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UNIVERSAL STAR

ANNUAL REPORT 2020

UNIVERSAL STAR (HOLDINGS) LIMITED

星宇（控股）有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2346

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Director
Mr. Lyu Zhufeng
(Chairman of the Board and Chief Executive Officer)

Non-executive Director
Mr. Lu Qingxing

Independent non-executive Directors
Mr. Yan Aru
Mr. Lee Ming Tak
Mr. Tsang Chun Yiu

AUDIT COMMITTEE

Mr. Tsang Chun Yiu *(Chairman)*
Mr. Lu Qingxing
Mr. Yan Aru

REMUNERATION COMMITTEE

Mr. Yan Aru *(Chairman)*
Mr. Lu Qingxing
Mr. Lee Ming Tak

NOMINATION COMMITTEE

Mr. Lyu Zhufeng *(Chairman)*
Mr. Tsang Chun Yiu
Mr. Yan Aru

COMPANY SECRETARY

Ms. So Hiu Tung Miranda

AUTHORISED REPRESENTATIVES

Mr. Lyu Zhufeng
Ms. So Hiu Tung Miranda

LEGAL ADVISERS AS TO HONG KONG LAW

Zhong Lun Law Firm

AUDITOR

Moore Stephens CPA Limited
Certified Public Accountants
(Registered Public Interest Entity Auditor)
801–806 Silvercord, Tower 1
30 Canton Road
Tsimshatsui
Kowloon
Hong Kong

COMPLIANCE ADVISER

Southwest Securities (HK) Capital Limited

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

No. 8 Tuan Yuan Road
Dongqiao Economic Development Zone
Ningde City, Fujian Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 702, Cheuk Nang Centre
9 Hillwood Road
Tsim Sha Tsui
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKER

Industrial and Commercial Bank of China Limited,
Ningde City Jiaocheng Branch

STOCK CODE

2346

WEBSITE

www.xingyu.cc

Management Discussion and Analysis

2020 was a challenging year, the outbreak of the Coronavirus (COVID-19) swept the world, resulting in a sharp decline in national and even global trade, shutting down of enterprises and disruption of supply chains, and bringing unprecedented challenges to the global economy. The Group nor its related upstream and downstream enterprise groups are not spared either.

Facing such severe difficulties, the management of the Group actively responded to the outbreak and made various decisive adjustments during the year to reduce operating costs and strive for market share gain. Meanwhile, the Group expanded its business aggressively in oversea market and made every effort to reduce the adverse impact of the epidemic on the Group's production and sales.

BUSINESS REVIEW

The Group is a sintered NdFeB magnetic material ("**SNPM**") manufacturer and supplier in the PRC. NdFeB magnet, also known as neodymium magnet, is a permanent magnet that is mainly made from an alloy of neodymium, iron and boron. Sintered NdFeB magnets are manufactured by the technology of sintering, a process of magnetically aligning alloy powder into dense blocks through heat or pressure. The Group is principally engaged in the design, development, production and sale of sintered NdFeB magnetic materials. The Group's products can be assembled with different motors and/or electronic products which can then be used in end-use industries such as electroacoustic products, variable-frequency home appliances, energy-saving elevators, wind turbine generators, industrial robots and new energy vehicles.

During the year ended 31 December 2020, the Group recorded revenue of approximately RMB250.0 million, down by approximately 39% compared to the same period last year. The decrease is primarily due to the decline in demand from the Group's customers, which had a material adverse impact on the Group's revenue, influenced by the outbreak of the Coronavirus (COVID-19). Furthermore, the increase of the Group's raw material procurement costs as a result of sharp increase in the price of rare earth materials, led to a decrease in gross profit margin. During the year ended 31 December 2020, the profit attributable to the Shareholders of the Company amounted to approximately RMB22.1 million, representing a decrease of approximately 58%, as compared to approximately RMB52.6 million for the corresponding period in 2019.

The Group has been closely monitoring the operation and market situation and made adjustments to its business strategies in due course. During the year ended 31 December 2020, the Group increased its research and development investments while reducing operating costs, which further strengthened its product competitiveness to satisfy customers' needs, and in conjunction with development in oversea market, the Group has won more international high-end customers, which contributed to a substantial growth in export sales to account for approximately 9.7% of total revenue.

STRATEGIES AND PROSPECTS

The impact of the epidemic on the economy is short-lived, the development direction of the industry is, however, clear and the national policies support the development of the high-performance NdFeB permanent magnets. The National Development and Reform Commission further clarified the scope of the concept "new infrastructure". Compared with traditional infrastructures, "new infrastructure" is a new type of infrastructure construction that focuses on science and technology and digitization of information. It mainly includes seven fields: 5G infrastructure, ultra high voltage, inter-city high speed railway and urban rail transit, new energy vehicle charging piles, big data centres, artificial intelligence, and industrial internet. Practitioners of the industry are of the opinion that the construction of 5G base station, wind power development, permanent-magnetic electric motor, new energy vehicles and other "new infrastructure" construction will promote the development of the rare earth industry. During the "14th Five Year Plan" period, with the successive implementation of national strategies for instance "Internet Plus" and the accelerated development of emerging industries for instance intelligent manufacturing, new energy vehicles, industrial robots and 3D printing, rare earth magnetic materials will have a broader room for application and development.

In light of the development of the industry and the national development policy, and in order to grasp new opportunities and meet future challenges, the Group's development priorities for 2021 include the following:

1. Further optimize the production process and improve production techniques. The Group will strengthen the research and development of new production technologies, research and development of low-heavy/free-heavy rare earth permanent magnetic materials, and the development of new molding processes to improve product performance.

2. The Group will deepen the relationship between users of high-end products, especially cooperating with overseas high-quality customers, in order to gain more market share and optimize the business structure. Following the development direction of the Chinese government and responding to the country's new infrastructure and concept of energy conservation and environmental protection, the Group will actively promote the movement of permanent magnetic material products to high-end level and accelerate the downward extension of the industrial chain.

3. The Group will seek for potential upstream and downstream merging and acquisition opportunities and explore the possibility of vertical integration of the industrial chain. Upstream development can better ensure the supply of raw materials and to a certain extent diversify business risks caused by fluctuations in raw material costs.

FINANCIAL REVIEW

Revenue

The Group's revenue in FY2020 amounted to approximately RMB250.0 million, representing a decrease of approximately RMB161.5 million, or approximately 39.3% compared to approximately RMB411.5 million in FY2019. The decrease in revenue was mainly attributable to the decrease in sales orders from customers. The following table sets out a breakdown of revenue by series of products and its percentage of the total revenue during the years under review:

		Year ended 31 December			
		2020		2019	
		RMB'000	**%**	*RMB'000*	%
Finished Products					
Low-end:	N series	**27,494**	**11.0**	36,129	8.8
Middle-end:	M series	**5,217**	**2.1**	1,740	0.4
	H series	**33,468**	**13.4**	35,442	8.6
High-end:	SH series	**94,286**	**37.7**	162,724	39.6
	UH series	**49,966**	**20.0**	91,290	22.2
	EH series	**2,803**	**1.1**	2,952	0.7
Finished Products Total		**213,234**	**85.3**	330,277	80.3
Rough Cast Products					
Low-end:	N series	**33,776**	**13.5**	76,647	18.6
Middle-end:	M series	**362**	**0.2**	481	0.1
	H series	**925**	**0.4**	970	0.3
High-end:	SH series	**1,357**	**0.5**	2,943	0.7
	UH series	**303**	**0.1**	136	0.0
Rough Cast Products Total		**36,723**	**14.7**	81,177	19.7
Total		**249,957**	**100.0**	411,454	100.0

As shown in the table above, the decrease in revenue was mainly attributable to the decrease in sale from SH and UH series of finished products and N series of rough cast products. The decrease in orders was attributable to the outbreak of the COVID-19 and most customers such as high-end equipment manufacturers had delayed the resumption of work and tightened their production. The worldwide outbreak of COVID-19 has reduced the demands for consumer electronics and energy-saving home appliances which caused a decrease in sales of low-end SNPM products.

Gross profit and gross profit margin

In FY2020, the gross profit of the Group amounted to approximately RMB51.4 million, representing a decrease of approximately RMB64.2 million, or approximately 55.6% compared to approximately RMB115.6 million in FY2019. While the Group's gross profit margin was approximately 20.5% in FY2020, representing a decrease of approximately 7.6 percentage points as compared to approximately 28.1% in FY2019. The decrease in gross profit and gross profit margin were mainly attributable to the decrease in products sales mix and increase in the price of rare earth materials.

Other income and other net gains

The other income and other net gains of the Group in FY2020 amounted to approximately RMB49.5 million, representing an increase of approximately RMB46.7 million compared to approximately RMB2.8 million in FY2019. The increase was mainly due to the one-off government subsidies and gain on disposal of property, plant and equipment and investment properties amounted to approximately RMB15.1 million and approximately RMB34.5 million respectively in FY2020.

Selling and distribution expenses

Selling and distribution expenses amounted to approximately RMB2.9 million and approximately RMB4.5 million in FY2020 and FY2019 respectively. The decrease in selling and distribution expenses was in line with the decrease in revenue in FY2020. Selling and distribution expenses as a percentage of the revenue remained stable, which was approximately 1.1% in FY2020 (FY2019: 1.1%).

Administrative expenses

The administrative expenses of the Group in FY2020 amounted to approximately RMB60.8 million, representing an increase of approximately RMB16.0 million or approximately 35.7% compared to approximately RMB44.8 million in FY2019. The increase was mainly due to an increase of approximately RMB25.2 million in research and development expenditures for modifying and optimising the production process.

Finance costs

The Group recorded approximately RMB1.8 million of finance costs in FY2020 (FY2019: RMB3.4 million). The finance costs represent interest expenses of bank borrowings, interest expenses of amount due to a director of the Company and interest expenses of lease liabilities.

Profit for the year

As a result of the foregoing factors, profit for the year decreased by approximately 57.9% from approximately RMB52.6 million in FY2019 to approximately RMB22.1 million in FY2020.

Directors and Senior Management

Biographies of each member of the board of directors and senior management team of the Company are set out below:

EXECUTIVE DIRECTOR

Mr. Lyu Zhufeng ("**Mr. Lyu**"), aged 36, was appointed as the director of the Company on 31 July 2017 and is the executive Director, chairman and chief executive officer of the Company. Mr. Lyu is also the chairman of the Nomination Committee of the Company. Mr. Lyu is primarily responsible for the overall operations, strategic management, business development, and formulating the Group's business operations plans. He graduated from Xiamen University (廈門大學) in July 2006 with a bachelor degree in Communication Engineering (通信工程).

Mr. Lyu has over 12 years of experience in the rare earth permanent magnet manufacturing and retail industry. In the earlier period of his career, Mr. Lyu worked as a technician at Xiamen Overseas Chinese Electronics Co., Ltd. (廈門華僑電子股份有限公司) from July 2006 to July 2008, a company then principally engaged in the manufacturing of electronic products and the shares of which are listed on the Shanghai Stock Exchange (stock code: 600870). He was appointed as the assistant general manager of Mindong Hongyu Metallurgical Spare Parts Co., Ltd. (閩東宏宇冶金備件有限公司), a company established in the PRC principally engaged in the processing and sales of metallurgical machinery parts, non-ferrous metal structure, and the sales of metallurgical raw materials, building materials and automobile parts, from July 2008 to August 2009. Mr. Lyu joined the Group as the general manager in August 2009 and was appointed as the vice chairman of Ningde Xingyu Technology Co., Ltd. (寧德市星宇科技有限公司), a wholly-owned subsidiary of the Company, in March 2013.

Mr. Lyu, is the son of Mr. Lu Qingxing, the non-executive Director. He is also a director of Wind Lv Limited, a company has disclosable interests in the shares of the Company under the provisions 2 and 3 of Part XV of the SFO.

NON-EXECUTIVE DIRECTOR

Mr. Lu Qingxing ("**Mr. Lu**"), aged 61, is a founder of the Group. He was appointed as the non-executive Director on 2 March 2018. Mr. Lu is also a member of the Audit Committee and Remuneration Committee. Mr. Lu is primarily responsible for participating in strategic planning and advising in significant decision-making of the Group. He graduated from Shouning Nanyang Middle School (壽寧縣南陽中學) in July 1978.

Mr. Lu Qingxing has accumulated more than 23 years of experience in enterprise management and has been acting as the chairman of Ningde Xingyu Technology Co., Ltd. (寧德市星宇科技有限公司), a wholly-owned subsidiaries of the Company, when it was first established in 2002. He was the general manager of Mindong Hongyu Metallurgical Spare Parts Co., Ltd. (閩東宏宇冶金備件有限公司) from December 1996 to August 2008, a company established in the PRC principally engaged in the processing and sales of metallurgical machinery parts, non-ferrous metal structure, and the sales of metallurgical raw materials, building materials and automobile parts.

Mr. Lu Qingxing is the father of Mr. Lyu Zhufeng, the executive Director, chairman and chief executive officer of the Company. He is also a director of Star Lv Limited, a company has disclosable interests in the shares of the Company under the provisions 2 and 3 of Part XV of the SFO.

Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yan Aru ("**Mr. Yan**"), aged 49, was appointed as an independent non-executive Director on 2 April 2019. He is also the chairman of the Remuneration Committee, and a member of the Audit Committee and Nomination Committee. Mr. Yan graduated with a bachelor degree in Metal Materials and Heat Treatment (金屬材料與熱處理) from Shanxi Institute of Machinery (陝西機械學院) (currently known as Xi'an University of Technology (西安理工大學)) in July 1993. He then obtained a doctoral degree in Metal Materials and Heat Treatment (金屬材料及熱處理) from Xi'an Jiaotong University (西安交通大學) in June 1998. Subsequent to his obtaining of the doctoral degree, Mr. Yan worked as a postdoctoral researcher in condensed matter physics of the Institute of Physics of The Chinese Academy of Sciences (中國科學院物理研究所凝聚態物理學科) from August 1998 to July 2000. He then worked as a visiting scholar at Dresden Institute for Solid State and Materials Research of Germany (德國德累斯頓固體材料研究所) from September 2000 to July 2005. Since August 2006, Mr. Yan has been serving in the rare earth magnetic function materials laboratory (稀土磁性功能材料實驗室) at the Ningbo Institution of Materials Technology and Engineering of the Chinese Academy of Science (中國科學院寧波材料技術與工程研究所). Mr. Yan has been appointed as an independent director of Shenghe Resources Holding Co., Ltd (盛和資源控股股份有限公司), a company which shares are listed on Shanghai Stock Exchange (stock code: 600392) since 27 April 2016.

Mr. Lee Ming Tak ("**Mr. Lee**"), aged 48, was appointed as an independent non-executive Director on 2 April 2019. He is also a member of the Remuneration Committee. Mr. Lee graduated from University of California, the United States with the degree of bachelor of Arts with a major in History in June 1996 and University of London with a bachelor degree in Laws through a distance learning programme in August 2005. He then obtained a postgraduate certificate in Laws from the University of Hong Kong in June 2006. Mr. Lee has around ten years of professional experience in legal practice in Hong Kong. Mr. Lee worked as a trainee solicitor in Laracy & Co. (now known as Hill Dickinson Hong Kong) from June 2009 to June 2011 and was an associate in Laracy & Co. from April 2012 to June 2016. He was qualified as a solicitor in Hong Kong in February 2012 and has been a partner of Lee & Yik Lawyers since July 2016.

Mr. Tsang Chun Yiu ("**Mr. Tsang**"), aged 51, was appointed as an independent non-executive Director on 30 December, 2020. Mr. Tsang was a chief financial officer of Nimble Holdings Company Limited (stock code: 186) (listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**")) from March 2018 to January 2021. He was a board director of Shanghai Zijiang Enterprise Group Co., Ltd. (stock code: 600210) (listed on Shanghai Stock Exchange) during the period from March 1999 to December 2006, and was a senior financial controller, chief financial officer, company secretary and authorized representative of Nature Home Holding Company Limited (stock code: 2083) (listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**")) from August 2011 to November 2015.

Mr. Tsang has more than 20 years of extensive experience in accounting and finance, and management. He is a member of the Hong Kong Institute of Certified Public Accountants, the Australian Institute of Project Management and a fellow member of the Institute of Chartered Accountant in England and Wales.

SENIOR MANAGEMENT

Mr. Wang Yuping ("**Mr. Wang**"), aged 58, is the chief engineer of the Group since 2017. Mr. Wang is mainly responsible for patent research and development projects of the Group and the improvement of production processes and technologies. Mr. Wang has more than 31 years of experience in the research and development of sintered NdFeB magnetic material and the improvement of production processes. Mr. Wang served as the chief engineer at Ningbo Ketian Magnet Co., Ltd (寧波科田磁業有限公司) from 2006 to 2017. From 2003 to 2006, he was the chief engineer and general manager of Baotou Yunsheng Magnetic Materials Co., Ltd. (包頭韻升強磁材料有限公司). From 1997 to 2003, he served as the chief engineer of Ningbo Yunsheng Strong Magnetic Material Co., Ltd. (寧波韻升強磁材料有限公司) and is responsible for the company' product, technology development, quality system control and the formulation and implementation of key research and development projects. Mr. Wang was granted the qualification of professor level senior engineer by the Department of Human Resources and Social Security of Zhejiang Province (浙江省人力資源和社會保障廳) in December 2016. Mr. Wang graduated from the Department of Physics and Materials, Lanzhou University with a bachelor of science degree in 1987.

Mr. Liu Long ("**Mr. Liu**"), aged 34, is the manager of quality control department of the Group and is primarily responsible for the overall management of production quality control of the Group. Mr. Liu joined the quality control department of the Group in January 2011, and was promoted to the deputy head of the quality control department in January 2012, to the head of the same department in January 2015, and was re-designated as the manager of quality control department in January 2018. Mr. Liu received a bachelor degree in metallurgical engineering (冶金工程) from Jiangxi University of Science and Technology (江西理工大學) in July 2011. Mr. Liu was qualified as a junior assistant engineer of metallurgical engineering (冶金工程) in September 2016. Mr. Liu has more than nine years of experience in quality control in the Group.

COMPANY SECRETARY

Ms. So Hiu Tung Miranda ("**Ms. So**"), age 50 has been appointed as the Company Secretary and the Authorised Representative with effect from 5th February 2021. Ms. So has over 21 years of experience in corporate services field, accounting, company secretary, taxation and auditing field. She has held senior management position in the sizable multi-national corporations and Hong Kong listed companies in the past.

Ms. So is an associate member of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute in the United Kingdom. She also holds the Chartered Governance Professional. She is also a member of both the Certified Practising Accountant in Australia and the Hong Kong Institute of Certified Public Accountants. She holds a Bachelor Degree in Commerce major in Accounting, a Master's Degree in Business Administration and a Master's Degree in Corporate Governance.

Directors' Report

The Directors have pleasure in submitting their report and the audited consolidated financial statements of the Group for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group are production and sales of sintered NdFeB magnetic materials, also known as neodymium magnet.

SEGMENT INFORMATION

An analysis of the Group's turnover and results by principal activities and geographical area of operations for the year ended 31 December 2020 is set out in note 6 to the consolidated financial statements.

BUSINESS REVIEW

A fair review of the Group's business, a description of principal risks and uncertainties (if any), an indication of likely future development in the Group's business and details of key performance indicators are set out in the sections headed "Management Discussion and Analysis", "Environmental, Social and Governance Report", "Other Information" and "Financial Summary" of this report respectively. These discussions form part of this Directors' report. Save as disclosed in note 40 to the consolidated financial statements, there are no significant events that have an effect on the Group subsequent to the year ended 31 December 2020.

RESULTS

The results of the Group for the year ended 31 December 2020 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 51 to 104 of this report.

FINANCIAL SUMMARY

A summary of the consolidated financial results and of the assets and liabilities of the Group for the five years ended 31 December 2020 is set out on page 108 of this report.

DIVIDENDS

The Directors does not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: Nil).

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the forthcoming annual general meeting of the Company to be held on 18 June 2021 (the "**2021 AGM**"), the register of members of the Company will be closed from 11 June 2021 to 18 June 2021, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the 2021 AGM, all transfers of Shares accompanied by the relevant share certificate(s) must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 10 June 2021.

PROPERTY, PLANT AND EQUIPMENT

Details of changes in the property, plant and equipment of the Group during the year ended 31 December 2020 are set out in note 14 to the consolidated financial statements.

BORROWINGS

Particulars of the borrowings of the Group as at the end of the financial year are set out in note 25 to the consolidated financial statements.

SHARE CAPITAL

As at 31 December 2020, the Company's issued share capital was HK$50,000,000 and the number of its issued ordinary Shares was 500,000,000 of HK$0.1 each.

Details of the movements in the share capital of the Company during the year are set out in note 27 to the consolidated financial statements.

RESERVES

Profit attributable to equity shareholders, (before dividends, if any) of RMB22,117,000 (2019: RMB52,550,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity in this report.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company had reserves amounted to approximately RMB78.5 million (2019: approximately RMB95.4 million) available for distribution as calculated based on the Company's share premium, exchange reserves and accumulated losses under applicable provisions of the Companies Law in the Cayman Islands. Details of the movements in the reserves of the Company are set out in note 28 to the consolidated financial statements.

DONATIONS

During the year ended 31 December 2020, the Group made charitable donations amounting to approximately RMB59,000 (2019: RMB880,000).

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

TAX RELIEF AND EXEMPTION

The Company is not aware of any relief on taxation available to the Shareholders by reason of their holdings of the Shares. If the Shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or exercising of any rights in relation to the Shares, they are advised to consult their professional advisers.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or applicable laws of the Cayman Islands where the Company is incorporated.

Directors' Report

DIRECTORS

The Directors during the year ended 31 December 2020 and up to the date of this report were as follow:

Executive Director

Mr. Lyu Zhufeng *(Chairman of the Board and Chief Executive Officer)*

Non-executive Director

Mr. Lu Qingxing

Independent Non-executive Directors

Mr. Yan Aru	
Mr. Lee Ming Tak	
Mr. Tsang Chun Yiu	(appointed on 30 December 2020)
Mr. Fan Chun Wah, Andrew, *J.P.*	(resigned on 1 October 2020)

Details of the Directors' biographies are set out in the section headed "Board of Directors and Senior Management" in this report.

Pursuant to article 84(1) and (2) of the Company's articles of association, Mr. Lu Qingxing and Mr. Yan Aru shall retire from office by rotation at the 2021 AGM and, being eligible, offer themselves for re-election.

Pursuant to article 83(3) of the Company's articles of association, Mr. Tsang Chun Yiu shall retire from office as Director at the 2021 AGM and, being eligible, offer himself for re-election.

The executive Director has entered into a service contract with the Company for an initial term of three years commencing from the Listing Date, which can be terminated before the expiration of the term by not less than three months' notice in writing served by either party on the other.

The non-executive Director, Mr. Lu Qingxing and two independent non-executive Directors, namely Mr. Yan Aru and Mr. Lee Ming Tak have entered into a letter of appointment with the Company for an initial fixed term of three years commencing from the Listing Date, which can be terminated before the expiration of the term by not less than three months' notice in writing served by either party on the other.

The Independent non-executive Director, Mr. Tsang Chun Yiu has entered into a letter of appointment with the Company for an initial fixed term of one year commencing from the date of appointment, which can be terminated before the expiration of the term by not less than ten days notice in writing served by either party on the other.

Each Director is subject to retirement by rotation and re-election at annual general meetings of the Company pursuant to the articles of association of the Company.

None of the Directors who is proposed for re-election at the forthcoming annual general meeting has any service agreement which is not determinable by the Group within one year without the payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

No transaction, arrangement or contract of significance (as defined in the Listing Rules) to which the Company or any of its subsidiaries is or was a party, and in which a Director or an entity connected with a Director, or the controlling shareholder (as defined in the Listing Rules) of the Company or any of its subsidiaries, is or was materially interested, either directly or indirectly, subsisted at 31 December 2020 or at any time during the year ended 31 December 2020.

INDEPENDENT CONFIRMATION

The Company has received, from each independent non-executive director, an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independence non-executive directors are independent.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed at 31 December 2020 or at any time during the year ended 31 December 2020.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Share Option Scheme" below, at no time during the year ended 31 December 2020 and up to the date of this report was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

The Directors are not aware of any business or interest of the Directors nor the Controlling Shareholders nor any of their respective close associates that compete or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group during the year ended 31 December 2020.

PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

Pursuant to the articles of association of the Company, every Director shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices; provided that such indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons.

Save for the above, at no time during the year ended 31 December 2020 and up to the date of this report, there was any permitted indemnity provision (as defined in section 9 of the Companies (Directors' Report) Regulation (Chapter 622D of the Laws of Hong Kong)) being in force for the benefit of any of the Directors (whether made by the Company or otherwise) or any of the directors of an associated company (if made by the Company).

DIRECTORS' EMOLUMENTS

Details of the Directors' emoluments are set out in note 11 to the consolidated financial statements. The Remuneration Committee will review and recommend the Board the remuneration and compensation packages of the Directors and senior management with reference to their respective experience, responsibilities, workload, performance, and time devoted to the Group and the overall performance of the Group.

The Directors and senior management may also be granted options under the share option scheme of the Company.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2020, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) ("**SFO**")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code are set out below:

Name of Director	Capacity	Long Position/ Short Position	Number of Shares/ underlying shares held/ interested in	Approximate percentage of the issued share capital of the Company
Mr. Lu Qingxing	Interest in a controlled corporation *(Note 1)*	Long Position	210,000,000	42.00%
	Interests held jointly with another person *(Note 1)*	Long Position	21,614,000	4.32%
Mr. Lyu Zhufeng	Interest in a controlled corporation *(Note 2)*	Long Position	21,614,000	4.32%
	Interests held jointly with another person *(Note 2)*	Long Position	210,000,000	42.00%

Notes:

1. Mr. Lu Qingxing owns the entire issued share capital of Star Lv Limited ("**Star Lv**"), which in turns hold 210,000,000 Shares. By virtue of the SFO, Mr. Lu Qingxing is deemed to be interested in such Shares held by Star Lv. Further, Mr. Lu Qingxing, Mr. Lyu Zhufeng, Star Lv and Wind Lv Limited ("**Wind Lv**"), entered into a deed of concert parties to acknowledge and confirm that they are parties acting in concert in relation to the voting rights attaching to their Shares. As such, Mr. Lu Qingxing is deemed to be interested in the 21,614,000 Shares which are held by Wind Lv (which is in turn held as to 100% by Mr. Lyu Zhufeng).

2. Mr. Lyu Zhufeng owns the entire issued share capital of Wind Lv, which in turns hold 21,614,000 Shares. By virtue of the SFO, Mr. Lyu Zhufeng is deemed to be interested in such Shares held by Wind Lv. Further, Mr. Lu Qingxing, Mr. Lyu Zhufeng, Star Lv and Wind Lv entered into a deed of concert parties to acknowledge and confirm that they are parties acting in concert in relation to the voting rights attaching to their Shares. As such, Mr. Lyu Zhufeng is deemed to be interested in the 210,000,000 Shares which are held by Star Lv (which is in turn held as to 100% by Mr. Lu Qingxing).

Save as disclosed above, none of the Directors, the chief executive of the Company or their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations as defined in Part XV of the SFO as recorded in the register to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at 31 December 2020.

SUBSTANTIAL SHAREHOLDERS'/OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2020, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO shows that other than the interests of the Directors and the chief executives of the Company, the following Shareholders had notified the Company of relevant interests or short position in Shares and underlying shares of Company as follows:

Name of Shareholder	Capacity	Long position/ Short position	Number of Shares/ underlying shares held/ interested in	Approximate percentage of the total number of issued Shares*
Star Lv limited ("**Star Lv**")	Beneficial Owner *(Note 1)*	Long position	210,000,000	42.00%
	Interests held jointly with another person *(Note 1)*	Long position	21,614,000	4.32%
Wind Lv Limited ("**Wind Lv**")	Beneficial Owner *(Note 2)*	Long position	21,614,000	4.32%
	Interests held jointly with another person *(Note 2)*	Long position	210,000,000	42.00%
Many Idea Limited ("**Many Idea**")	Beneficial Owner *(Note 3)*	Long position	30,000,000	6.00%
Mr. Liu Jianhui	Interests in a controlled corporation *(Note 3)*	Long position	30,000,000	6.00%
Ms. Yao Jingjing	Interests of Spouse *(Note 4)*	Long position	231,614,000	46.32%
Wonder Rare Earth Limited ("**Wonder Rare**")	Held a security interests *(Note 5)*	Long position	210,000,000	42.00%

* The percentage was calculated based on 500,000,000 Shares in issue as at 31 December 2020.

Notes:

1. Star Lv is wholly-owned by Mr. Lu Qingxing. By virtue of the SFO, Mr. Lu Qingxing is deemed to be interested in such Shares held by Star Lv. Further, Mr. Lu Qingxing, Mr. Lyu Zhufeng, Star Lv and Wind Lv entered into a deed of concert parties to acknowledge and confirm that they are parties acting in concert in relation to the voting rights attaching to their Shares. As such, Star Lv is deemed to be interested in the 21,614,000 Shares which are held by Wind Lv (which is in turn held as to 100% by Mr. Lyu Zhufeng).

2. Wind Lv is wholly-owned by Mr. Lyu Zhufeng. By virtue of the SFO, Mr. Lyu Zhufeng is deemed to be interested in such Shares held by Wind Lv. Further, Mr. Lu Qingxing, Mr. Lyu Zhufeng, Star Lv and Wind Lv entered into a deed of concert parties to acknowledge and confirm that they are parties acting in concert in relation to the voting rights attaching to their Shares. As such, Wind Lv is deemed to be interested in the 210,000,000 Shares which are held by Star Lv (which is in turn held as to 100% by Mr. Lu Qingxing).

3. Many Idea is wholly-owned by Mr. Liu Jianhui. By virtue of the SFO, Mr. Liu Jianhui is deemed to be interested in such Shares held by Many Idea.

4. Ms. Yao Jingjing is the spouse of Mr. Lyu Zhufeng. Therefore, under the SFO, Ms. Yao Jingjing is deemed to be interested in the Shares in which Mr. Lyu Zhufeng is interested in.

5. On 31 December 2020, Star Lv signed an agreement to pledge a total of 210,000,000 Shares to Wonder Rare as security for certain loan facilities provided by Wonder Rare to Star Lv.

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the Shares or underlying shares of the Company as at 31 December 2020.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales and purchases attributable to the Group's major customers and suppliers respectively during the year ended 31 December 2020 are as follows:

	2020	2019
As a percentage of the Group's total sale		
The largest customer	**9.67%**	8.1%
Five largest customers in aggregate	**28.18%**	26.1%
As a percentage of Group's total purchases		
The largest supplier	**28.33%**	30.1%
Five largest suppliers in aggregate	**87.21%**	96.2%

None of the Directors or any of their close associates or any shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's major customers and suppliers during the year ended 31 December 2020.

SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme (the "**Share Option Scheme**") pursuant to the resolution of the then shareholders passed on 2 April 2019.

Summary of the principal terms of the Share Option Scheme are as follow:

(a) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to give the Eligible Persons (as defined below) an opportunity to have a personal stake in the Company and help motivate them to optimise their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of Executives (as defined below), to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

(b) Participant of the Share Option Scheme

The Board may, at its absolute discretion, offer share options to subscribe for such number of Shares in accordance with the terms set out in the Share Option Scheme to:

(i) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group ("**Executive**"), any proposed employee, any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of the Group ("**Employee**");

(ii) a director or proposed director (including an independent non-executive director) of any member of the Group;

(iii) a direct or indirect shareholder of any member of the Group;

(iv) a supplier of goods or services to any member of the Group;

(v) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group;

(vi) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; and

(vii) an associate of any of the persons referred to in paragraphs (i) to (vi) above (the person referred above are the "**Eligible Persons**").

(c) Subscription price of Shares

The subscription price in respect of any particular share option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant share option (and shall be stated in the letter containing the offer of the grant of the share option) but the subscription price shall not be less than whichever is the highest of: (i) the nominal value of a Share; (ii) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the offer date; and (iii) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the 5 Business Days (as defined in the Listing Rules) immediately preceding the offer date.

(d) Grant of share options and acceptance of offers

An offer of the grant of a share option shall remain open for acceptance by the Eligible Person concerned for a period of 28 days from the offer date provided that no such grant of a share option may be accepted after the expiry of the effective period of the Share Option Scheme. A share option shall be deemed to have been granted and accepted by the Eligible Person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the share option duly signed by the grantee together with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant thereof is received by the Company on or before the date upon which an offer of a share option must be accepted by the relevant Eligible Person, being a date no later than 28 days after the offer date.

(e) Maximum number of Shares available for issue

The total number of Shares available for issue under the Share Option Scheme is 50,000,000 Shares, representing 10% of the Shares in issue as at the date of this report.

(f) Maximum entitlement of each participant

The total number of Shares issued and to be issued upon exercise of share options granted to any participant (including both exercised and outstanding share options) under the Share Option Scheme or any other share option schemes of the Company in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue.

(g) Time of exercise of option

Unless otherwise determined by the Directors and stated in the offer of grant of the share options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of a share option before it can be exercised.

(h) Remaining life of the Share Option Scheme

The Share Option Scheme is valid and effective for a period of 10 years from 16 May 2019, being the date on which it becomes unconditional.

No options had been granted or agreed to be granted under the Share Option Scheme since its adoption. The Company did not have any outstanding share options, warrants and instruments convertible into shares as at 31 December 2020 and up to the date of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and to the best knowledge of the Directors, the Directors confirm that the Company maintained the public float as required under the Listing Rules throughout the Period Under Review and has continued to maintain such float as at the date of this report.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTION

During the year ended 31 December 2020, the Group had not entered into any transactions which constitute connected transactions or continuing connected transactions under the Listing Rules (2019: Nil).

RELATED PARTY TRANSACTIONS

During the year ended 31 December 2020, the Group had entered into certain related party transactions but these transactions were not regarded as connected transactions or continuing connected transactions under the Listing Rules. Details of these related party transactions are disclosed in note 34 to the consolidated financial statements.

RETIREMENT AND PENSION SCHEMES

The Group participates in certain defined contribution retirement schemes which cover all the Group's eligible employees in the PRC, and a Mandatory Provident Fund scheme for the employees in Hong Kong.

AUDITOR

During the year, BDO Limited resigned as auditor of the Company and Moore Stephens CPA Limited was appointed by the Directors to fill causal vacancy so arising.

The consolidated financial statements for the year ended 31 December 2020 have been audited by Moore Stephens CPA Limited, who will retire, being eligible, offer themselves for reappointment at the 2021 AGM. A resolution will be proposed at the 2021 AGM to re-appoint Moore Stephens CPA Limited as auditor of the Company.

On behalf of the Board

Lyu Zhufeng
Chairman of the Board, Chief Executive Officer and Executive Director

Hong Kong, 31 March 2021

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company recognises the importance of incorporating elements of good corporate governance in management conducive to the protection of the interests of the shareholders' value. The Company has adopted the code provisions set out in the Corporate Governance Code ("**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") as its own code of corporate governance.

Save for the deviation of code provision A.2.1 of the CG Code as described in the paragraph headed "Chairman and Chief Executive Officer" below, the Board considers that, the Company has complied, to the extent applicable and permissible, with the code provisions as set out in the CG Code during the year ended 31 December 2020 (the "**Year**").

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Mr. Lyu Zhufeng, the executive Director, chairman, chief executive officer and a controlling shareholder of the Company, informed the Company that, during the year ended 31 December 2020, there was a forced sale of certain shares of the Company held by Wind Lv Limited, a company wholly-owned by Mr. Lyu Zhufeng, arising from enforcement of margin financings in respect of the shares held by Wind Lv Limited. Mr. Lyu Zhufeng is unintentionally not fully complied with such required standards. Save as disclosed above, having made specific enquiry to all Directors, the Company confirmed that all Directors have complied with the required standards as set out in the Model Code during the year ended 31 December 2020.

BOARD OF DIRECTORS

The Board is responsible for the overall leadership of the Group, gives direction and make decisions on the Group's strategies, policies, business plan and financial budget and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. In addition, to oversee particular aspects of the Company's affairs, the Board has established three Board committees, namely the audit committee (the "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**") and the nomination committee (the "**Nomination Committee**"). The Board has delegated to the Board committees responsibilities as set out in their respective terms of reference. Further details of the Board committees are set out in this report.

Board Composition

As at the date of this report, the Board consists of five Directors, comprising one executive Director, one non-executive Director and three independent non-executive Directors as set out below:

Executive Director
Mr. Lyu Zhufeng *(Chairman of the Board and Chief Executive Officer)*

Non-executive Director
Mr. Lu Qingxing

Independent Non-executive Directors
Mr. Yan Aru
Mr. Lee Ming Tak
Mr. Tsang Chun Yiu

Each Director has relevant experience, competence and skills appropriate to the business requirements of the Company. The biographical details of the Directors are set out on pages 7 to 8 of this annual report. Save as disclosed above, the Board members do not have no any financial, business, family or other material/relevant relationships among themselves.

The Company has received the annual confirmation from each of the independent non-executive Directors on his independence pursuant to Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all independent non-executive Directors are independent.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. However, Mr. Lyu Zhufeng currently performs these two roles. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring the consistent leadership within the Group and enables more effective and efficient overall strategic planning of the Group. Besides, with three independent non-executive Directors out of a total of five Directors in the Board, there will be sufficient independent voice within the Board to protect the interests of the Company and the shareholders as a whole. Therefore, the Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairman and chief executive officer at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

BOARD DIVERSITY POLICY

The Board adopted a board diversity policy ("**Board Diversity Policy**") which sets out the objective and approach to achieve and maintain diversity of the Board. The Company continuously seeks to achieve Board diversity through the consideration of a number of factors when selecting the candidates to the Board, including but not limited to gender, age, culture, education background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision of the appointment will be based on merit and the contribution which the selected candidates will bring to the Board.

The Directors have a balanced mix of knowledge and skills, including knowledge and skills in the business of rare earth permanent magnet manufacturing and retail industry, accounting, legal and postdoctoral research. They obtained degrees in various majors including communication engineering, accounting and finance, metal materials and heat treatment and laws. There are three independent non-executive Directors with different industry backgrounds, representing more than one third of the members of the Board. Furthermore, the Board comprises Directors of a wide range of age. The Company will continue to apply the principles of appointments based on merits with reference to the Board Diversity Policy as a whole.

BOARD MEETINGS

The Board intends to hold board meetings regularly at least four times a year. Notices of not less than 14 days will be given for all regular board meetings to provide all Directors with an opportunity to attend and propose matters to be discussed in the meeting agenda. During the Year, the Board held four meetings.

For other Board and Board committee meetings, reasonable notice will generally be given. The agenda and accompanying documents are generally delivered to the Directors or Board committee members 7 days before the meetings (and in any event note less than 3 days) to ensure that they have sufficient time to review the documents and be adequately prepared for the meetings.

When Directors or Board committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting.

Minutes of the Board meetings and Board committee meetings will be recorded in sufficient detail to include the matters considered by the Board and the Board committee and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board committee meeting will be sent to the Directors for comments within a reasonable time after the date on which the meeting is held. Board minutes are kept by the company secretary of the Company (the "**Company Secretary**") and are open for inspection by the Directors. All Board members are entitled to have access to Board papers and related materials and have unrestricted access to the advice and services of the Company Secretary, and have the liberty to seek external and independent professional advice upon reasonable request.

GENERAL MEETING

During the Year, an annual general meeting of the Company (the "**AGM**") was held on 15 June 2020 (the "**2020 AGM**").

	Meetings attended/held
Mr. Lyu Zhufeng *(Chairman)*	1/1
Mr. Lu Qingxing	0/1
Mr. Yan Aru	0/1
Mr. Lee Ming Tak	1/1
Mr. Fan Chun Wah, Andrew, J.P. (resigned on 1 October 2020)	1/1

AUDIT COMMITTEE

The Company established the audit committee on 2 April 2019 in compliance with Rule 3.21 of the Listing Rules. Written terms of reference in compliance with paragraph C.3.3 of the CG Code has been adopted. The primary roles of the Audit Committee include, but not limited to (a) making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; (b) monitoring integrity of the financial statements and annual report and accounts, half-year report and reviewing significant financial reporting judgments contained in them; (c) reviewing the financial controls, internal control and risk management systems. The Audit Committee currently comprises of two independent non-executive Directors and the non-executive Director, namely Mr. Tsang Chun Yiu, Mr. Yan Aru and Mr. Lu Qingxing. Mr. Tsang Chun Yiu is the chairman of the Audit Committee, and he possesses the appropriate professional qualifications as required under Rule 3.10(2) and 3.21 of the Listing Rules.

During the Year and up to the date of this report, the Audit Committee had reviewed the annual report and final results announcement for the year ended 31 December 2020 and the interim report and the interim results announcement for the six months ended 30 June 2020; reviewed the accounting principles and practices adopted by the Group and ensured the compliance with relevant accounting standards, the Listing Rules and other statutory requirements; reviewed the effectiveness of internal control and risk management systems; and had meetings with the auditors to discuss any significant audit issues or key findings noted during the audit of the Group's final results for the year ended 31 December 2020 and the review of the Group's unaudited interim results for the six months ended 30 June 2020.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 2 April 2019 in compliance with Rule 3.25 of the Listing Rules. Written terms of reference in compliance with paragraph B.1.2 of the CG Code has been adopted. The primary function of the Remuneration Committee includes, among other things, making recommendations to the Board on the Company's policy for human resource management as well as establishing and reviewing policies and structure in relation to remuneration for the Directors and senior management. The Remuneration Committee currently comprises of two independent non-executive Directors and the non-executive Director, namely Mr. Yan Aru, Mr. Lee Ming Tak and Mr. Lu Qingxing. Mr. Yan Aru is the chairman of the Remuneration Committee.

The Company's policy concerning the remuneration of the Directors is that the amount of remuneration is determined by reference to the relevant Director's experience, responsibilities, workload, performance and time devoted to the Group. The Remuneration Committee has adopted the approach under code provision B.1.2(c)(ii) of the CG Code to make recommendations to the Board on remuneration packages of the Directors and the members of senior management.

During the Year, the Remuneration Committee had discussed and reviewed the performance and gave recommendation to the Board on the remuneration packages for the Directors and senior management of the Company, and offered advice on the same to the Board.

NOMINATION COMMITTEE

The Company established the Nomination Committee on 2 April 2019 in compliance with paragraph A.5.1 of the CG Code. Written terms of reference in compliance with paragraph A.5.2 of the CG Code has been adopted. The primary roles of the Nomination Committee include, but are not limited to, (a) reviewing the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the corporate strategy; (b) identifying individuals suitably qualified to become the Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships; and (c) assessing the independence of the independent non-executive Directors. The Nomination Committee currently comprises of two independent non-executive Directors and an executive Director, namely Mr. Tsang Chun Yiu, Mr. Yan Aru and Mr. Lyu Zhufeng. Mr. Lyu Zhufeng is the chairman of the Nomination Committee.

In assessing the Board composition, the Nomination Committee will take into account various aspects set out in the Board Diversity Policy.

During the Year, the Nomination Committee had discussed and reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board and assessed the independence of independent non-executive Directors.

NOMINATION POLICY

The Nomination Committee may invite nominations of candidates from Board members for its consideration. The Nomination Committee may also put forward candidates who are not nominated by Board members. The factors in assessing the suitability of a proposed candidate for director include:

- reputation for integrity;
- accomplishments in personal careers;
- commitment in respect of available time and relevant interest;
- independence;
- diversity in all its aspects, including but not limited to race, gender, age (18 years or above), educational background, professional experience, skills and length of service;

- qualifications which include professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy; and
- such other perspectives appropriate to the Company's business.

The Nomination Committee shall make recommendations for the Board's consideration and approval.

The attendance of the individual members of the Board and other Board committees meetings during the Year is set out below:

	Meetings attended/held			
	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Director				
Mr. Lyu Zhufeng *(Chairman)*	4/4	N/A	N/A	1/1
Non-Executive Director				
Mr. Lu Qingxing	4/4	2/2	2/2	N/A
Independent Non-Executive Directors				
Mr. Yan Aru	4/4	2/2	2/2	1/1
Mr. Lee Ming Tak	4/4	N/A	2/2	N/A
Mr. Tsang Chun Yiu (appointed on 30 December 2020)	1/1	N/A	N/A	N/A
Mr. Fan Chun Wah, Andrew, J.P. (resigned on 1 October 2020)	2/4	2/2	N/A	1/1

DIVIDEND POLICY

The Company may distribute dividends by way of cash or by other means that it considers appropriate. A decision to declare and pay any dividends would require the approval of the Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval.

The Board will review dividend policy from time to time in light of various factors such as the Company's financial results, the Shareholders' interests, general business conditions and strategies, the Company's capital requirements, contractual restrictions on the payment of dividends and other factors the Board may deem relevant in determining whether dividends are to be declared and paid.

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

Directors must keep abreast of their collective responsibilities. 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. The Board members attended training sessions on applicable laws and regulations, including the Listing Rules, provided by our Company's legal advisers as to Hong Kong law prior to the Listing. The Company will continue to arrange for external training and updates to be provided by legal advisers engaged by the Company from time to time on the legal and regulatory requirements applicable to the Group's business operations to the Directors, senior management and relevant employees.

SHAREHOLDERS' RIGHTS

Annual General Meetings and shareholders' Right to Convene and Put Forward Proposals at General Meetings

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 every year within a period not more than fifteen months after the holding of the last preceding annual general meeting 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.

Pursuant to article 58 of the articles of association of the Company, any one or more Shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting 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.

If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) themselves may do so 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 to the requisitionist(s) by the Company.

Procedures for directing shareholders' enquiries to the Board

Shareholder(s) may at any time send their enquiries and concerns to the Board in writing through the Company Secretary by post to the principal place of business in Hong Kong of the Company, or via email at the contact information as provided on the website of the Company.

The Company Secretary shall forward the shareholder(s)' enquiries and concerns to the Board and/or relevant Board committees, where appropriate, to respond to the Shareholder(s)' questions.

CONSTITUTIONAL DOCUMENTS

There has been no change in the articles of association of the Company during the Year and up to date version of the articles of association of the Company is available on the websites of the Stock Exchange and the Company.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for overseeing the Group's risk management and internal control systems and reviewing the effectiveness of such systems through the Audit Committee on annual basis. The Audit Committee assists the Board in fulfilling its oversight and corporate roles in the Group's financial, operational, compliance, risk management, internal controls, while senior management designs, implements and monitors the risk management and internal control systems, and provides reports to the Board and the Audit Committee on the effectiveness of these systems. However, systems and internal controls can only provide reasonable and not absolute assurance against material misstatement or loss and to manage or mitigate rather than eliminate the risk of failure to achieve the Group's business objectives.

The Company has established formal risk assessment criteria for the Group. Senior management identifies risks that potentially impact the key processes of the operations on an annual basis. Risks are scored and ranked by their impact on the business and the likelihood of their occurrence. Senior management assesses the effectiveness of the existing controls and formulates risk mitigating activities. Results of the annual risk assessment are reported to the Audit Committee, including amongst other things, significant risks of the Group and the appropriate control activities to mitigate and/or transfer the identified risks objectives.

INTERNAL AUDIT FUNCTION

The Board is responsible for the internal control of the Group and for reviewing its effectiveness. Procedures have been designed to safeguard the assets of the Company, ensure maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, ensure compliance of applicable laws, rules and regulations and to resolve material internal control defects.

The internal audit department is responsible for conducting independent reviews of the adequacy and effectiveness of the Group's risk management and internal control systems, reporting regularly the review result to the Board through the Audit Committee and making recommendations to the relevant department management for necessary actions. The internal audit department presents report of risk management and internal control to the Audit Committee and the Board at least once a year, so that the Board is able to make judgement about the effectiveness of internal control and risk management.

Up to the date of this report, the Board has reviewed the effectiveness of the Group's risk management and internal control systems. The Board considers that the risk management and internal control systems are effective and adequate for the Group as a whole. The Board further considers that (i) there was no issue relating to the material controls, including financial, operational and compliance controls and risk management functions, of the Group were identified; and (ii) that there were adequate staff with appropriate qualifications and experience, resources and budget of its accounting and financial reporting function, and adequate training programmes have been provided for during the year.

The Company has established and maintained procedures and internal controls for the handling and dissemination of inside information. The Company has adopted a code of conduct for dealing in the securities of the Company by the Directors in accordance with Appendix 10 to the Listing Rules. Other employees of the Group who are likely to be in possession of inside information of the Company are also subject to dealing restrictions. Any inside information and any information which may potentially constitute inside information is promptly identified, assessed and escalated to the Board and for the Board to decide on the need for disclosure. Inside information and other information which is required to be disclosed pursuant to the Listing Rules will be announced on the respective websites of the Stock Exchange and the Company in due course.

COMPANY SECRETARY

During the Year, the Company Secretary has complied with the training requirement under Rule 3.29 of the Listing Rules.

All members of the Board have access to the advice and services of the Company Secretary. The appointment and removal of the Company Secretary are subject to the Board's approval.

AUDITOR'S REMUNERATION

For the Year, the remuneration in respect of services provided by the independent auditors of the Company for the Group are set out as follows:

Services rendered	**Fee paid/payable** *HK$'000*
Audit service for annual audit *(Note 2)*	1,080
Non-audit service for interim review *(Note 1)*	220
Total	1,300

Note 1: During the year, BDO Limited resigned as auditor of the Company.

Note 2: Moore Stephens CPA Limited was appointed by the Directors to fill causal vacancy so arising.

DIRECTORS' AND OFFICERS' INSURANCE

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

COMMUNICATION WITH SHAREHOLDERS

The Company has in place a shareholders' communication policy to ensure that shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

Information will be communicated to the Shareholders through the Company's financial reports, circulars and announcements, AGMs and other general meetings that may be convened, as well as all the disclosures submitted to the Stock Exchange for publication.

The Company will continue to maintain an open and effective investor communication policy and to update investors with relevant information of the Group in a timely manner.

DIRECTORS' AND AUDITOR'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility to prepare financial statements of the Group and other financial disclosures required under the Listing Rules and the Company's management will provide information and explanation to the Board to enable it to make informed assessments of the financial and other decisions.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The statement of the auditor of the Company in respect of its reporting responsibilities on the Group's consolidated financial statements for the year ended 31 December 2020 is set out in the "Independent Auditor's Report" on pages 47 to 50 of this report.

Environmental, Social and Governance Report

The Company is pleased to present the Environmental, Social and Governance Report ("**ESG Report"**) for the year ended 31 December 2020. The Company is committed to undertake corporate social responsibility ("**CSR**") and considers CSR as a long-term worthy commitment. The Company is also committed to incorporating the concept of sustainable development into its business operations and management processes to better achieve an all-win situation and comprehensive development for the economy, society and the environment. This report covers the financial year ended 31 December 2020 and discloses the Company's CSR approach, strategy, priorities and objectives.

This report has been reviewed and approved by the board (the "**Board**") of directors (the "**Directors**") of the Company which has the overall responsibility for reviewing and monitoring corporate governance practices and ESG strategy across the Group. The Board maintains regular communication with management with regard to the effectiveness of the Group's execution of CSR.

REPORT SCOPE

This report covers the core business of the Company and its subsidiaries (collectively, the "**Group**") in the PRC, namely the production and sale of sintered NdFeB magnetic materials.

REPORTING FRAMEWORK

This ESG Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "**ESG Reporting Guide**") under Appendix 27 of the Listing Rules of the Stock Exchange of Hong Kong Limited and has complied with the "comply or explain" provisions of the ESG Reporting Guide.

REPORTING PERIOD

The ESG Report describes the ESG activities, challenges and measures being taken during the financial year ended 31 December 2020 (the "**Reporting Period**").

STAKEHOLDERS ENGAGEMENT

Stakeholder engagement plays a core role in the sustainability of the Group. The Group recognises the mechanism for ongoing communications established with stakeholders to understand and respond to stakeholders' concerns. The Group has established different communication channels with key stakeholders to report regularly to stakeholders on the Group's strategic planning and performance on sustainable development, and to consult the opinions and concerns of all stakeholders, so that the Group's business practices can meet their expectations. The Group will consider the expectations of different stakeholders and, through mutual cooperation, enable the Group to continuously improve its performance and create greater value for the community.

The Group's stakeholders include employees, government and regulatory authorities, customers, suppliers or subcontractors, community, shareholders, institutions and individual investors and media. The Group will communicate with stakeholders on different topics through different communication channels. The Group's communication channels with the key stakeholders, as well as their expectations are as follows:

Stakeholder	Communication Channel	Expectations
Employees	Training activities Team building activities Regular performance assessment Company internal notices and communications	Career development Health and safety Remuneration and benefits Working environment
Government and regulatory authorities	Meetings and visits Reports and submissions made according to regulatory requirements	Compliance with the laws and regulations Fulfill tax obligation Business ethics
Customers	Customer activities Satisfaction questionnaire Telephone and face-to-face meetings	Safe and high-quality products Business integrity and ethics Stable relationship
Suppliers or subcontractors	Meetings On-site inspection Regular assessment Exchanges and mutual visits	Stable demand Business ethics and reputation Cooperation with mutual benefits
Community	Community activities Community investment and fundraising activities	Economic development Community contribution Environmental protection
Shareholders, institutions and individual investors	Annual general meeting and notices Annual and interim reports, announcements and circulars Company website	Information disclosure and transparency Return on the investment Corporate governance system
Media	Press release and announcements Annual and interim reports Company website	Communication with media Transparent information

MATERIALITY ASSESSMENT

Through stakeholder engagement processes based on the aforementioned channels, the Group has conducted a comprehensive materiality assessment with its stakeholder groups to identify corresponding ESG issues and assess the materiality to the Group's operations. The following outlines the procedures of the assessment:

Identification of Potential ESG Issues

Initial screening of related issues with reference to the ESG Reporting Guide and benchmarking against material ESG issues of comparable peers

Stakeholder Evaluation

Internal and external stakeholders have been invited to provide rating and comments to each ESG issue through formal and informal meetings

Prioritisation

The results from issues identification and stakeholder evaluation have been consolidated and considered to generate the ESG materiality risks

Validation

The Group's management has validated and confirmed the relevant material ESG issues, and how they link to the respective aspects and KPIs of the ESG Reporting Guide

A materiality assessment matrix is plotted to present the results:

Importance to Stakeholders \ Importance to the Group	Low	Medium	High
High		Staff Development and Training Employee Remuneration and Benefits Prevention of Bribery, Blackmail, Fraud and Money Laundering	Product Quality Inspection Customer Satisfaction Supplier Quality Management Occupational Health and Safety Health and Safety related to Products
Medium	Community Investment	Anti-corruption Mechanism Greenhouse Gas ("**GHG**") Emissions Electricity Consumption Water Consumption	Customer Information and Privacy Sewage Management Exhaust Gas Emissions Impacts on the Environment and Natural Resources
Low	Prevention of Child and Forced Labour	Waste Recycling and Reuse Waste Management Use of Packaging Materials	Advertising and Labelling of Products

A. ENVIRONMENTAL

A1. Emission

The Group adheres to the strategy of sustainable development in its operations. In terms of environmental protection, since the introduction of the ISO14001 environmental management system in 2012, the Group has been implementing the "Marvelous Quality, Permanent Magnet" policy, with the aim to reducing energy consumption and greenhouse gas ("**GHG**") emissions, as well as exploring operating methods that will create less harm to the environment. The Group values the importance of good environmental management, and strive to protect the environment so to implement the social responsibility of the Group.

During the year ended 31 December 2020 and up to the date of this report, the Directors are not aware of any non-compliance with relevant laws and regulations regarding emissions including air and GHG emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. The management of the Group always looks for ways to improve emission reduction and believes any outputs from its production processes can be reused/recycled in a certain extent as inputs in other production processes.

Air pollutants emissions

	2020 *metric tons*	2019 *metric tons*
SO2 emission	**0.0017**	0.0031
Nitrogen oxides emission	**0.0009**	0.0021
Ammoniac nitrogen emission	**0.0023**	0.0043
Particulate matter ("**PM**")	**0.41**	0.78

GHG Emissions

The major sources of the Group's GHG emissions comes from energy consumption during production processes. The Group has actively adopted the following measures for the purpose of reducing GHG emissions during operation:

- Increasing the usage of low sulphur content fuel and unleaded fuel;
- Performing regular check and maintenance on vehicles and machineries to enhance engine performance and efficient fuel consumption;
- Installing particle trap system for vehicles and machineries;
- Actively adopting environmental protection, energy conservation and water conservation measures. The corresponding measures are described in the sections "Energy Management" and "Water Resource Management" of Aspect A2; and
- Actively adopting measures to reduce paper use in office. The corresponding measures are described in the section "Waste Management" of this section.

Through these GHG emission reduction measures, employees' awareness of reducing GHG emissions has been raised.

GHG emissions data of the Group

	2020 *metric tons*	2019 *metric tons*
CO2e (Scope 1)		
Combustion of petrol for motor vehicles	**30.58**	64.82
CO2e (Scope 2)		
Purchased electricity	**1,126.32**	2,138.60
CO2e (Scope 3)		
Business air travel	**12.55**	41.63
Total GHG	**1,169.45**	2,245.05
Intensity (metric tons/million RMB revenue)	**4.82**	5.09

Wastewater Management

The Group will discharge wastewater during daily operation process, and only a small amount of wastewater will be discharged during operation. The wastewater generated from office will directly discharge into municipal pipelines. The wastewater generated in the production processes is redirected to the wastewater treatment station through drainpipe for centralized treatment. The Group recycles some sewage from production and reuse after treatment and install flushing system with sensor in the washroom.

Waste Management

The Group adheres to the principle of waste management, and is committed to properly handling and disposing all waste generated by its business activities. All of the Group's waste management practices comply with relevant environmental laws and regulations.

Non-hazardous Waste

For non-hazardous waste, the waste generated by the Group is mainly the paper waste from office operation for administrative purposes and sales material.

The Group requires all departments and employees that generate solid wastes to take measures in collecting and storing solid wastes. Each department should clearly label the containers or designated locations used to collect solid waste. Solid recyclable wastes will be classified for centralized storing and recycling upon reaching a certain amount; while non-recyclable production and household garbage will be collected daily by qualified contractor for processing.

The Group has implemented the following measures to enhance paper efficiency, and thereby reducing carbon footprint and the impact on the environment.

- Reminding employees to take sensible measures when photocopying;
- Encouraging employees to use both sides of the paper;
- Separating paper from other wastes for recycling; and
- Placing a carton and a paper tray next to the photocopier to collect single-sided paper for recycling.

The Group also promotes reduction knowledge sharing with employees through bulletin boards, company newsletters and postings so to raise the awareness of environmental protection. Through the above waste reduction measures, employees' awareness of waste reduction has increased.

Hazardous Waste

Since the Group has tried to reduce and avoid using hazardous materials such as cleaning and polishing chemicals or production methods that will produce hazardous wastes and qualified contractors are engaged to handle hazardous waste. Therefore, the Group did not generate significant amount of hazardous wastes during the Reporting Period.

	2020		2019	
	metric tons	Intensity (metric tons/ million RMB revenue)	metric tons	Intensity (metric tons/ million RMB revenue)
Wastes				
Solid wastes (Hazardous)	**5.13**	**0.02**	8.98	0.02
Solid wastes (Non-hazardous)	**305.09**	**1.26**	533.65	1.30

With implementation of the measures above, the Group believes the objectives of reducing energy consumption, GHG emission, wastewater and non-hazardous and hazardous waste generation can be achieved.

A2. Use of Resources

The Group has a policy in place to pursue energy conservation and improvement of resource utilisation rate vigorously.

The management of the Group always looks for ways to improve energy conservation and resource utilisation rate as the management of the Group believes improvement of energy conservation or resource utilisation rate can lead to the increase in production efficiency and in turn an increase in the gross profit margin.

Energy Management

In line with the concept of energy conservation, the Group is committed to the integrated transformation of the energy-saving system to promote low-carbon recycle and pollution reduction in environmental protection facilities with the aim to reduce unnecessary energy consumption and improve energy efficiency. During daily production operation, the Group's major energy consumption is power consumption for production of NdFeB magnetic materials. The Group has established guidelines to promote the efficient use of equipment. The relevant measures are specified as follows:

Lighting equipment

- Encouraging employees to use natural light for daily operations, and enhance the maintenance of lighting equipment; and
- Promoting and increasing the use of energy-efficient lighting fixtures e.g. energy-saving lamps and bulbs.

Production equipment

- Promoting and increasing the use of energy-saving production facilities and equipment;
- Conducting regular inspection to minimize energy consumption; and
- Requiring employees to turn off all production equipment when production ceases to prevent excessive power consumption.

Air-conditioning equipment

- Restricting use of air conditioners according to seasonal and temperature changes; and
- Requiring employees to turn off air-conditioning before leaving the office;

The Group's energy consumption intensity has slightly increased from about 7.39 MWh per million RMB revenue in 2019 to about 7.89 MWh per million RMB revenue in 2020. The Group's energy consumption performances are summarized as follows:

Electricity	2020	2019
Total consumption (MWh)	**1,916.51**	3,040
Intensity (MWh/million RMB revenue)	**7.89**	7.39

Water Resources Management

The Group's use of water resources mainly comprises of water used for hydrogen decrepitation in production and domestic purposes. The Group does not heavily rely on the use of water resources, and the consumption of domestic water has a limited impact on the Group.

Water	2020	2019
Total consumption (Cubic metres)	**25,937**	41,941
Intensity (Cubic metres/number of staff)	**135.09**	181.56

To further reduce and reuse water resources and with the aim to promote efficient water resources management, the Group actively advocates the Group's employees to develop the concept of water conservation. The Group has formulated the following water conservation measures:

- Conducting regular inspection on water equipment, pipelines, valves, etc within the plant and office, and immediately inform the maintenance department to carry out repairs when damage or water leakage is found and reduce unnecessary water consumption;
- Posting water-saving tips at the prominent area to remind our employees to build a good habit to cherish water usage; and
- Recycling of industrial water as much as possible;

Considering the production model and geographic locations of the Group's factories and offices, the Group does not have any issue relating to accessing water sources. During the Reporting Period, the Group also complied with relevant government regulations regarding sewage discharge.

Use of Packaging Materials

The Group's major products are sintered NdFeB magnetic materials. The major packaging materials are poly velvet, cartons and plastic materials. The Group is committed to reducing secondary pollution caused by excessive use of packaging materials. The condition of consumption of packaging materials and the respective intensity are as follows:

Type of packaging materials	2020		2019	
	Total consumption *tonnes*	Intensity *tonnes/ million RMB revenue*	Total consumption *tonnes*	Intensity *tonnes/ million RMB revenue*
Foam boxes	**31.52**	**0.13**	57.86	0.14
Cartons	**42.07**	**0.17**	57.45	0.14
Plastic bags	**24.03**	**0.10**	33.27	0.08
Plastic pads	**6.5**	**0.03**	10.90	0.03
Other packaging materials	**9.7**	**0.04**	11.01	0.03

It is expected that the amount of packaging material per unit utilized will be maintained in a similar level in the future.

A3. The Environment and Natural Resources

As a NdFeB magnetic material manufacturer and supplier, the Group understands that the improper handling of production materials and waste could potentially lead to contamination of the surrounding environment. Therefore, the Group has adopted policies to pursue the minimisation of the Group's impact on the environment and natural resources and integrated the concept of environmental protection into its daily operations and internal management. The relevant policies include:

- Establishing internal environmental management team which monitors and supervises its production procedure to ensure strict compliance with relevant environmental laws and regulations;
- Adopting waste treatment policies to ensure all wastes are properly handled before discharge;
- Encouraging suppliers and subcontractors to adopt eco-friendly policies and measures during the procurement and production process

On the other hand, the major GHG generated from the Group's production cycle is particulate matter. The Group has laid down procedures to ensure strict compliance with relevant laws and regulations and to mitigate unnecessary GHG emission. Energy conservation and environmental sustainability is one of the Group's fundamental policies as the Group is aware of the potential threat brought about by climate change, such as extreme weather conditions which includes flooding and typhoons.

Apart from the measures and policies above, the Group has adopted other measures to optimize GHG emission and resource consumption. During the Reporting Period, the Group has implemented monthly monitoring of the usage of electricity and water. Monthly consumption reports will be produced in order to detect unusual high consumption on electricity and water, and corresponding measures will be taken.

B. SOCIAL

B1. Employment

Key performance indicators	2020 Number of employees	2020 Turnover rate (%)	2019 Number of employees	2019 Turnover rate (%)
Total number of employees	**197**	**21.3%**	231	14.3%
Total number of male employees	**113**	**26.6%**	138	13.0%
Total number of female employees	**84**	**14.3%**	93	16.1%
Total number of employees	**197**	**21.3%**	231	14.3%
Total number of full-time employees	**197**	**21.3%**	231	14.3%
Total number of part-time employees	**0**	**n/a**	0	n/a
Total number of employees	**197**	**21.3%**	231	14.3%
Within the age group of 18–35	**113**	**24.8%**	129	15.5%
Within the age group of 36–55	**76**	**13.2%**	92	13.0%
Within the age group of >55	**8**	**25%**	10	10%

The Group has policies in place covering employee compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. To the best knowledge of the Directors, during the year ended 31 December 2020 and up to the date of this report, the Directors are not aware of any non-compliance with relevant employment laws and regulations.

The Group is an equal opportunity employer and recruits employees from the open market. Its employment policy is based on individual merits, suitability to the relevant job requirements, and fairness. The Group prohibits discrimination against potential candidates in the recruitment process on account of their race, colour, religion, sex and gender identity/sexual orientation, age, marital and parental status, and/or pregnancy or medical conditions.

The Group values its employees and offers competitive packages to attract and retain qualified employees by providing competitive remuneration and pension, career advancement opportunity, and various benefits in kind. Salaries are reviewed and adjusted regularly based on technical requirements and skills level of the position, performance appraisals and the market trend.

The Group has adopted the Share Option Scheme to, among others, (i) recognise the contributions by certain employees and to provide them with incentives in order to retain them for the continual operation and development of the Group; and (ii) attract suitable personnel for further development of the Group.

The resting time of the Group's employees is also well respected and the employees are entitled to paid holidays pursuant to statutory requirements or otherwise under their respective employment contracts. There is a computerised attendance registration system in place to continuously monitor the working hours of the employees.

B2. Health and Safety

The Group has policies in place to ensure a safe working environment and protect employees from occupational hazards. To the best knowledge of the Directors, during the year ended 31 December 2020 and up to the date of this report, the Directors are not aware of any non-compliance with relevant laws and regulations in terms of providing a safe working environment and protecting employees from occupational hazards.

In terms of corporate operation and occupational safety and health management, the Group obtained and passed the Quality Management System Certification (IATF16949), Occupational Health and Safety Management System Certification (OHSAS18001) recognised by international organization, and has provided a healthy, safe and stable working environment. In addition, the Group also regularly reviews its working procedures. The Group provides personal protective equipment and implements appropriate administrative controls, for instance, safety work procedure manual are provided to employees. The Group also regularly identifies, evaluates and ensures minimum hazardous exposures to employees to e.g. physical demanding tasks such as heavy manual material handling and lifting. The Group also anticipates, identifies and assesses potential emergency situations and events regularly. To minimize their impact, emergency plans and response procedures such as emergency reporting, employee notifications, evacuation processes, drills and recovery plans are established and implemented. Furthermore, in light of the COVID-19 pandemic, workplace was disinfected regularly and more air purifiers were installed to improve air quality, and new ventilation system were installed in washing rooms to reduce the risk of virus transmission.

The Group provides training to its employees as to safe working environment and safe production in order to raise their awareness and cautiousness. The Group arranges workshops for management staff to receive multi-dimensional safety know-how trainings and learn skills such as first aid, use of fire-fighting equipment and emergency escape to enhance safety awareness of basic staff. The Group's employees are also trained on a regular basis to be vigilant and ready to react to emergencies in a timely and calm manner so as to reduce any disruption that could affect its business.

Key performance indicators	2020	2019
Number of work-related fatalities	**0**	0
Rate of work-related fatalities (as a% of total employees)	**0**	0
Lost days due to work injury	**0**	0

During the Reporting Period, the Group did not record any accidents that resulted in death or serious physical injury, and no claims or compensation were paid to its employees due to such accident. The Group was not aware of any material non-compliance of laws and regulations in relation to health and safety of employees.

In addition, the Group has adopted the following measures to protect employees' occupational health and safety:

- Providing staff with pre-job safety training and on-job special safety production operation training from time to time;
- Conducting regular safety inspection on machinery and equipment;
- Implementing physical examination of employees with occupational disease hazards, requiring employees to wear protective equipment as required by relevant laws and regulations, and conducting spot checks; and
- Purchasing accident insurance to ensure occupational safety of staff.

B3. Development and Training

The Group has policies in place to ensure that comprehensive trainings are provided to employees on a regular basis. The Group fully understands the importance of provision of training to its employees and how it creates value to the Group in the long run. Considering its employees to be indispensable to the Group's business achievements, apart from safety related training as mentioned above, the Group also provides both internal and external training programs to its employees regularly with a view to enhancing their work quality and personal development.

Training for newly hired employees:

- Training and assessment is provided based on the "Training Schedule for Newly hired Employee," where employees are required to pass the assessment before working;
- Training at the workshop prior to taking up a new role;
- Training is provided during probation; and
- Training is carried out for those workers who required special operation skills in accordance with the "Operation Manual for the qualification of the Special Position Operators".

Training for existing employees:

- Training relating to product features, product requirements and manufacturing process is provided to all employees of relevant manufacturing departments before the production of new products;
- Develop and implement annual training plans with contents relating to environmental and social protection, product quality, human resources policies and regulations; and
- Training regarding the usage of special equipment and manufacturing process.

Key performance indicators	**2020**	2019
Total number of employees received training	**197**	231
Total number of male employees received training	**113**	138
Total number of female employees received training	**84**	93
Total number of senior management received training	**8**	9
Total number of middle management received training	**16**	18
Total number of the rest of staffs received training	**173**	204
Average training hours for male employee	**64**	118
Average training hours for female employee	**62**	60
Average training hours for senior management	**8**	14
Average training hours for middle management	**12**	20
Average training hours for the rest of staffs	**72**	144

B4. Labour Standards

The Group has policies in place to prevent child and forced labour from working within the Group. During the year ended 31 December 2020 and up to the date of this report, the Directors are not aware of any non-compliance with relevant laws and regulations in terms of hiring and having child and forced labour work within the Group.

The Group has rigorous recruitment procedures and guidelines which set out the basic requirements of each posts, including the education background, age, probation period, promotion path etc. Each job applicant would be required to fill in his/her information on a recruitment questionnaire, which would then be checked and verified by the Group's human resources department to ensure the accuracy of the information provided and to ensure the Group's compliance of relevant laws and regulations in terms of hiring child and forced labour, working permission etc. Such exercise enables the Group to hire suitable candidates in accordance with the job requirements.

B5. Supply Chain Management

The Group has policies in place to manage the environmental and social risks of the supply chain of the Group. The Group implements a set of strict procedures as to suppliers selection, subcontractors selection and timing of procurement for raw materials to effectively monitor procurement procedures, maintain cost control, increase procurement management transparency, while putting forward the requirements of environment and social risks control to suppliers.

To ensure the Group's product quality, its raw materials and products procurement policy is to select only those suppliers on an approved list who have passed the Group's quality control tests and have a satisfactory record of quality and on-time delivery. The Group also practises ethical procurement and targets to source raw materials from socially responsible suppliers. To achieve this, all personnel with supply chain management responsibilities are trained to ensure, to the extent practicable, that selected suppliers are legally compliant in respect of materials and products provided to the Group. Conformity by suppliers with the relevant industrial standards and ethical business norms in their supply of materials and products to the Group is one of the supplier selection criteria that the Group takes into account. Suppliers' fulfilment of the environment, health and safety requirements of the Group are relevant factors which will be taken into account by the Group in its supplier selection process.

Apart from continuously monitoring the quality of products and materials, the Group will also review suppliers' environmental and social responsibility-related practices annually through, for example, site inspections and interviews. The Group's management will review the procurement process and may source materials/products from alternative suppliers when a supplier has been identified by the Group to have deficient environmental and social responsibility practices and has not made any improvement upon request.

The Group will consider to terminate suppliers or subcontractors who create pollution or cause social harm, or have created significant environmental or social incidents. Through the above review, the Group can ensure the quality of the materials supplied, while also reducing the potential environmental and social risks in the supply chain.

Key performance indicators	2020	2019
Number of suppliers (i.e. major suppliers with annual procurement amount of more than RMB1 million) in PRC	**12**	12
Number of suppliers (i.e. major suppliers with annual procurement amount of more than RMB1 million) overseas	**0**	0

B6. Product Responsibility

The Group has policies regarding product responsibility in place to cover issues like product safety, advertising, labelling, privacy etc. To the best knowledge of the Directors, during the year ended 31 December 2020 and up to the date of this report, the Directors are not aware of any non-compliance with relevant laws and regulations relating to product responsibility issues. There was no product recall by the Group and the Group had not received any significant complaint against its products.

Quality Management

To ensure that the highest quality products are provided to customers, the Group has developed a stringent quality control system covering supplier selection, material testing, production process control, product factory inspection, after-sales service, product quality tracking and other processes.

In addition, the Group has established and implemented a number of systems and mechanisms to ensure products of the Group are meeting relevant requirements, including the quality inspection mechanism of first inspection, self-inspection; line inspection, cross inspection and final inspection; the abnormal reporting and correction system. The Group has a professional team which is responsible for quality management through strict product quality training assessment in order to enhance employee’s responsibility on product quality and safety, as well as the awareness on quality control.

The Group has also established a product tracing system to enable retrieval of details about the responsible production workers of its products and the relevant batch of raw materials. This facilitates identification of production issues when there are defective products. The system also ensures successful recall and effective disposal of unqualified products.

Customer Service

The Group has in place a customer complaints handling and control procedure to deal with customer complaints and product return matters, so as to fulfill customers’ requirements on product quality and services, and enable communication with customers and problem handling in a timely and effective manner. In the meantime, by addressing specific customer complaints, the Group constantly refines its internal management and customer service model, and endeavors to provide customers with quality products and services.

Customer Data Protection

The Group recognizes the importance of customer data protection. The Group requires its staff to comply with the Group’s internal rules and regulations on information protection and handle and store customer-related information with prudence and care. The Group has also implemented various computer controls to protect customer information in its computer systems. Such internal control measures are reviewed on a regular basis to ensure their effectiveness. The Group has established a data backup procedure and a regular test and inspection program for backup data. The Group also signs confidentiality and non-competition agreements with employees.

Protection of Intellectual Property Rights

The participation of all employees is required in order to effectively protect the intangible assets of the Group. The Group actively carries out relevant training and presentations to raise employees' awareness of intellectual property protection, and the Group will introduce the existing intellectual property rights and management methods in the induction training for new employees. To safeguard the confidentiality of products under development and related product information, The Group has policies in place to give clear guidelines for handling different intellectual property rights and patented proprietary information, such as design and production technologies for either developed or developing projects.

Advertising and Labelling

Due to the business nature of the Group, the Group only conducts limited publicity activities. Therefore, the business operations of the Group do not involve advertising and label related matters.

B7. Anti-corruption

The Group has policies in place to prohibit wrongdoing involving of bribery, extortion, fraud and money laundering. To the best knowledge of the Directors, during the year ended 31 December 2020 and up to the date of this report, the Directors are not aware of any non-compliance with relevant laws and regulations regarding anti-corruption and prevention of bribery, extortion, fraud and money laundering.

The Group's management coordinates and directs anti-corruption work, including conducting training on anti-corruption laws and regulations and business ethics for employees, evaluating corruption risks, formulate code of conduct and setting up corresponding control procedures. The Group implements a code of conduct that requires all Directors and employees of the Group to adhere a high standard of integrity, avoiding situations with conflicts of interest, assets misappropriation and making appropriate declarations/ reporting to the Directors when appropriate. In particular, employees are not allowed to receive any benefits, gifts or any improper advantage during business contacts with suppliers, subcontractors and customers.

The Group has established a confidential whistle-blowing system whereby employees, customers, suppliers, subcontractors and other concerned parties can report any actual or suspected occurrence of improper conduct involving the Group, and for such matters to be investigated and dealt with efficiently in an appropriate and transparent manner. The Group's internal audit department is responsible for overseeing the conduct of investigations and making recommendations in response to the complaints and reports.

B8. Community Investment

The Group has policies in place as to community engagement where the Group has been working closely with the local government in providing assistance to the local community. The Group proactively participate in community service activities and encourage its employees to dedicate their time and skills to supporting the community. During the early stages of the COVID-19 pandemic, the Group provided financial assistance and donated surgical masks, protective clothing, gloves and other PPE to local communities.

INDEX OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject Areas	Aspects	KPI & Disclosure	Description	Section
A. Environmental	A1: Emissions	General Disclosure	Information on air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous wastes: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact	Emission
		A1.1	The types of emissions and respective emissions data	Emission
		A1.2	Total greenhouse gas emissions and intensity	GHG emissions data of the Group
		A1.3	Total hazardous waste produced and intensity	Hazardous Waste
		A1.4	Total non-hazardous waste produced and intensity	Non-hazardous Waste
		A1.5	Description of measures to mitigate emissions and results achieved	Emission
		A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Hazardous Waste
	A2: Use of Resources	General Disclosure	Policies on the effective use of resources, including energy, water and other raw materials	Use of Resources
		A2.1	Total direct and/or indirect energy consumption by type and intensity	Energy Management
		A2.2	Total water consumption and intensity	Water Resources Management
		A2.3	Description of energy use efficiency initiatives and results achieved	Energy Management
		A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Water Resources Management
		A2.5	Total packaging material used for finished products and with reference to per unit produced	Use of Packaging Materials

Subject Areas	Aspects	KPI & Disclosure	Description	Section
	A3: The Environment and Natural Resources	General Disclosure	Policies on minimizing significant impact on the environment and natural resources	The Environment and Natural Resources
		A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	The Environment and Natural Resources
B. Social	B1: Employment	General Disclosure	Information on compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact	Employment
		B1.1	Total workforce by gender, employment type, age group and geographical region	Employment
		B1.2	Employee turnover rate by gender, age group and geographical region	Employment
	B2: Health and Safety	General Disclosure	Information on providing a safe working environment and protecting employees from occupational hazards: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact	Health and Safety
		B2.1	Number and rate of work-related fatalities	Health and Safety
		B2.2	Lost days due to work injury	Health and Safety
		B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Health and Safety
	B3: Development and Training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	Development and Training
		B3.1	The percentage of employees trained by gender and employee category	Development and Training
		B3.2	The average training hours completed per employee by gender and employee category	Development and Training

Subject Areas	Aspects	KPI & Disclosure	Description	Section
	B4: Labour Standards	General Disclosure	Information on prevention of child and forced labour: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact	Labour Standards
		B4.1	Description of measures to review employment practices to avoid child and forced labour	Labour Standards
		B4.2	Description of steps taken to eliminate such practices when discovered	Labour Standards
	B5: Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain	Supply Chain Management
		B5.1	Number of suppliers by geographical region	Supply Chain Management
		B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Supply Chain Management
	B6: Product Responsibility	General Disclosure	Information on health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact	Product Responsibility
		B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Product Responsibility
		B6.2	Number of products and service related complaints received and how they are dealt with	Product Responsibility
		B6.3	Description of practices relating to observing and protecting intellectual property rights	Protection of intellectual property rights
		B6.4	Description of quality assurance process and recall procedures	Quality Management
		B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	Customer Data Protection

Subject Areas	Aspects	KPI & Disclosure	Description	Section
	B7: Anti-corruption	General Disclosure	Information on prevention of bribery, extortion, fraud and money laundering: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact	Anti-corruption
	B8: Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the Group operates and to ensure its activities take into consideration the communities' interests	Community Investment

Independent Auditor's Report

MOORE

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大華馬施雲會計師事務所有限公司

TO THE MEMBERS OF UNIVERSAL STAR (HOLDINGS) LIMITED
(Incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Universal Star (Holdings) Limited (the "**Company**") and its subsidiaries (together the "**Group**") set out on pages 51 to 104, which comprise the consolidated statement of financial position as at 31 December 2020 and the consolidated statement of profit or loss and other 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 2020, 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.

OTHER MATTER

The consolidated financial statements of the Group for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those statements on 23 March 2020.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by 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.

ALLOWANCE FOR EXPECTED CREDIT LOSS ON TRADE RECEIVABLES

Refer to summary of significant accounting policies in Note 4, critical accounting estimates and judgements in Note 5 and disclosure of trade receivables in Note 18 to the consolidated financial statements.

As at 31 December 2020, the Group had net trade receivables amounting to approximately RMB169,825,000, after making loss allowance of approximately RMB6,502,000. It represented approximately 35.9% of the total assets of the Group and is considered quantitatively significant to the Group.

The Group's loss allowance is measured at an amount equal to lifetime expected credit loss ("**ECL**") based on management's estimated loss rates for each category of trade receivables. The estimated loss rates take into account the ageing of the trade receivables, overdue balances, information regarding the ability and intent of the debtors to pay and their respective default rates based on historical credit losses data and settlement record.

We have identified allowance for ECL on trade receivables as a key audit matter due to considerable amount of judgement and estimates being required in conducting impairment assessment as mentioned in the foregoing paragraph.

OUR RESPONSE

Our procedures in relation to management's allowance for ECL on trade receivables included the following:

- obtained an understanding of and assessed the design, implementation and operating effectiveness of key internal controls relating to credit control, debt collection and the calculation of the ECL;
- assessed the trade receivables ageing report by group based on shared credit risk characteristics and the days past due by comparing the details of individual items with underlying invoices on a sample basis;
- enquired management for the status of each of the material outstanding trade receivables as supported by corroborative audit evidence, such as historical credit losses data, on-going business relationship with those debtors by taking into account of settlement records and economic outlook that is relevant to the operations of those debtors; and
- obtained an understanding of the basis of management's approach to measuring ECLs of trade receivable balances and assessed the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including tested the accuracy of the historical default data, evaluated whether the historical loss rate is appropriately adjusted based on current economic conditions and forward-looking information.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Company's 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.

DIRECTORS' RESPONSIBILITIES 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 HKFRS, issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company 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 also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors of the Company in discharging their responsibility in this regard.

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. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 skepticism 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 of the Company.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

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 year 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.

Moore Stephens CPA Limited
Certified Public Accountants

Li Wing Yin
Practising Certificate Number: P05035

Hong Kong, 31 March 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Revenue	6	**249,957**	411,454
Cost of sales		**(198,598)**	(295,889)
Gross profit		**51,359**	115,565
Other income and other net gains	7	**49,489**	2,845
Selling and distribution expenses		**(2,896)**	(4,479)
Administrative expenses		**(60,807)**	(44,790)
Allowance for ECL on trade receivables	37(b)	**(5,328)**	(349)
Finance costs	8	**(1,811)**	(3,407)
Profit before income tax	9	**30,006**	65,385
Income tax expense	10	**(7,889)**	(12,835)
Profit for the year attributable to owners of the Company		**22,117**	52,550
Other comprehensive income, net of tax			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of operation outside the People's Republic of China ("**PRC**")		**908**	955
Total comprehensive income for the year attributable to owners of the Company		**23,025**	53,505
Earnings per share			
Basic and diluted	13	**RMB4.42 cents**	RMB11.6 cents

Consolidated Statement of Financial Position

As at 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	14	**132,871**	118,085
Prepayments	16	**6,766**	17,223
Deferred tax assets	26	**974**	–
		140,611	135,308
Current assets			
Inventories	17	**36,661**	38,617
Trade receivables	18	**169,825**	89,114
Deposits, prepayments and other receivables	19	**4,377**	934
Tax recoverable		**2,776**	–
Cash and cash equivalents	20	**119,229**	180,046
		332,868	308,711
Non-current assets classified as held for sale	21	**–**	16,519
		332,868	325,230
Current liabilities			
Trade payables	22	**11,318**	23,091
Accruals and other payables	23	**47,485**	46,233
Lease liabilities	24	**341**	216
Tax payable		**–**	1,875
Bank borrowings	25	**26,000**	26,000
		85,144	97,415
Net current assets		**247,724**	227,815
Total assets less current liabilities		**388,335**	363,123
Non-current liabilities			
Lease liabilities	24	**551**	–
Deferred tax liabilities	26	**10,542**	8,906
		11,093	8,906
Net assets		**377,242**	354,217
EQUITY			
Share capital	27	**43,024**	43,024
Reserves		**334,218**	311,193
Total equity		**377,242**	354,217

The consolidated financial statements on pages 51 to 104 were approved and authorised for issue by the Board of Directors on 31 March 2021 and are signed on its behalf by:

Lyu Zhufeng
Director

Lu Qingxing
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

		Reserves						
	Share capital *RMB'000*	**Share premium*** *RMB'000*	**Other reserves*** *RMB'000*	**Statutory reserves*** *RMB'000*	**Exchange reserves*** *RMB'000*	**Retained profits*** *RMB'000*	**Total reserves** *RMB'000*	**Total equity** *RMB'000*
At 1 January 2019	–**	63,132	220	22,738	(19)	119,733	205,804	205,804
Profit for the year	–	–	–	–	–	52,550	52,550	52,550
Other comprehensive income for the year	–	–	–	–	955	–	955	955
Total comprehensive income for the year	–	–	–	–	955	52,550	53,505	53,505
Appropriation to statutory reserves	–	–	–	7,157	–	(7,157)	–	–
Shares issued pursuant to the capitalisation *(Note 27(c))*	32,086	(32,086)	–	–	–	–	(32,086)	–
Shares issued pursuant to the public offering and placing *(Note 27(d))*	10,938	98,667	–	–	–	–	98,667	109,605
Transaction costs attributable to the public offering and placing *(Note 27(d))*	–	(14,697)	–	–	–	–	(14,697)	(14,697)
At 31 December 2019 and 1 January 2020	**43,024**	**115,016**	**220**	**29,895**	**936**	**165,126**	**311,193**	**354,217**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**22,117**	**22,117**	**22,117**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**908**	**–**	**908**	**908**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**908**	**22,117**	**23,025**	**23,025**
Appropriation to statutory reserves	**–**	**–**	**–**	**3,781**	**–**	**(3,781)**	**–**	**–**
At 31 December 2020	**43,024**	**115,016**	**220**	**33,676**	**1,844**	**183,462**	**334,218**	**377,242**

* The total of these amounts as at the reporting dates represents "Reserves" in the consolidated statement of financial position.

** The amount is less than RMB1,000.

Notes:

(a) Other reserves represent the aggregate of the paid up capital and capital reserve of the subsidiaries comprising the Group attributable to the shareholders prior to the group reorganisation (the "**Reorganisation**"). Details about the Reorganisation are set out in the prospectus of the Company dated 30 April 2019.

(b) Statutory reserves represent the amount transferred from net profit for the year of the subsidiaries established in the PRC (based on the subsidiaries' PRC statutory financial statements) in accordance with the relevant PRC laws until the statutory reserves reach 50% of the registered capital of the subsidiaries. The statutory reserves cannot be reduced except either in setting off the accumulated losses or increasing capital.

(c) Exchange reserves comprise all relevant translation differences arising from the translation of the financial statements of operations with functional currency other than RMB.

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Cash flows from operating activities			
Profit before income tax		**30,006**	65,385
Adjustments for:			
Depreciation of property, plant and equipment	9	**11,729**	11,441
Depreciation of investment properties	9	**–**	888
Allowance for ECL on trade receivables	37(b)	**5,328**	349
Write back of allowance for ECL on other receivables	37(b)	**(4)**	–
Bank interest income	7	**(438)**	(342)
Finance costs	8	**1,811**	3,407
Gain on disposal of property, plant and equipment and investment properties	7	**(34,487)**	–
Loss on disposal of property, plant and equipment	7	**880**	–
Operating profit before working capital changes		**14,825**	81,128
Decrease/(increase) in inventories		**1,956**	(3,238)
Increase in trade receivables		**(86,039)**	(8,094)
(Increase)/decrease in deposits, prepayments and other receivables		**(2,808)**	3,761
Decrease in trade payables		**(11,773)**	(8,521)
Increase/(decrease) in accruals and other payables		**11,649**	(5,157)
Cash (used in)/generated from operations		**(72,190)**	59,879
Income tax paid		**(11,878)**	(2,436)
Net cash (used in)/generated from operating activities		**(84,068)**	57,443
Cash flows from investing activities			
Purchase of property, plant and equipment		**(16,896)**	(434)
Prepayments for property, plant and equipment		**(6,766)**	(16,642)
Refund from prepayment for property, plant and equipment		**6,000**	–
Proceeds from disposal of property, plant and equipment and investment properties	21	**11,006**	–
Proceeds from disposal of property, plant and equipment		**90**	–
Temporary receipts from non-current assets classified as held for sale	21	**–**	40,000
Interest income received		**438**	342
Net cash (used in)/generated from investing activities		**(6,128)**	23,266

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Cash flows from financing activities			
Proceeds from bank borrowings		**–**	42,800
Repayment of bank borrowings		**–**	(90,664)
Capital element of leases paid		**(383)**	(864)
Interest element of leases paid		**(24)**	(32)
Advance from a director of the Company	*23(ii)*	**3,946**	–
Repayment to shareholders		**–**	(438)
Interest on bank borrowings		**(1,552)**	(3,375)
Interest on amount due to a director		**(235)**	–
Temporary receipts from subscription under other payables	*23(i)*	**25,657**	–
Shares issued pursuant to the public offering and placing		**–**	109,605
Transaction costs attributable to the public offering and placing		**–**	(14,697)
Net cash generated from financing activities		**27,409**	42,335
Net (decrease)/increase in cash and cash equivalents		**(62,787)**	123,044
Cash and cash equivalents at beginning of the year		**180,046**	56,071
Effect of foreign exchange rate changes		**1,970**	931
Cash and cash equivalents at end of the year	*20*	**119,229**	180,046

Note:

Non-cash transactions

(i) During the year, additions of property, plant and equipment of approximately RMB11,147,000 (2019: Nil) were prepaid in prior years and the amounts were transferred from prepayments for property, plant and equipment.

(ii) Gain on disposal of property, plant and equipment and investment properties included realisation of temporary receipts of RMB40,000,000 (Note 21) which had been received by the Group during the year ended 31 December 2019.

(iii) During the year, the sales proceeds of approximately RMB555,000 (2019: Nil) from disposal of property, plant and equipment have been recorded in other receivables.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

1. GENERAL INFORMATION

Universal Star (Holdings) Limited (the "**Company**") is a limited liability company incorporated in the Cayman Islands as an exempted company under the Companies Laws Chapter 22 of the Cayman Islands. The Company was listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 16 May 2019. The address of the Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company's principal place of business is located at the People's Republic of China (the "**PRC**").

The principal activity of the Company is investment holding. The principal activities of the Group are production and sales of sintered NdFeB magnetic materials, also known as neodymium magnet.

At the date when the consolidated financial statements were authorised for issue, in the opinion of the directors of the Company (the "**Directors**"), the Company's immediate and ultimate holding company is Star Lv Limited, a company incorporated in the British Virgin Islands ("**BVI**") with limited liability.

The consolidated financial statements for the year ended 31 December 2020 were approved for issue by the board of directors on 31 March 2021.

2. ADOPTION OF NEW OR REVISED HKFRSs

(a) Adoption of new/revised HKFRSs — effective 1 January 2020

The Group has applied for the first time the following new and revised standards and interpretation ("**new and revised HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") which are effective for the Group's financial year beginning on or after 1 January 2020.

HKAS1 and HKAS 8 Amendments	Definition of Material
HKFRS 3 Amendments	Definition of a Business
HKFRS 9, HKAS 39 and HKFRS 7 Amendments	Interest Rate Benchmark Reform — Phase 1
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting

The application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. ADOPTION OF NEW OR REVISED HKFRSs *(Continued)*

(b) New standards, interpretations and amendments not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

		Effective for annual reporting periods beginning on or after
HKFRS 10 and HKAS 28 Amendments	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined*
Amendment to HKFRS 16	COVID-19 related rent concessions	1 June 2020
HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Amendments	Interest Rate Benchmark Reform — Phase 2	1 January 2021
HKAS 16 Amendments	Property, Plant and Equipment — Proceeds before Intended Use	1 January 2022
HKAS 37 Amendments	Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
HKFRS 3 Amendments	Reference to the Conceptual Framework	1 January 2022
HKFRSs Amendments 2018-2020	Annual Improvements to HKFRSs	1 January 2022
HKAS 1 Amendments	Classification of Liabilities as Current or Non-current	1 January 2023
HKFRS 17	Insurance Contracts	1 January 2023

* The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2019. The effective date has now been deferred. Early application of the amendments continues to be permitted.

The Directors do not anticipate that the application of the new and revised HKFRSs will have material impact on the Group's consolidated financial statements and/or the disclosures to the Group's consolidated financial statements.

3. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("**HKASs**") and Interpretations and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis. These consolidated financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The functional currency of the Company and certain of its subsidiaries is Hong Kong dollars ("**HK$**"). As the major operations of the Group are within the PRC, the Group presents its consolidated financial statements in RMB, unless otherwise stated.

It should be noted that accounting estimates and assumptions are used in the preparation of the consolidated financial statements. Although these estimates are based on management's best knowledge and judgement of current events and other factors, actual results may ultimately different from those estimates. The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Effective from 1 January 2020, the Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the test is not met, or if the acquirer elects not to apply the test, the Group shall then perform the assessment to determine if the inputs and substantive process that together significantly contribute to the ability to create output are present to determine whether the set of activities and assets is a business.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Business combination and basis of consolidation *(Continued)*

Acquisition of subsidiaries that meet the definition of a business or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

(b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Subsidiaries *(Continued)*

De-facto control exists in situations where the Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the Company considers all relevant facts and circumstances, including:

- The size of the Company's voting rights relative to both the size and dispersion of other parties who hold voting rights;
- Substantive potential voting rights held by the Company and other parties who hold voting rights;
- Other contractual arrangements; and
- Historic patterns in voting attendance.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(c) Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods, or for administrative purposes as described below, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their costs net of estimated residual values over their estimated useful lives on straight-line method. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Land and buildings	20 to 50 years
Plant and machinery	10 years
Motor vehicles	5 years
Furniture, fixtures and office equipment	3–5 years

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Investment properties also include lease properties which are being recognised as right-of-use assets and subleased by the Group under operating lease. Investment properties are measured initially at cost including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment property over its estimated useful life and after taking into account its estimated residual value, using the straight-line method. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement in the year in which they arise.

The useful lives are 20 years.

An investment property is derecognised upon disposal or when the investment property permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in the period of the retirement or disposal.

(e) Leasing

All leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or; (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

The Group also has leased investment properties under tenancy agreements which the Group exercises it judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. As a result, the right-of-use asset arising from the properties under tenancy agreements are carried at depreciated cost.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Leasing *(Continued)*

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Accounting as a lessor

The Group has leased out its investment property to a number of tenants. Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

(f) Financial Instruments

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss ("**FVTPL**"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

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 market place.

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Financial Instruments *(Continued)*

(i) Financial assets *(Continued)*

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

Fair value through other comprehensive income ("**FVOCI**"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are FVOCI. Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

FVTPL: Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

(ii) Impairment loss on financial assets

The Group recognises loss allowances for ECL on trade and other receivables and financial assets measured at amortised cost. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Financial Instruments *(Continued)*

(ii) Impairment loss on financial assets *(Continued)*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has assessed the allowance for ECL on trade receivables on a collective basis using a provision matrix with appropriate groupings that is based on the Group's historical credit loss experience, external and internal credit-rating and aging, past due status and repayment history of these balances, adjusted for forward-looking factors specific to the debtors and the macro-economic environment.

For other debt financial assets, the ECLs are based on the 12-month ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Group considers a financial asset to be default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade payables, accruals and other payables, lease liabilities and bank borrowings, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Financial Instruments *(Continued)*

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

(g) Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale when:

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been initiated;
- the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- a sale is expected to complete within 12 months from the date of classification.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Non-current assets held for sale and disposal groups *(Continued)*

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

- their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and
- fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated. The results of operations disposed of during the year are included in profit or loss up to the date of disposal.

(h) Cash and cash equivalents

Cash and cash equivalents include cash at banks and in hand as well as short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(i) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(j) Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer, net of expected goods of returns, discounts and sales related taxes. Revenue is recognised when performance obligation is satisfied.

(i) Sale of goods

The Group is principally engaged in the manufacture and sale of sintered NdFeB magnetic materials (finished products and rough cast products).

Customers obtain control of the sintered NdFeB magnetic materials when the goods are delivered to customers. Revenue is thus recognised upon when the customers accepted the sintered NdFeB magnetic materials. There is limited judgement needed in identifying the point control passes: once physical delivery of the products to the agreed location has occurred, the Group no longer has physical possession, usually will have a present right to payment (as a single payment on delivery) and retains none of the significant risks and rewards of the goods in question. There is only one performance obligation of the contracts with customers which is the goods are delivered to customers and this performance obligation is satisfied at a point of time. Invoices are generally payable within 90 days to 120 days.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Revenue recognition *(Continued)*

(i) Sale of goods *(Continued)*

Incremental cost of obtaining a contract is capitalised if the Group expects to recover those cost, unless the amortisation period for such costs would be one year or less. Costs that will be incurred regardless of whether the contract is obtained are expensed as they are incurred. The Group presents a contract liability or a contract asset in its consolidated statement of financial position when either party to the contract has performed. Where applicable, the Group performs by transferring goods or services to the customer, and the customer performs by paying consideration to the Group. Any unconditional rights to consideration are presented separately as "Trade receivables".

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and the payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

(ii) Other income

Interest income from financial assets is accrued on a time basis, by reference on the principal outstanding and at the applicable interest rate. Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

(k) Research and development costs

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

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

(l) Foreign currency translation

Transactions entered into by the group entities in currencies other than the currency of the primary economic environment in which they operate are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Foreign currency translation *(Continued)*

The functional currencies of the Company and certain subsidiaries are currencies other than the RMB. The assets and liabilities of these entities are translated into the presentation currency of the Group at the exchange rates ruling at the end of each reporting period, and their income and expense items are translated into RMB at the weighted average exchange rates for the period. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve. On disposal of an operation with functional currency other than RMB, the component of other comprehensive income relating to that particular operation is recognised in the statement of profit or loss.

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

(m) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amount of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Income tax *(Continued)*

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

There are no provisions under the central pension scheme operated by the local municipal government (the "**Scheme**") pursuant to the relevant regulations of the PRC government, whereby forfeited contributions may be used to reduce future contributions.

(n) Employee benefits

(i) Defined contribution retirement plan

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated statement of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Employee benefits *(Continued)*

(i) Defined contribution retirement plan *(Continued)*

The Scheme the Group participates in, whereby the subsidiary of the Company in the PRC is required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiary of the Company. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme. Contributions under the Scheme are charged to profit or loss as incurred. No forfeited contribution is available to reduce the contribution payable in future years.

(ii) Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short-term employee benefits are recognised in the year when the employees render the related service.

(o) Impairment of other assets (other than financial assets)

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment/investment property under cost model;
- right-of-use assets; and
- investments in subsidiaries on statement of financial position of the Company.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. 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 time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Impairment of other assets (other than financial assets) *(Continued)*

Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the cash-generating unit (or group of units) on a pro rata basis, except that the carrying amount of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use, (if determinable).

Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(p) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are deducted in reporting the related expense or recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted the grant in calculating the carrying amount of the asset that is recognised in profit or loss over the life of a depreciable asset as a reduced depreciation expense. An unconditional government grant is recognised in profit or loss as other revenue when the grant becomes receivable.

(q) Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors, the chief operating decision-makers of the Group ("**CODM**"), for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product lines.

For the purposes of assessing segment performance and allocating resources between segments, the CODM assess segment profit or loss by gross profit or loss as measured in HKFRS financial statements.

For the purpose of presenting geographical location of the Group's revenue from external customers and the Group's non-current assets, country of domicile is determined by reference to the country where the majority of the Company's subsidiaries operate.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefit is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) Related parties

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

(I) A person or a close member of that person's family is related to the Group if that person:

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

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(II) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities 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 the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (I).

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

(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 Company's parent.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Related parties *(Continued)*

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Our key sources of estimation uncertainty are as follows:

(i) Depreciation and amortisation

The Group depreciates the property, plant and equipment and investment properties and right-of-use assets in accordance with the accounting policies stated in Notes 4(c), 4(d) and 4(e) respectively. The estimated useful lives reflect the Directors' estimates of the periods that the Group intends to derive future economic benefits from the use of these assets. The management reassesses the estimated useful lives at the end of reporting period.

(ii) Allowance for ECL on trade receivables

The allowance for ECL on trade receivables is based on assumptions about probability of default and expected credit loss rates. The Group adjusts judgement in making these assumptions and selecting inputs for computing such allowance for ECL, broadly based on the available customers' historical data, external and internal credit-rating, existing market conditions including forward-looking estimates at the end of reporting period. The forward-looking information includes multiple macro-economic data and external benchmark, where available.

(iii) Estimates of current tax and deferred tax

Significant judgement is required in determining the amount of the provision for tax and the timing of payment of the related tax. Where the final tax outcomes are different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination is made.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(iv) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset of cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

6. REVENUE AND SEGMENT REPORTING

The CODM review the Group's internal reporting in order to assess performance of the Group on a regular basis and allocate resources.

The Group is principally engaged in the production and sales of sintered NdFeB magnetic materials. The CODM assess performance of the operation based on a measure of operating results and consider the operation in a single operating segment. Information reported to the CODM for the purposes of resources allocation and performance assessment focuses on the operation results of the Group as a whole as the Group's resources are integrated. Accordingly, the Group has identified one operating segment — production and sales of sintered NdFeB magnetic materials (finished products and rough cast products).

(i) Information about major customers

No individual external customers accounted for 10% or more of the Group's revenue for the year (2019: Nil).

(ii) Geographical information

The Group's revenue from external customers are divided into the following geographical locations of customers:

	2020 ***RMB'000***	2019 *RMB'000*
The PRC	**225,798**	411,454
Asia (exclusive of the PRC)	**24,159**	–
	249,957	411,454

The Group's non-current assets are all located in the PRC.

6. REVENUE AND SEGMENT REPORTING *(Continued)*

(iii) Disaggregation of revenue

All the Group's revenue is derived from contracts with customers.

In the following table, revenue is disaggregated by major products and timing of revenue recognition.

	2020 RMB'000	2019 RMB'000
Major products		
Finished products	**213,234**	330,277
Rough cast products	**36,723**	81,177
	249,957	411,454
Timing of revenue recognition		
Products transferred at a point in time	**249,957**	411,454

7. OTHER INCOME AND OTHER NET GAINS

	2020 RMB'000	2019 RMB'000
Bank interest income	**438**	342
Exchange losses, net	**(1,119)**	(305)
Write back of allowance for ECL on other receivables	**4**	–
Compensation received from a supplier *(Note(i))*	**1,200**	–
Government grants *(Note (ii))*	**15,074**	972
Rental income generated from investment properties	**281**	1,644
Gain on disposal of property, plant and equipment and investment properties *(Note 21)*	**34,487**	–
Loss on disposal of property, plant and equipment	**(880)**	–
Others	**4**	192
	49,489	2,845

Notes:

(i) During the year, the Group received a one-off concession of RMB1,200,000 (2019: Nil) from a supplier due to the breach of a purchase contract of machineries.

(ii) Government grants mainly comprised of subsidies in relation to the Group's innovation projects, award for industrial development, award for the listing of the Company and compensation for demolition and emptying out the premise. There are no unfulfilled conditions or contingencies attaching to these grants.

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8. FINANCE COSTS

	2020	2019
	RMB'000	*RMB'000*
Interest on bank borrowings	**1,552**	3,375
Interest on amount due to a director of the Company	**235**	–
Interest on lease liabilities	**24**	32
	1,811	3,407

9. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging the following:

	2020	2019
	RMB'000	*RMB'000*
Auditors' remuneration	**960**	1,332
Cost of inventories recognised as expenses	**198,598**	295,889
Research and development expenditure	**39,152**	13,971
Depreciation charge:		
— Owned property, plant and equipment	**11,039**	10,390
— Right-of-use-assets included within:		
— Land and buildings	**690**	1,051
— Investment properties	**–**	27
Depreciation of investment properties	**–**	861
Short-term leases expenses	**469**	179
Low-value assets leases expenses	**–**	10
Listing expenses	**–**	7,523
Staff costs (including Directors' emoluments) *(Note 11)*:		
— Salaries, wages and other benefits	**17,943**	19,752
— Retirement scheme contribution	**1,117**	2,101
	19,060	21,853

10. INCOME TAX EXPENSE

	2020 *RMB'000*	2019 *RMB'000*
Current tax		
Tax for the current year	**7,257**	10,991
Overprovision in prior year	**(30)**	(1,337)
Deferred tax		
Charged to consolidated profit or loss for the year *(Note 26)*	**662**	3,181
	7,889	12,835

Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profits arising in Hong Kong during the year (2019: Nil).

Under the PRC Corporate Income Tax Law (the "**CIT Law**"), the Group's PRC entities are subject to income tax at a rate of 25%, unless otherwise specified. One of the Group's subsidiaries, Ningde Xingyu Technology Co., Ltd ("**Xingyu Technology**") is eligible and entitled to a preferential income tax rate of 15% as a High New Technology Enterprise from 2018 to 2020.

The income tax expense for the year can be reconciled to the profit before income tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2020 *RMB'000*	2019 *RMB'000*
Profit before income tax	**30,006**	65,385
Tax calculated at the PRC corporate income tax at a rate of 25% (2019: 25%)	**7,502**	16,346
Effect of different tax rates of subsidiaries operating in other jurisdictions	**1,287**	1,391
Tax effect of expenses not deductible for tax purposes	**1,795**	2,833
Tax effect of income not taxable for tax purpose	**(13)**	(28)
Effect attributable to the additional tax deduction at preferential tax rate	**(4,288)**	(9,551)
Deferred tax on undistributed earnings of PRC subsidiaries	**1,636**	3,181
Overprovision in prior years	**(30)**	(1,337)
	7,889	12,835

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11. EMOLUMENTS OF DIRECTORS, CHIEF EXECUTIVE, FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT

(a) Directors' emoluments

	Fees *RMB'000*	Salaries, allowance and benefits-in-kind *RMB'000*	Discretionary bonuses *RMB'000*	Retirement scheme contributions *RMB'000*	Total *RMB'000*
Year ended 31 December 2020					
Executive director					
Mr. Lyu Zhufeng	533	1,040	90	59	1,722
Non-executive director					
Mr. Lu Qingxing	320	131	28	22	501
Independent non-executive directors					
Mr. Fan Chun Wah, Andrew, *J.P.* (appointed on 2 April 2019 and resigned on 1 October 2020)	200	–	–	–	200
Mr. Tsang Chun Yiu (appointed on 30 December 2020)	–	–	–	–	–
Mr. Yan Aru (appointed on 2 April 2019)	107	–	–	–	107
Mr. Lee Ming Tak (appointed on 2 April 2019)	139	–	12	–	151
	1,299	1,171	130	81	2,681

11. EMOLUMENTS OF DIRECTORS, CHIEF EXECUTIVE, FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT *(Continued)*

(a) Directors' emoluments *(Continued)*

	Fees *RMB'000*	Salaries, allowance and benefits-in-kind *RMB'000*	Discretionary bonuses *RMB'000*	Retirement scheme contributions *RMB'000*	Total *RMB'000*
Year ended 31 December 2019					
Executive director					
Mr. Lyu Zhufeng	395	626	84	33	1,138
Non-executive director					
Mr. Lu Qingxing	236	127	14	16	393
Independent non-executive directors					
Mr. Fan Chun Wah, Andrew, *J.P.* (appointed on 2 April 2019 and resigned on 1 October 2020)	197	–	17	–	214
Mr. Yan Aru (appointed on 2 April 2019)	79	–	–	–	79
Mr. Lee Ming Tak (appointed on 2 April 2019)	103	–	8	–	111
	1,010	753	123	49	1,935

(b) The five highest paid individuals

The five highest paid individuals of the Group during the year are analysed as follows:

	2020 ***Number of individuals***	2019 *Number of individuals*
Directors	**2**	2
Non-Directors, the highest paid individual	**3**	3
	5	5

11. EMOLUMENTS OF DIRECTORS, CHIEF EXECUTIVE, FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT *(Continued)*

(b) The five highest paid individuals *(Continued)*

Details of the emoluments of the above non-Directors, the highest paid individuals during the year are as follows:

	2020 **RMB'000**	2019 RMB'000
Salaries and other emoluments	**1,522**	1,040
Discretionary bonuses	**106**	104
Retirement scheme contributions	**37**	70
	1,665	1,214

The number of the highest paid non-Directors fell within the following emolument band:

	2020 **Number of individuals**	2019 Number of individuals
Nil to HK$1,000,000	**3**	3

During the year, no emoluments were paid by the Group to any of the Directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived any emoluments during the year (2019: Nil).

(c) Senior management's emoluments

The number of senior management (excluding the Directors) whose remuneration fell within the following bands is as follows:

	2020 **Number of individuals**	2019 Number of individuals
Nil to HK$1,000,000	**3**	3

12. DIVIDENDS

No dividend was paid or proposed by the Directors during the year, nor has any dividend been proposed since the end of the reporting period (2019: Nil).

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2020	2019
	RMB'000	*RMB'000*
Earnings		
Earnings for the purposes of basic earnings per share	**22,117**	52,550

	2020	2019
Number of share		
Weighted average number of ordinary shares *(Note)*	**500,000,000**	453,767,123

Note:

The calculation of basic earnings per share for the year is based on the profit attributable to the owners of the Company of approximately RMB22,117,000 (2019: RMB52,550,000) and the weighted average number of 500,000,000 (2019: 453,767,123) ordinary shares.

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2019 included the weighted average effect of 125,000,000 shares issued upon the share offering of the Company's shares on 16 May 2019 and the 375,000,000 shares in issue prior to the listing.

Diluted earnings per share are same as the basic earnings per share as there is no dilutive potential ordinary shares in existence during the years ended 31 December 2020 and 2019.

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14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Furniture, fixtures and office equipment *RMB'000*	Total *RMB'000*
Cost					
At 1 January 2019	104,624	59,819	4,568	1,637	170,648
Additions	53	52	–	329	434
Transferred to investment properties *(Note 15)*	(1,116)	–	–	–	(1,116)
Classified as held for sale *(Note 21)*	(2,758)	–	–	–	(2,758)
Exchange adjustment	21	–	–	–	21
At 31 December 2019 and 1 January 2020	**100,824**	**59,871**	**4,568**	**1,966**	**167,229**
Additions	**4,516**	**23,395**	**132**	**–**	**28,043**
Disposals	**(1,030)**	**(15,859)**	**(130)**	**(624)**	**(17,643)**
Exchange adjustment	**(37)**	**–**	**–**	**(1)**	**(38)**
At 31 December 2020	**104,273**	**67,407**	**4,570**	**1,341**	**177,591**
Accumulated depreciation					
At 1 January 2019	13,772	20,873	3,859	768	39,272
Depreciation	5,845	5,296	159	141	11,441
Transferred to investment properties *(Note 15)*	(329)	–	–	–	(329)
Classified as held for sale *(Note 21)*	(1,257)	–	–	–	(1,257)
Exchange adjustment	17	–	–	–	17
At 31 December 2019 and 1 January 2020	**18,048**	**26,169**	**4,018**	**909**	**49,144**
Depreciation	**5,860**	**5,417**	**220**	**232**	**11,729**
Disposals	**(1,030)**	**(14,517)**	**(124)**	**(447)**	**(16,118)**
Exchange adjustment	**(36)**	**–**	**–**	**1**	**(35)**
At 31 December 2020	**22,842**	**17,069**	**4,114**	**695**	**44,720**
Net carrying amount					
At 31 December 2020	**81,431**	**50,338**	**456**	**646**	**132,871**
At 31 December 2019	82,776	33,702	550	1,057	118,085

Land and buildings which are held for own use are situated in the PRC. At 31 December 2020, land and buildings with carrying amounts of approximately RMB81,368,000 (2019: RMB81,892,000) were pledged as collateral for the Group's bank borrowings (Note 25).

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

As at 31 December 2020 and 2019, the right-of-use assets relate to the following types of assets:

	Land and buildings *RMB'000*
At 1 January 2019	14,061
Depreciation	(1,051)
Transferred to investment properties *(Note 15)*	(787)
Foreign exchange movement	3
At 31 December 2019 and 1 January 2020	**12,226**
Addition	**1,059**
Depreciation	**(690)**
Foreign exchange movement	**(1)**
At 31 December 2020	**12,594**

The analysis of the carrying amount of right-of-use assets by class of underlying assets is as follows:

	2020 ***RMB'000***	2019 *RMB'000*
Ownership interests in prepaid land with remaining lease term of:		
— Between 10 and 50 years	**11,682**	11,958
Other properties leased for own use, carried at depreciated cost over the lease terms of 3 years (2019: 2 to 3 years)	**912**	268

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

	Buildings *RMB'000*
At 1 January 2019	1,076
Interest expense	32
Lease payments	(896)
Foreign exchange movements	4
At 31 December 2019 and 1 January 2020	**216**
Additions	**1,059**
Interest expense	**24**
Lease payments	**(407)**
At 31 December 2020	**892**

15. INVESTMENT PROPERTIES

	2019 *RMB'000*
Cost	
At 1 January	24,211
Transferred from property, plant and equipment *(Note 14)*	1,116
Classified as held for sale *(Note 21)*	(25,327)
At 31 December	–
Accumulated depreciation	
At 1 January	9,092
Depreciation	888
Transferred from property, plant and equipment *(Note 14)*	329
Classified as held for sale *(Note 21)*	(10,309)
At 31 December	–
Net carrying amount	
At 31 December	–

As at 31 December 2019, the right-of-use assets relate to the following type of asset:

	Investment properties *RMB'000*
At 1 January 2019	–
Transferred from property, plant and equipment *(Note 14)*	787
Depreciation	(27)
Classified as held for sale	(760)
At 31 December 2019	–

16. PREPAYMENTS

	2020 ***RMB'000***	2019 *RMB'000*
Prepayment for property, plant and equipment	**6,766**	17,152
Prepaid expenses	**–**	71
	6,766	17,223

17. INVENTORIES

	2020	2019
	RMB'000	*RMB'000*
Raw materials	**28,607**	27,978
Work-in-progress	**6,400**	4,773
Finished goods	**1,654**	5,866
	36,661	38,617

18. TRADE RECEIVABLES

	2020	2019
	RMB'000	*RMB'000*
Trade receivables	**176,327**	90,288
Less: allowance for ECL	**(6,502)**	(1,174)
	169,825	89,114

All of the trade receivables are expected to be recovered within one year.

The Group allows credit periods ranging from 90 to 120 days (2019: 90 to 120 days) to its customers. Before accepting any new customer, the Group assesses the potential customer's credit quality. Credit term granted to customers is reviewed regularly.

The ageing analysis of trade receivables at the end of each reporting period, net of allowance for ECL, based on invoice date is as follows:

	2020	2019
	RMB'000	*RMB'000*
0–30 days	**13,447**	35,964
31–60 days	**12,107**	41,143
61–90 days	**14,744**	11,019
91–180 days	**45,928**	988
181–365 days	**83,459**	–
Over 365 days	**140**	–
	169,825	89,114

18. TRADE RECEIVABLES *(Continued)*

The ageing analysis of trade receivables at the end of each reporting period, net of allowance for ECL, based on past due date is as follows:

	2020	2019
	RMB'000	*RMB'000*
Current	**40,297**	88,126
Past due for less than 1 month	**10,840**	988
Past due for more than 1 month but less than 2 months	**14,752**	–
Past due for more than 2 months but less than 3 months	**20,337**	–
Past due for more than 3 months but less than 1 year	**83,459**	–
Past due for over 1 year	**140**	–
	169,825	89,114

The Group applies the simplified approach to provide for ECL prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the allowance for ECL, trade receivables have been grouped based on shared credit risk characteristics and the ageing.

Movements on the allowance for ECL on trade receivables are shown in Note 37(b). As at 31 December 2020, additional allowance for ECL of approximately RMB5,328,000 (2019: RMB349,000) was made against the gross amount of trade receivables.

19. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2020	2019
	RMB'000	*RMB'000*
Deposits	**56**	310
Prepayments	**121**	294
Other receivables	**4,200**	334
	4,377	938
Less: allowance for ECL	**–**	(4)
	4,377	934

The above balances are expected to be recovered or recognised as expense within one year.

Movements on the net allowance for ECL on other receivables are shown in Note 37(b). During the year, write back of allowance for ECL of approximately RMB4,000 (2019: Nil) was made on other receivables.

20. CASH AND CASH EQUIVALENTS

	2020	2019
	RMB'000	*RMB'000*
Cash at bank	**119,213**	180,028
Cash on hand	**16**	18
	119,229	180,046

Certain cash and bank balances denominated in RMB placed with banks in the PRC. RMB is not freely convertible to other currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies only through banks that are authorised to conduct foreign exchange business.

21. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

During the year ended 31 December 2019, Xingyu Technology, an indirect wholly owned subsidiary of the Group, and Dongqiao Economic and Technological Development District Land Reserve Center ("**Dongqiao ETD**"), an independent third party, entered into a prepayment agreement, pursuant to which Dongqiao ETD will acquire a parcel of land, 3 industrial buildings, a research and development building and various structures which are held by Xingyu Technology (the "**Disposal**"). For details of the Disposal, please refer to the announcement of the Company dated 10 October 2019.

As at 31 December 2019, prepayment of RMB40,000,000 had been received by the Group and included in both cash and cash equivalents and temporary receipts. As a result of the Disposal, property, plant and equipment and investment properties had been presented as assets classified as held for sale in the consolidated statement of financial position as at 31 December 2019 in accordance with HKFRS 5.

On 8 May 2020, the Disposal was completed upon receipt of the remaining balance of the Disposal's consideration of approximately RMB11,006,000 from Dongqiao ETD. For details, please refer to the announcement of the Company dated 10 May 2020.

21. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE *(Continued)*

The following major classes of assets had been classified as held for sale in the consolidated statement of financial position as at 31 December 2019.

	2019 *RMB'000*
Property, plant and equipment *(Note 14)*	1,501
Investment properties *(Note 15)*	15,018
	16,519

22. TRADE PAYABLES

	2020 ***RMB'000***	2019 *RMB'000*
Trade payables	**11,318**	23,091

The credit terms of trade payables vary according to the terms agreed with different suppliers, normally range from 30 days to 60 days (2019: 30 to 60 days). Based on the receipt of services and goods, which normally coincided with the invoice dates, the ageing analysis of the Group's trade payables as at the end of each reporting period is as follows:

	2020 ***RMB'000***	2019 *RMB'000*
0–30 days	**4,537**	23,091
31–90 days	**1**	–
91–365 days	**4,480**	–
Over 365 days	**2,300**	–
	11,318	23,091

The trade payables are short-term and hence the carrying values of the Group's trade payables are considered to be a reasonable approximation of fair value.

23. ACCRUALS AND OTHER PAYABLES

	2020	2019
	RMB'000	*RMB'000*
Salaries payables	**1,591**	1,831
Accruals and other payables *(Note (i))*	**41,525**	2,298
Amount due to a director of the Company *(Note (ii))*	**3,946**	–
Financial liabilities measured at amortised cost	**47,062**	4,129
Temporary receipts *(Note 21)*	**–**	40,000
Other tax payables	**423**	2,104
	47,485	46,233

Notes:

(i) On 10 June 2020, the Company entered into subscription agreements (the "**Subscription Agreements**") with seven individuals who are independent third parties and private investors (collectively, the "**Subscribers**") (the "**Subscription**"), of which none of them will become a substantial shareholder of the Company after the Subscription. Pursuant to the Subscription Agreements, the Subscribers have conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue the subscription shares, being 100,000,000 new shares, at the subscription price of HK$0.295 per subscription share. For details of the issue of the Subscription, please refer to the announcement of the Company dated 10 June 2020.

On 10 August 2020, the Directors announced that certain conditions precedent under the Subscription Agreements had not been fulfilled as of 10 August 2020. Accordingly, the Subscription Agreements had been automatically lapsed pursuant to the terms of the Subscription Agreements. The Subscription did not proceed with. For details of the lapse of the Subscription, please refer to the announcement of the Company dated 10 August 2020.

As at 31 December 2020, included in other payables, approximately RMB25,657,000 (2019: Nil) represented temporary receipts for the Subscription's net proceeds from the issue of the Subscription Shares to the Subscribers that are required to refund to the Subscribers. Pursuant to the Subscription Agreements, these balances are interest-free and shall be repayable immediately in the event of the termination of the Subscription. As at the date when these consolidated financial statements were authorised for issue, the temporary receipts for the Subscription have not been refunded.

In November 2020, one of the Subscribers filed a lawsuit against the Group to demand immediate repayment of the outstanding temporary receipts for the Subscription amounting to approximately RMB10,880,000 *(Note 38(ii))*.

(ii) The amount due to a director of the Company was non-trade in nature, unsecured, carried monthly interest at 1% and repayable on demand.

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24. LEASE LIABILITIES

During the year, the Group leases properties for the purpose of factory (2019: factory and office).

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the reporting period:

	2020		2019	
	Present value of the minimum lease payments	**Total minimum lease payments**	Present value of the minimum lease payments	Total minimum lease payments
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Within 1 year	**341**	**380**	216	218
After 1 year but within 2 years	**362**	**380**	–	–
After 2 years but within 5 years	**189**	**190**	–	–
	551	**570**	–	–
	892	**950**	216	218
Less: total future interest expenses		**(58)**		(2)
Present value of lease liabilities		**892**		216

The present value of future lease payments is analysed as:

	2020	2019
	RMB'000	*RMB'000*
Current liabilities	**341**	216
Non-current liabilities	**551**	–
	892	216

	2020	2019
	RMB'000	*RMB'000*
Short term lease expense	**469**	179
Low value lease expense	**–**	10

25. BANK BORROWINGS

	2020	2019
	RMB'000	*RMB'000*
Bank borrowings:		
— Secured	**26,000**	26,000

Total bank borrowings were scheduled to repay as follows:

	2020	2019
	RMB'000	*RMB'000*
On demand or within 1 year	**26,000**	26,000

Notes:

(i) Bank borrowings with variable interest rates were ranging from 5.16% to 5.87% per annum for both the years ended 31 December 2020 and 2019. The bank borrowings are originally matured on 5 August 2020 and further extended to be due on 4 February 2021. As at the date when the consolidated financial statement were authorised for issue, the Group is still negotiating with the bank to renew the bank borrowings and they were not yet renewed nor repaid.

(ii) The bank borrowings are secured by the land and buildings of the Group with the carrying amounts as follows:

	2020	2019
	RMB'000	*RMB'000*
Land and buildings *(Note 14)*	**81,368**	81,892

(iii) As at 31 December 2020 and 2019, guarantees were provided by the controlling shareholders of the Company, Ms. Xu Shourong, wife of Mr. Lu and Ms. Yao Jingjing, wife of Mr. Lyu for the bank borrowings.

(iv) All the bank borrowings were denominated in RMB.

(v) A summary of facilities granted by banks and the amounts utilised by the Group at 31 December 2020 and 2019 are set out below:

	2020	2019
	RMB'000	*RMB'000*
Amounts granted	**26,000**	26,000
Amounts utilised	**26,000**	26,000

The securities of the banking facilities were the same as mentioned in Notes (ii) and (iii).

26. DEFERRED TAX ASSETS/LIABILITIES

Details of the deferred tax assets/liabilities recognised and movements during the year are as follows:

Deferred tax assets

	Credit loss allowance *RMB'000*
At 1 January 2019, 31 December 2019 and 1 January 2020	–
Credited to consolidated profit or loss for the year	974
At 31 December 2020	**974**

Deferred tax liabilities

	Withholding tax on undistributed earnings *RMB'000* *(Note)*
At 1 January 2019	5,725
Charged to consolidated profit or loss for the year	3,181
At 31 December 2019 and 1 January 2020	**8,906**
Charged to consolidated profit or loss for the year	**1,636**
At 31 December 2020	**10,542**

Note:

Pursuant to the CIT Law, a 10% (2019: 10%) withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. 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 Mainland China and the jurisdiction of the foreign investors. The applicable rate for the Group is 10% and the Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2020, temporary differences relating to the undistributed profits of subsidiaries amounted to approximately RMB250,670,000 (2019: RMB214,950,000). Deferred tax liabilities of approximately RMB14,525,000 (2019: RMB12,589,000) in respect of the undistributed profits of approximately RMB145,246,000 (2019: RMB125,889,000) were not recognised as at 31 December 2020 as the Group controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

27. SHARE CAPITAL

The Company

	Notes	**2020** **Number of shares**	**Nominal value** ***RMB'000***	2019 Number of shares	Nominal value *RMB'000*
Authorised:					
Initial authorised share capital upon incorporation of HK$0.1 each	(a)	**1,000,000,000**	**85,560**	3,800,000	323
Increase in share capital upon capitalisation of HK$0.1 each	(b)	**–**	**–**	996,200,000	85,237
		1,000,000,000	**85,560**	1,000,000,000	85,560
Issued and fully paid share of HK$0.1 each					
At 1 January		**500,000,000**	**43,024**	100	–*
Issue of ordinary shares upon capitalisation	(c)	**–**	**–**	374,999,900	32,086
Issue of ordinary shares upon global offering and placing	(d)	**–**	**–**	125,000,000	10,938
At 31 December		**500,000,000**	**43,024**	500,000,000	43,024

* The amount is less than RMB1,000

Notes:

(a) The Company was incorporated on 31 July 2017 with an initial authorised share capital of HK$380,000 divided into 3,800,000 shares of a par value of HK$0.1 each. On the date of incorporation, 70 ordinary shares of HK$0.1 were allotted and issued by the Company and during the year ended 31 December 2018, 30 ordinary shares of the HK$0.1 were allotted and issued by the Company.

(b) Pursuant to written resolutions passed on 2 April 2019, the authorised share capital of the Company was increased from HK$380,000 divided into 3,800,000 ordinary shares of par value HK$0.1 each to HK$100,000,000 divided into 1,000,000,000 ordinary shares of par value HK$0.1 each, by the creation of 996,200,000 ordinary shares of par value HK$0.1 each.

(c) Pursuant to written resolutions passed on 2 April 2019, conditional on the share premium account of the Company having been credited as a result of the allotment and issue of the offer shares pursuant to the global offering, the Directors were authorised to allot and issue a total of 374,999,900 shares credited as fully paid at par by way of capitalisation of the sum of HK$37,499,990 (equivalent to approximately RMB32,086,000) standing to the credit of the share premium account of the Company, and the shares to be allotted and issued pursuant to the resolution shall rank pari passu in all respects with the existing issued shares.

(d) On 16 May 2019, 125,000,000 ordinary shares of HK$0.1 each of the Company were issued at a price of HK$1 by way of global offering. On the same date, the Company's ordinary shares were listed on the Stock Exchange. The proceeds of HK$12,500,000 (equivalent to approximately RMB10,938,000) representing the par value of the ordinary shares of the Company, were credited to the Company's share capital. The remaining proceeds of HK$112,500,000 (equivalent to approximately RMB98,667,000), before issuing expenses of approximately RMB14,697,000, were credited to the share premium account.

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28. RESERVES

The Company

	Share Premium *RMB'000*	Exchange reserves *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January 2019	63,132	4,939	(9,162)	58,909
Loss for the year	–	–	(18,716)	(18,716)
Other comprehensive income for the year	–	3,289	–	3,289
Total comprehensive income for the year	–	3,289	(18,716)	(15,427)
Shares issued pursuant to the capitalisation *(Note 27(c))*	(32,086)	–	–	(32,086)
Shares issued pursuant to the public offering and placing *(Note 27(d))*	98,667	–	–	98,667
Transaction costs attributable to the public offering and placing *(Note 27(d))*	(14,697)	–	–	(14,697)
At 31 December 2019 and at 1 January 2020	**115,016**	**8,228**	**(27,878)**	**95,366**
Loss for the year	**–**	**–**	**(8,841)**	**(8,841)**
Other comprehensive income for the year	**–**	**(8,030)**	**–**	**(8,030)**
Total comprehensive income for the year	**–**	**(8,030)**	**(8,841)**	**(16,871)**
At 31 December 2020	**115,016**	**198**	**(36,719)**	**78,495**

29. OPERATING LEASE COMMITMENT AND ARRANGEMENT

The Group as lessor

The Group leased out certain investment properties under operating leases. The leases run for an initial period of one year. None of these leases include contingent rental. As at 31 December 2019, the total future minimum lease payment receivable under operating leases in respect of investment properties was as follows:

	2019 *RMB'000*
Within one year	275

30. CAPITAL COMMITMENTS

As at 31 December 2020 and 2019, capital commitments not provided for in the consolidated financial statements were as follows:

	2020 **RMB'000**	2019 RMB'000
Capital expenditure of the Group contracted for but not provided in the consolidated financial statements in respect of:		
— Acquisition of property, plant and equipment	**1,606**	3,019

31. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in Group's liabilities arising from financing activities.

	Amounts due to shareholders RMB'000	Amount due to a director of the Company RMB'000	Temporary receipts from Subscription under other payables RMB'000	Bank borrowings RMB'000	Lease liabilities RMB'000
At 1 January 2019	438	–	–	73,888	1,076
Cash flows:					
— Proceeds from bank borrowings	–	–	–	42,800	–
— Repayment of bank borrowings	–	–	–	(90,664)	–
— Interest on bank borrowings	–	–	–	(3,375)	–
— Repayment to shareholder	(438)	–	–	–	–
— Payment of lease liabilities	–	–	–	–	(896)
Non-cash flows:					
— Interest expenses	–	–	–	3,375	32
— Exchange adjustments	–	–	–	(24)	4
At 31 December 2019 and 1 January 2020	**–**	**–**	**–**	**26,000**	**216**
Cash flows:					
— Interest on bank borrowings	**–**	**–**	**–**	**(1,552)**	**–**
— Interest on amount due to a director of the Company	**–**	**(235)**	**–**	**–**	**–**
— Advance from a director of the Company	**–**	**3,946**	**–**	**–**	**–**
— Temporary receipt from Subscriptions	**–**	**–**	**25,657**	**–**	**–**
— Payment of lease liabilities	**–**	**–**	**–**	**–**	**(407)**
Non-cash flows:					
— Addition to new lease	**–**	**–**	**–**	**–**	**1,059**
— Interest expenses	**–**	**235**	**–**	**1,552**	**24**
At 31 December 2020	**–**	**3,946**	**25,657**	**26,000**	**892**

For the year ended 31 December 2020

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2020 RMB'000	2019 RMB'000
Assets and liabilities			
Non-current asset			
Investment in a subsidiary		**–***	–*
Current assets			
Deposits, prepayments and other receivables		**60**	190
Amounts due from subsidiaries		**163,583**	138,765
Cash and cash equivalents		**25**	852
		163,668	139,807
Current liabilities			
Amount due to a subsidiary		**1,245**	–
Accruals and other payables		**40,904**	1,417
		42,149	1,417
Net current assets		**121,519**	138,390
Net assets		**121,519**	138,390
Equity			
Share capital	27	**43,024**	43,024
Reserves	28	**78,495**	95,366
Total equity		**121,519**	138,390

* The amount is less than RMB1,000.

On behalf of the directors of the Company

Lyu Zhufeng
Director

Lu Qingxing
Director

33. INTERESTS IN SUBSIDIARIES

Details of the subsidiaries are as follows:

Name of subsidiaries	Place of incorporation or registration/ operations	Percentage of ownership interests/voting rights/profit share	Issued and fully paid share capital/ registered capital	Principal activities
Universal Star (BVI) Limited	BVI	100% (2019: 100%) (direct)	US$1	Investment holding
Universal Star Hong Kong Holdings Limited	Hong Kong	100% (2019: 100%) (indirect)	HK$1	Investment holding
Universal Star International Trading Limited	Hong Kong	100% (2019: N/A) (indirect)	HK$1	Sale of sintered NdFeB magnetic materials
Ningde City Star Profit Enterprise Management Co., Ltd. (寧德市星之利企業管理有限公司) *(Notes (i) and (ii))*	PRC	100% (2019: 100%) (indirect)	RMB112,800,000	Investment holding
Xingyu Technology Co., Ltd. (寧德市星宇科技有限公司) *(Notes (i) and (iii))*	PRC	100% (2019: 100%) (indirect)	RMB162,800,000	Design, development, production and sale of sintered NdFeB magnetic materials
Ningbo Star Magnet Supply Chain Management Co., Ltd (寧波星磁供應鏈管理有限公司) *(Notes (i) and (iii))*	PRC	100% (2019: 100%) (indirect)	RMB30,000,000	Sale of sintered NdFeB magnetic materials

Notes:

(i) The English names of all subsidiaries established in the PRC are translated for identification purpose only.

(ii) These entities are established in the PRC in the form of wholly foreign-owned enterprise.

(iii) These entities are established in the PRC in the form of domestic limited liability company.

None of the subsidiaries had issued any debt securities at the end of the year (2019: Nil).

34. MATERIAL RELATED PARTY TRANSACTIONS

The key management personnel are the Directors and the five highest paid individuals of the Company. The details of the emoluments paid to them are set out in Note 11.

Except as disclosed above, no transactions, arrangements or contracts of significance in relation to the Group's business to which the Company was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted during or at the end of the financial year.

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35. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net debt, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits, respectively.

The Directors review the capital structure on a continuous basis taking into account the loss of capital and the risk associated with the capital. The Group will balance its overall capital structure through the payment of dividends, new shares issue and share buy-back as well as the issue of new debts or redemption of existing debt, if necessary. The gearing ratios as at the end of the reporting periods were as follows:

	2020 ***RMB'000***	2019 *RMB'000*
Trade payables	**11,318**	23,091
Accruals and other payables	**47,485**	46,233
Lease liabilities	**892**	216
Bank borrowings	**26,000**	26,000
Less: Cash and cash equivalents	**(119,229)**	(180,046)
Net debt	**(33,534)**	(84,506)
Equity	**377,242**	354,217
Capital and net debt	**343,708**	269,711
Gearing ratio	**(9.8%)**	(31.3%)

36. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts and fair values of the Group's financial instruments are as follows:

	2020 ***RMB'000***	2019 *RMB'000*
Financial assets		
Amortised costs:		
Trade receivables	**169,825**	89,114
Deposits and other receivables	**4,256**	640
Cash and cash equivalents	**119,229**	180,046
Financial liabilities		
Amortised costs:		
Trade payables	**11,318**	23,091
Accruals and other payables	**47,062**	4,129
Bank borrowings	**26,000**	26,000
Lease liabilities	**892**	216

37. FINANCIAL RISK MANAGEMENT

The Group's major financial instruments include trade receivables, deposits and other receivables, cash and cash equivalents, trade payables, accruals and other payables, lease liabilities and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include interest rate risk, foreign currency risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The Directors manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Interest rate risk

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits and bank borrowings. The Group is also exposed to fair value interest rate risk which relates primarily to the bank borrowings. The Group does not have an interest rate hedging policy. However, the Directors monitor interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the interest rates quoted by the People's Bank of China arising from the Group's bank borrowings.

At 31 December 2020, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB792,000 (2019: RMB1,309,000) respectively. Other components of equity would not be affected by the changes in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) is estimated as an annualised impact on interest expense or income of such a change in interest rates.

(b) Credit risk and impairment assessment

At the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the Directors have delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action are taken to recover overdue debts. In addition, the Directors review the recoverable amount of each individual receivable at the end of the reporting period to ensure that adequate allowance for ECL is made for irrecoverable amounts. In this regard, the Directors consider that the credit risk of the Group is significantly reduced.

The Directors consider that the credit risk on liquid funds is low as counterparties are banks with good reputation.

37. FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Credit risk and impairment assessment *(Continued)*

The credit risk of the Group is concentrated on trade receivables from the Group's five largest customers as at 31 December 2020 amounted to approximately RMB44,230,000 (2019: RMB20,824,000) and accounted for approximately 25% (2019: 23%%) of the Group's gross trade receivables. In order to minimise the credit risk, the Directors continuously monitor the level of exposure by frequent review of the credit evaluation of the financial condition and credit quality of its customers to ensure that prompt actions will be taken to lower exposure.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- Internal credit rating
- External credit rating
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- Actual or expected significant changes in the operating results of individual property owner or the borrower
- Significant increases in credit risk on the other financial instruments of the individual property owner or the same borrower
- Significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower

The Group applies the simplified and general approach to provide for ECL prescribed by HKFRS 9, which permits the use of the lifetime ECL for trade receivables and 12-month expected credit losses for other receivables (excluding prepayments).

In measuring the ECL, trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. 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.

37. FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Credit risk and impairment assessment *(Continued)*

As at 31 December 2020 and 2019, the loss allowance provision for the remaining balances was determined as follows. The ECL below also incorporated forward-looking information.

Trade receivables	Current	Past due for less than 3 months	Past due for more than 3 months but less than 1 year	Past due for over 1 year	Total
At 31 December 2020					
ECL rate	**0.14%**	**4.01%**	**4.98%**	**52.54%**	**N/A**
Gross carrying amount (RMB'000)	**40,355**	**47,847**	**87,830**	**295**	**176,327**
Loss allowance provision (RMB'000)	**58**	**1,918**	**4,371**	**155**	**6,502**
At 31 December 2019					
ECL rate	1.28%	2.69%	–	–	N/A
Gross carrying amount (RMB'000)	89,273	1,015	–	–	90,288
Loss allowance provision (RMB'000)	1,147	27	–	–	1,174

Changes in the loss allowances for trade receivables are mainly due to changes in the gross amounts of trade receivables and impact of changing economic environment and customers' credit qualities.

As at 31 December 2020 and 2019, the loss allowance provision for trade and other receivables (excluding prepayments) reconciles to the opening loss allowance for that provision as follows:

	Trade receivables *RMB'000*	Other receivables *RMB'000*	Total *RMB'000*
At 1 January 2019	825	4	829
Allowance for ECL recognised in consolidated profit or loss	349	–	349
At 31 December 2019 and 1 January 2020	**1,174**	**4**	**1,178**
Net allowance for ECL recognised in consolidated profit or loss	**5,328**	**(4)**	**5,324**
At 31 December 2020	**6,502**	**–**	**6,502**

As at 31 December 2020, the aggregate gross carrying amounts of trade receivables and other receivables (excluding prepayments) were approximately RMB180,583,000 (2019: RMB90,932,000) and thus the maximum exposure to loss allowance was approximately RMB174,081,000 (2019: RMB89,754,000).

37. FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from current interest rate at the end of each reporting period.

	Carrying amount	Total contractual undiscounted cash flows	Within one year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2020					
Trade payables	**11,318**	**11,318**	**11,318**	**–**	**–**
Accruals and other payables	**47,062**	**47,062**	**47,062**	**–**	**–**
Lease liabilities	**892**	**950**	**380**	**380**	**190**
Bank borrowings	**26,000**	**26,146**	**26,146**	**–**	**–**
	85,272	**85,476**	**84,906**	**380**	**190**
As at 31 December 2019					
Trade payables	23,091	23,091	23,091	–	–
Accruals and other payables	4,129	4,129	4,129	–	–
Lease liabilities	216	218	218	–	–
Bank borrowings	26,000	26,909	26,909	–	–
	53,436	54,347	54,347	–	–

(d) Foreign currency risk

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China that are determined largely by supply and demand. The Group is exposed to foreign currency risk primarily through sales that are denominated in US$, while all the other operations of the Group are mainly transacted in RMB. The Group is not exposed to foreign currency risk in respect of HK$ against the US$ as long as this currency is pegged.

The Group did not have any foreign exchange contracts, interest or currency swaps, other financial derivatives or any financial instruments for hedging purposes for the years ended 31 December 2020 and 2019.

No sensitivity analysis has been presented as, in the opinion of the Directors, the foreign currency risk associated with the Group's financial assets and liabilities will not be significant.

38. LITIGATIONS

(i) During the year ended 31 December 2020, there were litigation claims initiated by two suppliers against the Group to demand immediate repayment of overdue trading debts in relation to purchase of raw materials with an outstanding amount of RMB6,780,000 and the late penalty charges of approximately RMB895,000. Up to the date when the consolidated financial statements were authorised for issue, one of the litigations is still in progress and the other one has been concluded. An aggregate amount of RMB6,780,000 has already been recognised as payables to these suppliers and included in trade payables in the consolidated statement of financial position as at 31 December 2020. As a result of the foregoing, the Group further recognised the late penalty charges of approximately RMB895,000 and corresponding legal costs of approximately RMB18,000 in the consolidated financial statements for the year ended 31 December 2020. In the opinion of the Directors, the provision for the above litigations is sufficient in the consolidated statement of financial position as at 31 December 2020.

(ii) During the year ended 31 December 2020, there was a litigation claim initiated by one of the Subscribers (the "**Plaintiff**") against the Group to demand immediate repayment of funds provided to the Group in relation to his subscribed portion of RMB10,880,000. Up to the date when the consolidated financial statements were authorised for issue, the Plaintiff has withdrawn the aforesaid litigation claim. Pursuant to the civil mediation agreement dated 12 January 2021, the Group has agreed to repay the Plaintiff of RMB2,000,000 and RMB8,880,000 on 30 April 2021 and 30 June 2021, respectively. The aforesaid amounts have already been recognised as other payables in the consolidated statement of financial position as at 31 December 2020. As a result of the foregoing, the Group further recognised the corresponding legal costs of RMB45,000 in the consolidated financial statements for the year ended 31 December 2020. In the opinion of the Directors, the provision for the above litigation is sufficient in the consolidated statement of financial position as at 31 December 2020. As at the date when the consolidated financial statements were authorised for issue, no other litigation claims from the remaining Subscribers was noted by the Group.

Other than the disclosure of above, as at 31 December 2020, the Group was not involved in any other material litigation or arbitration. As far as the Group was aware, the Group had no other material litigation or claim which was pending or threatened against the Group. As at 31 December 2020, the Group was the defendant of certain non-material litigations, and also a party to certain litigations arising from the ordinary course of business. The likely outcome of these contingent liabilities, litigations or other legal proceedings cannot be ascertained at present, but the Directors believe that any possible legal liability which may be incurred from the aforesaid cases will not have any material impact on the financial position of the Group.

39. IMPACT OF COVID-19 ON THE GROUP'S OPERATIONS

As previously reported, the outbreak of COVID-19 in January 2020 has caused certain impact on the business operation of the Group due to suspension of the manufacturing industry. The Group's business operations have been disrupted by the outbreak of COVID-19 and the subsequent precautionary measures as well as restrictions imposed around China.

The Group estimates that the degree of COVID-19 impact on the economy is short-lived, the development direction of the industry is, however, clear and the national policies support the development of the high-performance NdFeB permanent magnets. However, the Group will keep continuous attention on the development of COVID-19 situation and react actively to its impacts on the operation and financial position of the Group, and in the event that there are any significant financial impacts, the Company will reflect it in the Group's 2021 consolidated financial statements.

40. EVENT AFTER THE REPORTING PERIOD

On 24 March 2021, the Company entered into placing agreement ("**Placing Agreement**") with the placing agent, CNI Securities Group ("**CNI**") under the general mandate which had been approved by the shareholders of the Company. Pursuant to the Placing Agreement, CNI agrees, as agent of the Company, to procure on a best effort basis of not less than six placees, who and whose ultimate beneficial owners will be independent third parties, to subscribe for up to a maximum of 100 million placing shares at a price of HK$0.37 per share (the "**Placing**"). For details, please refer to the announcements of the Company dated 24 March 2021 and 26 March 2021.

As at the date when the consolidated financial statements were authorised for issue, the Placing has yet been completed.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2020, the Group had cash and cash equivalents of approximately RMB119.2 million (31 December 2019: RMB180.0 million). The decrease was primarily due to the net cash used in operating activities.

For the year ended 31 December 2020, the Company's net cash used in operating activities amounted to approximately RMB84.1 million, while the net cash generated from operating activities amounted to approximately RMB57.4 million in the previous year. The net cash used in operating activities was mainly due to changes in working capital.

For the year ended 31 December 2020, the Company's net cash used in investing activities amounted to approximately RMB6.1 million, while the net cash generated from investing activities amounted to approximately RMB23.3 million in the previous year. The net cash used in investing activities was mainly due to purchase of property, plant and equipment.

For the year ended 31 December 2020, the Company's net cash generated from financing activities amounted to approximately RMB27.4 million, while there was net cash generated from financing activities amounted to approximately RMB42.3 million in the previous year. The decrease in net cash generated from financing activities was mainly due to net proceeds from the global offering recorded in FY2019 did not incur in FY2020.

Current ratio increased from 3.2 as at 31 December 2019 to 3.9 as at 31 December 2020, mainly due to increase in trade receivables and decrease in trade payables. Gearing ratio increased from 7.3% as at 31 December 2019 to 7.9% as at 31 December 2020, mainly attributable to the increase in net debt of the Group. The gearing ratio is calculated based on total debt divided by total equity at the end of the respective years. Net debt to equity ratio is not applicable due to the fact that cash and cash equivalents are larger than borrowings. Net debt is calculated as total borrowings and amount due to a director of the Company less cash and cash equivalents.

CAPITAL STRUCTURE

The Company's capital structure has not been changed during the year ended 31 December 2020. As at 31 December 2020, the Company's issued share capital amounted to HK$50,000,000 (equivalent to approximately RMB43,024,000) and the number of issued ordinary shares was 500,000,000 with nominal value of HK$0.1 each.

TREASURY POLICIES

The Group adopts a prudent financial management approach for its treasury policies. The Group strives to reduce its exposure to credit risks by performing ongoing credit evaluations of the financial conditions of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements from time to time.

FOREIGN EXCHANGE EXPOSURE

The functional currencies of the Group's operations, assets and liabilities are mostly denominated in Renminbi ("**RMB**"). The Group's sales are denominated in RMB (for domestic sales in China and part of export sales) and in US dollars (for another part of export sales). The Group currently does not have a foreign currency hedging policy. The Group did not engage in any derivatives agreements and did not commit to any financial instruments to hedge its foreign exchange exposure throughout the year ended 31 December 2020. The management will closely monitor foreign currency exposure and will consider hedging significant foreign currency exposure should such need arise.

Other Information

DIVIDEND

The Directors resolved not to declare any dividend for the year ended 31 December 2020 (2019: Nil).

CONTINGENT LIABILITIES

Except for matters disclosed in Note 38 to this report, the Group did not have any other material contingent liabilities as at 31 December 2020. As at 31 December 2019, the Group did not have any material contingent liabilities.

PLEDGE OF ASSETS

For details of pledge of assets, please refer to Note 25 to the consolidated financial statements.

CAPITAL COMMITMENTS

The Group's capital commitments as at 31 December 2020 were approximately RMB1,606,000, which were related to the purchase of property, plant and equipment related to its production facilities (31 December 2019: RMB3,019,000).

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

Except for matter disclosed in Note 40 to this report, there were no other significant events after the reporting period and up to the date of this report.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

Disposal of properties

On 10 October 2019, Ningde Xingyu Technology Co., Ltd. (a wholly owned subsidiary of the Company and a company established in the PRC with limited liability) entered into the prepayment agreement with Dongqiao Economic and Technological Development District Land Reserve Center in relation to the disposal of a parcel of land, 3 industrial buildings, a research and development building and various structures located in Dongqiao Economic Development District in Ningde City of Fujian Province (the "**Properties**"). The disposal constitutes a discloseable transaction of the Company under the Listing Rules. The disposal of the Properties was completed on 8 May 2020 upon receipt of the remaining balance of the disposal consideration. For details of the disposal, please refer to the announcements of the Company dated 10 October 2019 and 8 May 2020.

Save as disclosed above, the Group did not have any material acquisition and disposal of subsidiaries, associates and joint ventures during the year ended 31 December 2020. As at 31 December 2020, the Group did not hold any significant investments.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2020, the Group has 181 employees (31 December 2019: 202 employees). Total staff costs (including Directors' emoluments) were approximately RMB19,060,000 for the year ended 31 December 2020 (31 December 2019: RMB21,853,000). The employees of the Group are remunerated in accordance with their education background, position, experience and performance. In general, the Group determines employee salaries based on each employee's qualifications, position and seniority. Performance of individual employee is also reviewed periodically to determine adjustments to employee salaries. Apart from the provident fund scheme (operated in accordance with the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or social insurance (including retirement pension insurance, medical insurance, unemployment insurance, injury insurance and maternity insurance for the PRC employees), discretionary bonuses are also awarded to employees according to the assessment of individual performance. In addition, share options may be granted under the share option scheme of the Company to eligible employees on the basis of their individual performance to attract and retain talents to contribute the Group. The Group also provides various training to its employees.

The emoluments of the Directors are determined by the Board after recommendation from the remuneration committee of the Company, having considered factors including the Group's financial performance, educational background, qualifications, experience and performance of the Directors, etc.

USE OF PROCEEDS FROM THE LISTING

The shares of the Company were listed on the Main Board of the Stock Exchange on 16 May 2019 (the "**Listing Date**"). Based on the offer price of HK$1.00 per offer share, the net proceeds from the global offering received by the Company, after deducting the underwriting fees and commissions and other estimated offering expenses in relation to the global offering borne by the Company, were approximately HK$80.9 million. The Company will continue to apply the net proceeds in accordance with the manner disclosed in the prospectus of the Company dated 30 April 2019 ("**Prospectus**"). For more details of the Listing, please refer to the Prospectus.

As at 31 December 2020, approximately HK$72 million of the net proceeds has been used by the Group. The unutilised proceeds were deposited with the licensed banks in Hong Kong and the PRC. Set out below is a summary of the utilisation of the net proceeds:

		Original plan allocation of net proceeds	**Actual utilised amount as at 31 December 2020**	**Unutilised amount as at 31 December 2020**
	%	*HK$ million*	*HK$ million*	*HK$ million*
For the expansion of production capacity and the enhancement of operational efficiency	48.3%	39.1	30.2	8.9
For modifying and optimising production process and technology, and implementing key research and development projects	17.4%	14.1	14.1	–
For repayment of part of the borrowings	31.3%	25.3	25.3	–
For working capital and general corporate purposes	3.0%	2.4	2.4	–
	100.0%	80.9	72.0	8.9

Financial Summary

A summary of the results and of the assets, liabilities of the Group for the last five financial years, as extracted from the published audited consolidated financial statements and restated/reclassified as appropriate, is set out below:

RESULTS

	2020	2019	2018	2017	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**249,957**	411,454	389,722	307,599	239,212
Profit before income tax expense	**30,006**	65,385	64,176	50,443	38,610
Income tax expense	**(7,889)**	(12,835)	(13,186)	(11,727)	(8,288)
Profit for the year	**22,117**	52,550	50,990	38,716	30,322

ASSETS, LIABILITIES AND EQUITY

	2020	2019	2018	2017	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total Assets	**473,479**	460,538	328,882	372,596	351,459
Total Liabilities	**96,237**	106,321	123,053	286,540	257,606
Total Equity	**377,242**	354,217	205,829	86,056	93,853

Note:

(1) The summary of the consolidated results and financial position of the Group for the year ended 31 December 2016, 2017 and 2018 and extracted form the Company's prospectus dated 30 April 2019.