

稀美資源控股有限公司

XIMEI RESOURCES HOLDING LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 9936



ANNUAL
REPORT
2020



CORPORATE PROFILE

Ximei Resources Holding Limited (the “Company” or “Ximei Resources”, together with its subsidiaries, collectively the “Group” or “we” or “us”) is a leading manufacturer of tantalum- and niobium-based metallurgical products in China. Our primary products comprise pentoxide products (including tantalum pentoxide and niobium pentoxide) and potassium heptafluorotantalate. In terms of total annual production volume for external sales, we are the largest producer¹ of tantalum- and niobium-based hydrometallurgical products in China. We also sell tantalum- and niobium-based metal products, such as tantalum powder, tantalum bars, niobium bars and niobium powder.

Ximei Resources (Guangdong) Limited* (稀美資源(廣東)有限公司) (“Ximei Guangdong”, formerly named “Guangdong Zhiyuan New Material Co., Ltd*” (廣東致遠新材料有限公司)) was founded in 2006, which is located in Yingde City, Guangdong Province, China. The Company operates substantially all of its businesses through Ximei Guangdong, its subsidiary in China. For the year ended 31 December 2020, the total output of the Group’s primary products, pentoxide products and potassium heptafluorotantalate, amounted to approximately 1,781.1 tonnes, while the total sales volume of pentoxide products and potassium heptafluorotantalate amounted to approximately 1,868.9 tonnes. Attributable to our continuous R&D efforts, we have nine provincial high and new technical products and we are a national High-tech Enterprise. As at 31 December 2020, we had a total of 29 patents.

During the year ended 31 December 2020, we have earned the title of “Professional, Advanced, Specialized and New SME of Guangdong Province in 2020 (2020年廣東省專精特新中小企業)” awarded by the Bureau of Industry and Information of Guangdong Province, “Doctoral Workstation of Guangdong Province (廣東省博士工作站)” awarded by Human Resources And Social Security Department of Guangdong Province, the certificate of “Excellent Research Achievements of Guangdong Province in 2019 (2019年度廣東省優秀科技成果)” awarded by Department of Science and Technology of Guangdong Province, the title of “Intellectual Property Demonstration Enterprises of Guangdong Province in 2020 (2020年度廣東省知識產權示範企業)” awarded by Guangdong IP Protection Association as well as the title of “Advanced Entity of Human Capital Ministry of Yingde City in 2019 (英德市2019年度人才工作先進單位)” awarded by the Human Capital Ministry Team of Yingde City. We were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 12 March 2020, which further maintains and consolidates our leading position in tantalum- and niobium-based hydrometallurgical market through a capital platform.

¹ Reference is made to the data from 2018 Industry Report by China Insights Consultancy Limited

* For identification purposes only





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CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Zeng Min (resigned on 23 February 2021)

Independent Non-executive Directors

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

AUDIT COMMITTEE MEMBERS

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

NOMINATION COMMITTEE MEMBERS

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

REMUNERATION COMMITTEE MEMBERS

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

COMPANY SECRETARY

Mr. Chan Hon Wan (*HKICPA*)

AUTHORISED REPRESENTATIVES

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

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

LEGAL ADVISER

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

CORPORATE INFORMATION (CONTINUED)

AUDITOR

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

COMPANY'S WEBSITE

www.ximeigroup.com

STOCK CODE

9936

COMPLIANCE ADVISER

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

PRINCIPAL BANKERS

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

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

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		Changes Increase/ (decrease)
	2020 RMB'000	2019 RMB'000	
Financial Highlights			
Revenue	601,652	600,644	0.2%
Cost of sales	(429,002)	(441,640)	(2.9)%
Gross profit	172,650	159,004	8.6%
Profit before taxation	87,164	83,941	3.8%
Profit for the year	70,309	69,652	0.9%
Basic earnings per share (in RMB)	0.25	0.31	(19.4)%
Proposed final dividend per share (HK cents)	Nil	Nil	—

	As at 31 December		Changes Increase/ (decrease)
	2020 RMB'000	2019 RMB'000	
Liquidity and Gearing			
Current ratio <i>(Note 1)</i>	2.41	2.45	(1.6)%
Quick ratio <i>(Note 2)</i>	1.51	1.65	(8.5)%
Gearing ratio <i>(Note 3)</i>	15.2%	26.4%	(11.2)% pts

Notes:

- (1) Current ratio represents total current assets divided by total current liabilities as at the relevant year end.
- (2) Quick ratio represents total current assets less inventories divided by total current liabilities as at the relevant year end.
- (3) Gearing ratio represents total interest-bearing bank borrowings, less cash and cash equivalents, divided by total equity as at the end of relevant year.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Ximei Resources Holding Limited (the "Company", together with its subsidiaries, the "Group"), I hereby take pride and pleasure in presenting the annual report of the Company for the year ended 31 December 2020 (the "Year Under Review") to our shareholders (the "Shareholders") and potential investors.

The year of 2020 is the first year since the listing of the Company. The entry into the capital market is a new milestone for the business development of the Group, which means the Group will embrace better development opportunity to expand its capital basis, increase its brand value and gain more recognition from its partners, but at the same time, it will face greater challenge. We will continue to adhere to a pragmatic and open attitude, improve operational management and research and development innovation, take a further step to maintain our industry leading position and bring the best value and reward for Shareholders.

Since its establishment in 2006, the Group has been focusing on the production and sales of niobium pentoxide, tantalum pentoxide and potassium heptafluorotantalate. We are able to process our products into varying specifications and purity levels to meet different requirements for our customers. The Group also sells tantalum bars, niobium ores, tantalum carbide and other products, which are mainly purchased from third-party metallurgy companies.

ANNUAL REVIEW

In 2020, the global economic and political environment was in turmoil. Sino-U.S. trade dispute coupled with the outbreak of novel coronavirus (COVID-19) (the "Epidemic") have profoundly affected the development of the economy. Facing the unexpected Epidemic, the Group adhered to the mindset of "preventing Epidemic, advocating work resumption, keeping operations, masterminding strategies", mobilising the entire personnel to quickly act upon for thorough planning. On one hand, the Group fully prepared for the control and prevention of the Epidemic according to the guidance given by the government and experts, so as to ensure the lives, health and safety of our employees. On the other hand, the Group implemented the resumption of work and production in an order manner and conducted proactive communication with the upstream suppliers and downstream customers to ensure our normal operation of raw material supply, product sales and collection of payment for goods. With great efforts, the Group resumed full operation on 10 February 2020, being the first batch of enterprises to resume operation in China. Despite the severe external business environment, the Group adhered to our corporate philosophy of "be brave in pioneering, keep improving, improve in an all-round way, and create great achievements". During the Year Under Review, the Group still fully met the targets set at the beginning of the year, with a number of operation indicators recording highs.

For the year ended 31 December 2020, the total production volume of pentoxide and potassium heptafluorotantalate, which are the principal products of our Group, amounted to 1,781.1 tonnes, representing a year-on-year increase of 21.7%. The total sales volume of pentoxide and potassium heptafluorotantalate amounted to 1,868.9 tonnes, representing a year-on-year increase of 17.9%. The Group has achieved a revenue of approximately RMB601.7 million, representing a year-on-year increase of 0.2%, and net profit of approximately RMB70.3 million, representing a year-on-year increase of 0.9%.

CHAIRMAN'S STATEMENT (CONTINUED)

The Group has always emphasized on the importance of environmental protection and research and development. They are regarded as an important guarantee for the sustainable development of enterprises and the creation of long-term shareholders' value. During the Year Under Review, there were no major safety and environmental accidents in the Group throughout the year. As for research and development, the Group has obtained four invention patent licences throughout the year, and made great progress in improving high-purity product process, resource recycling and automation transformation, which have been used in our daily production process and have generated greater benefits.

IMPROVING CORPORATE GOVERNANCE

The Group is committed to maintaining a high standard of corporate governance to the extent practicable and emphasizing the principles of integrity, transparency, accountability and fairness. The Board believes that good corporate governance is essential to the success of the Group and enhancing Shareholders' value. The Group will strive to maintain high standards of corporate governance and the Board will continue to review and enhance the quality of corporate governance practices with reference to national and international standards. The Group also welcomes any comments and suggestions from Shareholders to enhance and increase the transparency of the Group.

FUTURE OUTLOOK

Looking ahead, while the Group continues to consolidate its leading position in the tantalum and niobium hydrometallurgy industry, it will also extend its product lines to downstream tantalum and niobium based metal products. Currently, the Guizhou project and the Tsinghua Park project under construction are important steps to extend the product lines to downstream. These two projects are both expected to be completed in 2021. By then, the Group's business will include hydrometallurgical products and pyrometallurgical products, which will diversify the product lines, and in turn greatly enhance the comprehensive competitiveness and profitability of the Group.

APPRECIATION

On behalf of the Board, I would like to express our sincere gratitude for the trust and support from all our Shareholders and business partners, and we are thankful to our management team and all staff for their valuable contributions towards the development of the Group. The Group will continue to spare no efforts to achieve better results, and create better returns and highest values for our Shareholders.

Mr. Wu Lijue

Chairman of the Board

Hong Kong, 30 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2020, given the global spread of the Epidemic and Sino-US trade disputes, the global economy was facing severe downward pressure. The structural adjustment pace for Chinese economy speeded up, while there were a lot of uncertainties in the internal and external operating environments of entities. Besides, the price of tantalum and niobium based products has been dropping since the second half of 2020. Despite the above, with the efforts of all staff of Ximei Resources, the Group has achieved a satisfactory operating result.

Production

- Total production volume of main products of pentoxide products and potassium heptafluorotantalate achieved approximately 1,781.1 tonnes in 2020, an increase of 21.7% year-on-year; in terms of single product, output of industrial niobium pentoxide, industrial grade tantalum pentoxide and potassium heptafluorotantalate was approximately 1,212.9 tonnes, 147.6 tonnes and 238.2 tonnes, an increase of 28.4%, (16.4)% and 136.0% year-on-year, respectively.
- Direct recovery rate of main products further improved.
- Output of single-month tantalum and niobium based metallurgical products achieved record high of over 150 tonnes, showing the continuous increasing of total production volume.
- Output of the by-product of fluoride salt achieved more than 2,000 tonnes, an increase of 52.6% year-on-year, which generated considerable economic benefit; while 27.7 tonnes of by-product of tin concentrate was recovered, an increase of 162% year-on-year, due to the improved technology.
- Safety production and environmental protection measures were in place to strictly implement all requirements on national production safety and environmental protection. No significant safety and environmental protection accidents occurred throughout the year.

Marketing

- Outstanding performance in marketing was recorded in such unfavorable business environment. The total sales volume of main products of pentoxide products and potassium heptafluorotantalate achieved approximately 1,868.9 tonnes throughout the year, an increase of 17.9% year-on-year.
- The results of the development of new customers and new products were significant, 18 of which are sizable with businesses covering superalloy, battery materials, single-crystal manufacture, target manufacture and other high-end areas; and
- The export business of the Group recorded significant increase despite the impact of Epidemic in overseas, and the export sales increased 20% year-on-year to over RMB76 million.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Revenue

- In 2020, the Company recorded a revenue amounted to approximately RMB601.7 million, representing an increase of approximately RMB1.1 million as compared to that of the previous year and a year-on-year increase of 0.2%; and
- During the Year Under Review, the Company's revenue increase is mainly due to the significant growth of revenue from the potassium heptafluorotantalate and niobium pentoxide products, while partially offset by the decrease in sales of industrial grade tantalum pentoxide. The sales revenue of industrial grade niobium pentoxide increased by approximately RMB42.6 million as compared to that of the previous year, representing a year-on-year increase of 20.9%. Besides, the revenue generated from the sale of potassium heptafluorotantalate also increased by approximately RMB46.8 million or 92.3% as compared to that of the previous year.

Profit

- For the year ended 31 December 2020, the Company recorded a profit of approximately RMB70.3 million, representing an increase of approximately RMB0.6 million or 0.9% as compared to that of the previous year, which is mainly due to the improvement in gross profit margin for the Year Under Review.

Research and development

- Added 4 new invention patent licences;
- Participated in the revision of 3 national standards;
- Completed the transformation of the high-purity niobium pentoxide extraction line, which effectively reduces the sulfate in the niobium liquid, facilitating the realization of resource treatment of alkaline wastewater. In addition, the quality of the niobium liquid has been greatly improved, and the tantalum in the niobium is less than 5ppm;
- In terms of new product development and new processes improvement, the production process of electronic-grade niobium pentoxide made significant progress with products applied to the lithium battery application field in batches; the quality of crystal-grade high-purity niobium pentoxide was steadily improved and the annual output hit a record high of exceeding 19 tons;
- Coating-grade high-purity tantalum pentoxide, crystal-grade high-purity tantalum pentoxide, and P-grade niobium pentoxide also entered the mass production stage;
- Energy-saving and environmental protection work was significantly improved, and water-saving and ammonia-reducing work achieved outstanding results. More than approximately RMB4.5 million can be saved in ammonia consumption per year, showing significant economic value; and
- The wastewater resource utilization project was advanced in an orderly manner as schedule, and the experimental work of preparing calcium fluoride from alkaline wastewater and recovering copper was carried out to lay a foundation for the next step of comprehensive wastewater resource utilization.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL REVIEW

Revenue

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

	For the year ended 31 December			
	2020		2019	
	RMB'000	%	RMB'000	%
Sales of products	595,857	99.0%	595,805	99.2%
Provision of processing services	5,795	1.0%	4,839	0.8%
Total revenue	601,652	100.0%	600,644	100.0%

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

	For the year ended 31 December			
	2020		2019	
	RMB'000	%	RMB'000	%
Pentoxide products	422,462	70.3%	485,522	80.8%
Tantalum pentoxide				
— Industrial grade tantalum pentoxide	128,536	21.4%	214,734	35.8%
— High-purity tantalum pentoxide	4,570	0.8%	8,216	1.4%
Niobium pentoxide				
— Industrial grade niobium pentoxide	246,510	41.0%	203,923	34.0%
— High-purity niobium pentoxide	42,846	7.1%	58,649	9.8%
Potassium heptafluorotantalate	97,499	16.2%	50,726	8.4%
Recycled products	20,648	3.4%	17,191	2.9%
Others	61,043	10.1%	47,205	7.9%
Total revenue	601,652	100.0%	600,644	100.0%

During the two years ended 31 December 2020 and 2019, our products sold included: (i) pentoxide products; (ii) potassium heptafluorotantalate; (iii) recycled products; and (iv) others. Out of the products we sold, pentoxide products accounted for approximately 70.3% and 80.8% of our total revenue for the two years ended 31 December 2020 and 2019, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Group's revenue increased by approximately RMB1.1 million or 0.2% from approximately RMB600.6 million for the year ended 31 December 2019 to approximately RMB601.7 million for the Year Under Review. The increase was mainly due to the increase in revenue generated from sale of products of potassium heptafluorotantalate and niobium pentoxide, while partially offset by the decrease in revenue generated from sale of tantalum pentoxide.

Pentoxide Products

For the Year Under Review, our revenue generated from sale of pentoxide products amounted to approximately RMB422.5 million, representing a decrease of approximately RMB63.0 million or 13.0% from approximately RMB485.5 million for the year ended 31 December 2019. Such decrease was driven by the decrease in revenue from sale of industrial grade tantalum pentoxide of approximately RMB86.2 million, while partially offset by the increase in revenue from sale of industrial grade niobium pentoxide of approximately RMB42.6 million.

Potassium Heptafluorotantalate

For the Year Under Review, our revenue generated from sale of potassium heptafluorotantalate amounted to approximately RMB97.5 million, representing an increase of approximately RMB46.8 million or 92.3% from approximately RMB50.7 million for the year ended 31 December 2019. Such increase was mainly due to the increase in sales volume.

Recycled Products

During the Year Under Review, our recycled products sold mainly included three types of products produced by recycling our waste materials, namely tin hydroxide, potassium fluorosilicate and tungsten acid. The increase in revenue generated from sale of recycled products from the year ended 31 December 2019 of approximately RMB17.2 million to the Year Under Review of approximately RMB20.6 million was primarily because we sold more tin hydroxide, potassium fluorosilicate and tungsten acid for the Year Under Review as comparing to that of the year ended 31 December 2019.

Others

For the two years ended 31 December 2020 and 2019, we sold ferro niobium tantalum alloy, which is a kind of impurity included in our raw materials. Considering its higher impurity, we resold ferro niobium tantalum alloy to utilise our inventories. For the Year under Review, our revenue generated from sale of others amounted to approximately RMB61.0 million, representing an increase of approximately RMB13.8 million or 29.2% from approximately RMB47.2 million for the year ended 31 December 2019.

Provision of Processing Services

During the Year Under Review, the Group provided processing services for processing tantalum ores and niobium ores supplied by our customers into pentoxide products and potassium heptafluorotantalate. For the year ended 31 December 2020, our revenue generated from the provision of processing services amounted to approximately RMB5.8 million, representing an increase of approximately RMB1.0 million or 20.8% from approximately RMB4.8 million for the year ended 31 December 2019. Such increase was mainly due to the increase in orders from our customers during the Year Under Review.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Cost of sales

Cost of sales represented the direct costs of production, which comprised raw materials costs, factory overheads, electricity and fuels costs, labour costs and processing fee in respect of our processed products. For the two years ended 31 December 2020 and 2019, our cost of sales amounted to approximately RMB429.0 million and RMB441.6 million, respectively. The following table sets forth the breakdown of our cost of sales for the years indicated:

	For the year ended 31 December			
	2020		2019	
	RMB'000	%	RMB'000	%
Raw materials	384,068	89.5%	400,257	90.6%
Factory overheads	21,005	4.9%	19,198	4.4%
Electricity and fuels	8,586	2.0%	8,979	2.0%
Labour <i>(Note)</i>	9,678	2.3%	8,084	1.8%
Processing fee	5,665	1.3%	5,122	1.2%
Total cost of sales	429,002	100.0%	441,640	100.0%

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

Our raw materials costs mainly represented the cost for purchasing tantalum ores and niobium ores, and accounted for approximately 89.5% and 90.6% of our total cost of sales for the Year Under Review and the year ended 31 December 2019, respectively. Our cost of sales decreased by approximately RMB12.6 million or 2.9% from approximately RMB441.6 million for the year ended 31 December 2019 to approximately RMB429.0 million for the Year Under Review. Such decrease was mainly attributable to the decrease in average unit cost for purchasing tantalum ores and niobium ores for the Year Under Review.

Gross profit and gross profit margin

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

	For the year ended 31 December			
	2020		2019	
	Gross Profit RMB'000	Gross Profit Margin %	Gross Profit RMB'000	Gross Profit Margin %
Sales of products	169,194	28.4%	157,159	26.4%
Provision of processing services	3,456	59.6%	1,845	38.1%
Total gross profit/overall gross profit margin	172,650	28.7%	159,004	26.5%

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Group's gross profit increased by approximately RMB13.7 million or 8.6% from approximately RMB159.0 million for the year ended 31 December 2019 to approximately RMB172.7 million for the Year Under Review, mainly driven by the decrease in our cost of sales.

Our gross profit margin increased from approximately 26.5% for the year ended 31 December 2019 to approximately 28.7% for the Year Under Review. Such increase during the Year Under Review was mainly to the decrease in our cost of sales.

Other income and gains

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

	For the year ended 31 December			
	2020		2019	
	RMB'000	%	RMB'000	%
Government grants	14,616	53.0%	6,416	84.2%
Bank interest income	1,268	4.6%	908	11.9%
Foreign exchange difference, net	10,985	39.8%	—	—
Others	704	2.6%	298	3.9%
Total other income and gains	27,573	100.0%	7,622	100.0%

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

Our other income and gains increased by approximately RMB20.0 million or 263.2% from approximately RMB7.6 million for the year ended 31 December 2019 to approximately RMB27.6 million for the Year Under Review. Such increase was mainly attributable to the increase in government grants of approximately RMB8.2 million from approximately RMB6.4 million for the year ended 31 December 2019 to approximately RMB14.6 million for the Year Under Review. Besides, the Group recorded a foreign exchange difference, net of approximately RMB11.0 million for the year ended 31 December 2020.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Selling and distribution expenses

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

	For the year ended 31 December			
	2020		2019	
	RMB'000	%	RMB'000	%
Distribution costs	2,789	33.2%	2,573	35.7%
Staff costs	2,598	31.0%	3,294	45.8%
Consultation fees	2,395	28.5%	67	0.9%
Travelling and entertainment expenses	277	3.3%	691	9.6%
Advertising and promotion expenses	—	—	114	1.6%
Office expenses	89	1.1%	113	1.6%
Others	244	2.9%	341	4.8%
Total selling and distribution expenses	8,392	100.0%	7,193	100.0%

The Group's selling and distribution expenses increased by approximately RMB1.2 million or 16.7% from approximately RMB7.2 million for the year ended 31 December 2019 to approximately RMB8.4 million for the Year Under Review. Such increase was mainly attributable to the increase in consultation fees of approximately RMB2.3 million, while partially offset by the decrease in staff costs of approximately RMB0.7 million.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Administrative expenses

The Group's administrative expenses primarily comprised expenses for research and development expenses, staff costs of our administrative and management staff and legal advisory and professional fees. The table below sets forth the breakdown of our administrative expenses for the years indicated:

	For the year ended 31 December			
	2020		2019	
	RMB'000	%	RMB'000	%
Research and development expenses	24,005	33.0%	23,951	42.2%
Staff costs	22,551	31.0%	14,724	25.9%
Other tax expenses	2,606	3.6%	2,635	4.7%
Legal advisory and professional fees	6,356	8.7%	1,056	1.9%
Depreciation and amortisation	4,426	6.1%	3,710	6.5%
Travelling and entertainment expenses	928	1.3%	1,706	3.0%
Bank charges	2,422	3.3%	702	1.2%
Others <i>(Note)</i>	9,397	13.0%	8,293	14.6%
Total administrative expenses	72,691	100.0%	56,777	100.0%

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

The Group's administrative expenses increased by approximately RMB15.9 million or 28.0% from approximately RMB56.8 million for the year ended 31 December 2019 to approximately RMB72.7 million for the Year Under Review. Such increase was mainly attributable to (i) the increase in staff costs of approximately RMB7.9 million from approximately RMB14.7 million for the year ended 31 December 2019 to approximately RMB22.6 million for the Year Under Review; and (ii) the increase in legal advisory and professional fees of approximately RMB5.3 million from approximately RMB1.1 million for the year ended 31 December 2019 to approximately RMB6.4 million for the Year Under Review.

The Group's research and development expenses amounted to approximately RMB24.0 million and RMB24.0 million for the Year Under Review and the year ended 31 December 2019, respectively. Such expenses were primarily used to improve the purity level of tantalum pentoxide and niobium pentoxide, develop niobium pentoxide with different physical properties to be applied in different industries, and enhance our capabilities in recycling waste materials for environmental protection.

Other expenses

For the Year Under Review, the Group's other expenses of approximately RMB12.5 million mainly comprised impairment of trade receivables of approximately RMB6.9 million and write-down of inventories of approximately RMB4.9 million.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Finance costs

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

	For the year ended 31 December	
	2020 RMB'000	2019 RMB'000
Finance costs on interest-bearing bank borrowings	10,272	7,214
Interest on lease liabilities	189	239
Less: interest capitalised	(2,439)	(2,869)
Total net finance costs	8,022	4,584

Our finance costs on interest-bearing bank borrowings before capitalisation for the Year Under Review and the year ended 31 December 2019 amounted to approximately RMB10.3 million and RMB7.2 million, respectively. For the Year Under Review and the year ended 31 December 2019, we capitalised interest of approximately RMB2.4 million and RMB2.9 million, respectively, in respect of the interest that was directly attributable to the construction of our production facilities. As a result, our net finance costs charged to the consolidated statements of profit or loss for the Year Under Review and the year ended 31 December 2019 amounted to approximately RMB8.0 million and RMB4.6 million, respectively.

Income tax expense

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

Our income tax expense for the Year Under Review and the year ended 31 December 2019 amounted to approximately RMB16.9 million and RMB14.3 million, respectively. Our effective tax rate for the Year Under Review and the year ended 31 December 2019 was approximately 19.3% and 17.0%, respectively. The increase in our effective tax rate was mainly due to increase in expense not deductible for tax. The details are set out in Note 8 to the Financial Statements.

Profit for the year

As a result of the foregoing, we recorded net profit for the Year Under Review and the year ended 31 December 2019 of approximately RMB70.3 million and RMB69.7 million, respectively, representing an increase of approximately RMB0.6 million or 0.9%. Our net profit margin was approximately 11.7% and 11.6% for Year Under Review and the year ended 31 December 2019, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

ANALYSIS OF MAJOR BALANCE SHEET ITEMS

Property, plant and equipment

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

The carrying amount of our property, plant and equipment increased by approximately RMB6.1 million from approximately RMB89.5 million as at 31 December 2019 to approximately RMB95.6 million as at 31 December 2020. Such increase was mainly driven by (i) the increase in construction in progress; and (ii) the increase in plant and machinery transferred from construction in progress in respect of our new production facilities.

Right-of-use assets

Our right-of-use assets comprised our leased properties and prepaid land lease payments. Our leased properties are recognised as pursuant to HKFRS 16. Our leased properties decreased from approximately RMB3.4 million as at 31 December 2019 to approximately RMB2.2 million as at 31 December 2020, mainly due to our rental payment.

Our prepaid land lease payments represented the prepaid land lease payments in respect of our production facilities in Yingde, Guangdong Province, the PRC. Prepaid land lease payments decreased from approximately RMB22.6 million as at 31 December 2019 to approximately RMB22.1 million as at 31 December 2020, mainly due to our depreciation.

Inventories

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

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Raw materials	184,069	81,053
Work in progress	36,669	23,345
Finished goods	48,420	25,481
Total inventories	269,158	129,879
Average inventories (Note 1)	199,519	146,301
Average inventories to revenue from sale of products (Note 2)	33.2%	24.4%

Notes:

- (1) Represents the average of inventories as at 31 December of the previous year and 31 December of the current year.
- (2) Represents the average of inventories divided by the revenue generated from sale of products for the relevant year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Group's inventories amounted to approximately RMB269.2 million and RMB129.9 million as at 31 December 2020 and 2019, respectively. Our average inventories increased from approximately RMB146.3 million as at 31 December 2019 to approximately RMB199.5 million as at 31 December 2020, such increase was mainly due to the increase in raw materials. Our average inventories to revenue from sale of products was approximately 33.2% and 24.4% for the year ended 31 December 2020 and 2019, respectively.

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

	For the year ended 31 December	
	2020 (Days)	2019 (Days)
Average inventory turnover days <i>(Note)</i>	169.8	121.0

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

Our average inventory turnover days increased from approximately 121.0 days for the year ended 31 December 2019 to 169.8 days for the Year Under Review. The increase was mainly due to the increase of our inventories as at 31 December 2020.

Trade and bills receivables

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

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Trade receivables	107,401	101,475
Less: Impairment	(6,925)	—
Bills receivables	100,476 49,993	101,475 67,683
Total trade and bills receivables	150,469	169,158
Average trade and bills receivables <i>(Note 1)</i>	159,814	118,921
Average trade and bills receivables to total revenue <i>(Note 2)</i>	26.6%	19.8%

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Notes:

- (1) Represents the average of trade and bills receivables as at 31 December of the previous year and 31 December of the current year.
- (2) Represents the average of trade and bills receivables divided by total revenue for the relevant year.

Our trade and bills receivables decreased from approximately RMB169.2 million as at 31 December 2019 to approximately RMB150.5 million as at 31 December 2020. Such decrease was mainly due to the decrease in bills receivables.

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

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

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Within 30 days	72,231	115,757
31 days to 60 days	11,500	30,251
61 days to 90 days	13,561	10,087
Over 90 days	53,177	13,063
Total trade and bills receivables	150,469	169,158

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity. The expected credit loss for trade receivables as at 31 December 2020 was RMB6.9 million. The expected credit loss for trade receivables as at 31 December 2019 was considered to be minimal. The following table sets forth the average turnover days of our trade and bills receivables for the years indicated:

	For the year ended 31 December	
	2020 (Days)	2019 (Days)
Average turnover days of trade and bills receivables (Note)	97.0	72.3

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

Our average turnover days of trade and bills receivables increased from 72.3 days for the year ended 31 December 2019 to 97.0 days for the Year Under Review. The increase was mainly due to the increase of our trade and bills receivables over 90 days as at 31 December 2020.

Prepayments, deposits and other receivables

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

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Prepayments — Non-current	13,318	11,967
Prepayments — Current	111,820	40,682
Deposits and other receivables	2,618	1,516
Total prepayments, deposits and other receivables	114,438	42,198

Our prepayments, deposits and other receivables increased from approximately RMB42.2 million as at 31 December 2019 to approximately RMB114.4 million as at 31 December 2020, mainly driven by the increase in prepayment.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Trade payables

Our trade payables decreased from approximately RMB17.2 million as at 31 December 2019 to approximately RMB6.3 million as at 31 December 2020 mainly due to the decrease in purchase near the end of 2020. The following is an ageing analysis of trade payables, based on the invoice date, as at balance sheet dates indicated:

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Within 30 days	4,122	13,126
31 days to 60 days	1,072	4,077
61 days to 90 days	1,007	2
Over 90 days	120	—
Total trade payables	6,321	17,205

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

	For the year ended 31 December	
	2020 (Days)	2019 (Days)
Average turnover days of trade payables <i>(Note)</i>	10.0	23.5

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

Our average turnover days of trade payables decreased from approximately 23.5 days for the year ended 31 December 2019 to 10.0 days for the Year Under Review, mainly because the decrease in trade payables within 30 days as at 31 December 2020.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Other payables and accruals

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

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Accruals	25,426	19,767
Deferred income	9,089	8,980
Contract liabilities	1,555	1,239
Other payables	10,040	4,635
Total other payables and accruals	46,110	34,621

Our other payables and accruals increased from approximately RMB34.6 million as at 31 December 2019 to approximately RMB46.1 million as at 31 December 2020. Such increase was mainly driven by the increase in accruals and other payables.

Bank borrowings

Bank borrowings were our principal component of our total liabilities, constituting approximately 80.5% and 69.3% of our total liabilities as at 31 December 2020 and 31 December 2019, respectively. The following table sets forth the breakdown of our bank borrowings by current and non-current classification as at balance sheet dates indicated:

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Non-current	29,786	40,247
Current	236,144	103,015
Total bank borrowings	265,930	143,262

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Secured	38,798	48,497
Unsecured	227,132	94,765
Total bank borrowings	265,930	143,262

As at 31 December 2020, our bank borrowings were secured by the pledge of certain of our Group's leasehold land, and property, plant and equipment with net carrying amounts of approximately RMB5.9 million (31 December 2019: RMB9.5 million) and RMB30.2 million (31 December 2019: Nil), respectively.

Our total bank borrowings increased from approximately RMB143.3 million as at 31 December 2019 to approximately RMB265.9 million as at 31 December 2020. Such increase was mainly due to the drawing down of new bank loans during the Year Under Review.

LIQUIDITY AND CAPITAL RESOURCES

Working capital

During the Year Under Review, we financed our operations by cash generated from operating activities and bank borrowings. As at 31 December 2020, we had cash and cash equivalents of approximately RMB186.4 million (31 December 2019: approximately RMB58.5 million). In the future, we intend to finance our operations by cash generated from operating activities, bank borrowings and proceeds from the Listing.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Cash flows

The Group's cash is primarily used to meet the demand of financing its working capital requirement, repaying interest and principal due on its indebtedness and providing funds for capital expenditures and growth of the Group's operations.

During the Year Under Review, the Group's cash and cash equivalents increased by approximately RMB127.9 million, which mainly comprised the net cash outflow used in operating activities with the amount of approximately RMB94.3 million, net cash outflow used in investing activities with the amount of approximately RMB17.4 million, net cash inflow from financing activities with the amount of approximately RMB244.6 million, and the foreign exchange loss of approximately RMB5.0 million. The cash flows details of the Group are set out in pages 73 to 74 under "Consolidated Statement of Cash Flows" of this report.

CAPITAL STRUCTURE

Indebtedness

The total indebtedness of the Group as at 31 December 2020 was approximately RMB265.9 million (31 December 2019: approximately RMB143.3 million). During the Year Under Review, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

Gearing ratio

As at 31 December 2020, the Group's gearing ratio was approximately 15.2% (31 December 2019: 26.4%), calculated as the total interest-bearing bank borrowings, less cash and cash equivalents, divided by total equity as at the end of the relevant year multiplied by 100%. The increase was mainly due to a decrease in cash and cash equivalents.

Pledge of assets

As at 31 December 2020, our bank borrowings were secured by the pledge of certain of our Group's leasehold land, and property, plant and equipment with net carrying amounts of approximately RMB5.9 million (31 December 2019: RMB9.5 million) and RMB30.2 million (31 December 2019: Nil), respectively.

Capital expenditures

Our capital expenditures primarily comprised expenditures for purchases of property, plant and equipment. Our capital expenditures amounted to approximately RMB19.0 million and RMB25.9 million for the Year Under Review and the year ended 31 December 2019, respectively.

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2020, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings (31 December 2019: Nil).

CAPITAL COMMITMENT

As at 31 December 2020, the Group had capital commitment of approximately RMB44.0 million (31 December 2019: approximately RMB5.1 million).

SEGMENT INFORMATION

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

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

For the year ended 31 December 2020, the Group had not made any material acquisition or disposal.

SIGNIFICANT INVESTMENTS

The Company had not held any significant investments during the year ended 31 December 2020.

FUTURE PLANS FOR CAPITAL ASSETS

Future plans for capital assets of the Company are set out in the relevant disclosure in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 26 February 2020 (the "Prospectus") and the section headed "Comparison of Business Objectives with Actual Business Progress" in pages 27 to 29 of this report.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FUTURE OUTLOOK

Looking forward, the Group will remain true to the original aspiration and move forward with striving to pursue the vision of “creating the world’s leading manufacturer of tantalum and niobium based products”. The development of global tantalum and niobium market is expected to experience growth, mainly evidenced by:

Industrial upgrade

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

Increasing demand for high-purity products

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

Downstream application areas continue to expand

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

To better capture the opportunities from the industry development and explore new business growth points, on the basis of further consolidating the Company’s leading position in tantalum and niobium based hydrometallurgy, we will increase the investment in aspects such as industrial chain expansion, research and development of new technologies and new products, and global strategies, in an attempt to maximize value and returns for our Shareholders. Firstly, extending the industrial chain is an important measure for the Group’s future business development and profit growth. We commenced building a tantalum powder production line with an annual capacity of 100 tonnes in 2020 to meet the growing demand from downstream customers for tantalum powder and tantalum bar products, which is expected to be completed and put into operation in 2021. We invested in a production base for high-purity tantalum-and niobium-based products in Guizhou in 2020, which is also expected to be completed and put into production within 2021. Secondly, we will speed up the pace in the research and development of new technologies and new products, and carry out projects on high purity tantalum powder used in semiconductor coating target materials, and production technology of niobium pentoxide used in lithium battery materials. In addition, we will further expand overseas markets, explore a variety of trading methods, and focus on expanding customers in the fields of crystals, batteries, light waves, and target materials. Furthermore, the Group will also expand the group of ore suppliers, focus on cultivating and supporting high-quality suppliers, and increase the proportion of strategic partners or long-term agreement suppliers to ensure the quality of raw materials and stable supply.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

HUMAN RESOURCES AND TRAINING

We believe that our long-term growth depends on the expertise and experience of our employees. We primarily recruit our personnel through campus recruiting, career fairs, recruitment websites and internal recommendation. We provide regular training programs to our employees, including, among others, introductory training, safety training and technical training, to enhance their skill and knowledge. As at 31 December 2020, the Group had a total of 260 employees, total staff cost for the Year Under Review amounted to RMB41.8 million (2019: approximately RMB39.1 million).

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

DIVIDENDS

The Board resolved not to recommend the payment of any final dividends for the year ended 31 December 2020 (2019: Nil).

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

OUR BUSINESS OBJECTIVES AND STRATEGIES

Our business objectives are to achieve sustainable growth and strengthen our market position in the tantalum and niobium metallurgical industry in the PRC. In furtherance of this goal, the Group plans to continue the following strategies in 2021:

(1) Extend our production and sales to downstream products

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

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

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

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS (CONTINUED)

(3) Strengthening our sales network in overseas markets

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

(4) Further secure sources of our principal raw materials

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

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

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS (CONTINUED)

ACTUAL BUSINESS PROGRESS AND USE OF PROCEEDS FROM THE LISTING

The shares of the Company were listed on the Main Board of the Stock Exchange on 12 March 2020. Net proceeds from the placing of the shares were approximately RMB92.7 million (equivalent to approximately HK\$105.5 million), after deduction of the underwriting commission and relevant expenses. As at 31 December 2020, the Group had used net proceeds of approximately RMB18.3 million. The following table illustrates the status of the use of net proceeds according to the section headed “Future Plans and Use of Proceeds” in the Prospectus as at 31 December 2020:

		Planned use of proceeds as disclosed in the Prospectus	Actual utilised amount as at 31 December 2020	Unutilised amount as at 31 December 2020
	%	(RMB million)	(RMB million)	(RMB million)
Construction of new production facilities to produce tantalum powder and bars	28.9%	26.8	—	26.8
Acquisition and installing of machinery and equipment to produce tantalum powder and bars	36.0%	33.4	—	33.4
Other expense for setting up the new production facilities	3.9%	3.6	0.5	3.1
Financing five research and development projects	17.9%	16.6	7.9	8.7
Strengthening the sales network in Europe and sourcing channels in Brazil	3.5%	3.2	0.8	2.4
General working capital	9.8%	9.1	9.1	—
Total	100.0%	92.7	18.3	74.4

The unutilised amount of net proceeds of approximately RMB74.4 million is expected to be completely utilised by June 2022.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

DIRECTORS

Executive Directors

Mr. Wu Lijue (吳理覺), aged 57, is the founder of our Group, the chairman of our Board, an executive Director, our chief executive officer and one of our Controlling Shareholders. He is also a director of each of Xinjia Group Limited (“Xinjia Seychelles”), Ximei Resources (Hong Kong) Limited (“Ximei Hong Kong”) (formerly named “Xite Group Limited”) and Ximei Resources (Guangdong) Limited* (“Ximei Guangdong”) (formerly named “Guangdong Zhiyuan New Material Co., Ltd.*”). He was appointed as a Director on 26 May 2017, and is currently responsible for our Group’s strategic planning, overall operation, financing and investment activities, and management of our Board. Mr. Wu established our Group in May 2006 and has been the chairman of the board of Ximei Guangdong since its establishment. Mr. Wu obtained his bachelor’s degree from Central South University (中南大學) (formerly known as Central South Institute of Mining and Metallurgy* (中南礦冶學院) before merger) majoring in powder metallurgy in July 1984. He also obtained his degree of executive master of business and administration~from Sun Yat-sen University (中山大學) in June 2011. He obtained the qualification of senior engineer from the China Non-ferrous Metals Industry Corporation* (中國有色金屬工業總公司) in December 1997.

Mr. Wu has over 31 years of experience in the tantalum and niobium metallurgy industry. Prior to founding our Group, Mr. Wu served in Guangdong Guangsheng Rare Metal Photoelectric New Material Co. Ltd.* (廣東廣晟稀有金屬光電新材料有限公司) (formerly known as Conghua Tantalum and Niobium Smelter* (從化鈮鈮冶煉廠)), a company which was principally engaged in production and sale of tantalum- and niobium-based metallurgical products, as (i) technologist from September 1984 to April 1989 mainly responsible for production and technical work; (ii) section chief of production department from May 1989 to September 1989 responsible for all kinds of works in a section of the production department; and (iii) deputy manager from October 1989 to December 2000 mainly responsible for the operation management and strategic planning. Mr. Wu founded Fogang Jiata Metal Co., Ltd.* (佛岡佳特金屬有限公司) (“Fogang Jiata”) in January 2000, a company which was principally engaged in production and trading of tantalum- and niobium-based metallurgical products. From January 2001 to April 2006, he served in Fogang Jiata, initially as the general manager and was then promoted to the chairman and was mainly responsible for overall operation management and strategic planning. Mr. Wu is the uncle of Ms. Wu Shuangzhu, the audit director of our Group.

As at the date of this report, Mr. Wu was interested in 205,000,000 shares of the Company, representing 68.3% of total issued shares of the Company, within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”) (Cap 571 of the Laws of Hong Kong), all of which was held by Jiawei Resources Holding Limited (“Jiawei Resources Seychelles”), which was wholly owned by Mr. Wu.

Ms. Wu Shandan (吳珊丹), aged 38, joined our Group in January 2014 as the chief financial officer of Ximei Guangdong. She was appointed as a Director on 26 May 2017, and was redesignated as an executive Director and appointed as the chief financial officer of our Company on 8 September 2017. She is also a director of each of Xinjia Seychelles and Xite Hong Kong. She is mainly responsible for managing our Group’s financial matters. Ms. Wu graduated from South China University of Technology (華南理工大學) majoring in accounting (an online learning programme) in July 2009. In October 2018 and December 2018, Ms. Wu was awarded the Executive Management Career Award — Financial Management (Higher Professional Module Certificate with Merit) and Financial Analysis (Higher Professional Module Certificate with Distinction) by Cambridge Assessment International Education and by Cambridge International Examinations, respectively. Ms. Wu attained the directorate secretary qualification from the Shenzhen Stock Exchange in December 2016 and from the Shanghai Stock Exchange in November 2018.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (CONTINUED)

Ms. Wu has over 11 years of experience in financial management. Prior to joining our Group, she was the financial manager of Seraphim Group Limited, a company which was principally engaged in investment, from October 2007 to June 2016 and was mainly responsible for supervision of daily management of the finance department. Ms. Wu was admitted as an associate member of the Association of International Accountants in January 2019.

Non-executive Director

Mr. Zeng Min (曾敏), aged 57, joined our Group in May 2011 as a director of Ximei Guangdong. He was appointed as a Director on 26 May 2017 and was re-designated as an executive Director and a non-executive Director on 8 September 2017 and 6 August 2019, respectively. He is also a director of each of Xinjia Seychelles, Ximei Hong Kong and Ximei Guangdong. He participates in the decision making of our Board with respect to major issues of our Group. Mr. Zeng obtained his bachelor's degree in metalworking from Central South University (中南大學) (formerly known as Central South Institute of Mining and Metallurgy* (中南礦冶學院) before merger) in July 1983.

Prior to joining of our Group, Mr. Zeng served in MACRO-LINK Mineral Inc.* (新華聯礦業有限公司) as chairman from May 2006 to January 2009. Mr. Zeng served in Tonghua Winery Co., Ltd.* (通化葡萄酒股份有限公司), a company which was principally engaged in the sale of wine and whose shares are listed on the Shanghai Stock Exchange (stock code: 600365), as general manager from January 2009 to September 2009. Mr. Zeng returned and served in MACRO-LINK Mineral Inc.* as general manager from September 2009 to October 2013 and has been its chairman since October 2013, respectively. He also served as the senior vice president of MACRO-LINK Group since February 2020. Mr. Zeng resigned as a non-executive Director of the Company on 23 February 2021.

Independent Non-executive Directors

Mr. Lau Kwok Fai Patrick (劉國輝), HKICPA, FCCA, aged 48, was appointed as an independent non-executive Director on 19 February 2020. Mr. Lau obtained an honours diploma in accounting from Hong Kong Shue Yan College (now known as Hong Kong Shue Yan University) in July 1996. He later obtained a master's degree in Corporate Governance and Directorship (Distinction) from Hong Kong Baptist University in November 2014. He also obtained his HKICPA Diploma in Insolvency awarded by the Hong Kong Institute of Certified Public Accountants in June 2004. Mr. Lau has been a fellow member of the Association of Chartered Certified Accountants and an associate of the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants) since December 2007 and July 2003, respectively. He has also been a member of Beta Gamma Sigma Hong Kong Baptist University Chapter since April 2014.

Mr. Lau has more than 21 years of experience in the fields of accounting, auditing, financial advisory and corporate governance. He served as an auditor in Baker Tilly Hong Kong (formerly known as Glass Radcliffe Chan & Wee Certified Public Accountants) from September 1996 to November 1997 mainly responsible for statutory audit. From December 1997 to April 1999, Mr. Lau served as an associate in PricewaterhouseCoopers Ltd. and was mainly responsible for statutory audit, internal control review and enterprise listing audit. From October 1999 to June 2011, Mr. Lau worked at KPMG at which his last position was manager, mainly responsible for financial due diligence, corporate reorganisation and liquidation, analysis for corporate acquisitions, financial modeling and consultation services. From July 2011 to June 2016, Mr. Lau served in various positions, including deputy general manager, financial controller and company secretary in China City Railway Transportation Technology Holdings Company Limited (now known as BII Railway Transportation Technology Holdings Company Limited), the shares of which are listed on the Main Board of the Stock Exchange in December 2013 (stock code: 1522).

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (CONTINUED)

Mr. Lau was the chief financial officer and company secretary of International Alliance Financial Leasing Co., Ltd., a company listed on the Main Board of the Stock Exchange (stock code: 1563) from July 2016 to October 2019 and from May 2018 to October 2019, respectively. Mr. Lau was also an independent non-executive director of Jinhai International Group Holdings Limited (formerly known as Kakiko Group Limited), a company listed on the Main Board of the Stock Exchange (stock code: 2225) from September 2017 to July 2020. He is currently also an independent non-executive director of Steering Holdings Limited (formerly known as Dafy Holdings Limited) (stock code: 1826) and Sundry Service Group Co. Ltd. (stock code: 9608), the shares of both companies are listed on the Main Board of Stock Exchange.

Mr. Zhong Hui (鐘暉), aged 53, was appointed as an independent non-executive Director on 19 February 2020. Mr. Zhong graduated from Central South University (中南大學) (formerly known as Central South University of Technology (中南工業大學)) majoring in science technology information in June 1988 and a master's degree in non-ferrous metallurgy in May 1991. He graduated from Nagoya University of Japan (日本國立名古屋大學) with a doctor's degree in materials science and engineering in March 1995.

Mr. Zhong has over 21 years of experience in the research and development of the non-ferrous metal industry. Prior to joining our Group, Mr. Zhong worked at the research and development department in IBIDEN Co., Ltd. of Japan* (日本IBIDEN株式會社), a company which was principally engaged in industrial production and research and development of technology, between April 1995 and June 2001. Mr. Zhong has served the College of Metallurgy and Environment, Central South University (中南大學冶金與環境學院) since July 2001 and is currently a professor.

Mr. Yin Fusheng (尹福生), aged 56, was appointed as an independent non-executive Director on 19 February 2020. Mr. Yin obtained his bachelor of laws degree majoring in political education from Central China Normal University (華中師範大學) in June 1987. He obtained his master's degree and doctor's degree in political economics from Wuhan University (武漢大學) in August 1993 and December 2004, respectively. Mr. Yin was appointed as a lecturer by Jinan University (暨南大學) in December 1995 and an associate professor in October 2016.

Mr. Yin has over 21 years of experience in finance and investment. He served in South China Securities Brokerage Co., Ltd.* (CIFCO) (華南期貨經紀有限公司) as a deputy general manager from September 1993 to July 2000 and was mainly responsible for market development and management. He then served as the chairman of the board of Shenzhen Anchengxin Investment Co., Ltd.* (深圳市安誠信投資有限公司), a company which was principally engaged in investment in property and business, from July 2000 to June 2014 and was mainly responsible for overall management of the company. Mr. Yin has also served as (i) director of Changsha Juxing Light Weight Building Materials Co., Ltd.* (長沙巨星輕質建材股份有限公司), a company which was principally engaged in research and development of high-technology and manufacturing and sale of new construction material and decoration material, and the shares of which are quoted on the National Equities Exchange and Quotations in the PRC (stock code: 870281), from April 2001 to April 2015; (ii) director of Shanghai Xietong Technology Inc.* (上海協同科技股份有限公司), a company which was principally engaged in technology service and design, development, manufacturing, sale and service of electrical automation products, from March 2001 to April 2010; and (iii) director of Jiangxi Runtian Drinks Co., Ltd.* (江西潤田飲料股份有限公司), a company which was principally engaged in manufacturing and sale of beverages, from October 2001 to June 2013. Mr. Yin has been the chairman of the board of directors of Jiangxi Purui Biological Technology Co., Ltd.* (江西普銳生物科技有限公司), a company which was principally engaged in research, development and application of precision immunity function assessment technology since December 2018, where Mr. Yin has been mainly responsible for overall business management.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (CONTINUED)

SENIOR MANAGEMENT

Mr. Zhong Yuelian (鐘嶽聯), aged 53, joined our Group in January 2010. He serves as vice president of our Group and is mainly responsible for project development, operation management and technology improvement. Mr. Zhong obtained his bachelor's degree in physical chemistry of metallurgy from Central South University (中南大學) (formerly known as Central South University of Technology (中南工業大學) before merger) in July 1989, and completed his research programme specialising in world economy at Sun Yat-sen University (中山大學) in October 2004. He obtained the qualification of senior engineer of rare metal smelting* (稀有金屬冶煉高級工程師) from the Personnel Department of Guangdong Province* (廣東省人事廳) in December 2000.

Mr. Zhong has over 26 years of experience working in the tantalum and niobium metallurgy industry. Prior to joining our Group, Mr. Zhong worked in Guangdong Guangsheng Rare Metal Photoelectric New Material Co. Ltd.* (廣東廣晟稀有金屬光電新材料有限公司) (formerly known as Conghua Tantalum and Niobium Smelter* (從化鉭鈮冶煉廠)) from August 1989 to May 2005, with his last position as the director and deputy general manager, mainly responsible for planning of high purity metallurgy projects and operation management. Mr. Zhong also served as deputy general manager in Fogang Jiata, a company which was then principally engaged in manufacturing of tantalum and niobium metal compound and products, from May 2005 to April 2007, and from February 2009 to December 2009 and was mainly responsible for project planning and production management, and deputy general manager in JMT MINING SPRL, from April 2007 to January 2009 and was mainly responsible for operation management and planning of copper projects, respectively.

Mr. Shi Bo (石波), aged 47, joined our Group in May 2012 as research and development manager of Ximei Guangdong and he was promoted to be the research and development director of our Company in July 2017, and was further promoted as the assistant of the general manager of our Group in July 2019. He is primarily responsible for the overall management of our Group's research and development. Mr. Shi obtained his bachelor's degree in non-ferrous metallurgy from Central South University (中南大學) (formerly known as Central South University of Technology (中南工業大學)) in July 1994. He also obtained his metallurgy engineer qualification from China Non-ferrous Metal Industry Co., Ltd. Guangzhou Branch Intermediate Technology Qualification Review Committee* (中國有色金屬工業總公司廣州公司中級技術職務評審委員會) in November 1999.

Mr. Shi has over 21 years of experience in the tantalum and niobium metallurgy industry. Prior to joining our Group, from August 1994 to August 2008, Mr. Shi served as workshop manager of Guangdong Guangsheng Rare Metal Photoelectric New Material Co. Ltd.* (廣東廣晟稀有金屬光電新材料有限公司) (formerly known as Conghua Tantalum and Niobium Smelter* (從化鉭鈮冶煉廠)) and was mainly responsible for production management.

Ms. Wu Shuangzhu (吳雙珠), aged 36, joined our Group in July 2017 as the audit director of our Group and is mainly responsible for our Group's internal control and audit supervision. Ms. Wu graduated from Guangzhou University majoring in accounting in January 2013 and graduated with a master of business administrations degree at The Open University of Hong Kong in August 2019.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (CONTINUED)

Ms. Wu has over 16 years of experience in accounting and financial matters. Prior to joining our Group, Ms. Wu served as an accountant in Guangzhou City Jieda Trading Co., Ltd.* (廣州市捷大貿易有限公司), a company which was principally engaged in import and export trade of coatings, from June 2004 to April 2007, and was mainly responsible for accounting processing in the daily operation of the company, preparation of accounting statements and management of accounting files. She served as a finance manager of Guangdong Shidate Trading Co., Ltd.* (廣東時達特貿易有限公司), a company which was principally engaged in import and export trade of metallic ores, from May 2007 to June 2010 and she was mainly responsible for account processing, auditing and financial analysis of the company.

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

COMPANY SECRETARY

Mr. Chan Hon Wan (陳漢雲), aged 59, graduated with a bachelor's degree in economics at Macquarie University Australia in April 1986 and a master's degree in accountancy at The Hong Kong Polytechnic University in December 2005. He became an associate member of the Hong Kong Institute of Certified Public Accountants (HKICPA) (formerly known as Hong Kong Society of Accountants) in June 1991 and an associate member of the Institute of Chartered Accountants in Australia in November 1990. He was appointed as the company secretary and authorised representative of our Company in May 2019.

Mr. Chan has over 26 years of experience in accounting and capital markets with an international accounting firm and various listed companies. From July 1991 to May 1995, Mr. Chan worked for Culturecom Limited and his last position held was the finance manager. From May 1995 to April 1998, he served as financial controller in Fairwood Fast Food Limited. From April 2000 to July 2005, he was the corporate finance director of Texwood Limited. From October 2006 to February 2008, he was a business director of Texwood Group. From March 2008 to June 2018, he served as technical director of Grace Profit Consultants Ltd., where he was mainly responsible for accounting, company secretary and compliance of listed companies.

* For identification purposes only

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTIONS

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

During the Year Under Review, the Company has complied with the code provisions, other than code provisions A.2.1 of the CG Code as set out in Appendix 14 to the Listing Rules

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of listed issuers as set out in Appendix 10 to the Listing Rules (the “Model Code”) as its own code governing securities transactions of the Directors. Specific enquiries have been made to all Directors regarding Directors’ securities transactions during the Year Under Review and all Directors have confirmed that they have fully complied with the required standard of dealings as set out in the Model Code during the Year Under Review.

CORPORATE GOVERNANCE REPORT (CONTINUED)

BOARD OF DIRECTORS

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

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

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

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

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

Throughout the Year Under Review and up to the date of this report, the Company has complied with the requirements under Rules 3.10(1) and (2) and 3.10A of the Listing Rules and has appointed three independent non-executive Directors, representing more than one-third of the number of Directors at the Board, with a least one independent non-executive Director possessing the appropriate professional qualifications, or accounting or related financial management expertise.

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

Pursuant to the Articles of Association of the Company, one-third of the Directors shall retire from office by rotation at each annual general meeting. Accordingly, Ms. Wu Shandan and Mr. Yin Fusheng shall retire at the forthcoming annual general meeting of the Company. The retiring Directors, all being eligible, offer themselves for re-election.

CORPORATE GOVERNANCE REPORT (CONTINUED)

RESPONSIBILITIES OF THE BOARD

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

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

APPOINTMENT AND RE-ELECTION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

BOARD COMMITTEES

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

Audit Committee

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

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

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

During the Year Under Review, the audit committee had held two meetings and all the members attended the meetings. The attendance record of committee members at these meetings are set out in the section headed “Board Proceedings and Individual Attendance” of this report. The Audit Committee has, together with the management of the Company and external independent auditor, reviewed the consolidated financial statements for the year ended 31 December 2020 and accounting principles and practices adopted for the Group, as well as the risk management and internal control systems of the Group and the effectiveness of the Group's internal audit functions for the Year Under Review, and agreed with the accounting treatments adopted by the Group, and was of the opinion that the preparation of the financial statements in this annual report complies with the applicable accounting standards and the requirements under the Listing Rules and adequate disclosures have been made.

Remuneration Committee

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

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

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

During the Year Under Review, the remuneration committee had held two meetings and all the members attended the meetings. The attendance record of the committee members at these meetings are set out in the section head “Board Proceedings and Individual Attendance” of this report.

Nomination Committee

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

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

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

During the Year Under Review, the nomination committee had held two meetings and all the members attended the meetings. The attendance record of the committee members at these meetings are set out in the section head “Board Proceedings and Individual Attendance” of this report.

Nomination criteria

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

- (i) character and integrity;
- (ii) qualifications including professional qualifications, skills, knowledge and experience, and diversity aspects under the board diversity policy that are relevant to the Company's business and corporate strategy;
- (iii) any measurable objectives adopted for achieving diversity on the Board;
- (iv) for independent non-executive Directors, whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules;
- (v) any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;
- (vi) willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company; and
- (vii) such other perspectives that are appropriate to the Company's business and succession plan and where applicable may be adopted and/or amended by the Board and/or the nomination committee from time to time for nomination of directors and succession planning.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Nomination Procedures

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

Appointment of New and Replacement Directors

- (i) If the Board determines that an additional or replacement Director is required, it will deploy multiple channels for identifying suitable director candidates, including referral from Directors, shareholders, management, advisors of the Company and external executive search firms.
- (ii) Upon compilation and interview of the list of potential candidates, the relevant nomination committee will shortlist candidates for consideration by the nomination committee/Board based on the selection criteria and such other factors that it considers appropriate. The Board has the final authority on determining suitable director candidate for appointment.

Re-election of Directors and Nomination from Shareholders

- (i) Where a retiring Director, being eligible, offers himself for re-election, the Board shall consider and, if consider appropriate, recommend such retiring Director to stand for re-election at a general meeting. A circular containing the requisite information on such retiring Director will be sent to shareholders prior to a general meeting in accordance with the Listing Rules.
- (ii) Any shareholder of the Company who wishes to nominate a person to stand for election as a Director at a general meeting must lodge with the Company Secretary of the Company within the lodgement period specified in the relevant shareholder circular (a) a written nomination of the candidate, (b) written confirmation from such nominated candidate of his willingness to stand for election, and (c) biographical details of such nominated candidate as required under the Listing Rules. Particulars of the candidate so proposed will be sent to all shareholders for information by a supplementary circular.

REMUNERATION OF MEMBERS OF THE SENIOR MANAGEMENT BY BAND

Pursuant to code provision B.1.5 of the CG Code, the remuneration of members of the senior management by band for the year ended 31 December 2020 is set out below:

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

Details of the remuneration of each Director for the year ended 31 December 2020 are set out in Note 10 to the Financial Statements for the year ended 31 December 2020.

CORPORATE GOVERNANCE REPORT (CONTINUED)

BOARD DIVERSITY POLICY

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

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

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

DIRECTORS’ CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

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

All Directors are provided with regularly updates on the Company’s performance and financial position to enable the Board as a whole and each Director to discharge his/her duties. In addition, briefings and updates on the latest development regarding the Listing Rules and other applicable regulatory requirements are provided to each of the Directors during Board meetings to ensure compliance and enhance their awareness of good corporate governance practices. In August 2020, a training session was provided to each of the Directors with topics of legal and regulatory duties of directors and the Listing Rules.

CORPORATE GOVERNANCE REPORT (CONTINUED)

BOARD PROCEEDINGS AND INDIVIDUAL ATTENDANCE

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

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

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

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

Details of the attendance records of Directors on Board meetings and Board committee meetings for the year ended 31 December 2020 are as follows:

Name of Directors	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
<i>Executive Directors</i>					
Mr. Wu Lijue (<i>Chairman</i>)	4/4	—	—	—	1/1
Ms. Wu Shandan	4/4	—	—	—	1/1
<i>Non-executive Director</i>					
Mr. Zeng Min (resigned on 23 February 2021)	4/4	—	—	—	1/1
<i>Independent Non-executive Directors</i>					
Mr. Lau Kwok Fai Patrick	4/4	2/2	2/2	2/2	1/1
Mr. Zhong Hui	4/4	2/2	2/2	2/2	1/1
Mr. Yin Fusheng	4/4	2/2	2/2	2/2	1/1

Subsequent to the year ended 31 December 2020 and up to date of this report, the Board held another Board meeting in March 2021 for the main purposes of approving the annual results of the Group for the year ended 31 December 2020 and this annual report for publication and formulating business development strategies. All Directors attended such meeting.

CORPORATE GOVERNANCE REPORT (CONTINUED)

COMPANY SECRETARY

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

During the Year Under Review, Mr. Chan has confirmed that he has duly complied with the relevant professional training requirements under Rule 3.29 of the Listing Rules. His biographical details are set out in the paragraph headed “Directors’ and Senior Management’s Biographies” in this report.

FINANCIAL REPORTING, INTERNAL CONTROL AND RISK MANAGEMENT

Financial reporting

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

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

Internal control and risk management

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

HANDLING AND DISSEMINATION OF INSIDE INFORMATION

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

EXTERNAL AUDITOR

Ernst & Young has been appointed as the external auditor of the Company. The Audit Committee has been notified of the nature and the service charges of the services performed by Ernst & Young and considered that such services have no adverse effect on the independence of the external auditor. According to the Articles of Association of the Company, the appointment of Ernst & Young as the auditor would be until the next annual general meeting of the Company, at which Ernst & Young would retire and be eligible to stand for re-appointment by the Shareholders.

For the year ended 31 December 2020, the total remuneration paid to the external auditors for audit services and non-audit services (which mainly included interim review services) amounted to approximately RMB1.2 million and RMB0.4 million, respectively.

There was no disagreement between the Board and the audit committee on the selection and appointment of the external auditor during the year ended 31 December 2020.

SHAREHOLDERS' RIGHTS

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

Right to convene extraordinary general meeting

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

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

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

Right to put enquires to the Board

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

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2020, there had been no significant change in the Company's constitutional documents, a copy of which is available on the websites of the Stock Exchange and the Company.

DIRECTORS' INSURANCE

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

INVESTOR RELATIONS

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

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

On behalf of the Board

Ximei Resources Holding Limited

Mr. Wu Lijue

Chairman of the Board

Hong Kong, 30 March 2021

REPORT OF THE DIRECTORS

The Directors are pleased in presenting the Directors' report together with the audited consolidated financial statements of the Company for the year ended 31 December 2020 (the "Financial Statements").

CORPORATE REORGANISATION

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

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

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

Profit of the Group for the year ended 31 December 2020 and the financial positions of the Company and the Group at that date are set out in the Financial Statements on pages 68 to 129.

The Board resolved not to recommend the payment of any final dividends for the year ended 31 December 2020 (2019: Nil).

POLICY ON PAYMENT OF DIVIDENDS

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

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

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

REPORT OF THE DIRECTORS (CONTINUED)

CLOSURE OF THE REGISTER OF MEMBERS OF SHARES

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

For the purposes of determining the Shareholders' eligibility to attend and vote at the forthcoming annual general meeting to be held on Monday, 31 May 2021, the register of members of the Company will be closed from Wednesday, 26 May 2021 to Monday, 31 May 2021 (both dates inclusive) during which period no transfer of Shares will be registered. To be qualified for attending and voting at the forthcoming annual general meeting, all share transfer documents must be lodged with Computershare Hong Kong Investor Services Limited, the Company's share registrar in Hong Kong, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:00 p.m. on Tuesday, 25 May 2021.

BUSINESS REVIEW

A review of the business of the Group for the Year Under Review and a discussion on the Group's future business development are provided in the "Management Discussion and Analysis" section on pages 7 to 26. Financial highlights of the Group's performance during the Year Under Review using financial key performance indicators is provided in the "Financial Highlights" section on page 4. A financial summary for the last five years is provided in the "Financial Summary" section on page 130.

ENVIRONMENTAL POLICY

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

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

RELATIONSHIPS WITH STAKEHOLDERS

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

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

KEY RISKS AND UNCERTAINTIES

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

Market risk

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

Foreign exchange risk

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

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

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

REPORT OF THE DIRECTORS (CONTINUED)

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

Liquidity risk

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

Operational risk

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

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

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2020, the Group did not have any material contingent liabilities, on-going legal proceedings or potential proceedings threatened to be brought against the Group.

GOING CONCERN

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

PUBLIC FLOAT

According to the information disclosed publicly and as far as the Directors are aware, during the Year Under Review and up to the date of this report, at least 25% of the issued shares of the Company was held by public shareholders as required under the Listing Rules.

REPORT OF THE DIRECTORS (CONTINUED)

CHARITY DONATIONS

During the Year Under Review, the Group did not have any charity donations (2019: Nil).

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 22 to the Financial Statements.

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

During the Year Under Review and up to the date of this report, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

RESERVES

Details of change in reserves of the Group are set out on page 72 of the "Consolidated Statement of Changes in Equity" of this report.

DISTRIBUTABLE RESERVES

The amount of the Company's reserves available for distribution at 31 December 2020, calculated in accordance with the Companies Law of the Cayman Islands, was reserves of approximately RMB114.9 million. Detail of movements in reserves of the Company during the Year Under Review are set out in the "Statement of Financial Position of the Company" on page 128 and 129 of this report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group for the year ended 31 December 2020 are set out in Note 13 to the Financial Statements.

PRE-EMPTIVE RIGHTS

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

REPORT OF THE DIRECTORS (CONTINUED)

SUBSIDIARY COMPANIES

Details of the major subsidiary companies of the Company as at 31 December 2020 are set out in Note 1 to the Financial Statements.

INTEREST OF COMPLIANCE ADVISER

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

PLEDGE OF ASSETS

As at 31 December 2020, certain of the Group’s bank loans are secured by the pledge of certain of the Group’s leasehold land, and property, plant and equipment with net carrying amounts of approximately RMB5.9 million (31 December 2019: RMB9.5 million) and RMB30.2 million (31 December 2019: Nil), respectively.

SHARE OPTION SCHEME

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

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

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

REPORT OF THE DIRECTORS (CONTINUED)

2. Our Directors shall, in accordance with the provisions of the Share Option Scheme and the Listing Rules, be entitled but shall not be bound at any time within a period of ten years commencing from the date of the adoption of the Share Option Scheme to make an offer to any of the following classes:
- (i) any employee (whether full-time or part-time including any executive director but excluding any non-executive director) of our Company, any of our subsidiaries or any entity (the “Invested Entity”) in which our Group holds an equity interest (“Eligible Employee”);
 - (ii) any non-executive directors (including independent non-executive directors) of our Company, any of our subsidiaries or any Invested Entity;
 - (iii) any supplier of goods or services to any member of our Group or any Invested Entity;
 - (iv) any customer of any member of our Group or any Invested Entity;
 - (v) any person or entity that provide research, development or other technological support to any member of our Group or any Invested Entity;
 - (vi) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;
 - (vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of our Group or any Invested Entity; and
 - (viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement and growth of our Group,

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

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

REPORT OF THE DIRECTORS (CONTINUED)

4. The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of our Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being (the "Individual Limit"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to our Shareholders and our Shareholders' approval in general meeting of our Company with such participant and his associates abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before Shareholders' approval and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.
5. An option may be accepted by a participant within 21 days from the date of the offer of grant of the option. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by our Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.
6. The subscription price in respect of any option shall, subject to any adjustments made pursuant to paragraph(s) below, be at the discretion of our Directors, provided that it shall not be less than the highest of:
 - (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the date of the offer of grant, which must be a business day;
 - (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the offer of grant; and
 - (iii) the nominal value of a Share.
7. Unless terminated by the Company by resolution in general meeting, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date of its adoption (i.e. 19 February 2020). As at the date of this annual report, the Share Option Scheme had a remaining life of approximately 10 years.

REPORT OF THE DIRECTORS (CONTINUED)

TAX RELIEF AND EXEMPTION

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

DIRECTORS

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

Executive Directors

Mr. Wu Lijue (*Chairman*)

Ms. Wu Shandan

Independent Non-executive Directors

Mr. Lau Kwok Fai Patrick

Mr. Zhong Hui

Mr. Yin Fusheng

BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT

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

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

REMUNERATIONS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

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

REPORT OF THE DIRECTORS (CONTINUED)

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

The five highest paid individuals of the Group in the Year under Review include 3 Directors (2019: 3 Directors). Details of the five highest paid individuals are set out in Note 11 to the Financial Statements.

DIRECTORS' SERVICE CONTRACTS

Executive Directors

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

Non-executive Director and independent non-executive Directors

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

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

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

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

REPORT OF THE DIRECTORS (CONTINUED)

DISCLOSURE OF INTERESTS

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

As at 31 December 2020, the interests and short positions held by the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

(i) Interest in the shares in the Company:

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

Notes:

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

(2) These represents Shares to be held by Jiawei Resources Holding Limited ("Jiawei Resources Seychelles"), which was wholly owned by Mr. Wu Lijue.

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

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

Save as disclosed above, as at 31 December 2020, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

REPORT OF THE DIRECTORS (CONTINUED)

Save as disclosed above, as at 31 December 2020, none of the Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

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

As at 31 December 2020, so far as was known to the Directors, the interests or short positions held by the following persons (other than the Directors) in the shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or the interests or short positions recorded in the register kept by the Company under section 336 of the SFO were as follows:

Interests in the Shares:

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

* For identification purpose only

REPORT OF THE DIRECTORS (CONTINUED)

Notes

- (1) The Letter "L" denotes long position in our Shares.
- (2) Ms. Ruan Xiaomei is the spouse of Mr. Wu Lijue. By virtue of the SFO, Ms. Ruan Xiaomei is deemed to be interested in all the Shares held by Mr. Wu. Jiawei Resources Seychelles is wholly owned by Mr. Wu. By virtue of the SFO, Mr. Wu is deemed to be interested in all the Shares held by Jiawei Resources Seychelles.
- (3) As at the date of Listing, MACRO-LINK Cayman was owned by MACRO-LINK International as to approximately 96.33%, which was in turn wholly owned by MACRO-LINK Industrial, which was in turn wholly-owned by MACRO-LINK Holding, which was in turn owned by, among others, XiZang ChangShi, Mr. Fu Kwan and Ms. Xiao Wenhui as to approximately 93.40%, 2.83% and 0.11%, respectively. As at the date of Listing, XiZang ChangShi was owned by, among others, Mr. Fu Kwan and Ms. Xiao Wenhui by approximately 59.76% and 33.46%, respectively.
- (4) Ms. Wu Xiangming is the spouse of Mr. Fu Kwan. By virtue of the SFO, Ms. Wu Xiangming is deemed to be interested in all the Shares held by Mr. Fu Kwan.
- (5) Mr. Chen Bin is the spouse of Ms. Xiao Wenhui. By virtue of the SFO, Mr. Chen Bin is deemed to be interested in all the Shares held by Ms. Xiao Wenhui.

Save as disclosed above, to the best knowledge of the Directors of the Company, as at 31 December 2020, no person (other than the Directors) had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or any interest or short positions recorded in the register kept by the Company under section 336 of the SFO.

RELATED PARTY TRANSACTIONS

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

For details of the related party transactions, please refer to Note 26 to the Financial Statements. Save as disclosed in Note 26 to the Financial Statements, during the Year Under Review, we have not engaged in any other material related party transactions. None of those related party transactions constitutes a discloseable connected transaction as defined under the Listing Rules.

CONNECTED TRANSACTIONS

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

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long and short-term bank borrowings. For the Year Under Review, the effective interest rate for fixed rate borrowings was from 0.9% to 5.4%. The currency of the borrowings is in Renminbi or U.S. dollars. Taking into account the cash flow generated from operations and the long and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 31 December 2020, the Group had cash and cash equivalents of approximately RMB186.4 million (31 December 2019: approximately RMB58.5 million) which was mainly generated from operations of the Group and various long and short-term bank borrowings.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year Under Review, the total turnover of the Group's five largest customers accounted for approximately 56.9% of the Group's revenue, in which turnover from the largest customer of the Group accounted for approximately 29.3% of the total revenue of the Group. During the same period, total purchases of the Group's five largest suppliers accounted for approximately 86.5% of the Group's total cost of sales, in which purchase from the largest supplier of the Group accounted for approximately 34.5% of the total cost of sales of the Group.

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

EMPLOYEE BENEFITS

Details of the employee benefits of the Group for the year ended 31 December 2020 are set out in Note 2.4 to the Financial Statements. No forfeited contributions (by the Group on behalf of employees who leave the defined contribution plans prior to vesting fully in such contributions) can be used by the Group to reduce the existing level of contributions.

PERMITTED INDEMNITY PROVISION

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

REPORT OF THE DIRECTORS (CONTINUED)

COMPANY SECRETARY

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

EVENTS AFTER THE REPORTING PERIOD

Change in Shareholding of Controlling Shareholder

As disclosed in the announcement of the Company dated 25 January 2021, on 25 January 2021, MACRO-LINK International Mining Limited ("MACRO-LINK"), a substantial shareholder of the Company, transferred 47,500,000 shares of the Company, representing approximately 15.8% of the issued share capital of the Company, to Jiawei Resources Seychelles, a controlling shareholder of the Company (the "Transfer").

Prior to the Transfer, Jiawei Resources Seychelles held 157,500,000 shares of the Company, representing approximately 52.5% of the issued share capital of the Company. Following the Transfer, Jiawei Resources Seychelles holds 205,000,000 shares of the Company, representing approximately 68.3% of the issued share capital of the Company. Please refer to the announcement of the Company dated 25 January 2021 for further details.

Resignation of Non-executive Director

As disclosed in the announcement of the Company dated 23 February 2021, Mr. Zeng Min ("Mr. Zeng") has tendered his resignation as a non-executive Director of the Company with effect from 23 February 2021. Reference is made to the announcement of the Company dated 25 January 2021 in relation to the change in shareholding of controlling shareholder. As MACRO-LINK has ceased to be a shareholder of the Company, Mr. Zeng, the representative from MARCO-LINK, has resigned as a non-executive Director to focus on his other business engagements. Please refer to the announcement of the Company dated 23 February 2021 for further details.

Cooperation Arrangement

As disclosed in the announcement of the Company dated 26 March 2021, on 26 March 2021, Ximei Guangdong, a wholly-owned subsidiary of the Company, and China Nuclear Huachuang entered into the Cooperation Agreement in relation to the Cooperation.

Pursuant to the Cooperation Agreement, Ximei Guangdong and China Nuclear Huachuang shall inject capital to the Cooperation Company in proportion to their respective equity holding in the Cooperation Company, representing 45% and 55% of the registered equity capital of the Cooperation Company, respectively. The registered capital of the Cooperation Company is RMB100 million. The purpose of the establishment of the Cooperation Company is to develop a project in relation to the production of tantalum- and niobium-based products in Hunan Province, the PRC. Please refer to the announcement of the Company dated 26 March 2021 for further details.

REPORT OF THE DIRECTORS (CONTINUED)

AUDITOR

The Financial Statements for the year ended 31 December 2020 have been audited by Ernst & Young, who shall retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Ernst & Young as auditor of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Ximei Resources Holding Limited

Mr. Wu Lijue

Chairman of the Board

Hong Kong, 30 March 2021

INDEPENDENT AUDITOR'S REPORT



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

安永會計師事務所
香港中環添美道1號
中信大廈22樓

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

To the shareholders of Ximei Resources Holding Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Ximei Resources Holding Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 68 to 129, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

Key audit matter	How our audit addressed the key audit matter
<p>Net realisable value of inventories</p> <p>As at 31 December 2020, the Group's inventories amounted to RMB269 million, representing 31.5% of the total assets of the Group.</p> <p>Significant management estimation was required in assessing the net realisable value of the inventories, with reference to the estimated selling prices. There were also estimations required in determining inventory obsolescence provisions as these were based on forecast inventory usage and sales. Due to the significance of inventories and the significant estimation involved in determining the net realisable value, we considered this as a key audit matter.</p> <p>The related disclosures are included in notes 3 and 14 to the consolidated financial statements.</p>	<p>Our audit procedures included attending inventory counts to observe the physical condition of a sample of inventories selected as at the year end.</p> <p>We assessed the obsolescence provision policy and compared the provision with historical data and actual inventory usage. We also assessed the net realisable value by comparing the unit prices of subsequent sales with the unit costs for selected items.</p>

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
<p><i>Provision for expected credit losses on trade receivables</i></p> <p>As at 31 December 2020, the Group's trade receivables amounted to RMB100 million, representing 11.8% of the total assets of the Group.</p> <p>The measurement of expected credit loss ("ECL") required the application of significant estimation which included the identification of exposures with a significant deterioration in credit quality, and assumptions used in the ECL model, such as the forward-looking information. Due to the significance of the trade receivables and the significant estimation involved in determining the ECL, we considered this as a key audit matter.</p> <p>The related disclosures are included in notes 3 and 15 to the consolidated financial statements.</p>	<p>Our procedures included assessing the Group's policies and procedures in the estimations of the ECL and checking subsequent settlements after the year end.</p> <p>We assessed the assumptions and inputs in the ECL model by considering the historical customer payment behaviour, the creditworthiness of customers, the ageing of the trade receivables and other macroeconomic consideration.</p> <p>We also assessed the adequacy of disclosures of the impairment assessment of trade receivables in the consolidated financial statements.</p>

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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 period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Ernst & Young

Certified Public Accountants

Hong Kong

30 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
REVENUE	5	601,652	600,644
Cost of sales		(429,002)	(441,640)
Gross profit		172,650	159,004
Other income and gains, net	5	27,573	7,622
Selling and distribution expenses		(8,392)	(7,193)
Administrative expenses		(72,691)	(56,777)
Listing expenses		(11,468)	(12,129)
Other expenses		(12,486)	(2,002)
Finance costs	6	(8,022)	(4,584)
PROFIT BEFORE TAX	7	87,164	83,941
Income tax expense	8	(16,855)	(14,289)
PROFIT FOR THE YEAR		70,309	69,652
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic (in RMB)	12	0.25	0.31

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

	2020 RMB'000	2019 RMB'000
PROFIT FOR THE YEAR	70,309	69,652
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	131	(319)
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of the Company's financial statements	(666)	(255)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	(535)	(574)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	69,774	69,078

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	95,557	89,530
Right-of-use assets	21(a)	24,342	26,017
Prepayments	16	13,318	11,967
Total non-current assets		133,217	127,514
CURRENT ASSETS			
Inventories	14	269,158	129,879
Trade and bills receivables	15	150,469	169,158
Prepayments, deposits and other receivables	16	114,438	42,198
Cash and cash equivalents	17	186,378	58,475
Total current assets		720,443	399,710
CURRENT LIABILITIES			
Trade payables	18	6,321	17,205
Other payables and accruals	19	46,110	34,621
Interest-bearing bank borrowings	20	236,144	103,015
Lease liabilities	21(b)	1,213	1,229
Tax payable		10,370	7,010
Total current liabilities		300,158	163,080
NET CURRENT ASSETS		420,285	236,630
TOTAL ASSETS LESS CURRENT LIABILITIES		553,502	364,144

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	20	29,786	40,247
Lease liabilities	21(b)	1,954	3,297
Total non-current liabilities		31,740	43,544
Net assets		521,762	320,600
EQUITY			
Share capital	22	2,712	—
Reserves	23	519,050	320,600
Total equity		521,762	320,600

Mr. Wu Lijue
Director

Ms. Wu Shandan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000 (Note 23)	Merger reserve RMB'000 (Note 23)	Other reserve RMB'000	Specific reserve RMB'000 (Note 23)	Exchange reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2019	—	—	34,347	8,803	9	2,822	(706)	206,247	251,522
Profit for the year	—	—	—	—	—	—	—	69,652	69,652
Other comprehensive loss for the year:									
Exchange differences on translation of foreign operations	—	—	—	—	—	—	(319)	—	(319)
Exchange differences on translation of the Company's financial statements	—	—	—	—	—	—	(255)	—	(255)
Total comprehensive income for the year	—	—	—	—	—	—	(574)	69,652	69,078
Appropriation to specific reserve	—	—	—	—	—	2,770	—	(2,770)	—
At 31 December 2019 and 1 January 2020	—	—*	34,347*	8,803*	9*	5,592*	(1,280)*	273,129*	320,600
Profit for the year	—	—	—	—	—	—	—	70,309	70,309
Other comprehensive loss for the year:									
Exchange differences on translation of foreign operations	—	—	—	—	—	—	131	—	131
Exchange differences on translation of the Company's financial statements	—	—	—	—	—	—	(666)	—	(666)
Total comprehensive income for the year	—	—	—	—	—	—	(535)	70,309	69,774
Appropriation to specific reserve	—	—	—	—	—	3,252	—	(3,252)	—
Issue of shares pursuant to share offer (Note 22)	678	150,527	—	—	—	—	—	—	151,205
Issue of shares pursuant to capitalisation issue (Note 22)	2,034	(2,034)	—	—	—	—	—	—	—
Share issue expenses	—	(19,817)	—	—	—	—	—	—	(19,817)
At 31 December 2020	2,712	128,676*	34,347*	8,803*	9*	8,844*	(1,815)*	340,186*	521,762

* These reserve accounts comprise the consolidated reserves of RMB519,050,000 (2019: RMB320,600,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		87,164	83,941
Adjustments for:			
Finance costs	6	8,022	4,584
Depreciation of property, plant and equipment	7	12,270	9,662
Depreciation of right-of-use assets	7	1,793	1,716
Loss on disposal of items of property, plant and equipment	7	363	264
Impairment of trade receivables	7	6,925	—
Write-down of inventories to net realisable value	7	4,852	42
Fair value loss on derivative financial instruments	7	—	439
Interest income	5	(1,268)	(908)
		120,121	99,740
(Increase)/decrease in inventories		(144,131)	32,801
Decrease/(increase) in trade and bills receivables		11,764	(100,474)
Increase in prepayments, deposits and other receivables		(69,175)	(12,247)
Decrease in financial liabilities at fair value through profit or loss		—	(519)
Decrease in trade payables		(10,884)	(22,214)
Increase in other payables and accruals		11,489	11,970
		(80,816)	9,057
Cash (used in)/generated from operations		(80,816)	9,057
Taxes paid		(13,495)	(13,788)
		(94,311)	(4,731)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(18,969)	(25,901)
Proceeds from disposal of items of property, plant and equipment		278	—
Interest received		1,268	908
		(17,423)	(24,993)
Net cash flows used in investing activities		(17,423)	(24,993)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Year ended 31 December 2020

	Note	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		151,205	—
Share issue expenses		(19,817)	—
New bank loans		442,591	199,758
Repayment of bank loans		(319,923)	(204,569)
Repayment of lease liabilities		(1,477)	(1,140)
Interest paid		(8,022)	(4,345)
Net cash flows from/(used in) financing activities		244,557	(10,296)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		58,475	99,224
Effect of foreign exchange rate changes, net		(4,920)	(729)
CASH AND CASH EQUIVALENTS AT END OF YEAR		186,378	58,475
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	17	186,378	58,475

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE INFORMATION

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

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

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

Information about subsidiaries

Particulars of the Company’s subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Ximei Resources (Guangdong) Limited (formerly named “Guangdong Zhiyuan New Material Co., Ltd.”) 稀美資源(廣東)有限公司*#	People’s Republic of China (the “PRC”) 9 May 2006	RMB33,800,000	—	100	Manufacture and sale of non-ferrous metal products
Xinjia Group Limited 新佳集團有限公司	Seychelles 21 June 2017	US\$1	100	—	Investment holding
Ximei Resources (Hong Kong) Limited (formerly named “Xite Group Limited”) 稀美資源(香港)有限公司	Hong Kong 29 June 2017	Hong Kong dollars (“HK\$”) 10,000	—	100	Sale of non-ferrous metal products
Ximei Resources (Guizhou) Technology Limited 稀美資源(貴州)科技有限公司*	The PRC 30 September 2020	RMB100,000,000	—	100	Manufacture and sale of non-ferrous metal products
Ximei (Hainan) Trading Limited 稀美(海南)貿易有限公司*	The PRC 16 October 2020	RMB10,000,000	—	100	Sale of non-ferrous metal products

* The English names of the companies are direct translations of their Chinese names as no English names have been registered or are available.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") and the following revised HKFRSs for the first time for the current year's consolidated financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions (early adopted)</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The nature and the impact of the Conceptual Framework and the revised HKFRSs are described below:

- (a) The Conceptual Framework sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

- (b) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (“RFR”). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.
- (d) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any rent concessions.
- (e) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i> ²
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform — Phase 2</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
HKFRS 17	<i>Insurance Contracts</i> ³
Amendments to HKFRS 17	<i>Insurance Contracts</i> ^{3,6}
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current</i> ^{3,5}
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i> ²
Amendments to HKAS 37	<i>Onerous Contracts — Cost of Fulfilling a Contract</i> ²
<i>Annual Improvements to HKFRSs 2018–2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41 ²

¹ Effective for annual periods beginning on or after 1 January 2021

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after 1 January 2023

⁴ No mandatory effective date yet determined but available for adoption

⁵ As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion.

⁶ As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023.

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

Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

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

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

Annual Improvements to HKFRSs 2018–2020 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.
- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Impairment of non-financial assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

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

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

Related parties

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

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

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

(b) (Continued)

- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease terms.

(b) *Lease liabilities*

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

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

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

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

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

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

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

General approach

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Impairment of financial assets (continued)****General approach (continued)**

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

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

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

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

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

Simplified approach

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

Financial liabilities**Initial recognition and measurement**

Financial liabilities are classified, at initial recognition, as loans and borrowings.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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

Cash and cash equivalents

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

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

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

Income tax

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

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

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

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

Government grants

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Revenue recognition****Revenue from contracts with customers**

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

Sale of products

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

Provision of processing services

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

Other income

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

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Employee benefits

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

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

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

Foreign currencies

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Estimation uncertainty

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (continued)

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

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

Write-down of inventories to net realisable value

Management reviews the condition and ageing analysis of inventories of the Group to identify any obsolete and slow-moving inventory items. Based on such review, write-down of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable values. The Group estimates the net realisable value for such inventories based on estimated selling prices with reference to the latest invoice prices and current market conditions at the end of the reporting period.

The identification of obsolete and slow-moving inventory items and estimation of net realisable values requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying values of inventories and the write-down of inventories recognised in the periods in which such estimates have been made. The carrying amount of inventories at 31 December 2020 was RMB269,158,000 (2019: RMB129,879,000).

Provision for expected credit losses on trade receivables

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

4. OPERATING SEGMENT INFORMATION

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

Geographical information

(a) Revenue from external customers

	2020 RMB'000	2019 RMB'000
The PRC	525,426	537,162
The United States	42,548	37,962
European countries	22,187	9,131
Others	11,491	16,389
	601,652	600,644

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

(b) Non-current assets

	2020 RMB'000	2019 RMB'000
The PRC	132,537	126,195
Others	680	1,319
	133,217	127,514

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

4. Operating Segment Information (Continued)

Information about major customers

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

	2020 RMB'000	2019 RMB'000
Customer A	176,203	151,389
Customer B	—	72,137
Customer C	89,091	56,958

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers		
Sale of products	595,857	595,805
Provision of processing services	5,795	4,839
	601,652	600,644

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

5. REVENUE, OTHER INCOME AND GAINS (Continued)

(i) Disaggregated revenue information

	2020 RMB'000	2019 RMB'000
Types of goods or services		
Sale of products	595,857	595,805
Provision of processing services	5,795	4,839
Total revenue from contracts with customers	601,652	600,644
Timing of revenue recognition		
Goods transferred at a point in time	595,857	595,805
Services rendered over time	5,795	4,839
Total revenue from contracts with customers	601,652	600,644

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

	2020 RMB'000	2019 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of products	1,239	1,873

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

5. REVENUE, OTHER INCOME AND GAINS (Continued)

(ii) Performance obligations

Sale of products

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

Provision of processing services

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

No performance obligations were unsatisfied or partially unsatisfied as at 31 December 2020 (2019: Nil).

	2020 RMB'000	2019 RMB'000
Other income and gains, net		
Bank interest income	1,268	908
Government grants*	14,616	6,416
Foreign exchange differences, net	10,985	—
Others	704	298
	27,573	7,622

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

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2020 RMB'000	2019 RMB'000
Interest on bank loans	10,272	7,214
Interest on lease liabilities	189	239
Less: Interest capitalised	(2,439)	(2,869)
	8,022	4,584

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

7. PROFIT BEFORE TAX

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

	Notes	2020 RMB'000	2019 RMB'000
Cost of inventories sold		429,002	441,640
Depreciation of property, plant and equipment	13	12,270	9,662
Depreciation of right-of-use assets	21	1,793	1,716
Research and development costs		24,005	23,951
Auditors' remuneration		1,636	1,322
Employee benefit expense (including directors' and chief executive's remuneration (note 10)):			
Wages and salaries		37,035	32,702
Pension scheme contributions		4,814	6,393
		41,849	39,095
Loss on disposal of items of property, plant and equipment		363	264
Impairment of trade receivables	15	6,925	—
Write-down of inventories to net realisable value		4,852	42
Fair value loss on derivative financial instruments		—	439
Foreign exchange differences, net		(10,985)	634

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

8. INCOME TAX

During the year, Hong Kong profits tax has been provided on the estimated assessable profits arising in Hong Kong for the Hong Kong subsidiary of the Group, which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 of assessable profits of this subsidiary are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. No provision for Hong Kong profits tax has been made during the year ended 31 December 2019 as the Group did not generate any assessable profits arising in Hong Kong.

Tax on profits assessable in the PRC has been calculated at the applicable PRC corporate income tax ("CIT") rate of 25% during the year (2019: 25%). During the year, Ximei Resources (Guangdong) Limited was qualified as a high and new technology enterprise and enjoyed a preferential income tax rate at 15% (2019: 15%).

	2020 RMB'000	2019 RMB'000
Current — Hong Kong Charge for the year	3,662	—
Current — The PRC Charge for the year	13,193	14,289
Total tax charge for the year	16,855	14,289

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

	2020		2019	
	RMB'000	%	RMB'000	%
Profit before tax	87,164		83,941	
Tax at the statutory tax rate	21,791	25.0	20,985	25.0
Lower tax rate enacted by local authority	(8,953)	(10.3)	(9,523)	(11.3)
Lower tax rates for subsidiaries operating in other jurisdictions	(1,806)	(2.1)	—	—
Income not subject to tax	(5,959)	(6.8)	(3,983)	(4.7)
Expense not deductible for tax	11,511	13.2	7,417	8.8
Others	271	0.3	(607)	(0.8)
Tax charge at the Group's effective rate	16,855	19.3	14,289	17.0

8. INCOME TAX (continued)

The Group has no tax losses arising in Hong Kong (2019: Nil) that are available indefinitely for offsetting against future taxable profits of the subsidiary in which the losses arose.

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

As at 31 December 2020, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings of RMB378.1 million (2019: RMB306.4 million) of a subsidiary of the Group established in the PRC. In the opinion of the Directors, the Group will retain all of the distributable profits of the PRC's subsidiary in the PRC for its operation in Mainland China and no dividend will be declared in the foreseeable future. Hence, no deferred tax for withholding tax was recognised.

9. DIVIDENDS

No dividend has been paid or proposed by the Company during the year (2019: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2020 RMB'000	2019 RMB'000
Fees	272	—
Other emoluments:		
Salaries, allowances and benefits in kind	1,359	1,012
Pension scheme contributions	29	56
	1,388	1,068

Independent non-executive directors

Mr. Lau Kwok Fai Patrick, Mr. Zhong Hui and Mr. Yin Fusheng were appointed as independent non-executive directors of the Company on 19 February 2020.

The fees paid to independent non-executive directors during the year were as follows:

	2020 RMB'000	2019 RMB'000
Mr. Lau Kwok Fai Patrick	116	—
Mr. Zhong Hui	78	—
Mr. Yin Fusheng	78	—
	272	—

There were no other emoluments paid or payable to the independent non-executive directors of the Company during the year (2019: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

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

Executive directors and a non-executive director

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

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Year ended 31 December 2020				
Executive directors:				
Mr. Wu Lijue*	—	843	16	859
Ms. Wu Shandan	—	409	13	422
	—	1,252	29	1,281
Non-executive director:				
Mr. Zeng Min [#]	—	107	—	107
Year ended 31 December 2019				
Executive directors:				
Mr. Wu Lijue*	—	529	16	545
Ms. Wu Shandan	—	377	40	417
	—	906	40	962
Non-executive director:				
Mr. Zeng Min [#]	—	106	—	106

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

[#] Mr. Zeng Min resigned as a non-executive director of the Company with effect from 23 February 2021.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2019: Nil).

During the year, no remuneration was paid by the Group to any of these directors as an inducement to join or upon joining the Group, or as a compensation for loss of office (2019: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included two directors (2019: one director) for the year ended 31 December 2020, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining three (2019: four) highest paid employees for the year, who are neither a director nor chief executive of the Company are as follows:

	2020 RMB'000	2019 RMB'000
Salaries, allowances and benefits in kind	1,713	2,163
Pension scheme contributions	66	148
	1,779	2,311

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

	Number of employees	
	2020	2019
Nil to HK\$1,000,000 (equivalent to RMB889,000)	3	4

During the year, no share option was granted to any non-director and non-chief executive highest paid employee in respect of their services to the Group (2019: Nil).

During the year, no remuneration was paid by the Group to any of these non-director and non-chief executive highest paid employees as an inducement to join or upon joining the Group, or as a compensation for loss of office (2019: Nil). There was no arrangement under which any of these non-director and non-chief executive highest paid employees waived or has agreed to waive any emoluments during the year (2019: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 285,410,959 (2019: 225,000,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2020 and 2019.

The calculation of basic earnings per share is based on:

	2020 RMB'000	2019 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the Company	70,309	69,652

The weighted average number of ordinary shares for the purpose of basic earnings per share for the year ended 31 December 2019 has been retrospectively adjusted for the effects of the capitalisation issue which took place on 12 March 2020 as stated in note 22 to the consolidated financial statements.

	Number of shares	
	2020	2019
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	285,410,959	225,000,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Furniture and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2020						
At 1 January 2020:						
Cost	50,627	68,255	1,049	3,894	7,835	131,660
Accumulated depreciation	(16,645)	(23,128)	(684)	(1,673)	—	(42,130)
Net carrying amount	33,982	45,127	365	2,221	7,835	89,530
At 1 January 2020, net of accumulated depreciation	33,982	45,127	365	2,221	7,835	89,530
Additions	—	82	38	343	18,506	18,969
Transfers	2,528	7,183	56	120	(9,887)	—
Depreciation provided during the year	(3,126)	(8,370)	(133)	(641)	—	(12,270)
Disposals/write-off	(66)	(546)	—	(29)	—	(641)
Exchange realignment	—	—	—	(31)	—	(31)
At 31 December 2020, net of accumulated depreciation	33,318	43,476	326	1,983	16,454	95,557
At 31 December 2020:						
Cost	52,853	69,042	719	3,969	16,454	143,037
Accumulated depreciation	(19,535)	(25,566)	(393)	(1,986)	—	(47,480)
Net carrying amount	33,318	43,476	326	1,983	16,454	95,557

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

As at 31 December 2020, included in the Group's buildings were six buildings with an aggregate carrying amount of approximately RMB6,343,000 (2019: RMB6,714,000) for which no building ownership certificates were obtained. The building ownership certificates of these buildings are expected to be obtained by the end of 2021. Based on the PRC legal opinion, the Group is eligible to use these buildings though the formal title of these buildings has not yet been obtained by the Group.

At 31 December 2020, certain of the Group's property, plant and equipment with a net carrying amount of approximately RMB30,205,000 (2019: Nil) were pledged to secure the Group's bank loans (note 20).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

14. INVENTORIES

	2020 RMB'000	2019 RMB'000
Raw materials	184,069	81,053
Work in progress	36,669	23,345
Finished goods	48,420	25,481
	269,158	129,879

15. TRADE AND BILLS RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables	107,401	101,475
Less: Impairment	(6,925)	—
	100,476	101,475
Bills receivables	49,993	67,683
	150,469	169,158

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month, extending up to three months. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. There is a certain concentration of credit risk. The total trade receivables from the five largest debtors at 31 December 2020 represented 79.7% (2019: 83.3%) of the total trade receivables, while 54.9% (2019: 36.8%) of the total trade receivables were due from the largest debtor. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade and bills receivables are non-interest-bearing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

15. TRADE AND BILLS RECEIVABLES (Continued)

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

	2020 RMB'000	2019 RMB'000
Within 1 month	72,231	115,757
1 to 2 months	11,500	30,251
2 to 3 months	13,561	10,087
Over 3 months	53,177	13,063
	150,469	169,158

The movements in the loss allowance for impairment of trade receivables are as follows:

	2020 RMB'000	2019 RMB'000
At beginning of year	—	—
Impairment losses	6,925	—
At end of year	6,925	—

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

15. TRADE AND BILLS RECEIVABLES (Continued)

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2020

	Current	Past due			Total
		Less than 1 month	1 to 3 months	Over 3 months	
Expected credit loss rate	0.18%	0.64%	12.30%	88.76%	6.45%
Gross carrying amount (RMB'000)	41,162	14,577	51,137	525	107,401
Expected credit losses (RMB'000)	75	93	6,291	466	6,925

As at 31 December 2019, the expected credit loss rate for the Group's trade receivables is minimal.

There was no recent history of default for bills receivables. As at 31 December 2020 and 2019, the loss allowance was assessed to be minimal.

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2020 RMB'000	2019 RMB'000
Non-current		
Prepayments	13,318	11,967
Current		
Prepayments	111,820	40,682
Deposits and other receivables	2,618	1,516
	114,438	42,198

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

17. CASH AND CASH EQUIVALENTS

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

At 31 December 2020, the Group's cash and bank balances denominated in RMB amounted to RMB149,623,000 (2019: RMB54,582,000). The RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

18. TRADE PAYABLES

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

	2020 RMB'000	2019 RMB'000
Within 1 month	4,122	13,126
1 to 2 months	1,072	4,077
2 to 3 months	1,007	2
Over 3 months	120	—
	6,321	17,205

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

19. OTHER PAYABLES AND ACCRUALS

	Notes	2020 RMB'000	2019 RMB'000
Contract liabilities	(i)	1,555	1,239
Other payables	(ii)	10,040	4,635
Accruals		25,426	19,767
Deferred income	(iii)	9,089	8,980
		46,110	34,621

Notes:

- (i) Details of contract liabilities are as follows:

	31 December 2020 RMB'000	31 December 2019 RMB'000	1 January 2019 RMB'000
Short-term advances received from customers			
Sale of products	1,555	1,239	1,873

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

- (ii) Other payables are non-interest bearing and have an average credit term of three months.
- (iii) Deferred income represents government grants received from the PRC local government authorities to support a subsidiary's research and development activities and acquisition of property, plant and equipment. The government grants received for acquisition of property, plant and equipment are recognised as deferred income, which is amortised against the depreciation charge of the property, plant and equipment in accordance with their estimated useful lives.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

20. INTEREST-BEARING BANK BORROWINGS

	31 December 2020			31 December 2019		
	Effective interest rate %	Maturity	RMB'000	Effective interest rate %	Maturity	RMB'000
Current						
Bank loans — unsecured	0.9–4.8	2021	227,132	2.5–4.5	2020	94,765
Bank loans — secured	5.4	2021	9,012	5.4	2020	8,250
			236,144			103,015
Non-current						
Bank loans — secured	5.4	2022–2024	29,786	5.4	2021–2024	40,247
			265,930			143,262

The maturity of the above bank borrowings is as follows:

	2020 RMB'000	2019 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	236,144	103,015
In the second year	9,256	9,702
In the third to fifth years, inclusive	20,530	30,545
	265,930	143,262

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

20. INTEREST-BEARING BANK BORROWINGS (Continued)

Notes:

- (a) As at 31 December 2020, the Group's loan facilities amounting to RMB456,000,000, of which RMB117,861,000 had been utilised as at the end of the reporting period, are guaranteed by the Company.

As at 31 December 2020, the Group's loan facilities amounting to RMB100,000,000, of which RMB44,056,000 had been utilised as at the end of the reporting period, are jointly guaranteed by the Company and the Company's subsidiary, Ximei Resources (Hong Kong) Limited.

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

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

- (b) As at 31 December 2020, certain of the Group's bank loans are secured by the pledge of certain of the Group's leasehold lands and property, plant and equipment with net carrying amounts of approximately RMB5,878,000 (2019: RMB9,478,000) and RMB30,205,000 (2019: Nil), respectively.
- (c) Borrowings of the Group are denominated in RMB and US\$.

21. LEASES

The Group has lease contracts for land and offices. Leases of land have lease terms of 50 years, while offices have lease terms between 2 and 3 years. Generally, the Group is restricted from assigning and subleasing the leased assets of the Group.

(a) Right-of-use assets

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

	Leasehold Lands RMB'000	Offices RMB'000	Total RMB'000
As at 1 January 2019	23,109	3,884	26,993
Additions	—	742	742
Depreciation charge	(501)	(1,215)	(1,716)
Exchange realignment	—	(2)	(2)
As at 31 December 2019 and 1 January 2020	22,608	3,409	26,017
Depreciation charge	(500)	(1,293)	(1,793)
Remeasurement arising from revision of lease terms	—	132	132
Exchange realignment	—	(14)	(14)
As at 31 December 2020	22,108	2,234	24,342

At 31 December 2020, certain of the Group's leasehold lands with a net carrying amount of approximately RMB5,878,000 (2019: RMB9,478,000) were pledged to secure the Group's bank loans (note 20).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

21. LEASES (Continued)

(b) Lease liabilities

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

	2020 RMB'000	2019 RMB'000
Carrying amount at 1 January	4,526	4,689
New leases	—	742
Accretion of interest recognised during the year	189	239
Payments	(1,666)	(1,140)
Remeasurement arising from revision of lease terms	132	—
Exchange realignment	(14)	(4)
Carrying amount at 31 December	3,167	4,526
Analysed into:		
Current portion	1,213	1,229
Non-current portion	1,954	3,297
	3,167	4,526

The maturity analysis of lease liabilities is disclosed in note 30 to the consolidated financial statements.

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

	2020 RMB'000	2019 RMB'000
Interest on lease liabilities	189	239
Depreciation charge of right-of-use assets	1,793	1,716
Total amount recognised in profit or loss	1,982	1,955

(d) The total cash outflow for leases is disclosed in note 27(c) to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

22. SHARE CAPITAL

	31 December 2020		31 December 2019	
	HK\$	Equivalent to RMB	HK\$	Equivalent to RMB
Issued and fully paid: 300,000,000 (2019: 10) ordinary shares of HK\$0.01 each	3,000,000	2,712,208	0.1	0.09

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

23. RESERVES

The amounts of the Group's reserves and the movements therein for the year are presented in the consolidated statement of changes in equity on page 72.

The Group's capital reserve is a capital contribution by the Company for a reorganisation completed on 31 August 2017.

The Group's merger reserve mainly represents the deemed contribution and distribution by the controlling shareholder pursuant to a reorganisation completed on 31 August 2017.

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

24. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank loans are included in note 20(b) to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

25. COMMITMENTS

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

	2020 RMB'000	2019 RMB'000
Contracted but not provided for: Plant and equipment	43,954	5,059

26. RELATED PARTY TRANSACTIONS

(a) Save as disclosed in note 20(a) to these financial statements, the Group had the following transactions with related parties during the current and prior years:

	Notes	2020 RMB'000	2019 RMB'000
Lease payments for properties:			
Jiawei Resources Limited	(i)	374	—
Mr. Wu Lijue	(ii)	477	—
Loan guarantee fee:			
MACRO-LINK Holding Co., Ltd.	(iii)	—	95

Notes:

- (i) The lease payments for a property located in Hong Kong were paid or payable by the Group to a fellow subsidiary based on terms as agreed by the relevant parties as set out in a tenancy agreement.

Pursuant to the tenancy agreement, as at 31 December 2020, the Group had total future minimum lease payments to the fellow subsidiary under the non-cancellable operating lease of the property of RMB204,000 falling due within one year.

- (ii) The lease payments for properties located in the PRC were paid or payable by the Group to the Company's controlling shareholder based on terms as agreed by the relevant parties as set out in the tenancy agreements.

Pursuant to the tenancy agreements, as at 31 December 2020, the Group had total future minimum lease payments to the Company's controlling shareholder under the non-cancellable operating lease of the properties of RMB1,071,000 and RMB1,073,000 falling due within one year and within the second to fifth years, respectively.

- (iii) The loan guarantee fee was incurred for the guarantee provided by MACRO-LINK Holding Co., Ltd., which is a substantial shareholder of the Company during the year. The guarantee was released during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

26. RELATED PARTY TRANSACTIONS (Continued)

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

	2020 RMB'000	2019 RMB'000
Short term employee benefits	3,745	3,174
Post-employment benefits	113	204
Total compensation paid to key management personnel	3,858	3,378

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

27. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year ended 31 December 2020, the Group had non-cash remeasurements of right-of-use assets and lease liabilities of RMB132,000 and RMB132,000, respectively, arising from revision of lease terms.

During the year ended 31 December 2019, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB742,000 and RMB742,000, respectively, in respect of lease arrangements for office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

27. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Changes in liabilities arising from financing activities:

	Interest-bearing bank borrowings RMB'000	Lease liabilities RMB'000
As at 1 January 2019	148,073	4,689
Changes from financing cash flows	(4,811)	(901)
New leases	—	742
Interest expense	—	239
Interest paid classified as operating cash flows	—	(239)
Foreign exchange movement	—	(4)
As at 31 December 2019 and 1 January 2020	143,262	4,526
Changes from financing cash flows	122,668	(1,477)
Remeasurement arising from revision of lease terms	—	132
Interest expense	—	189
Interest paid classified as operating cash flows	—	(189)
Foreign exchange movement	—	(14)
As at 31 December 2020	265,930	3,167

(c) Total cash outflow for leases

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

	2020 RMB'000	2019 RMB'000
Within operating activities	189	239
Within financing activities	1,477	901
	1,666	1,140

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

28. FINANCIAL INSTRUMENTS BY CATEGORY

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

31 December 2020

Financial assets

	Financial assets at amortised cost RMB'000
Trade and bills receivables	150,469
Financial assets included in prepayments, deposits and other receivables	2,618
Cash and cash equivalents	186,378
	339,465

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	6,321
Financial liabilities included in other payables and accruals	35,466
Interest-bearing bank borrowings	265,930
Lease liabilities	3,167
	310,884

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

28. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

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

31 December 2019

Financial assets

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

Financial liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

29. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts as at 31 December	
	2020 RMB'000	2019 RMB'000
Financial liabilities		
Interest-bearing bank borrowings	265,930	143,262

	Fair values as at 31 December	
	2020 RMB'000	2019 RMB'000
Financial liabilities		
Interest-bearing bank borrowings	263,212	137,665

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

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

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

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
31 December 2020		
RMB	100	407
US\$	100	(1,336)
HK\$	100	134
RMB	(100)	(407)
US\$	(100)	1,336
HK\$	(100)	(134)
31 December 2019		
RMB	100	(94)
US\$	100	(762)
HK\$	100	8
RMB	(100)	94
US\$	(100)	762
HK\$	(100)	(8)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales by operating units in currencies other than the units' functional currencies. During the year ended 31 December 2020, approximately 12.8% (2019: 10.6%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale. Such exposures also arise from bank balances and bank loans denominated in currencies other than the units' functional currencies.

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

	Increase/ (decrease) in foreign currency rate %	Increase/ (decrease) in profit before tax RMB'000
31 December 2020		
If RMB weakens against US\$	1	(1,281)
If RMB weakens against HK\$	1	134
If RMB strengthens against US\$	(1)	1,281
If RMB strengthens against HK\$	(1)	(134)
31 December 2019		
If RMB weakens against US\$	1	(744)
If RMB weakens against HK\$	1	8
If RMB strengthens against US\$	(1)	744
If RMB strengthens against HK\$	(1)	(8)

Credit risk

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

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

At the end of the reporting period, the Group had certain concentration of credit risk as 54.9% (2019: 36.8%) of the Group's trade receivables were due from a major customer of the Group. Concentrations of credit risk are managed by establishing credit verification procedures. Management determines there are minimal concentrations of credit risk within the Group as the customers of the Group are creditworthy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2020. The amounts presented are gross carrying amounts for the financial assets.

As at 31 December 2020

	12-month ECLs	Lifetime ECLs			Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	
Trade receivables*	—	—	—	107,401	107,401
Bills receivables	49,993	—	—	—	49,993
Financial assets included in prepayments, deposits and other receivables					
— Normal**	2,618	—	—	—	2,618
Cash and cash equivalents					
— Not yet past due	186,378	—	—	—	186,378
	238,989	—	—	107,401	346,390

As at 31 December 2019

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

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

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

31 December 2020

	On demand RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	6,321	—	—	6,321
Other payables and accruals	35,466	—	—	35,466
Interest-bearing bank borrowings	240,028	36,258	—	276,286
Lease liabilities	1,436	1,451	1,522	4,409
	283,251	37,709	1,522	322,482

31 December 2019

	On demand RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	17,205	—	—	17,205
Other payables and accruals	24,402	—	—	24,402
Interest-bearing bank borrowings	107,286	40,773	—	148,059
Lease liabilities	1,592	2,821	1,545	5,958
	150,485	43,594	1,545	195,624

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

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

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

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

	2020 RMB'000	2019 RMB'000
Total debt	269,097	147,788
Total equity	521,762	320,600
Gearing ratio	51.6%	46.1%

31. EVENT AFTER THE REPORTING PERIOD

On 26 March 2021, the Company's wholly owned PRC subsidiary, Ximei Resources (Guangdong) Limited, entered into a cooperation agreement (the "Cooperation Agreement") with China Nuclear Huachuang Rare Materials Co., Ltd. ("中核華創稀有材料有限公司"), an independent third party, to establish a cooperation company in the PRC, namely China Nuclear Huazhong New Materials Co., Ltd. ("中核華中新材料有限公司") (the "Cooperation Company"). The purpose of the establishment of the Cooperation Company is to develop a project in relation to the production of tantalum- and niobium-based metallurgical products in the PRC.

Pursuant to the Cooperation Agreement, the registered capital of the Cooperation Company is RMB100 million, of which RMB45 million and RMB55 million will be contributed in cash by Ximei Resources (Guangdong) Limited and China Nuclear Huachuang Rare Materials Co., Ltd., respectively, in proportion to their corresponding equity interest (i.e. 45% and 55%) in the Cooperation Company. The first capital contribution by Ximei Resources (Guangdong) Limited and China Nuclear Huachuang Rare Materials Co., Ltd. amounted to RMB4.5 million and RMB5.5 million, respectively, are payable within 60 days upon the establishment of the Cooperation Company and the remaining capital contribution will be paid subsequently with reference to the capital requirements of the Cooperation Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	129,157	33,898
Due from a subsidiary	203	—
Total non-current assets	129,360	33,898
CURRENT ASSETS		
Cash and cash equivalents	9,854	292
Total current assets	9,854	292
CURRENT LIABILITIES		
Other payables and accruals	1,646	6
Total current liabilities	1,646	6
NET CURRENT ASSETS	8,208	286
TOTAL ASSETS LESS CURRENT LIABILITIES	137,568	34,184
NON-CURRENT LIABILITIES		
Due to a subsidiary	19,956	18,563
Total non-current liabilities	19,956	18,563
Net assets	117,612	15,621
EQUITY		
Share capital	2,712	—
Reserves (<i>note</i>)	114,900	15,621
Total equity	117,612	15,621

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2019	—	34,347	(475)	(766)	33,106
Loss for the year	—	—	—	(17,230)	(17,230)
Exchange differences on translation of the Company's financial statements	—	—	(255)	—	(255)
At 31 December 2019 and 1 January 2020	—	34,347	(730)	(17,996)	15,621
Loss for the year	—	—	—	(28,731)	(28,731)
Exchange differences on translation of the Company's financial statements	—	—	(666)	—	(666)
Issue of shares pursuant to share offer	150,527	—	—	—	150,527
Issue of shares pursuant to capitalisation issue	(2,034)	—	—	—	(2,034)
Shares issue expenses	(19,817)	—	—	—	(19,817)
At 31 December 2020	128,676	34,347	(1,396)	(46,727)	114,900

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2021.

FINANCIAL SUMMARY

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

	2020 RMB'000	For the year ended 31 December			
		2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
CONSOLIDATED RESULTS					
Revenue	601,652	600,644	514,718	307,360	217,441
Gross profit	172,650	159,004	165,233	87,344	51,757
Profit before taxation	87,164	83,941	90,094	46,634	28,920
Income tax	(16,855)	(14,289)	(13,023)	(8,050)	(4,256)
Profit for the year from continuing operation	70,309	69,652	77,071	38,584	24,664
Loss for the year from a discontinued operation	—	—	—	—	(787)
Attributable to:					
Equity holders of the Company	70,309	69,652	77,071	38,584	23,877

	2020 RMB'000	As at 31 December			
		2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
CONSOLIDATED ASSETS AND LIABILITIES					
Total assets	853,660	527,224	473,082	329,667	232,317
Total liabilities	(331,898)	(206,624)	(221,560)	(154,703)	(96,291)
Equity attributable to owners of the Company	521,762	320,600	251,522	174,964	136,026

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