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

Financial assets at fair value through profit or loss

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

Derecognition of financial assets

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

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

General approach

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

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

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

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

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Simplified approach

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

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, financial liabilities at fair value through profit or loss and interest-bearing bank borrowings.

Subsequent measurement of loans and borrowings

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

Financial liabilities at fair value through profit or loss

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

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

Financial liabilities at amortised cost (loans and borrowings)

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

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Subsequent measurement of loans and borrowings (Continued)

Financial liabilities at amortised cost (loans and borrowings) (Continued)

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated 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.

Inventories

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

Cash and cash equivalents

For the purpose of the consolidated statement 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 statement 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.

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the reporting period 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 the reporting period, 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 the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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, the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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 the reporting period 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 the reporting period.

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.

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

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

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

Revenue recognition

Revenue from contracts with customers

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

Sale of products

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

Provision of processing services

Processing service income is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Group.

Other income

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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).

Employee benefits

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

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

Borrowing costs

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

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

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

The financial statements are presented in RMB, which is different from the Company's functional currency, Hong Kong Dollars ("HK$"). As the major revenues and assets of the Group are derived from operations in Mainland China, RMB is chosen as the presentation currency to present the financial statements. 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 the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

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

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

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

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

Write-down of inventories to net realisable value

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

The identification of obsolete and slow-moving inventory items requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying values of inventories and the write-down of inventories recognised in the periods in which such estimates have been made. The carrying amount of inventories at 31 December 2019 was RMB129,879,000 (2018: RMB162,722,000).

Provision for expected credit losses on trade receivables

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

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

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

4. OPERATING SEGMENT INFORMATION

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

Geographical information

(a) Revenue from external customers

	2019	2018
	RMB'000	RMB'000
The PRC	**537,162**	462,827
The United States	**37,962**	19,995
European countries	**9,131**	19,365
Others	**16,389**	12,531
	600,644	514,718

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

(b) Non-current assets

	2019	2018
	RMB'000	RMB'000
The PRC	**126,195**	106,838
Others	**1,319**	981
	127,514	107,819

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

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

4. Operating Segment Information (Continued)

Information about major customers

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

	2019 RMB'000	2018 RMB'000
Customer A	151,389	72,990
Customer B	72,137	—
Customer C	—	139,192
Customer D	—	53,697

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers		
Sale of products	595,805	504,098
Provision of processing services	4,839	10,620
	600,644	514,718

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

5. REVENUE, OTHER INCOME AND GAINS (Continued)

(i) Disaggregated revenue information

	2019 RMB'000	2018 RMB'000
Types of goods or services		
Sale of products	**595,805**	504,098
Provision of processing services	**4,839**	10,620
Total revenue from contracts with customers	**600,644**	514,718
Timing of revenue recognition		
Goods transferred at a point in time	**595,805**	504,098
Services rendered over time	**4,839**	10,620
Total revenue from contracts with customers	**600,644**	514,718

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of products	**1,873**	2,892

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

5. REVENUE, OTHER INCOME AND GAINS (Continued)

(ii) Performance obligations

Sale of products

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 30 to 90 days from delivery, except for new customers, where payment in advance is normally required.

Provision of processing services

The performance obligation is satisfied over time in which the services are rendered and payment is generally due within 30 to 90 from rendering of services, except for new customers, where payment in advance is normally required.

No performance obligations were unsatisfied or partially unsatisfied as at 31 December 2019 (2018: Nil).

	2019 RMB'000	2018 RMB'000
Other income and gains		
Bank interest income	908	414
Government grants*	6,416	2,580
Others	298	22
	7,622	3,016

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

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 RMB'000	2018 RMB'000
Interest on bank loans	7,214	6,161
Interest on lease liabilities	239	60
Less: Interest capitalised	(2,869)	(3,022)
	4,584	3,199

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Notes	2019 RMB'000	2018 RMB'000
Cost of inventories sold		**441,640**	349,485
Depreciation of property, plant and equipment	13	**9,662**	5,263
Depreciation of right-of-use assets	22	**1,716**	794
Research and development costs		**23,951**	22,705
Auditors' remuneration		**1,322**	1,074
Employee benefit expense (including directors' and chief executive's remuneration *(note 10)*)			
Wages and salaries		**32,702**	21,175
Pension scheme contributions		**6,393**	3,734
		39,095	24,909
Listing expenses		**12,129**	4,829
Loss on disposal of items of property, plant and equipment		**264**	319
Write-down of inventories		**42**	651
Fair value loss on derivative financial instruments	20	**439**	554
Foreign exchange differences, net		**634**	10,506

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

8. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2018: Nil). Tax on profits assessable in the PRC has been calculated at the applicable PRC corporate income tax ("CIT") rate of 25% during the year (2018: 25%). During the year, Zhiyuan New Material was qualified as a high and new technology enterprise and enjoyed a preferential income tax rate at 15% (2018: 15%).

	2019	2018
	RMB'000	RMB'000
Current — The PRC		
Charge for the year	**14,289**	13,023
Total tax charge for the year	**14,289**	13,023

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

	2019		2018	
	RMB'000	**%**	RMB'000	%
Profit before tax	**83,941**		90,094	
Tax at the statutory tax rate	**20,985**	**25.0**	22,524	25.0
Lower tax rate enacted by local authority	**(9,523)**	**(11.3)**	(9,562)	(10.6)
Expense not deductible for tax	**7,417**	**8.8**	2,555	2.8
Others	**(4,590)**	**(5.5)**	(2,494)	(2.8)
Tax charge at the Group's effective rate	**14,289**	**17.0**	13,023	14.4

The Group has no tax losses arising in Hong Kong (2018: RMB865,000), are available indefinitely for offsetting against future taxable profits of the subsidiary in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in the subsidiary that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

8. INCOME TAX (Continued)

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

As at 31 December 2019, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings of RMB306.4 million (2018: RMB228.3 million) of a subsidiary of the Group established in the PRC. In the opinion of the directors, the Group will retain all of the distributable profits of the PRC's subsidiary in the PRC for its operation in Mainland China and no dividend will be declared in foreseeable future. Hence, no deferred tax for withholding tax was recognised.

9. DIVIDENDS

No dividend has been paid or proposed by the Company during the year (2018: Nil).

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2019	2018
	RMB'000	RMB'000
Fees	**—**	—
Other emoluments:		
Salaries, allowances and benefits in kind	**1,012**	867
Pension scheme contributions	**56**	43
	1,068	910

Independent non-executive directors

Mr. Lau Kwok Fai Patrick, Mr. Zhong Hui and Mr. Yin Fusheng were appointed as independent non-executive directors of the Company on 19 February 2020. There were no fees or other emoluments paid or payable to the independent non-executive directors of the Company during the year (2018: Nil).

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

Executive directors and a non-executive director

The remuneration of directors and the chief executive for the year is set out below:

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2019					
Executive directors:					
Mr. Wu Lijue*	—	529	—	16	545
Ms. Wu Shandan	—	377	—	40	417
	—	906	—	56	962
Non-executive director:					
Mr. Zeng Min	—	106	—	—	106
Year ended 31 December 2018					
Executive directors:					
Mr. Wu Lijue*	—	422	—	4	426
Mr. Zeng Min	—	101	—	—	101
Ms. Wu Shandan	—	344	—	39	383
	—	867	—	43	910

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

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2018: Nil).

During the year, no remuneration was paid by the Group to any of these directors as an inducement to join or upon joining the Group, or as a compensation for loss of office (2018: Nil).

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included one director for the year ended 31 December 2019 (2018: one director), details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining four highest paid employees for the year, who are neither a director nor chief executive of the Company are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	2,163	1,831
Pension scheme contributions	148	120
	2,311	1,951

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

	Number of employees 2019	 2018
Nil to HK$1,000,000 (equivalent to RMB894,000)	4	4

During the year, no share option was granted to any non-director and non-chief executive highest paid employee in respect of their services to the Group (2018: Nil).

During the year, no remuneration was paid by the Group to any of these non-director and non-chief executive highest paid employees as an inducement to join or upon joining the Group, or as a compensation for loss of office (2018: Nil). There was no arrangement under which any of these non-director and non-chief executive highest paid employees waived or has agreed to waive any emoluments during the year (2018: Nil).

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 225,000,000 (2018: 225,000,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018.

The calculations of basic earnings per share are based on:

	2019 RMB'000	2018 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the Company	69,652	77,071

The weighted average number of ordinary shares for the purpose of basic earnings per share for the years ended 31 December 2019 and 2018 have been retrospectively adjusted for the effects of the capitalisation issue which took place after the reporting period as stated in note 32 to the consolidated financial statements.

	Number of shares	
	2019	2018
Shares		
Number of issued shares at 1 January	10	10
Effect of capitalisation issue	224,999,990	224,999,990
Weighted average number of ordinary shares	225,000,000	225,000,000

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2019						
At 1 January 2019:						
Cost	49,770	44,088	875	3,894	7,133	105,760
Accumulated depreciation	(13,450)	(17,148)	(573)	(1,048)	—	(32,219)
Net carrying amount	36,320	26,940	302	2,846	7,133	73,541
At 1 January 2019, net of accumulated depreciation	36,320	26,940	302	2,846	7,133	73,541
Additions	—	7	174	—	25,720	25,901
Transfers	857	24,161	—	—	(25,018)	—
Depreciation provided during the year	(3,184)	(5,743)	(96)	(639)	—	(9,662)
Disposals/write-off	(11)	(238)	(15)	—	—	(264)
Exchange realignment	—	—	—	14	—	14
At 31 December 2019, net of accumulated depreciation	33,982	45,127	365	2,221	7,835	89,530
At 31 December 2019:						
Cost	50,627	68,255	1,049	3,894	7,835	131,660
Accumulated depreciation	(16,645)	(23,128)	(684)	(1,673)	—	(42,130)
Net carrying amount	33,982	45,127	365	2,221	7,835	89,530

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2018						
At 1 January 2018:						
Cost	33,607	26,742	743	1,998	13,595	76,685
Accumulated depreciation	(11,283)	(15,855)	(503)	(710)	—	(28,351)
Net carrying amount	22,324	10,887	240	1,288	13,595	48,334
At 1 January 2018, net of accumulated depreciation	22,324	10,887	240	1,288	13,595	48,334
Additions	—	97	150	1,896	28,808	30,951
Transfers	16,163	18,949	—	—	(35,112)	—
Depreciation provided during the year	(2,167)	(2,671)	(87)	(338)	—	(5,263)
Disposals/write-off	—	(322)	(1)	—	(158)	(481)
At 31 December 2018, net of accumulated depreciation	36,320	26,940	302	2,846	7,133	73,541
At 31 December 2018:						
Cost	49,770	44,088	875	3,894	7,133	105,760
Accumulated depreciation	(13,450)	(17,148)	(573)	(1,048)	—	(32,219)
Net carrying amount	36,320	26,940	302	2,846	7,133	73,541

As at 31 December 2019, included in the Group's buildings were six buildings with aggregate carrying amount of approximately RMB6,714,000 (2018: RMB6,814,000) for which no building ownership certificates were obtained. The building ownership certificates of these buildings are expected to be obtained by the end of 2020. Based on the PRC legal opinion, the Group is eligible to use these buildings though the formal title of these buildings has not yet been obtained by the Group.

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

14. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials	**81,053**	68,979
Work in progress	**23,345**	37,151
Finished goods	**25,481**	56,592
	129,879	162,722

15. TRADE AND BILLS RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	**101,475**	31,691
Bills receivables	**67,683**	36,993
	169,158	68,684

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month, extending up to three months. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. There is a certain concentration of credit risk. The total trade receivables from the five largest debtors at 31 December 2019 represented 83.3% (2018: 93.7%) of total trade receivables, while 36.8% (2018: 59.7%) of the total trade receivables were due from the largest debtors. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade and bills receivables are non-interest-bearing.

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

15. TRADE AND BILLS RECEIVABLES (Continued)

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

	2019	2018
	RMB'000	RMB'000
Within 1 month	**115,757**	47,348
1 to 2 months	**30,251**	1,540
2 to 3 months	**10,087**	2,265
Over 3 months	**13,063**	17,531
	169,158	68,684

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

As at the end of the reporting period, the expected credit loss rate for the Group's trade and bills receivables is minimal.

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Non-current		
Prepayments	**11,967**	7,285
Current		
Prepayments	**40,682**	30,367
Deposits and other receivables	**1,516**	4,266
	42,198	34,633

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at the end of the reporting period, the loss allowance was assessed to be minimal.

17. CASH AND CASH EQUIVALENTS

Group

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

At 31 December 2019, the Group's cash and bank balances denominated in RMB amounted to RMB54,582,000 (2018: RMB87,899,000). The RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

18. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2019 RMB'000	2018 RMB'000
Within 1 month	**13,126**	20,251
1 to 2 months	**4,077**	16,679
2 to 3 months	**2**	322
Over 3 months	**—**	2,306
	17,205	39,558

Trade payables are non-interest-bearing and are normally settled on terms of 40 days.

19. OTHER PAYABLES AND ACCRUALS

	Notes	2019 RMB'000	2018 RMB'000
Contract liabilities	(i)	**1,239**	1,873
Other payables	(ii)	**4,635**	2,093
Accruals		**19,767**	13,204
Deferred income	(iii)	**8,980**	5,481
		34,621	22,651

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

19. OTHER PAYABLES AND ACCRUALS (Continued)

Notes:

(i) Details of contract liabilities are as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000	1 January 2018 RMB'000
Short-term advances received from customers			
Sale of products	**1,239**	1,873	2,892

Contract liabilities include short-term advances received to deliver goods.

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

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

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 RMB'000	2018 RMB'000
Forward currency contracts:		
Liabilities	—	80

The Group has entered into various forward currency contracts to manage its exchange rate exposures. These forward currency contracts are not designated for hedge accounting purposes and are measured at fair value through profit or loss. Losses arising from changes in the fair value of non-hedging derivatives amounting to RMB439,000 (2018: RMB554,000) were charged to profit or loss during the year.

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

21. INTEREST-BEARING BANK BORROWINGS

	31 December 2019			31 December 2018		
	Effective interest rate %	**Maturity**	**RMB'000**	Effective interest rate %	Maturity	RMB'000
Current						
Bank loans — unsecured	**2.5–4.5**	**2020**	**94,765**	3.0–4.7	2019	92,773
Bank loans — secured	**5.4**	**2020**	**8,250**	5.4	2019	6,791
			103,015			99,564
Non-current						
Bank loans — secured	**5.4**	**2021–2024**	**40,247**	5.4	2020–2024	48,509
			143,262			148,073

The maturity of the above bank borrowings is as follows:

	2019 RMB'000	2018 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**103,015**	99,564
In the second year	**9,702**	9,702
In the third to fifth years, inclusive	**30,545**	29,105
Beyond five years	**—**	9,702
	143,262	148,073

21. INTEREST-BEARING BANK BORROWINGS (Continued)

Notes:

(a) As at 31 December 2019, the Company's shareholder, Mr. Wu Lijue, had guaranteed certain of the Group's bank loans up to RMB217,000,000 (2018: RMB487,000,000). The guarantee was released in March 2020 before the Listing.

As at 31 December 2019, the Company's shareholder, Mr. Wu Lijue and Ms. Ruan Xiaomei, being his spouse, had jointly guaranteed certain of the Group's bank loans up to RMB100,000,000 (2018: Nil). The guarantee was released in March 2020 before the Listing.

As at 31 December 2018, the Company's shareholder, MACRO-LINK Holding Co., Ltd. ("MACRO-LINK Holding"), had guaranteed certain of the Group's bank loans up to RMB38,000,000. The guarantee was released during the year.

As at 31 December 2018, Mr. Wu Lijue and a related company controlled by Mr. Wu Lijue, Guangdong Yuanwei Investment Co., Ltd., had jointly guaranteed certain of the Group' bank loans up to RMB50,000,000. The guarantee was released during the year.

(b) As at 31 December 2019, certain of the Group's bank loans are secured by the pledge of certain of the Group's leasehold lands with an aggregate carrying amount of approximately RMB9,478,000 (2018: RMB9,702,000).

(c) Borrowings of the Group are denominated in RMB and US$.

22. LEASES

The Group has lease contracts for land and offices. Leases of land have lease terms of 50 years, while offices have lease terms between 2 and 4 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Prepaid land lease payments RMB'000	**Office** RMB'000	**Total** RMB'000
As at 1 January 2018	21,025	477	21,502
Additions	2,541	3,744	6,285
Depreciation provided for the year	(457)	(337)	(794)
As at 31 December 2018 and 1 January 2019	23,109	3,884	26,993
Additions	—	742	742
Depreciation provided for the year	(501)	(1,215)	(1,716)
Exchange realignment	—	(2)	(2)
As at 31 December 2019	22,608	3,409	26,017

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

22. LEASES (Continued)

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2019 RMB'000	2018 RMB'000
Carrying amount at 1 January	**4,689**	1,290
New leases	**742**	3,744
Accretion of interest recognised during the year	**239**	60
Payments	**(1,140)**	(405)
Exchange realignment	**(4)**	—
Carrying amount at 31 December	**4,526**	4,689
Analysed into:		
Current portion	**1,229**	979
Non-current portion	**3,297**	3,710
	4,526	4,689

The maturity analysis of lease liabilities is disclosed in note 31 to the consolidated financial statements.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 RMB'000	2018 RMB'000
Interest on lease liabilities	**239**	60
Depreciation charge of right-of-use assets	**1,716**	794
Total amount recognised in profit or loss	**1,955**	854

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

23. SHARE CAPITAL

	31 December 2019 and 2018 Equivalent to	
	HK$	RMB
Issued and fully paid:		
10 ordinary shares of HK$0.01 each	0.1	0.09

On 12 March 2020, 300,000,000 shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited, pursuant to which 224,999,990 shares were issued by the Company to existing shareholders by way of capitalisation from the share premium account and 75,000,000 shares were issued by the Company's initial public offering at the offer price of HK$2.23 per share. The gross proceeds and the estimated net proceeds amounted to approximately HK$167.3 million and HK$124.6 million, respectively.

24. RESERVES

The amounts of the Group's reserves and the movements therein for the year are presented in the consolidated statement of changes in equity on page 71.

The Group's capital reserve is a capital contribution by the Company for the Reorganisation.

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

The Group's specific reserve represents the safety production fund according to the relevant PRC regulations. The Group is required to transfer an amount to specific reserve for the safety production fund based on the turnover. Such reserve is reduced for expenses incurred for safety production purposes or when safety production related equipment is purchased.

25. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank loans are included in note 21(b) to the consolidated financial statements.

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

26. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2019 **RMB'000**	2018 RMB'000
Contracted but not provided for:		
Plant and equipment	**5,059**	10,053

27. RELATED PARTY TRANSACTIONS

(a) Save as disclosure in note 21(a) to these financial statements, the Group had the following transactions with related parties during the year:

	2019 **RMB'000**	2018 RMB'000
Loan guarantee fee:		
MACRO-LINK Holding Co., Ltd. *(Note)*	**95**	380

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

(b) Compensation of key management personnel of the Group:

	2019 **RMB'000**	2018 RMB'000
Short term employee benefits	**3,174**	2,698
Post-employment benefits	**204**	158
Total compensation paid to key management personnel	**3,378**	2,856

Further details of directors' and the chief executive's emoluments are included in note 10 to the consolidated financial statements.

28. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the years ended 31 December 2019 and 2018, the Group entered into lease arrangements in respect of office with amounts upon initial recognition of RMB742,000 and RMB3,744,000, respectively.

(b) Changes in liabilities arising from financing activities:

	Interest-bearing bank borrowings RMB'000	Lease liabilities RMB'000
As at 1 January 2018	102,021	1,290
Changes from financing cash flows	46,052	(405)
New leases	—	3,744
Interest expense	—	60
As at 31 December 2018 and 1 January 2019	**148,073**	**4,689**
Changes from financing cash flows	**(4,811)**	**(1,144)**
New leases	**—**	**742**
Interest expense	**—**	**239**
As at 31 December 2019	**143,262**	**4,526**

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 RMB'000	2018 RMB'000
Within operating activities	**239**	60
Within financing activities	**1,140**	405
	1,379	465

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

29. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

31 December 2019

Financial assets

	Financial assets at amortised cost RMB'000
Trade and bills receivables	169,158
Financial assets included in prepayments, deposits and other receivables	1,516
Cash and cash equivalents	58,475
	229,149

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	17,205
Financial liabilities included in other payables and accruals	24,402
Interest-bearing bank borrowings	143,262
Lease liabilities	4,526
	189,395

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

29. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

31 December 2018

Financial assets

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

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Financial liabilities at fair value through profit or loss RMB'000	Total RMB'000
Trade payables	39,558	—	39,558
Financial liabilities included in other payables and accruals	15,297	—	15,297
Interest-bearing bank borrowings	148,073	—	148,073
Lease liabilities	4,689	—	4,689
Financial liabilities at fair value through profit or loss	—	80	80
	207,617	80	207,697

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

30. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts as at 31 December	
	2019	2018
	RMB'000	RMB'000
Financial liabilities		
Interest-bearing bank borrowings	**143,262**	148,073

	Fair values as at 31 December	
	2019	2018
	RMB'000	RMB'000
Financial liabilities		
Interest-bearing bank borrowings	**137,665**	143,956

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

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

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

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

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

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

30. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy

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

Liabilities measured at fair value

	2019 RMB'000	2018 RMB'000
Financial liabilities at fair value through profit or loss		
— Fair value measurement using significant observable inputs (Level 2)	—	80

During the year, there were no transfers of fair value measurement between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2018: Nil).

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and bank balances and bank loans with a floating interest rate. The Group has not used any interest rate swaps to hedge its interest rate risk, and will consider hedging significant interest rate risk should the need arise.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings and cash and cash equivalents).

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk (Continued)

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax**
		RMB'000
31 December 2019		
RMB	**100**	**(94)**
US$	**100**	**(762)**
HK$	**100**	**8**
RMB	**(100)**	**94**
US$	**(100)**	**762**
HK$	**(100)**	**(8)**
31 December 2018		
RMB	100	306
US$	100	(810)
HK$	100	16
RMB	(100)	(306)
US$	(100)	810
HK$	(100)	(16)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales by operating units in currencies other than the units' functional currencies. During the years ended 31 December 2019, approximately 10.6% (2018: 10.1%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale.

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

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

	Increase/ (decrease) in foreign currency rate %	Increase/ (decrease) in profit before tax RMB'000
31 December 2019		
If RMB weakens against US$	1	(744)
If RMB weakens against HK$	1	8
If RMB strengthens against US$	(1)	744
If RMB strengthens against HK$	(1)	(8)

	Increase/ (decrease) in foreign currency rate %	Increase/ (decrease) in profit before tax RMB'000
31 December 2018		
If RMB weakens against US$	1	(797)
If RMB weakens against HK$	1	16
If RMB strengthens against US$	(1)	797
If RMB strengthens against HK$	(1)	(16)

Credit risk

Credit risk of the Group's other financial assets, which comprise cash and cash equivalents and other receivables, arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

At the end of the reporting period, the Group had certain concentration of credit risk as 36.8% (2018: 59.7%) of the Group's trade receivables were due from a major customer of the Group for the year ended 31 December 2019. Concentrations of credit risk are managed by establishing credit verification procedures. The management determines there are minimal concentrations of credit risk within the Group as the customers of the Group are creditworthy.

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

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

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables*	—	—	—	101,475	101,475
Bills receivables	67,683	—	—	—	67,683
Financial assets included in prepayments, deposits, other receivables					
— Normal**	1,516	—	—	—	1,516
Cash and cash equivalents					
— Not yet past due	58,475	—	—	—	58,475
	127,674	—	—	101,475	229,149

As at 31 December 2018

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

* For trade receivables to which the Group applies the simplified approach for impairment, information is disclosed in note 15 to the consolidated financial statements.

** The credit quality of the financial assets included in prepayments, deposits and other receivables are considered to be "normal" when they are not past due and there is no information indicating that the financial assets have a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

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

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

31 December 2019

	On demand RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	**17,205**	**—**	**—**	**17,205**
Other payables and accruals	**24,402**	**—**	**—**	**24,402**
Interest-bearing bank borrowings	**107,286**	**40,773**	**—**	**148,059**
Lease liabilities	**1,404**	**2,564**	**561**	**4,529**
	150,297	**43,337**	**561**	**194,195**

31 December 2018

	On demand RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	39,558	—	—	39,558
Other payables and accruals	15,297	—	—	15,297
Financial liabilities at fair value through profit or loss	80	—	—	80
Interest-bearing bank borrowings	104,412	47,830	13,266	165,508
Lease liabilities	1,201	3,361	1,792	6,354
	160,548	51,191	15,058	226,797

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

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

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

The Group monitors capital using a gearing ratio, which is total debt divided by total equity. Total debt represents interest-bearing bank borrowings. The gearing ratios as at the end of the reporting period were as follows:

	2019	2018
	RMB'000	RMB'000
Total debt	**147,788**	152,762
Total equity	**320,600**	251,522
Gearing ratio	**46.1%**	60.7%

Notes to the Consolidated Financial Statements (Continued)

31 December 2019

32. EVENTS AFTER THE REPORTING PERIOD

(a) On 12 March 2020, 300,000,000 shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited, pursuant to which 224,999,990 shares were issued by the Company to existing shareholders by way of capitalisation from the share premium account and 75,000,000 shares were issued by the Company's initial public offering at the offer price of HK$2.23 per share. The gross proceeds and the estimated net proceeds amounted to approximately HK$167.3 million and HK$124.6 million, respectively.

(b) The outbreak of coronavirus disease 2019 ("COVID-19") since early 2020 has brought about additional uncertainties in the Group's operating environment and may impact the Group's operations and financial position. The Group has been closely monitoring the impact from the COVID-19 on the Group's businesses and has commenced to put in place various measures. Based on the information currently available, the directors confirm that there has been no material adverse change in the financial or trading position of the Group up to the date of approval of these financial statements. However, the actual impacts may differ from these estimates as the situation continues to evolve as further information becomes available.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2020.

Financial Summary

The following table summarizes the consolidated results of our Group for the four years ended 31 December:

	For the year ended 31 December			
	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
CONSOLIDATED RESULTS				
Revenue	**600,644**	514,718	307,360	217,441
Gross profit	**159,004**	165,233	87,344	51,757
Profit before taxation	**83,941**	90,094	46,634	28,920
Income tax	**(14,289)**	(13,023)	(8,050)	(4,256)
Profit for the year from continuing operation	**69,652**	77,071	38,584	24,664
Loss for the year from a discontinued operation	**—**	—	—	(787)
Attributable to:				
Owners of the Company	**69,652**	77,071	38,584	23,877

	As at 31 December			
	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
CONSOLIDATED ASSETS AND LIABILITIES				
Total assets	**527,224**	473,082	329,667	232,317
Total liabilities	**(206,624)**	(221,560)	(154,703)	(96,291)
Equity attributable to owners of the Company	**320,600**	251,522	174,964	136,026

Note: The summary of the consolidated results of the Group for the three years ended 31 December 2016, 2017 and 2018 and the consolidated assets and liabilities of the Group as at 31 December 2016, 2017 and 2018 have been extracted from the Prospectus. Such summary is presented on the basis set out in the Prospectus.

The financial information for the year ended 31 December 2015 was not disclosed as the consolidated financial statements for the Group have not been prepared for that year.