The following discussions and analyses should be read in conjunction with the consolidated financial information together with the accompanying notes in the Accountants' Report. Our financial information and the consolidated financial statements of our Group have been prepared in accordance with the IFRS, which may differ in certain material aspects from generally accepted accounting principles in other jurisdictions. You should read the whole Accountants' Report and not rely merely on the information contained in this section. Unless the context otherwise requires, financial information in this section is described on a consolidated basis.

The discussions and analyses set forth in this section contain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. Our actual results may differ significantly from those projected. Factors that could cause or contribute to such differences include, without limitation, those discussed in the sections headed "Risk Factors" and "Business" and elsewhere in this document.

Discrepancies between totals and sums of amounts listed in this section in any table or elsewhere in this document may be due to rounding.

OVERVIEW

We are a leading pearlescent pigment producer in the PRC. According to the Frost & Sullivan Report, we are the largest synthetic mica-based pearlescent pigment producer in the PRC as measured by revenue in 2019 with a market share of 22.3% and the largest pearlescent pigment producer in the PRC as measured by revenue in 2019 with a market share of 10.0%. According to the Frost & Sullivan Report, we are the largest synthetic mica-based pearlescent pigment producer in the global market as measured by revenue in 2019 with a market share of 7.2% and the fourth largest pearlescent pigment producer in the global market as measured by revenue in 2019 with a market share of 2.6%.

Our business principally focuses on the production and sales of a comprehensive portfolio of pearlescent pigment products covering diverse applications and industries, including automotive coatings, cosmetics, industrial coatings, plastics, textile and leather and ceramics. We also produce and sell synthetic mica powder of different granule sizes which can be used for the production of automotive and cosmetic-grade pearlescent pigment products and also as raw materials for the production of functional fillers, insulating materials, refractory materials and nickel-hydrogen batteries. Our products are sold to customers in the PRC and to more than 30 countries and territories in Asia (excluding the PRC), Europe, Africa and South America under our brand of "Chesir Pearl" .

BASIS OF PRESENTATION OF OUR FINANCIAL INFORMATION

See the section headed "History, Development and Reorganisation" in this document for further information on the Reorganisation. The Reorganisation was completed in November 2020. Our Company was incorporated in the Cayman Islands with limited liability on 8 June 2018 and is an investment holding company. Our Company has become the holding company of the companies now comprising our Group since November 2020. As the Reorganisation involved only the inclusion of new holding companies, i.e. our Company, Generous Fortune and Global New Material (HK), on top of the existing members of our Group established in the PRC and France, which has not resulted in any change in the economic substance of our Group in terms of ultimate ownership and control, the financial information of our Group for the Track Record Period set forth in this document has been prepared as a continuation of the existing group using the principles of merger accounting.

The consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows are prepared as if the current structure of our Group had been in existence throughout the Track Record Period. The consolidated statements of financial position as of 31 December 2017, 2018 and 2019 and 30 September 2020 present the assets and liabilities of the companies now comprising our Group as if the current structure of our Group had been in existence as of those dates.

PRINCIPAL FACTORS AFFECTING OUR OPERATING RESULTS

Our operating results have been and will continue to be affected, directly and indirectly, by a number of factors set forth below. The following factors are not exhaustive and our business and financial condition and operating results may also be affected by the risk factors set forth in the section headed "Risk Factors" in this document. Our Directors believe that the major factors that affect our operating results include:

— Sales volume and product pricing
— Utilisation rates of our production facilities
— Product offerings and customers' preference
— Cost of raw materials and inventory management
— Income tax

The following is a description of the each of these factors:

Sales volume and product pricing

Our operating results are principally driven by our sales volume and the selling prices of our pearlescent pigment products as well as our competitiveness. The sales volume of our pearlescent pigment products is significantly depending on a number of factors that may or may not be within our control. If for whatever reason we encounter a substantial decrease in the market demand in the PRC or abroad, our sales will correspondingly decrease, which could have a significant impact on our profitability. We determine the selling prices of our pearlescent pigment products based on our costs and the demand/supply dynamics. Such pricing strategy is primarily due to our leading position in the PRC market. This leading position may change in the future, particularly with the increasing number of pigment producers in the PRC or substitute products. In any of these events, our pearlescent pigment products may lose their competitiveness, and this could result in decrease in the sales volume and the selling prices. Our profitability would then be affected.

Utilisation rates of our production facilities

Our operating results also depend on the utilisation level of our production facilities. As set forth in the section headed "Business — Our production facilities", our production activities at our Phase 1 Production Plant have already achieved high utilisation rates. Such high utilisation rates could reduce our fixed production costs, but at the same time increase the wear and tear of the related production facilities that could require a longer period of time for maintenance and higher maintenance costs. If our production facilities continue to operate in full capacity, our profitability may not continue to grow at the rates which are compared to those during the Track Record Period. Any material breakdown of our production facilities or an overhaul could increase our production cost, reduce our production capacity and adversely affect our competitiveness if we could not deliver pursuant to our customers' purchase orders as agreed.

Product offerings and consumers' preference

Changes in our product offerings of our pearlescent pigment products will also affect our revenue. Our pearlescent pigment products can be broadly divided into (i) natural mica-based pearlescent pigment products; (ii) synthetic mica-based pearlescent pigment products; (iii) glass flake-based pearlescent pigment products; and (iv) silicon oxide-based pearlescent pigment products. Each category of our pearlescent pigment products consists of a number of series that can be used for different purposes. We aim to develop and produce more high-end pearlescent pigment products for industrial applications, such as automotive or production of cosmetics. We also aim to expand our product offerings. These strategies would affect our profitability if our products are not well perceived by our target customers or that our products fall short of the industry quality standards. A comprehensive portfolio of products does not necessarily guarantee high profit margin or increasing amount of operating profit. On the other hand, a carefully selected mix of products could achieve better results and maximise the use of our specialty and the profitability as well as the utilisation rates that could achieve higher production efficiency and competitiveness.

Cost of raw materials and inventory management

Any significant increase in the cost of raw materials could also affect our profitability and cash flows as additional working capital would be tied up on inventory of raw materials. Because of our leading position in the PRC market, we could be able to transfer to our customers the increase in the cost of raw materials to our customers generally. This is, however, not necessarily the case in the future.

For the inventory of our raw materials, we place purchase orders with our raw material suppliers based on our expected level of production volume taking into consideration the sales orders on hand and the historical trends of sales as well as the number of new customers and the products that they would purchase within the next two to three months. If there is a likely shortage of a particular type of raw materials or if the market prices are increasing, we would also consider to increase our inventory level of raw materials.

The principal raw materials used by us are either sourced from overseas, i.e. India, or domestically in the PRC. Historically the prices of these raw materials have not fluctuated significantly, and we have been able to manage the costs against the selling prices so as to maintain a relatively stable profit margin. Any unexpected changes in the selling prices or the demand and supply dynamics of our principal raw materials could affect our profitability and business operations.

Income tax

Our business operations are subject to income tax, VAT and other local taxes in the PRC. Chesir Pearl has been granted the high and new technology enterprise certificate and was entitled to a preferential tax rate of 15% during the Track Record Period. This preferential tax treatment will end on 10 September 2023 and Chesir Pearl will be subject to the normal rate of 25% of EIT thereafter. Without taking into account the tax effect on utilisation of tax losses not recognised for the two years ended 31 December 2018, our effective tax rates were 16.1%, 13.1% and 14.3% for the three years ended 31 December 2019, respectively. During the nine months ended 30 September 2019 and 2020, our effective tax rate remained stable at 14.8%. Our effective tax rates remained stable and close to the preferential tax rate of 15% throughout the Track Record Period in the absence of the tax effect on utilisation of tax losses not recognised. This would not be the case when the preferential tax treatment is ended.

During the three years ended 31 December 2019, the effect of tax concession amounted to RMB0.9 million, RMB6.4 million and RMB14.2 million, respectively. During the nine months ended 30 September 2020, the tax effect of tax concession amounted to RMB14.8 million, as compare to RMB10.6 million during the nine months ended 30 September 2019.

CRITICAL ACCOUNTING POLICIES

The critical accounting policies applied by us in preparing the historical financial information are in accordance with the IFRS. The historical financial information has been prepared on a historical cost convention, except for certain financial instruments which are measured at fair value. The preparation of the historical financial information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires us to exercise judgement in applying our accounting policies.

Adoption of new and revised IFRS

During the Track Record Period, we have adopted all the new and revised IFRSs that are relevant to our operations and effective for accounting periods beginning on or after 1 January 2020. IFRSs include IFRSs, International Accounting Standards and their respective interpretations.

Basis of consolidation

The financial information includes the financial statements of our Company and its subsidiaries made up to 31 December or 30 September. Subsidiaries are entities over which our Group has control.

We control an entity when we are exposed, or have rights, to variable returns from our involvement with the entity and have the ability to affect those returns through our power over the entity. We have power over an entity when we have existing rights that give us the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, we consider our potential voting rights as well as the potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right. Subsidiaries are consolidated from the date on which control is transferred to us. They are de-consolidated from the date the control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of our Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance. Changes in our Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of our Company.

In our statement of financial position, the investments in subsidiaries are stated at cost less impairment losses.

Revenue recognition

Revenue is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which we are expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discount.

Revenue from the sale of goods are recognised when control of the goods has transferred, being when the goods have been shipped to the customer's specific location (delivery). Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. A receivable is recognised by us when the goods are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost, i.e. gross carrying amount net of loss allowance, of the asset.

Government grants

A government grant is recognised when there is reasonable assurance that we will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to us with no future related costs are recognised in profit or loss in the period in which they become receivable.

Government grants relating to the purchase of assets are recorded as deferred income and recognised in profit or loss on a straight-line basis over the useful lives of the related assets.

Property, plant and equipment

Property, plant and equipment, including buildings, held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal useful annual lives are as follows:

Buildings	20 years
Plant and machinery	10 years
Motor vehicles	Five years
Office equipment	Three — five years
Leasehold improvements	Three years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and plant and equipment pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

Leases

At the inception of a contract, we will assess whether the 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. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

Where the contract contains lease component(s) and non-lease component(s), we have elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, we recognise a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for we are primarily office equipment. When we enter into a lease in respect of a low-value asset, we will decide whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

Right-of-use assets in which we are reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Refundable rental deposits paid are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in our estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether we will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

We present right-of-use assets that do not meet the definition of investment properties and lease liabilities separately in the consolidated statement of financial position.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished products and work-in-progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Contract assets and contract liabilities

Contract asset is recognised when we recognise revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses ("**ECL**") in accordance with our accounting policies and are reclassified to receivables when the right to the consideration has become unconditional.

A contract liability is recognised when the customer pays consideration before we recognise the related revenue. A contract liability would also be recognised if we have an unconditional right to receive consideration before we recognise the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method.

Financial assets

All regular purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Debt investments held by us are classified into measured at amortised cost if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.

Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the statement of profit or loss to its estimated recoverable amount. The recoverable amount 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. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit.

Value in use is the present value of the estimated future cash flows of the asset/cash-generating unit. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/cash-generating unit whose impairment is being measured.

Impairment losses for cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the cash-generating unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

Impairment of financial assets and contract assets

We recognise a loss allowance for expected credit losses on trade receivables and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

We always recognise lifetime expected credit loss ("**ECL**") for trade receivables and contract assets. The expected credit losses on these financial assets are estimated using a provision matrix based on our historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, we recognise lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, we measure the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, we compare the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, we consider both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which our debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to our core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
— significant deterioration in external market indicators of credit risk for a particular financial instrument;
— existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
— an actual or expected significant deterioration in the operating results of the debtor;
— significant increases in credit risk on other financial instruments of the same debtor;
— an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, we presume that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless we have reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, we assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(i) the financial instrument has a low risk of default,
(ii) the debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
(iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

We consider a financial asset to have low credit risk when the asset has external credit rating of "investment grade" in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of "performing". Performing means that the counterparty has a strong financial position and there is no past due amounts.

We regularly monitor the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

We consider the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

— when there is a breach of financial covenants by the counterparty; or
— information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including us, in full (without taking into account any collaterals held by us).

Irrespective of the above analysis, we consider that default has occurred when a financial asset is more than 90 days past due unless we have reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

— significant financial difficulty of the issuer or the counterparty;
— a breach of contract, such as a default or past due event;
— the lender(s) of the counterparty, for economic or contractual reasons relating to the counterparty's financial difficulty, having granted to the counterparty a concession(s) that the lender(s) would not otherwise consider; or
— it is becoming probable that the counterparty will enter bankruptcy or other financial reorganisation; or
— the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

We write off trade receivables when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, including when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. Any recoveries made are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of expected credit losses is a function of the probability of default, loss given default, i.e. the magnitude of the loss if there is a default, and the exposure at default. The assessment of the probability of default and loss given default is based on the historical data adjusted by forward looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial guarantee contracts, the exposure includes the amount drawn down as of the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, our understanding of the specific future financing needs of the debtors, and other relevant forward-looking information. For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to us in accordance with the contract and all the cash flows that we expect to receive, discounted at the original effective interest rate.

If we have measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, we measure the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

We recognise an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in our assets after deducting all of its liabilities.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as our current liabilities unless we have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Convertible loans

Convertible loans which entitle the lender to convert the loans into equity instruments, other than into a fixed number of equity instruments at a fixed conversion price, are regarded as combined instruments consisting of a liability and a derivative component. At the date of issue, the fair value of the derivative component is determined using an option pricing model; this amount is carried as a derivative liability that is subsequently measured at fair value through profit or loss until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption.

Transaction costs are apportioned between the liability and derivative components of the convertible loans based on the allocation of proceeds to the liability and derivative components on initial recognition. The portion related to the derivative component is expensed immediately.

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Our liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where we are able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly to equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which we expect, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purpose of measuring deferred tax for leasing transactions in which we recognise the right-of-use assets and the related lease liabilities, we first determine whether the tax deductions are attributable to the right-of use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, we apply IAS 12 requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and we intend to settle our current tax assets and liabilities on a net basis.

KEY ESTIMATES

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 discussed below.

Impairment of property, plant and equipment and right-of-use assets

Property, plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, we have to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), we estimate the recoverable amount of the cash-generating unit to which the assets belongs. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the net present value used in the impairment test.

The carrying amounts of (a) the property, plant and equipment and (b) right-of-use assets as of 31 December 2017, 2018 and 2019 and 30 September 2020 were (a) RMB262.8 million, RMB304.7 million, RMB353.9 million and RMB362.2 million and (b) RMB18.7 million, RMB17.9 million, RMB29.9 million and RMB67.8 million, respectively.

Impairment loss of trade receivables

We estimate the amount of impairment loss for ECL on trade receivables based on the credit risk of trade receivables. The amount of the impairment loss based on ECL model is measured as the difference between all contractual cash flows that are due to us in accordance with the contract and all the cash flows that we expect to receive, discounted at the effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise.

As of 31 December 2017, 2018 and 2019 and 30 September 2020, the carrying amount of trade receivables were RMB78.5 million (net of allowance for doubtful debts of RMB1.7 million), RMB140.7 million (net of allowance for doubtful debts of RMB1.1 million), RMB119.9 million (net of allowance for doubtful debts of RMB0.9 million) and RMB165.2 million (net of allowance for doubtful debts of RMB4.9 million), respectively.

Allowance for slow-moving inventories and net realisable value of inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed. Allowance for slow-moving inventories was made for the year ended 31 December 2017, 2018 and 2019 and nine months ended 30 September 2019 (unaudited) and 2020 amounted to approximately RMB282,000, RMB9,000, RMB nil and RMB nil, respectively.

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on current market conditions and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer's taste and competitor's actions in response to severe industry cycles. We will reassess the estimates by the end of each reporting period.

SELECTED FINANCIAL DATA

Consolidated statements of profit or loss and other comprehensive income

The table below sets forth our consolidated statements of profit or loss and other comprehensive income for the Track Record Period (together with the comparative figures for the nine months ended 30 September 2019):

	Year ended 31 December			Nine months ended 30 September	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Revenue	188,753	318,244	440,583	320,621	399,350
Cost of goods sold	(103,459)	(166,917)	(218,222)	(156,381)	(206,252)
Sales related tax and auxiliary charges	(4,050)	(4,380)	(4,084)	(3,248)	(4,009)
Gross profit	81,244	146,947	218,277	160,992	189,089
Other income and other gains and losses	4,326	4,971	5,295	3,368	10,571
Reversals of impairment losses on trade and other receivables/(Impairment losses for trade and other receivables)	14,481	612	208	(1,146)	(4,064)
Selling expenses	(11,574)	(13,347)	(23,292)	(13,703)	(15,281)
Administrative and other operating expenses	(34,283)	(35,568)	(56,712)	(33,310)	(41,621)
Profit from operations	54,194	103,615	143,776	116,201	138,694
Finance costs	(14,057)	(15,869)	(18,475)	(12,618)	(15,828)
Profit before tax	40,137	87,746	125,301	103,583	122,866
Income tax credit/(expense)	44	(6,382)	(17,968)	(15,359)	(18,186)
Profit for the year/period	40,181	81,364	107,333	88,224	104,680
Attributable to					
Owners of our Company	39,028	77,400	102,806	84,211	101,303
Non-controlling interests	1,153	3,964	4,527	4,013	3,377
	40,181	81,364	107,333	88,224	104,680

	Year ended 31 December			Nine months ended 30 September	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Profit for the year/period	40,181	81,364	107,333	88,224	104,680
Other comprehensive income					
Items that may be reclassified to profit or loss					
Exchange differences on translating foreign operations	14	2	(2)	—	—
Other comprehensive income for the year/period, net of tax	14	2	(2)	—	—
Total comprehensive income for the year/period	40,195	81,366	107,331	88,224	104,680
Attributable to					
Owners of our Company	39,042	77,402	102,804	84,211	101,303
Non-controlling interests	1,153	3,964	4,527	4,013	3,377
	40,195	81,366	107,331	88,224	104,680

Consolidated statements of financial position

The table below sets forth our consolidated statements of financial position as of 31 December 2017, 2018 and 2019 and 30 September 2020:

	As of 31 December			As of 30 September
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS				
Non-current assets				
Property, plant and equipment	262,786	304,696	353,907	362,165
Right-of-use assets	18,726	17,932	29,949	67,819
Deposits paid for acquisition of property, plant and equipment and right-of-use assets	924	16,367	26,671	1,095
Deferred tax assets	744	1,190	1,190	1,190
	283,180	340,185	411,717	432,269
Current assets				
Inventories	54,902	74,420	80,134	78,141
Trade and bills receivables	79,090	144,019	121,692	165,246
Deposits, prepayments and other receivables	7,689	14,305	4,029	8,346
Amount due from a shareholder	—	330	330	375
Bank and cash balances	66,656	171,854	559,839	605,949
	208,337	404,928	766,024	858,057
	491,517	745,113	1,177,741	1,290,326

	As of 31 December			As of 30 September
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
EQUITY				
Equity attributable to owners of our Company				
Share capital	83,100	330	330	330
Reserves	137,269	297,771	711,878	813,181
	220,369	298,101	712,208	813,511
Non-controlling interests	2,894	156,858	161,385	164,762
	223,263	454,959	873,593	978,273
LIABILITIES				
Non-current liabilities				
Bank loans and other borrowings	154,492	4,971	143,776	90,956
Convertible loans	28,700	—	69,106	—
Lease liabilities	276	191	2,615	2,194
Deferred revenue	9,695	10,179	7,487	6,225
	193,163	15,341	222,984	99,375
Current liabilities				
Bank loans and other borrowings	29,842	181,146	11,953	74,302
Convertible loans	—	29,921	—	70,899
Derivative component of convertible loans	564	—	1,642	4,070
Lease liabilities	353	85	543	569
Trade payables	17,215	23,839	29,941	20,710
Accruals and other payables	24,214	31,839	30,890	32,184
Amount due to a director	—	56	105	128
Contract liabilities	416	2,398	710	383
Deferred revenue	2,487	2,723	2,692	1,924
Current tax liabilities	—	2,806	2,688	7,509
	75,091	274,813	81,164	212,678
TOTAL EQUITY AND LIABILITIES	491,517	745,113	1,177,741	1,290,326

COMPONENTS OF OUR CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Revenue

Revenue is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which we are expected to be entitled, excluding those amounts collected on behalf of third parties.

We are engaged in the business of the production and sales of pearlescent pigment products and synthetic mica powder in the PRC. Our assets are substantially located in the PRC. We operate one single reportable business segment which is regularly reviewed by our chief operating decision maker. This reportable business segment is a strategic business unit that offers two principle types of products, namely (a) pearlescent pigment products and (b) synthetic mica powder sold to our customers, and is centrally managed with the required technology and marketing strategies. The table below sets forth an analysis of our revenue by major products during the Track Record Period (together with the comparative figures for the nine months ended 30 September 2019):

	Year ended 31 December						Nine months ended 30 September			
	2017		2018		2019		2019		2020	
	RMB'000	*% of revenue*	*RMB'000*	*% of revenue*	*RMB'000*	*% of revenue*	*RMB'000* (Unaudited)	*% of revenue*	*RMB'000*	*% of revenue*
Pearlescent pigment products										
- Natural mica-based	143,136	75.9	245,321	77.1	295,510	67.1	225,615	70.3	230,954	57.8
- Synthetic mica-based	42,861	22.7	68,280	21.5	124,705	28.3	86,901	27.1	141,179	35.4
- Glass flakes-based	436	0.2	1,375	0.4	13,865	3.1	5,304	1.7	22,670	5.7
- Silicon oxide-based	—	—	—	—	75	—*	—	—	1,745	0.4
	186,433	98.8	314,976	99.0	434,155	98.5	317,820	99.1	396,548	99.3
Synthetic mica powder(1)	2,320	1.2	3,268	1.0	6,428	1.5	2,801	0.9	2,802	0.7
Total	188,753	100.0	318,244	100.0	440,583	100.0	320,621	100.0	399,350	100.0

* Value insignificant

Note:

(1) We produce synthetic mica powder (in wet state) for our own production of synthetic mica-based pearlescent pigment products. Synthetic mica powder will undergoes further grinding, milling and dehydration will form synthetic mica powder (in dry state) for sales to our customers. See the section headed "Business — Production process" in this document for further information.

Our revenue is recognised from the transfer of goods to our customers at a point in time.

We produce and sell pearlescent pigment products and synthetic mica powder. As of the Latest Practicable Date, our pearlescent pigment products comprised 463 natural mica-based pearlescent pigment products, 253 synthetic mica-based pearlescent pigment products, 30 glass flake-based pearlescent pigment products and five silicon oxide-based pearlescent pigment products.

Sales volume and average selling prices

Our revenue is affected by the sales volume and changes in the selling prices. During the Track Record Period, the significant increase in revenue was mainly driven by the continuous increases in the sales volume of our products. The table below sets forth the sales volume and the average unit selling prices by major products for the Track Record Period (together with the comparative figures for the nine months ended 30 September 2019):

	Year ended 31 December						Nine months ended 30 September			
	2017		2018		2019		2019		2020	
	Sales volume	Average unit selling price	Sales volume	Average unit selling price	Sales volume	Average unit selling price	Sales volume	Average unit selling price	Sales volume	Average unit selling price
	(tonnes)	*(RMB'000 per tonne)*	*(tonnes)*	*(RMB'000 per tonne)*	*(tonnes)*	*(RMB'000 per tonne)*	*(tonnes)*	*(RMB'000 per tonne)*	*(tonnes)*	*(RMB'000 per tonne)*
Pearlescent pigment products										
- Natural mica-based . . .	4,551.5	31.5	7,217.9	34.0	8,822.4	33.5	6,536.4	34.5	7,404.3	31.2
- Synthetic mica-based . .	772.8	55.5	1,228.8	55.6	2,231.8	55.9	1,592.8	54.6	2,798.5	50.5
- Glass flakes-based. . . .	1.0	436.0	4.4	312.5	42.4	327.0	20.7	256.2	83.1	272.8
- Silicon oxide-based . . .	—	—	—	—	0.1	750.0	—	—	3.6	484.7
	5,325.3	35.0	8,451.1	37.3	11,096.7	39.1	8,149.9	39.0	10,289.5	38.5
Synthetic mica powder . .	59.1	39.3	84.4	38,7	167.8	38.3	67.7	41.4	65.7	42.7
Total	5,384.4		8,535.5		11,264.5		8,217.6		10,355.2	

Customers

Our customers may be broadly divided into trading company customers and end user customers. The former will re-sell our products to their own customers with whom we do not have direct contractual relationship and as such we do not have information on their purchase quantity. End user customers are customers using our pearlescent pigment products for their own use and production purpose. The table below sets forth an analysis of our revenue by nature of business of our customers during the Track Record Period (together with the comparative figures for the nine months ended 30 September 2019):

	Year ended 31 December									Nine months ended 30 September					
	2017			2018			2019			2019			2020		
	Number	*RMB'000*	*% of revenue*	*Number*	*RMB'000*	*% of revenue*	*Number*	*RMB'000*	*% of revenue*	*Number*	*RMB'000* (Unaudited)	*% of revenue*	*Number*	*RMB'000*	*% of revenue*
Trading company customers															
- PRC	153	118,467	62.8	190	241,028	75.7	185	325,628	73.9	175	243,682	76.0	204	310,235	77.7
- International . .	20	27,352	14.5	22	16,579	5.2	28	20,981	4.8	25	14,817	4.6	25	15,404	3.9
	173	145,819	77.3	212	257,607	80.9	213	346,610	78.7	200	258,499	80.6	229	325,639	81.5
End user customers															
- PRC	52	37,922	20.1	69	52,175	16.4	77	84,800	19.2	75	55,860	17.4	115	66,704	16.7
- International . .	6	5,011	2.7	13	8,462	2.7	8	9,173	2.1	7	6,262	2.0	10	7,007	1.8
	58	42,933	22.7	82	60,637	19.1	85	93,973	21.3	82	62,122	19.4	125	73,711	18.5
Total		188,753	100.0		318,244	100.0		440,583	100.0		320,621	100.0		399,350	100.0

Pursuant to the Frost & Sullivan Report, it is an industry practice in the PRC and the global pearlescent pigment market that most end user companies may choose to source their raw materials through designated trading companies. There are benefits associated with this arrangement. The end user companies may leverage the sourcing capability of the designated trading companies to identify a stable source of supply of pearlescent pigment products from different suppliers. Through such business arrangement, the end user companies can also save time and costs and may engage different trading companies for the sourcing of different raw materials to reduce the concentration risk. From our perspective, sales to trading company customers enable us to reach a wider group of downstream customers and enlarge the sales network and possible business applications of our products without incurring substantial efforts on sales and marketing.

Geographical markets

The table below sets forth an analysis of our revenue by location of our customers during the Track Record Period (together with the comparative figures for the nine months ended 30 September 2019):

	Year ended 31 December						Nine months ended 30 September			
	2017		2018		2019		2019		2020	
	RMB'000	*% of revenue*	*RMB'000*	*% of revenue*	*RMB'000*	*% of revenue*	*RMB'000* (Unaudited)	*% of revenue*	*RMB'000*	*% of revenue*
PRC										
- Eastern region(1)	116,769	61.8	239,526	75.2	332,282	75.4	239,992	74.9	306,480	76.7
- Western region(2)	17,368	9.2	24,408	7.7	36,635	8.3	28,337	8.8	31,580	7.9
- Central region(3)	22,252	11.8	29,269	9.2	41,511	9.4	31,213	9.7	38,878	9.7
	156,389	82.8	293,203	92.0	410,428	93.1	299,542	93.4	376,938	94.3
Asia(4)	23,438	12.4	11,351	3.6	14,084	3.2	9,153	2.9	9,967	2.5
Europe(5)	7,283	3.9	10,144	3.2	13,653	3.1	9,768	3.0	9,335	2.3
Africa(6)	1,319	0.7	2,944	0.9	2,058	0.5	1,869	0.6	2,968	0.9
South America(7)	324	0.2	602	0.2	360	0.1	289	0.1	142	—*
Total	188,753	100.0	318,244	100.0	440,583	100.0	320,621	100.0	399,350	100.0

* Value insignificant.

Notes:

(1) Eastern region of the PRC refers to Beijing, Fujian, Guangdong, Hebei, Jiangsu, Liaoning, Shandong, Shanghai, Tianjin and Zhejiang.

(2) Western region of the PRC refers to Guangxi, Guizhou, Shaanxi, Sichuan, Xinjiang, Yunnan and Chongqing.

(3) Central region of the PRC refers to Anhui, Henan, Hubei, Hunan, Jiangxi and Shanxi.

(4) Countries and territories in Asia refer to Pakistan, Hong Kong, Macau and Taiwan, Korea, Kuwait, Bangladesh, Japan, Saudi Arabia, Thailand, Turkey, Israel, India, Indonesia, Jordan and Vietnam.

(5) European countries refer to Estonia, Belgium, Poland, Germany, Russia, Finland, Netherlands, Serbia, Greece, Italy and United Kingdom.

(6) Countries in Africa refer to Algeria, Morocco, Tunisia and Egypt.

(7) Countries in South America refer to Brazil and Chile.

Cost of goods sold

The cost of goods sold mainly included raw materials, direct labour and staff costs and utilities. The table below sets forth an analysis of the cost of goods sold during the Track Record Period (together with the comparative figures for the nine months ended 30 September 2019):

	Year ended 31 December						Nine months ended 30 September			
	2017		2018		2019		2019		2020	
	RMB'000	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000* (Unaudited)	*% of total*	*RMB'000*	*% of total*
Raw materials										
- Natural mica flakes	15,421	14.9	27,837	16.7	37,161	17.0	25,994	16.6	31,164	15.1
- Other raw materials	3,934	3.8	7,681	4.6	12,484	5.7	8,302	5.3	14,821	7.2
Chemical raw materials										
- Titanium tetrachloride	22,015	21.3	47,747	28.6	64,169	29.4	47,837	30.6	57,818	28.0
- Other chemical raw materials	8,336	8.1	14,415	8.6	20,850	9.6	14,318	9.2	23,231	11.3
- Packaging materials	3,857	3.7	7,369	4.4	7,695	3.5	5,860	3.7	8,152	4.0
- Furnace materials and utensils	440	0.4	920	0.6	1,733	0.8	1,161	0.7	2,564	1.2
	54,003	52.2	105,969	63.5	144,092	66.0	103,472	66.1	137,750	66.8
Utilities	17,224	16.6	23,698	14.2	31,580	14.5	22,771	14.6	30,343	14.7
Direct labour	13,696	13.2	15,141	9.1	15,764	7.2	11,129	7.1	12,199	5.9
Depreciation	10,067	9.7	11,626	7.0	12,904	5.9	9,678	6.2	11,047	5.4
Staff costs	7,198	7.0	8,147	4.9	7,615	3.5	5,569	3.6	6,866	3.3
Others	1,271	1.3	2,336	1.3	6,267	2.9	3,762	2.4	8,047	3.9
Total	103,459	100.0	166,917	100.0	218,222	100.0	156,381	100.0	206,252	100.0

Note:

(1) Others include miscellaneous production-related utensils and repairs and maintenance costs.

The increases in the cost of goods sold during the Track Record Period were generally consistent with our business growth. The principal components of our cost of sales include:

Raw materials primarily consist of the cost of purchase of natural mica flakes and a wide range of chemicals, such as titanium tetrachloride, tin tetrachloride and ferric chloride. In addition to natural mica flakes and chemicals, we also source glass flakes and calcium carbonate as the raw materials for our production purpose. The total consumption volume of raw materials is dependent on our production volume and production efficiency.

Packing materials include packaging cartons and bags used by us for the packaging of our pearlescent pigment products including plastic bags specially made for packaging of products in the form of powder.

Furnace materials and utensils include the use of refractory fire bricks and graphite electrodes for the construction of furnaces for the production of synthetic mica flakes.

Direct labour include wages and fringe benefits (including medical and social insurance contributions) incurred by us for our workers. Our business is not labour intensive in nature, and our staff costs incurred for production workers generally do not increase at the same pace as our business growth.

Staff costs include wages and fringe benefits (including medical and social insurance contributions) incurred by us for the senior production management personnel.

Utilities include the electricity and water charges incurred by us for the operations of our production facilities.

The table below sets forth an analysis of the average cost of raw material during the Track Record Period (together with the corporation figures further nine months ended 30 September 2019):

	Year ended 31 December			**Nine months ended 30 September**	
	2017	**2018**	**2019**	**2019**	**2020**
Cost of raw materials *(RMB'000)*	54,003	105,969	144,092	103,472	137,750
Sales volume of finished products *(tonnes)*	5,384.4	8,535.6	11,264.5	8,217.6	10,355.2
Average cost of raw materials for each tonne of finished products *(RMB'000 per tonne)*	10.0	12.4	12.8	12.6	13.3

See the section headed "Business — Our production facilities" in this document for further information on our production activities as well as the utilisation rates of our production facilities. We normally proceed to the production of pearlescent pigment products upon receiving purchase orders from our customers.

We produce synthetic mica flakes which undergo pulping to form synthetic mica powder (in wet state) for our own production of synthetic mica-based pearlescent pigment products. Our production volume of synthetic mica powder depends on our demand for own production of synthetic mica-based pearlescent pigment products and the demand of our customers.

Sales related tax and auxiliary charges

Sales related tax and auxiliary charges represented property and land use-related tax and sales-related tax payable by us in relation to the revenue generated from the sales of our products. During the three years ended 31 December 2019, we recorded sales related tax and auxiliary charges of RMB4.1 million, RMB4.4 million and RMB4.1 million, respectively. During the nine months ended 30 September 2019 and 2020, we recorded sales related tax and auxiliary charges of RMB3.2 million and RMB4.0 million, respectively. The table below sets forth further information on sales related tax and ancillary charges during the Track Record Period (together with the comparative figures for the nine months ended 30 September 2019):

	Year ended 31 December			Nine months ended 30 September	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Urban maintenance and construction tax	1,111	1,226	1,109	934	1,262
Educational surcharge	1,111	1,226	1,109	934	1,262
Property tax	1,268	1,296	1,328	996	996
Land use tax	299	274	265	187	260
Stamp duty	106	234	216	161	174
Funds for Water Conservancy Construction	155	74	—	—	—
Environmental tax	—	50	57	36	55
Total	4,050	4,380	4,084	3,248	4,009

Gross profit and gross profit margin

The amount of gross profit represents the difference between revenue and cost of goods sold and sales related tax and auxiliary charges during a particular year/period. The table below sets forth the amount of gross profit and gross profit margin for our major products during the Track Record Period (together with the comparative figures for the nine months ended 30 September 2019):

	Year ended 31 December						Nine months ended 30 September			
	2017		2018		2019		2019		2020	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (Unaudited)	*%*	*RMB'000*	*%*
Pearlescent pigment products	79,715	42.8	144,944	46.0	214,308	49.4	159,158	50.1	187,234	47.2
Synthetic mica powder	1,529	65.9	2,003	61.3	3,969	61.7	1,834	65.5	1,855	66.2
Total	81,244	43.0	146,947	46.2	218,277	49.5	160,992	50.2	189,089	47.3

The gross profit margins for our sales to trading company customers and end user customers are different. Generally speaking, the gross profit margins generated from the sales to the end user customers are higher than the sales to trading company customers, primarily due to the facts that those trading companies would re-sell our products to their customers and those trading company customers would provide after-sales services to the customers. Generally speaking, we impose no restrictions on the price floors or ceilings on such re-sales transactions, but we may require our authorised resellers, to follow our suggested prices under the relevant sales framework agreements entered into with them.

The table below sets forth the amount of gross profit and gross profit margin by nature of our customers during the Track Record Period (together with the comparative figures for the nine months ended 30 September 2019):

	Year ended 31 December						Nine months ended 30 September			
	2017		2018		2019		2019		2020	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (Unaudited)	*%*	*RMB'000*	*%*
Trading company customers	60,223	41.3	114,426	44.4	163,367	47.1	124,238	48.1	149,472	45.9
End user customers	21,021	49.0	32,522	53.6	54,910	58.4	36,754	59.2	39,617	53.7
Total	81,244		146,947		218,277		160,992		189,089	

Other income and other gains and losses

The table below sets forth the amount of other income and other gains and losses during the Track Record Period (together with the comparative figures for the nine months ended 30 September 2019):

	Year ended 31 December			Nine months ended 30 September	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Interest income on bank deposits	79	697	1,683	1,163	1,497
Government grant	3,144	4,285	3,616	2,074	10,352
Net foreign exchange (losses)/gains	(889)	(580)	1,110	1,142	38
Fair value gain/(loss) on derivative component of convertible loans	1,972	564	(1,120)	(1,011)	(2,428)
Sundry income	20	5	6	—	1,112
Total	4,326	4,971	5,295	3,368	10,571

The government grant was provided to Chesir Pearl by the PRC Government in relation to the research and development expenditures incurred by Chesir Pearl.

The fair value gain on the derivative component of the convertible loans is determined with reference to the valuation of the 2017 Convertible Loan and the 2019 Convertible Bonds, both of which have been repaid in full or that the exercise rights attached therewith (in the case of the 2019 Convertible Bonds) have been exercised in full. During the nine months ended 30 September 2020, we recorded sundry income of RMB1.1 million arising from compensations received from insurance claims of RMB0.9 million in 2017 as a result of a fire accident occurred at our warehouse in November 2016. The fire accident was caused by an independent contractor during the maintenance of our warehouses. No casualties were caused by the fire accident. Our inventories with aggregate value of RMB1.0 million were damaged during the accident, which had been covered by the insurance policies of RMB0.9 million. Our Directors consider that the fire accident had not caused any material impact on our business.

Reversal of impairment losses on/(impairment losses for) trade receivables and other receivables

Our accounting policy on the impairment provisions is set forth in the paragraphs under "Critical accounting policies — Impairment of financial assets and contract assets" above. Impairment losses are recognised in profit or loss within net impairment losses on financial assets. Receivables for which an impairment provision was recognised are written-off against the provision when there is no reasonable expectation of recovering additional cash. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with us, and the failure to make contractual payments for a period of more than six months. The table below sets forth an analysis of the impairment loss during the Track Record Period (together with the comparative figures for the nine months ended 30 September 2019):

	Year ended 31 December			Nine months ended 30 September	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Reversals of impairment losses on trade receivables/(impairment losses for trade receivables)	14,663	624	202	(1,146)	(4,033)
(Impairment losses for other receivables)/reversals of impairment losses on other receivables	(182)	(12)	6	—	(31)
Total	14,481	612	208	(1,146)	(4,064)

Selling expenses

Selling expenses are recognised where they are incurred and are generally consistent with the movements in the amount of our revenue and our business growth during the Track Record Period. The table below sets forth an analysis of selling expenses during the Track Record Period (together with the comparative figures for the nine months ended 30 September 2019):

	Year ended 31 December						Nine months ended 30 September			
	2017		2018		2019		2019		2020	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000* (Unaudited)	%	*RMB'000*	%
Transportation and packaging	4,683	40.5	7,132	53.4	9,102	39.1	6,400	46.7	7,559	49.5
Staff costs	2,685	23.2	2,996	22.4	4,455	19.1	2,895	21.1	2,818	18.4
Travelling and business development	1,149	9.9	861	6.5	1,259	5.4	993	7.3	2,411	15.8
Marketing expenses	1,994	17.2	1,155	8.7	6,721	28.9	2,295	16.7	1,547	10.1
Rental expenses	974	8.4	1,143	8.6	1,554	6.7	969	7.1	804	5.3
Depreciation	89	0.8	60	0.4	201	0.8	151	1.1	142	0.9
Total	11,574	100.0	13,347	100.0	23,292	100.0	13,703	100.0	15,281	100.0

The principal components of selling expenses include the following:

Transportation and packaging include the transportation and packaging costs incurred by us for the delivery of our products to our customers including wrapping film and pallet used to palletise the goods for delivery. It is a practice in our industry that we need to bear the transportation cost for the delivery of our products to the warehouses of our customers.

Staff costs include the wages and salaries and other fringe benefits paid and payable to our sales personnel.

Marketing expenses include the costs incurred by us for placing advertisements in industry journals and participating in various industrial exhibitions and promotional events.

Rental expenses represent the rental payments made to the Independent Third Parties for the lease of offices and warehouse in the PRC and an office in France.

Depreciation include the amount of depreciation incurred for office equipment and other non-production related facilities.

Administrative and other operating expenses

Administrative and other operating expenses are recognised where they are incurred. During the Track Record Period, all our research and development expenditures, which included staff costs, materials and utensils used in the research and development activities and the related depreciation, were charged to our profit or loss. During the nine months ended 30 September 2020, we also incurred [REDACTED] expenses which were non-recurring in nature. The table below sets forth an analysis of administrative and other expenses during the Track Record Period (together with the comparative figures for the nine months ended 30 September 2019):

	Year ended 31 December						Nine months ended 30 September			
	2017		2018		2019		2019		2020	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000* (Unaudited)	%	*RMB'000*	%
Research and development expenditures	8,504	24.8	10,745	30.2	23,247	41.0	13,111	39.4	16,573	39.8
Staff costs	9,415	27.5	8,514	23.9	14,105	24.9	7,162	21.5	7,582	18.2
[REDACTED] expenses	—	—	—	—	—	—	—	—	6,309	15.2
Depreciation and amortisation	6,799	19.8	8,670	24.4	7,379	13.0	5,521	16.6	5,327	12.8
Travelling and business development	2,439	7.1	2,425	6.8	4,683	8.3	2,225	6.7	2,511	6.0
Office expenses	2,199	6.4	1,954	5.5	2,281	4.0	1,294	3.9	2,131	5.1
Professional fees	3,387	9.9	2,602	7.3	3,133	5.5	2,561	7.7	31	0.1
Maintenance expenses	1,316	3.8	604	1.7	1,579	2.8	1,133	3.4	1,050	2.5
Others(1)	224	0.7	54	0.2	305	0.5	303	0.8	107	0.3
Total	34,283	100.0	35,568	100.0	56,712	100.0	33,310	100.0	41,621	100.0

Note:

(1) Others mainly include charitable donations and traffic penalties.

Finance costs

Finance costs represent the interest expense incurred by us for the banking facilities used by us, the 2017 Convertible Loan and the 2019 Convertible Bonds. The table below sets forth an analysis of finance costs during the Track Record Period (together with the comparative figures for the nine months ended 30 September 2019):

	Year ended 31 December			Nine months ended 30 September	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Interest on bank loans and other borrowings	10,362	12,226	13,339	9,846	8,131
Interest expenses on lease liabilities	71	40	184	138	125
Interest on convertible loans	4,435	4,713	5,630	3,194	7,572
Total borrowing costs	14,868	16,979	19,153	13,178	15,828
Amount capitalised	(811)	(1,110)	(678)	(560)	—
Total	14,057	15,869	18,475	12,618	15,828

We recorded payment of interest on bank loans and other borrowings of RMB10.4 million, RMB12.2 million and RMB13.3 million, respectively, for the three years ended 31 December 2019. During the nine months ended 30 September 2020, the amount incurred by us was RMB8.1 million, as compared to RMB9.8 million for the nine months ended 30 September 2019. As of 31 December 2017, 2018 and 2019 and 30 September 2020, we had total outstanding bank loans and other borrowings (including current portion and non-current portion) of RMB184.3 million, RMB186.1 million, RMB155.7 million and RMB165.3 million, respectively. The average interest rates of our bank borrowings were 6.50% as of 31 December 2017, 6.49% as of 31 December 2018, 7.18% as of 31 December 2019 and 7.18% as of 30 September 2020, and the average interest rates for our other borrowings, i.e. such as finance lease and loan from non-financial institution, were 7.00% as of 31 December 2017, 7.67% as of 31 December 2018, 8.72% as of 31 December 2019 and 7.49% as of 30 September 2020.

Out of the total amount of our total borrowing costs, an amount of RMB0.8 million, RMB1.1 million and RMB0.7 million was capitalised during the year as part of acquisition of non-current assets. During the nine months ended 30 September 2020, the capitalised amount was nil, as compared to RMB0.6 million for the nine months ended 30 September 2019.

Profit before tax

The profit before tax is equal to our profit from operations less finance costs during a particular year/period. During the three years ended 31 December 2019, our profit before tax amounted to RMB40.1 million, RMB87.7 million and RMB125.3 million, respectively. During the nine months ended 30 September 2020, our profit before tax amounted to RMB122.9 million, as compared to RMB103.6 million for the nine months ended 30 September 2019. Our profit before tax continued to increase during the Track Record Period with the growth of our revenue. See the paragraphs under "Components of our consolidated statements of profit or loss — Revenue" above for further information.

Income tax (credit)/expenses

During the three years ended 31 December 2019, we had income tax (credit)/expenses amounted to RMB(44,000), RMB6.4 million and RMB18.0 million, respectively. During the nine months ended 30 September 2020, we incurred income tax expenses of RMB18.2 million, as compared to RMB15.4 million for the nine months ended 30 September 2019. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we had made all the required tax filings with the relevant tax authorities in the PRC. We are not aware of any outstanding or potential dispute with such tax authorities. The table below sets forth further information on income tax (credit)/expenses during the Track Record Period (together with the comparative figures for the nine months ended 30 September 2019):

	Year ended 31 December			Nine months ended 30 September	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Current tax — PRC					
Provision for the year/period	—	6,828	16,308	13,699	17,968
Under provision in prior year	—	—	1,660	1,660	218
Deferred tax	(44)	(446)	—	—	—
Total	(44)	6,382	17,968	15,359	18,186

PRC EIT has been provided at a rate of 25% for the Track Record Period.

Chesir France has no activity since its incorporation.

Our Company and those subsidiaries incorporated in the Cayman Islands and the British Virgin Islands are not subject to income tax.

Those subsidiaries incorporated in Hong Kong have had no assessable profit subject to Hong Kong profits tax during the Track Record Period, respectively.

The income tax expense for the Track Record Period represents the PRC EIT which is calculated at the prevailing tax rate on the taxable income of the group entities in the PRC.

Chesir Pearl has been granted the high and new technology enterprise certificate to entitle to a preferential tax rate of 15% during the Track Record Period, subject to annual review by the relevant authority. The preferential tax treatment currently enjoyed by Chesir Pearl will expire on 10 September 2023.

A reconciliation of the income tax (credit)/expenses applicable to profit before tax at the statutory rate for each jurisdiction in which our Company and our subsidiaries are domiciled to the tax expense at the statutory tax rate and a reconciliation of the applicable rate, i.e. the statutory tax rate, to the effective tax rate, during the Track Record Period (together with the comparative figures for the nine months ended 30 September 2019) is set forth in the table below are as follows:

	Year ended 31 December			**Nine months ended 30 September**	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Profit before tax	40,137	87,746	125,301	103,583	122,866
Tax at the domestic income tax rate of 25%	10,034	21,937	31,325	25,896	30,717
Tax effect of income that is not taxable	(4,450)	(5,300)	(8,199)	(7,016)	(5,739)
Tax effect of expenses that are not deductible	1,832	2,866	7,566	5,668	7,823
Tax effect of tax concession	(943)	(6,434)	(14,166)	(10,604)	(14,848)
Tax effect on utilisation of tax losses not previously recognised	(6,517)	(5,106)	—	—	—
Under provision in prior year	—	—	1,660	1,660	218
(Under)/over-provision in current year	—	(1,581)	(218)	(245)	15
Income tax (credit)/expense	(44)	6,382	17,968	15,359	18,186
Effective tax rate	—	7.3%	14.3%	14.8%	14.8%

For the two years ended 31 December 2018, we recorded tax effect on utilisation of tax losses not recognised of RMB6.5 million and RMB5.1 million, respectively. Such reversals were mainly due to the tax losses of Chesir Pearl brought forward from the previous years. See the paragraphs under "Summary of business development of Chesir Pearl prior to the Track Record Period" below. Therefore, we recorded an income tax credit of RMB44,000 for the year ended 31 December 2017 and relative low income tax expense of RMB6.4 million for the year ended 31 December 2018 at the effective tax rate of 7.3%. Without taking into account the tax effect on utilisation of tax losses not recognised and reversed for the two years ended 31 December 2018, our effective tax rates were 16.1% and 13.1% for the two years ended 31 December 2018, respectively, and our Directors consider that our effective tax rates remained stable throughout the Track Record Period in the absence of the tax effect on utilisation of tax losses not recognised.

OUR OPERATING RESULTS

The following sets forth detailed discussions on the operating results of our Group during the Track Record Period.

Nine months ended 30 September 2020 as compared to nine months ended 30 September 2019

Revenue

Our revenue increased by 24.6% from RMB320.6 million during the nine months ended 30 September 2019 to RMB399.4 million during the nine months ended 30 September 2020. The increase was primarily due to the increase in the amount of revenue from our sales of pearlescent pigment products by RMB78.7 million. Sales of natural mica-based pearlescent pigment increased by RMB5.3 million, or 2.4%, as compared to the same during the nine months ended 30 September 2019. We expanded our product offering of natural mica-based pearlescent pigment products from 112 during the nine months ended 31 December 2019 to 161 during the nine months ended 30 September 2020. Sales of synthetic mica-based pearlescent pigment increased by RMB54.3 million, or 62.5%, as compared to the same during the nine months ended 30 September 2019. We expanded our product offering of synthetic mica-based pearlescent pigment products from 124 during the nine months ended 31 December 2019 to 167 during the nine months ended 30 September 2020. Sales of glass flake-based pearlescent pigment also increased by RMB17.4 million, or 327.4%, as compared to the same during the nine months ended 30 September 2019. The increase in sales of glass flake-based pearlescent pigment products during the nine months ended 30 September 2020 was mainly due to our increased promotion of this kind of high-value pearlescent pigment products. We also sold silicon oxide-based pearlescent pigment products and contributed revenue of RMB1.7 million for the nine months ended 30 September 2020. We intended to maintain the sales volume of synthetic mica powder even though we increased the production volume of the same, primarily due to the increasing demand for our synthetic-mica based pearlescent pigment products. As a result, our sales of synthetic mica powder remained stable at RMB2.8 million for the nine months ended 30 September 2019 and 2020.

The revenue generated from our sales of pearlescent pigment products increased from RMB317.8 million for the nine months ended 30 September 2019 to RMB396.5 million for the nine months ended 30 September 2020, representing an increase of RMB78.7 million or 24.8%.

Such increase was primarily attributable to the increasing demand for our pearlescent pigment products which is in line with the PRC and the global trend of pearlescent pigment market. Our sales volume of pearlescent pigment products increased by 26.3% from 8,149.9 tonnes for the nine months ended 30 September 2019 to 10,289.5 tonnes for the nine months ended 30 September 2020. The number of customers increased to 354 and there were 85 new customers purchased from us as a result of our marketing and promotional efforts. We provided technical trainings on the features of our products and the downstream applications to our trading company customers to assist them to expand their own sales network in the PRC and abroad. During the nine months ended 30 September 2020, our sales of pearlescent pigment products to 229 trading company customers amounted to RMB325.6 million, as compared with 200 trading company customers amounted to RMB258.5 million for the nine months ended 30 September 2019.

The overall average unit selling price for each tonne of pearlescent pigment products slightly decreased from RMB39.0 per tonne for the nine months ended 30 September 2019 to RMB38.5 per tonne for the nine months ended 30 September 2020. The average unit selling prices for both natural mica-based and synthetic-mica based pearlescent pigment products decreased by 9.6% and 7.7%, respectively. The decreases were primarily due to our initiative to reduce the selling prices of selected pearlescent pigment products in response to the pandemic and the global lockdown as a result of COVID-19. Nevertheless, the average selling prices of glass flake-based pearlescent pigment increased by 6.4% because of the increased market demand and the changes in the product mix which drove up the average unit selling prices during the nine months ended 30 September 2020. The silicon oxide-based pearlescent pigment products are high-value added products and we could charge for a high unit average selling price of RMB484,700 per tonne for the year ended 30 September 2020.

The revenue generated from our sales of synthetic mica powder remained stable at RMB2.8 million for the nine months ended 30 September 2019 and 2020 as we retained most of the synthetic mica flakes (being the semi-finished product of synthetic mica powder, which will undergo pulping to form synthetic mica in wet state) produced for our own production of synthetic mica-based pearlescent pigment products. The average unit selling prices of synthetic mica powder recorded a slight increase from RMB41,400 per tonne for the nine months ended 30 September 2019 to RMB42,700 per tonne for the nine months ended 30 September 2020.

Cost of goods sold

Our cost of goods sold increased by 31.9% from RMB156.4 million during the nine months ended 30 September 2019 to RMB206.3 million during the nine months ended 30 September 2020. It was mainly due to the increase in sales volume of our pearlescent pigment products by 26.3% from 8,149.9 tonnes for the nine months ended 30 September 2019 to 10,289.5 tonnes for the nine months ended 30 September 2020 and the increase in the average unit cost of raw materials of 5.6% from RMB12,600 per tonne for the nine months ended 30 September 2019 to RMB13,300 per tonne for the nine months ended 30 September 2020.

Gross profit and gross profit margin

The amount of our overall gross profit increased from RMB161.0 million during the nine months ended 30 September 2019 to RMB189.1 million during the nine months ended 30 September 2020, representing an increase of 17.5%. It was mainly due to the increase in sales volume of our pearlescent pigment products by 26.3% from 8,149.9 tonnes for the nine months ended 30 September 2019 to 10,289.5 tonnes for the nine months ended 30 September 2020. The gross profit margin during the nine months ended 30 September 2020 was 47.3% which was slightly less than 50.2% for the nine months ended 30 September 2019. The decrease was primarily due to the decrease in the gross profit margin of our pearlescent pigment products as a result of (a) our initiative to reduce the selling prices of selected pearlescent products in response to the economic recession as a result of COVID-19 and (b) the increase in the average unit cost of raw materials.

The decrease in the gross profit margin was also attributable to the slight increase in our sales to trading company customers from 80.6% of the total revenue for the nine months ended 30 September 2019 to 81.5% of the total revenue for the nine months ended 30 September 2020 which generally generated lower gross profit margin than our sales to the end user customers. This change was part of our marketing strategies to increase our sales leveraging the sales networks of the trading company customers.

For the nine months ended 30 September 2019 and 2020, our gross profit generated from the sales of synthetic mica powder amounted to RMB1.8 million and RMB1.9 million and the gross profit margin was 65.5% and 66.2%, respectively. The results were stable because the sales volume of synthetic mica powders remained stable as we retained most of the synthetic mica powder for our production of synthetic-mica based pearlescent pigment products.

Other income and other gains and losses

The amount of other income and other gains and losses during the nine months ended 30 September 2020 was RMB10.6 million, as compared to RMB3.4 million during the nine months ended 30 September 2019. The increase was primarily due to the increase in the government grants provided by the PRC Government for the research and development achievements accomplished by us by RMB8.3 million, which was, however, partially offset by the fair value loss on the derivative component of the 2019 Convertible Bonds which have been converted into shares of Chesir Pearl and our Shares pursuant to the Guidong Share Swap. During the nine months ended 30 September 2020, we recorded sundry income of RMB1.1 million arising from the compensations received from insurance claims of RMB0.9 million in 2017 as a result of a fire accident occurred at our warehouse in November 2016.

Impairment losses for trade and other receivables

The amount of impairment losses during the nine months ended 30 September 2020 was RMB4.1 million, which was more than RMB1.1 million for the nine months ended 30 September 2019. The impairment losses increased as a result of the increase in the balance of trade receivables as of 30 September 2020. See the paragraphs under "Components of our current assets and current liabilities — Trade and bill receivables — Impairment of trade receivables and loss allowances" below for the movements of the provision amounts involved in the period.

Selling expenses

Our selling expenses increased from RMB13.7 million during the nine months ended 30 September 2019 to RMB15.3 million during the nine months ended 30 September 2020, representing an increase of 11.5%. The increase in the amount of selling expenses was mainly due to the increase in transportation and packaging expenses of RMB1.2 million as a result of the increase in sales volume of our finished products and an increase in travelling and business development expenses of RMB1.4 million as a result of the frequent customers' visits in the PRC subsequent to relax in COVID-19 lockdown measures within the PRC in order to maintain our relationship with customers. The increase was partially offset by the decrease in the number of exhibitions participated by us as affected by COVID-19 in 2020, resulting in a significant decrease in marketing expenses.

Administrative and other operating expenses

Our administrative and other expenses increased from RMB33.3 million during the nine months ended 30 September 2019 to RMB41.6 million during the nine months ended 30 September 2020, representing an increase of 24.9%. The increase was primarily due to the amount of the [REDACTED] expenses incurred by us and charged to profit or loss of RMB6.3 million during the nine months ended 30 September 2020.

According to our accounting policies, our expenses incurred on research and development activities were charged to our profit or loss as part of our administrative and other expenses. During the nine months ended 30 September 2020, we incurred RMB16.6 million for our research and development activities, as compared to RMB13.1 million during the nine months ended 30 September 2019. The percentage to sales remained stable at 4.1% for the nine months ended 30 September 2019 and 2020.

Finance costs

Our finance costs primarily consisted of interest payments for bank loans and other borrowings used by us (amounting to RMB8.1 million) and the interest payment on the 2019 Convertible Bonds (amounting to RMB7.6 million). As compared to the nine months ended 30 September 2019, the interest incurred by the 2019 Convertible Bonds increased by RMB4.4 million because the 2019 Convertible Bonds were only issued in May 2019. There was no amount of borrowing costs capitalised during the nine months ended 30 September 2020.

Income tax expense

Our income tax expense increased from RMB15.4 million during the nine months ended 30 September 2019 to RMB18.2 million during the nine months ended 30 September 2020. The increase was primarily due to the increase in the amount of profit before tax from RMB103.6 million for the nine months ended 30 September 2019 to RMB122.9 million for the nine months ended 30 September 2020 which was in turn due to the increase in the amount of our revenue. All income tax payable by us was EIT, and the effective tax rate during the nine months ended 30 September 2020 was 14.8%, as compared with 14.8% for the nine months ended 30 September 2019. There was no significant change in the effective tax rate during the nine months ended 30 September 2019 and 2020, which was very close to the preferential rate of 15.0% applicable to Chesir Pearl.

Profit for the period

As a result of the foregoing, our profit increased from RMB88.2 million for the nine months ended 30 September 2019 to RMB104.7 million for the nine months ended 30 September 2020. Our net profit margin decreased slightly from 27.5% for the nine months ended 30 September 2019 to 26.2% for the nine months ended 30 September 2020.

Year ended 31 December 2019 as compared to year ended 31 December 2018

Revenue

We enjoyed a significant increase in our revenue during the year ended 31 December 2019 as compared to the same for the year ended 31 December 2018. Our revenue increased by 38.4% from RMB318.2 million for the year ended 31 December 2018 to RMB440.6 million for the year ended 31 December 2019. Sales of pearlescent pigment products increased to RMB434.2 million, as compared to RMB315.0 million, representing an increase of 37.8%. Revenue generated from the sales of natural mica-based pearlescent pigment products increased by 20.5% and the sales of synthetic mica-based pearlescent pigment products increased by 82.6%. The increases were primarily due to the increase in the sales volume of the natural mica-based pearlescent pigment to 8,822.4 tonnes and the synthetic mica-based pearlescent pigment to 2,231.8 tonnes, as compared to 7,217.9 tonnes and 1,228.8 tonnes during the year ended 31 December 2018, respectively. Whilst the unit selling prices of these two types of pearlescent pigment products remained stable, the increases were primarily attributable the combined effects of quality improvements, increases in our marketing efforts, increases in the number of pearlescent products offered to our customer, and increasing demand from our existing customers.

We also enhanced our support to the trading company customers. We provided technical training and guidance on product technical specifications and downstream applications to our trading company customers to assist them to expand their sales network in the PRC and abroad. Our sales of pearlescent pigment products to 213 trading company customers amounted to RMB346.6 million for the year ended 31 December 2019, as compared to RMB257.6 million for year ended 31 December 2018.

We sold 42.4 tonnes of glass-flakes based pearlescent pigment products during the year ended 31 December 2019, as compared to 4.4 tonnes during the year ended 31 December 2018 as a result of the increase in number of glass flake-based pearlescent pigment products and our marketing efforts to promote the glass flake-based pearlescent pigment products. We could also command for a higher average unit selling price of RMB327,300 per tonne of glass flake-based pearlescent pigment products in 2019 as compared to RMB309,300 per tonne in 2018.

We also started selling silicon oxide-based pearlescent pigment products and record sales of RMB75,000. Such new products represented one of the fast growing products in 2020 and beyond.

The revenue generated from our sales of synthetic mica powder increased from RMB3.3 million for the year ended 31 December 2018 to RMB6.4 million for the year ended 31 December 2019, representing an increase of RMB3.2 million or 96.7%. Despite the fact that we used most of the synthetic mica flakes (being semi-finished product of synthetic mica powder, which will undergo pulping to form synthetic mica in wet state) produced for our production of synthetic mica-based pearlescent pigment products, we were able to increase the sales volume because of the increase in the production volume as a result of the increase in the production capacity of our production facilities. The average unit selling prices of our synthetic mica powder remained stable during the year ended 31 December 2019.

Cost of goods sold

Our cost of goods sold increased by 30.7% from RMB166.9 million during the year ended 31 December 2018 to RMB218.2 million during the year ended 31 December 2019. It was mainly due to the increase in sales volume of our pearlescent pigment products by 31.3% from 8,451.2 tonnes for the year ended 31 December 2018 to 11,096.7 tonnes for the year ended 31 December 2019 and the increase in the average unit cost of raw materials of 3.2% from RMB12,400 per tonne for the year ended 31 December 2018 to RMB12,800 per tonne for the year ended 31 December 2019.

Gross profit and gross profit margin

The amount of our overall gross profit increased significantly from RMB146.9 million during the year ended 31 December 2018 to RMB218.3 million during the year ended 31 December 2019, representing an increase of 48.5%. It was mainly due to the increase in sales volume of our pearlescent pigment products by 31.3% from 8,451.2 tonnes for the year ended 31 December 2018 to 11,096.7 tonnes for the year ended 31 December 2019. The gross profit margin increased from 46.2% in 2018 to 49.5% in 2019 was mainly due to (a) the increase in average selling prices of our pearlescent pigment products and (b) the increase in the sales to end user customers from 19.1% of the total revenue for the year ended 31 December 2018 to 21.3% of the total revenue for the year ended 31 December 2019 which could be charged higher average unit selling prices.

The gross profit generated from the sales of pearlescent pigment products increased from RMB144.9 million for the year ended 31 December 2018 to RMB214.3 million for the year ended 31 December 2019, representing an increase of RMB69.4 million or 47.9%. The gross profit margin of the sales of pearlescent pigment products increased from 46.0% for the year ended 31 December 2018 to 49.4% for the year ended 31 December 2019. The increase in gross profit and gross profit margin was mainly attributable to the increase in the sales of synthetic mica-based pearlescent pigment products from RMB68.3 million for the year ended 31 December 2018 to RMB124.7 million for the year ended 31 December 2019 which had higher average unit selling prices than the natural mica-based pearlescent pigment products.

The gross profit generated from the sales of synthetic mica powder increased from RMB2.0 million for the year ended 31 December 2018 to RMB4.0 million for the year ended 31 December 2019, representing an increase of RMB2.0 million or 98.2%. Such increase was mainly due to the increase in revenue from the sales of synthetic mica powder. The gross profit margin of the sales of synthetic mica powder remained stable at 61.3% and 61.7% for the two years ended 31 December 2019.

Other income and other gains and losses

The amount of other income and other gains and losses increased from RMB5.0 million for the year ended 31 December 2018 to RMB5.3 million for the year ended 31 December 2019. Chesir Pearl recorded government grants from the PRC Government of RMB3.6 million in 2019, which was lower than RMB4.3 million in 2018, on the research and development achievements accomplished by us. We also received bank interest income of RMB1.7 million during the year ended 31 December 2019, as compared to RMB0.7 million during the year ended 31 December 2018, because of the fund received from the follow-on offering of Chesir Pearl prior to the NEEQ Listing Withdrawal.

Reversals of impairment losses for trade and other receivables

The amount of reversals of impairment losses during the year ended 31 December 2019 was RMB0.2 million which was less than the reversals of impairment losses during the year ended 31 December 2018 of RMB0.6 million. The reason for the decrease in the amount of reversal of impairment losses was primarily due to the decrease in the balance of trade receivables as a result of stringent control of the balance of trade receivables. See the paragraphs under "Components of our current assets and current liabilities — Trade and bill receivables — Impairment of trade receivables and loss allowances" below for the movements of the provision amounts involved in the year.

Selling expenses

Our selling expenses increased from RMB13.3 million during the year ended 31 December 2018 to RMB23.3 million during the year ended 31 December 2019, representing an increase of 74.5%. The increase was primarily due to the increase in marketing expenses during the year ended 31 December 2019 by 481.9% to RMB6.7 million from RMB1.2 million during the year ended 31 December 2018 as a result of increases in the advertisements placed by us and the number of overseas exhibitions participated by us.

Administrative and other operating expenses

Our administrative and other expenses increased from RMB35.6 million during the year ended 31 December 2018 to RMB56.7 million during the year ended 31 December 2019, representing an increase of 59.5%. The increase was primarily due to the increase in the number of administrative staff (which resulted in the increase in staff costs) and the related travelling and business development expenses. According to our accounting policies, our expenses incurred on research and development activities were charged to our profit or loss as part of our administrative and other expenses. During the year ended 31 December 2019, we incurred RMB23.2 million for our research and development activities, as compared to RMB10.7 million during the year ended 31 December 2018. The percentage to sales was 5.3% for the year ended 31 December 2019, as compared to 3.4% for the year ended 31 December 2018, because of our extra research and development efforts in 2019. We had commenced three new major research and development projects, namely "Prussian blue electrophoresis pigments for cosmetics", "Hydrolysis process improvement" and "Pearlescent pigment with high temperature resistance".

Finance costs

Our finance costs for the year ended 31 December 2019 amounted to RMB18.5 million, which consisted of interest payments for our bank loans and other borrowings (amounting to RMB13.3 million) and the interest for the 2017 Convertible Loan and 2019 Convertible Bonds of RMB5.6 million. The increase in the finance costs was primarily due to the increased amount of interest payment on bank borrowings and interest expenses on lease liabilities arising from lease liabilities of RMB184,000 early adopted throughout the Track Record Period and adopted from 1 January 2019. The amount capitalised during the year ended 31 December 2019 amounted to RMB678,000, as compared to RMB1.1 million, because of the repayment of bank borrowings of RMB8.0 million in October 2019.

Income tax expense

Our income tax expense increased from RMB6.4 million during the year ended 31 December 2018 to RMB18.0 million during the year ended 31 December 2019. The increase was primarily due to the increase in the amount of profit before tax from RMB87.7 million for the year ended 31 December 2018 to RMB125.3 million during the year ended 31 December 2019, representing an increase of 44.3%. All income tax payable by us are EIT, and the effective tax rate during the year ended 31 December 2019 was 14.3%, as compared with 7.3% for the year ended 31 December 2018. The increase in the effective tax rate was due to no utilisation of tax losses not recognised as tax losses in previous years has been utilised during the year ended 31 December 2018.

Profit for the year

As a result of the foregoing, our profit increased from RMB81.4 million for the year ended 31 December 2018 to RMB107.3 million for the year ended 31 December 2019. Our net profit margin decreased slightly from 25.6% for the year ended 31 December 2018 to 24.4% for the year ended 31 December 2019.

Year ended 31 December 2018 as compared to year ended 31 December 2017

Revenue

Our revenue increased significantly by 68.6% from RMB188.8 million for the year ended 31 December 2017 to RMB318.2 million for the year ended 31 December 2018. The significant increase in our revenue was primarily due to the increases in the sales of pearlescent pigment products produced by us. Such increases were due to the increase in the sales volume and the increase in number of customers from 231 customers to 294 customers, of which 212 customers were trading companies and the remaining 82 customers were end user customers.

Sales of natural mica-based pearlescent increased substantially during the year ended 31 December 2018 to RMB245.3 million from RMB143.1 million, representing an increase of 71.4%. The sales volume of our natural mica-based pearlescent pigment also increased by 58.6% to 7,217.9 tonnes during the year ended 31 December 2018 from 4,551.5 tonnes during the year ended 31 December 2017.

Sales of our synthetic mica-based pearlescent pigment products also increased by 59.3% to RMB68.3 million during the year ended 31 December 2018 from RMB42.9 million during the year ended 31 December 2017. The increase was accompanied by the increase in the sales volume by 59.0% to 1,228.8 tonnes during the year ended 31 December 2018 from 772.8 tonnes during the year ended 31 December 2017. Whilst the average unit selling prices for our synthetic mica-based pearlescent pigment products remained stable, the average unit selling prices for our natural mica-based pearlescent pigment products increased by 8.3% to RMB34,000 per tonne during the year ended 31 December 2018.

The revenue generated from our sales of synthetic mica powder increased from RMB2.3 million for the year ended 31 December 2017 to RMB3.3 million for the year ended 31 December 2018, representing an increase of RMB0.9 million or 40.9%. Such increase was a result of increase in our sales volume to 84.4 tonnes during the year ended 31 December 2018 from 59.1 tonnes during the year ended 31 December 2017. Compared to the production volume of synthetic mica powder during the two years ended 31 December 2018, most of the synthetic mica powder produced by us were used for our production purpose.

Cost of goods sold

The cost of goods sold increased by 61.3% from RMB103.5 million for the year ended 31 December 2017 to RMB166.9 million during the year ended 31 December 2018. It was mainly due to the increase in sales volume of our pearlescent pigment products by 58.7% from 5,325.3 tonnes for the year ended 31 December 2017 to 8,451.2 tonnes for the year ended 31 December 2018 and the increase in the average unit cost of raw materials of 24.0% from RMB10,000 per tonne for the year ended 31 December 2017 to RMB12,400 per tonne for the year ended 31 December 2018.

Gross profit and gross profit margin

The amount of our overall gross profit increased from RMB81.2 million during the year ended 31 December 2017 to RMB146.9 million during the year ended 31 December 2018, representing an increase of 80.9%. It was mainly due to the increase in sales volume of our pearlescent pigment products by 58.7% from 5,325.3 tonnes for the year ended 31 December 2017 to 8,451.2 tonnes for the year ended 31 December 2018. The gross profit margin increased from 43.0% in 2017 to 46.2% in 2018 was mainly due to the increase in average selling prices of our pearlescent pigment products, which was partially offset by the increase in average unit cost of raw materials.

The gross profit generated from the sales of pearlescent pigment products increased from RMB79.7 million for the year ended 31 December 2017 to RMB144.9 million for the year ended 31 December 2018, representing an increase of RMB65.2 million or 81.8%. The gross profit margin of the sales of pearlescent pigment products increased from 42.8% for the year ended 31 December 2017 to 46.0% for the year ended 31 December 2018. The increase in gross profit and gross profit margin was mainly attributable to the increase in the sales volume of our natural mica-based pearlescent pigment products and synthetic mica-based pearlescent pigment products from 4,551.5 tonnes and 772.8 tonnes, respectively, for the year ended 31 December 2017 to 7,217.9 tonnes and 1,228.8 tonnes, respectively, for the year ended 31 December 2018 and the increase in the average unit selling prices of natural mica-based pearlescent pigment products by 8.3% from RMB31,400 per tonne for the year ended 31 December 2017 to RMB34,000 per tonne for the year ended 31 December 2018.

The gross profit generated from the sales of synthetic mica powder increased from RMB1.5 million for the year ended 31 December 2017 to RMB2.0 million for the year ended 31 December 2018, representing an increase of RMB0.5 million or 31.0%. Such increase was mainly due to the increase in revenue from the sales of synthetic mica powder.

However, the gross profit margin of the sales of synthetic mica powder decreased from 65.9% for the year ended 31 December 2017 to 61.3% for the year ended 31 December 2018. Such decrease was mainly due to the decrease in the average selling prices of synthetic mica powder from RMB39,300 per tonne for the year ended 31 December 2017 to RMB38,700 per tonne for the year ended 31 December 2018.

Other income and other gains and losses

The amount of other income and other gains and losses increased from RMB4.3 million for the year ended 31 December 2017 to RMB5.0 million for the year ended 31 December 2018. Chesir Pearl recorded government grants from the PRC Government of RMB4.3 million in 2018, which was more than RMB3.1 million in 2017, on the research and development achievements accomplished. We also received bank interest income of RMB0.7 million during the year ended 31 December 2018, as compared to RMB79,000 during the year ended 31 December 2017. Because of the 2017 Convertible Loan, we recorded a fair value gain on the derivative component thereof of RMB2.0 million during the year ended 31 December 2017, which was reduced to RMB0.6 million during the year ended 31 December 2018.

Reversals of impairment losses for trade and other receivables

The amount of reversals of impairment losses during the year ended 31 December 2017 was RMB14.5 million because of over-provisions made during the year ended 31 December 2016 following the impairment policy adopted by us. See the paragraphs under "Components of our current assets and current liabilities — Trade and bill receivables — Impairment of trade receivables and loss allowances" below for the movements of the provision amounts involved in the year. Such amount of reversals during the year ended 31 December 2018 was only RMB0.6 million. As a result, the amount of reversals of impairment losses for trade and other receivables was RMB0.6 million during the year ended 31 December 2018, as compared to RMB14.5 million during the year ended 31 December 2017.

Selling expenses

Our selling expenses increased from RMB11.6 million during the year ended 31 December 2017 to RMB13.3 million during the year ended 31 December 2018, representing an increase of 15.3%. Such modest increase was due to the increase in transportation and packaging expenses of RMB2.4 million as a result of the increase in sales volume of our finished products, which was partially offset by the reduced amount spent on marketing and promotion by 42.1% to RMB1.2 million during the year ended 31 December 2018 as a result of our sales strategy to maintain existing trading company customers in 2018, resulted in a decrease in the number of exhibition participation as compared to 2017.

Administrative and other operating expenses

Our administrative and other operating expenses slightly increased from RMB34.3 million during the year ended 31 December 2017 to RMB35.6 million during the year ended 31 December 2018, representing a slight increase of 3.8%. The increase was primarily due to the increase in our spending on research and development activities to RMB10.7 million during the year ended 31 December 2018 from RMB8.5 million during the year ended 31 December 2017, representing an increase of 26.4%, which was partially offset by the reduced staff costs and office expenses. According to our accounting policies, our expenses incurred on research and development activities were charged to our profit or loss as part of our administrative and other expenses.

Finance costs

Our finance costs for the year ended 31 December 2017 amounted to RMB14.1 million which was slightly less than RMB15.9 million during the year ended 31 December 2018. The finance costs consisted of interest payments for our bank loans and other borrowings (amounting to RMB10.3 million). The amount capitalised during the year ended 31 December 2017 amounted to RMB0.8 million, as compared to RMB1.1 million during the year ended 31 December 2018.

Income tax expense

Our income tax changed from a credit of RMB44,000 during the year ended 31 December 2017 to an expense of RMB6.4 million during the year ended 31 December 2018. The minimal tax liability on Chesir Pearl was primarily due to the previous tax losses which offset the profit subject to EIT. During the two years ended 31 December 2018, we recorded tax effect on utilisation of tax losses not recognised of RMB6.5 million and RMB5.1 million, respectively. The effective tax rate for the year ended 31 December 2018 was 7.3%.

Profit for the year

As a result of the foregoing, our profit increased from RMB40.2 million during the year ended 31 December 2017 to RMB81.4 million during the year ended 31 December 2018. Our net profit margin increased slightly from 21.3% for the year ended 31 December 2017 to 25.6% for the year ended 31 December 2018.

SUMMARY OF BUSINESS DEVELOPMENT OF CHESIR PEARL PRIOR TO THE TRACK RECORD PERIOD

The following sets forth a summary of the business development of Chesir Pearl since its establishment and up to the commencement of the Trade Record Period. The quantitative financial information set forth in the paragraphs below is prepared under the then applicable accounting standards in the PRC and based on the information disclosed on the website of the NEEQ.

Overall development

Chesir Pearl was established in March 2011 with the business development strategy to focus on "Four Pioneers" in terms of technology, operation scale, management and corporate culture, and the establishment of production facilities with initial designed annual production capacity of (a) 10,000 tonnes of pearlescent pigment products and (b) 5,000 tonnes of synthetic mica powder products. The following sets forth the key business development phases of Chesir Pearl:

(1) *From March 2011 to December 2012, being the initial investment phase*: Chesir Pearl was established in the PRC with the initial equity investment of RMB2.0 million by two investors, including Hongzun Investment. Such initial equity investment was used for preliminary preparation, such as obtaining the approvals for the construction of factory and ancillary buildings and related facilities comprising our Phase 1 Production Plant.

(2) *From December 2012 to June 2014, being the construction phase:* Chesir Pearl completed the construction of the factory and ancillary buildings' production facilities, staff quarters and environmental protection facilities. The then designed annual production capacity was 4,200 tonnes of pearlescent pigment products as of June 2014.

(3) *From June 2014 to June 2015, being the trial production phase*: Chesir Pearl commenced its trial production for the purpose of determining the parameters involved in the production process. Chesir Pearl also started various marketing and promotional activities of its products in different regions in the PRC. During the year ended 31 December 2015, Chesir Pear recorded revenue of RMB50.3 million, but incurred net loss of RMB37.5 million because of the significant operating expenses and expenses which had been incurred on product research and development activities. The then production capacity increased to 5,800 tonnes of pearlescent pigment products as of 31 December 2015.

(4) *From July 2015 to December 2016, being the ramp up phase in sales and production*: Chesir Pearl continued to develop and promote its new products, improve and fine-tune its production facilities, and increase the automation level, adjust the production line management systems and expand the sales coverage to different PRC regions. The year of 2016 was the first year that Chesir Pearl recorded profit from its operation. The then production capacity was increased to 7,392 tonnes of pearlescent pigment products as of 31 December 2016.

Number of pearlescent pigment products sold by Chesir Pearl

The table below sets forth the number of products offered by Chesir Pearl during the three years ended 31 December 2016:

	Year ended 31 December		
	2014	**2015**	**2016**
Natural mica-based pearlescent pigment products	31	99	103
Synthetic mica-based pearlescent pigment products	—	17	78
Glass flake-based pearlescent pigment products	—	20	23
Total	31	136	204

Performance of Chesir Pearl during the three years ended 31 December 2016

The table below sets forth selected financial information of Chesir Pearl prepared under the applicable accounting standard in the PRC during the three years ended 31 December 2016:

	Year ended 31 December								
	2014			**2015**			**2016**		
	RMB'000	*Year-to-year change*	*Margin*	*RMB'000*	*Year-to-year change*	*Margin*	*RMB'000*	*Year-to-year change*	*Margin*
Revenue	12,422	—	—	50,304	305.0%	—	126,102	150.7%	—
Gross profit/(loss)	(1,541)	—	—	5,809	476.9%	11.6%	57,029	881.7%	45.2%
Net profit	(30,958)	—	—	(37,490)	(21.1)%	—	10,875	129.0%	8.6%

	Year ended 31 December					
	2014		**2015**		**2016**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Pearlescent pigment products	12,223	98.4	49,217	97.8	124,307	98.6
Pearlescent coating products	199	1.6	797	1.6	506	0.4
Synthetic mica powder	—	—	276	0.6	1,188	1.0
Other income [(1)]	—	—	15	—*	101	—*
Total	12,422	100.0	50,304	100.0	126,102	100.0

* Value insignificant

Note:

(1) Others income represented gains from disposal of scrap materials.

The year of 2016 was important to Chesir Pearl, as it was the first year that Chesir Pearl had recorded net profit. During the year ended 31 December 2016, Chesir Pearl achieved revenue of RMB126.1 million, representing an increase of 150.7% from the year ended 31 December 2015. Operating costs amounted to RMB69.1 million, representing an increase of 55.2% from the year ended 31 December 2015. Net profit amounted to RMB10.9 million, representing an increase of 129.0% from the year ended 31 December 2015. Total assets of Chesir Pearl amounted to RMB413.2 million, representing an increase of 5.74% compared to the year ended 31 December 2015.

(1) Since its establishment in 2011, Chesir Pearl had experienced a one-year preparation period, three-year construction period and two-year capacity ramp-up period. In 2016, the strategic planning objectives on Phase 1 Production Plant were completed. The automation level and the quality control systems of the production facilities have been enhanced, thereby reducing the

production costs. In addition, due to the launch of new products of synthetic-mica based pearlescent pigment products, sales of high-profit margin products started to increase. During the year ended 31 December 2016, the gross profit margin of Chesir Pearl increased to 45.2%, which improved the overall profitability of Chesir Pearl.

(2) Chesir Pearl devoted additional resources on the research and development of synthetic mica-based pearlescent pigment products, weather-resistant series of pearlescent pigment products, high-end cosmetic pearlescent pigment products and various pearlescent pigment products of special features. By the end of 2016, there were 103 natural mica pearlescent pigment products, 78 synthetic mica-based pearlescent pigment products and 23 glass flake-based pearlescent pigment products sold to its customers by Chesir Pearl.

(3) Chesir Pearl completed the expansion of the finished product warehouse. Such expansion not only increased the storage capacity, but also improved the logistics and reduced the logistics costs.

(4) Following years of research and development, the research and development results reached its harvest period. Chesir Pearl applied for five invention patents and subsequently obtained three invention patents in the PRC. Among the new patents, "Magnetic Pearlescent Pigment with 3D effect and its preparation method" 《一種具有3D效果的磁性珠光顏料及其製備方法》 was awarded the 6th Guangxi Innovation Creation Exhibition and Trade Fair Participating Project Silver Award (第六屆廣西發明創造成果展覽交易會參展項目銀獎).

SENSITIVITY AND BREAKEVEN ANALYSES

We set forth below sensitivity analyses on the fluctuations in the average unit selling prices of natural mica-based pearlescent pigment products and synthetic mica-based pearlescent pigment products and cost of raw materials. The analyses illustrate the hypothetical impact on our net profit before tax with 5%, 10%, and 15% increase or decrease in the respective items. We also set forth below a breakeven analysis based on the same variables. Due to a number of assumptions applied involved in the calculation, the sensitivity and the breakeven analyses below are for illustration purpose only, and the actual results may differ from the illustrations below.

Sensitivity analyses - average unit selling prices

Natural mica-based pearlescent pigment products

	Change in net profit for change in the average unit selling prices		
	+/-5%	**+/-10%**	**+/-15%**
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2017	±7,157	±14,314	±21,470
Year ended 31 December 2018	±12,266	±24,532	±36,798
Year ended 31 December 2019	±14,775	±29,551	±44,326
Nine months ended 30 September 2020	±11,548	±23,095	±34,643

	Year ended 31 December			Nine months ended 30 September
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Increase in the average unit selling price				
Adjustment to the average unit selling prices	<-------------------------105%------------------------->			
Change in net profit	7,157	12,266	14,775	11,548
Adjustment to the average unit selling prices	<-------------------------110%------------------------->			
Change in net profit	14,314	24,532	29,551	23,095
Adjustment to the average unit selling prices	<-------------------------115%------------------------->			
Change in net profit	21,470	36,798	44,326	34,643

	Year ended 31 December			Nine months ended 30 September
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Decrease in the average unit selling price				
Adjustment to the average unit selling prices	< -------------------------95% ------------------------->			
Change in net profit	(7,157)	(12,266)	(14,775)	(11,548)
Adjustment to the average unit selling prices	< -------------------------90% ------------------------->			
Change in net profit	(14,314)	(24,532)	(29,551)	(23,095)
Adjustment to the average unit selling prices	< -------------------------85% ------------------------->			
Change in net profit	(21,470)	(36,798)	(44,326)	(34,643)

Synthetic mica-based pearlescent pigment products

	Change in net profit for change in the average unit selling prices		
	+/-5%	**+/-10%**	**+/-15%**
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2017	±2,259	±4,518	±6,777
Year ended 31 December 2018	±3,577	±7,155	±10,732
Year ended 31 December 2019	±6,557	±13,113	±19,670
Nine months ended 30 September 2020	±7,199	±14,398	±21,597

	Year ended 31 December			Nine months ended 30 September
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Increase in the average unit selling price				
Adjustment to the average unit selling prices	<------------105%			------------>
Change in net profit	2,259	3,577	6,557	7,199
Adjustment to the average unit selling prices	<------------110%			------------>
Change in net profit	4,518	7,155	13,113	14,398
Adjustment to the average unit selling prices	<------------115%			------------>
Change in net profit	6,777	10,732	19,670	21,597

	Year ended 31 December			Nine months ended 30 September
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Decrease in the average unit selling price				
Adjustment to the average unit selling prices	<------------95%			------------>
Change in net profit	(2,259)	(3,577)	(6,557)	(7,199)
Adjustment to the average unit selling prices	<------------90%			------------>
Change in net profit	(4,518)	(7,155)	(13,113)	(14,398)
Adjustment to the average unit selling prices	<------------85%			------------>
Change in net profit	(6,777)	(10,732)	(19,670)	(21,597)

Sensitivity analysis — cost of raw materials

	Change in net profit for change in cost of raw materials		
	+/-5%	+/-10%	+/-15%
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2017	±2,700	±5,400	±8,100
Year ended 31 December 2018	±5,298	±10,597	±15,895
Year ended 31 December 2019	±7,205	±14,409	±21,614
Nine months ended 30 September 2020	±6,888	±13,775	±20,663

	Year ended 31 December			Nine months ended 30 September
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Increase in cost of raw materials				
Adjustment to the cost of raw materials	<--------------------------105%-------------------------->			
Change in net profit	(2,700)	(5,298)	(7,205)	(6,888)
Adjustment to the cost of raw materials	<--------------------------110%-------------------------->			
Change in net profit	(5,400)	(10,597)	(14,409)	(13,775)
Adjustment to the cost of raw materials	<--------------------------115%-------------------------->			
Change in net profit	(8,100)	(15,895)	(21,614)	(20,663)

	Year ended 31 December			Nine months ended 30 September
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Decrease in cost of raw materials				
Adjustment to the cost of raw materials	< --------------------------95% -------------------------->			
Change in net profit	2,700	5,298	7,205	6,888
Adjustment to the cost of raw materials	< --------------------------90% -------------------------->			
Change in net profit	5,400	10,597	14,409	13,775
Adjustment to the cost of raw materials	< --------------------------85% -------------------------->			
Change in net profit	8,100	15,895	21,614	20,663

Breakeven analysis

The table below sets forth a breakeven analysis which illustrates the extent of increases/decreases in the average unit selling prices of natural mica and synthetic mica-based pearlescent pigment products or cost of raw materials that would result in breakeven in the amount of gross profit during the Track Record Period (excluding the expenses for [REDACTED]):

	Year ended 31 December			Nine months ended 30 September
	2017	**2018**	**2019**	**2020**
	RMB'000 %	*RMB'000* %	*RMB'000* %	*RMB'000* %
Decrease in the average unit selling price of our natural mica-based pearlescent pigment products	28.0	35.8	42.4	53.2
Decrease in the average unit selling price of our synthetic mica-based pearlescent pigments products	88.8	122.6	93.6	85.3
Increase in the cost of raw materials	74.3	82.8	87.0	89.2

LIQUIDITY AND FINANCIAL RESOURCES

Overview

Our liquidity requirements primarily relate to working capital needs, expansion and construction of the production facilities and repayment of bank loans and other borrowings. Our principal sources of liquidity are cash inflows from our operations, bank loans and other borrowings and equity fund raising when Chesir Pearl was listed and quoted for trading on NEEQ. In May 2015, Chesir Pearl raised RMB144.0 million when it was listed and quoted for trading on NEEQ. In June 2019, shortly before the NEEQ Listing Withdrawal, Chesir Pearl completed a follow-on offering and raised RMB304.1 million. Following the NEEQ Listing Withdrawal, Chesir Pearl issued the 2019 Convertible Bonds for the principal amount of RMB72,240,000. As of 31 December 2017, 2018 and 2019 and 30 September 2020, we had bank and cash balances of RMB66.7 million, RMB171.9 million and RMB559.8 million and RMB605.9 million.

The table below sets forth the consolidated statement of cash flows during the Track Record Period (together with the comparative figures for the nine months ended 30 September 2019):

	Year ended 31 December			Nine months ended 30 September	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Net cash generated from operating activities	43,884	26,019	163,544	116,801	74,155
Net cash used in investing activities	(48,625)	(72,386)	(90,071)	(11,223)	(37,193)
Net cash generated from financing activities	38,011	151,563	314,514	318,453	9,148
Net increase in cash and cash equivalents	33,270	105,196	387,987	424,031	46,110
Cash and cash equivalents at beginning of year/period	33,372	66,656	171,854	171,854	559,839
Effect of foreign exchange rate changes	14	2	(2)	—	—
Cash and cash equivalents at end of year/period	66,656	171,854	559,839	595,885	605,949

Cash flows generated from operating activities

The table below sets forth further information on cash flows generated from operating activities during the Track Record Period (together with the comparative figures for the nine months ended 30 September 2019):

	Year ended 31 December			Nine months ended 30 September	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Profit before tax	40,137	87,746	125,301	103,583	122,866
Adjustments for:					
Finance costs	14,057	15,869	18,475	12,618	15,828
Interest income	(79)	(697)	(1,683)	(1,163)	(1,497)
Depreciation of property, plant and equipment	16,596	20,760	23,153	17,396	17,090
Amortisation of deferred revenue	(1,721)	(3,200)	(2,723)	(2,043)	(2,030)
Depreciation of right-of-use assets	754	717	1,156	856	1,057
(Reversals of impairment losses on trade and other receivables)/impairment losses for trade and other receivables	(14,481)	(612)	(208)	1,146	4,064
Fair value (gain)/loss on derivative component of convertible loans	(1,972)	(564)	1,120	1,011	2,428
Operating profit before working capital changes	53,291	120,019	164,591	133,404	159,806
(Increase)/decrease in inventories	(4,926)	(19,518)	(5,714)	(18,744)	1,993
(Increase)/decrease in trade and bills receivables	(996)	(64,238)	22,546	27,019	47,587
(Increase)/decrease in deposits, prepayments and other receivables	(1,329)	(6,695)	10,265	8,656	(4,348)
Increase in amount due from a shareholder	—	—	—	—	(45)
Increase/(decrease) in trade payables	2,856	6,624	6,102	2,666	(9,231)
Increase/(decrease) in accruals and other payables	7,986	7,582	(1,112)	(11,280)	1,909
Increase/(decrease) in contract liabilities	276	1,982	(1,688)	(301)	(327)
Cash generated from operations	57,158	45,756	194,990	141,420	102,170
Income tax paid	—	(4,022)	(18,086)	(14,042)	(13,365)
Interest on lease liabilities	(71)	(40)	(184)	(138)	(125)
Interest paid	(13,203)	(15,675)	(13,176)	(10,439)	(14,525)
Net cash generated from operating activities	43,884	26,019	163,544	116,801	74,155

Our cash from operations was mainly generated from the receipts of payments for the sales of our products, i.e. pearlescent pigment products and synthetic mica powders. Our cash used in operations mainly included payments for the purchase of raw materials, staff costs, EIT and other operating expenses.

Our operating cash flow has been maintaining at positive during the Track Record Period primarily due to the continuous increases in our profitability. During the nine months ended 30 September 2020, the amount of net cash generated from operating activities was RMB74.2 million, which was mainly attributable to the amount of cash generated from operations of RMB102.2 million, partially offset by income tax paid of RMB13.4 million and interest paid of RMB14.5 million. It was mainly due to the increase in trade and bills receivables of RMB47.6 million as of 30 September 2020 as a result of temporary extension of the credit period provided to our customers in response to the COVID-19 pandemic on a case-by-case basis. Our operating cash flows before working capital changes was RMB159.8 million which was primarily attributable to our profit before tax of RMB122.9 million which subject to adjustments for non-cash or non-operating activities related items, which principally included (a) finance cost of RMB15.8 million, (b) deprecation of property, plant and equipment of RMB17.1 million, (c) impairment losses during the period of RMB4.1 million and (d) the fair value loss on derivative component of convertible loans of RMB2.4 million.

Our changes in working capital was attributable to a cash outflow of RMB57.6 million during the nine months ended 30 September 2020 and was primarily due to (a) decrease in inventories of RMB2.0 million, (b) increase in trade and bills receivables of RMB47.6 million, (c) increase in deposits, prepayments and other receivables of RMB4.3 million, (d) decrease in trade payables of RMB9.2 million, (e) increase in the accruals and other payables of RMB1.9 million and (f) decrease in contract liabilities of RMB0.3 million.

During the nine months ended 30 September 2019, the amount of net cash generated from operating activities was RMB116.8 million, which was mainly attributable to the amount of cash generated from operations of RMB141.4 million, partially offset by income tax paid of RMB14.0 million and interest paid of RMB10.4 million. Our operating cash flows before working capital changes was RMB133.4 million which was primarily attributable to our profit before tax of RMB103.6 million which subject to adjustments for non-cash or non-operating activities related items, which principally included (a) finance cost of RMB12.6 million, (b) deprecation of property, plant and equipment of RMB17.4 million and (c) impairment losses during the period of RMB1.1 million.

Our changes in working capital was attributable to a cash inflow of RMB8.0 million during the nine months ended 30 September 2019 and was primarily due to (a) increase in inventories of RMB18.7 million, (b) decrease in trade and bills receivables of RMB27.0 million, (c) decrease in deposits, prepayments and other receivables of RMB8.7 million, (d) increase in trade payables of RMB2.7 million, (e) decrease in the accruals and other payables of RMB11.3 million and (f) decrease in contract liabilities of RMB0.3 million.

During the year ended 31 December 2019, the net cash generated from our operating activities amounted to RMB163.5 million, which was mainly attributable to the amount of cash generated from operations of RMB195.0 million, partially offset by income tax paid of RMB18.1 million and interest paid of RMB13.2 million. Our operating cash flows before working capital changes was RMB164.6 million which was primarily attributable to our profit before tax of RMB125.3 million which subject to adjustments for non-cash or non-operating activities related items, which principally included (a) finance cost of RMB18.5 million; (b) depreciation of properties, plant and equipment of RMB23.2 million; and (c) amortisation of deferred income of RMB2.7 million.

Our changes in working capital was attributable to a cash inflow of RMB30.4 million during the year ended 31 December 2019 and was primarily due to (a) increase in inventories of RMB5.7 million, (b) decrease in trade and bills receivables of RMB22.5 million, (c) decrease in deposits, prepayments and other receivables of RMB10.3 million, (d) increase in trade payables of RMB6.1 million, (e) decrease in the accruals and other payables of RMB1.1 million and (f) decrease in contract liabilities of RMB1.7 million.

During the year ended 31 December 2018, the net cash generated from our operating activities amounted to RMB26.0 million, which was mainly attributable to the amount of cash generated from operations of RMB45.8 million, partially offset by interest paid of RMB15.7 million. Our operating cash flows before working capital changes was RMB120.0 million which was primarily attributable to our profit before tax of RMB87.7 million which subject to adjustments for non-cash or non-operating activities related items, which principally included (a) finance cost of RMB15.9 million; (b) depreciation of properties, plant and equipment of RMB20.8 million; and (c) amortisation of deferred income of RMB3.2 million.

Our changes in working capital was attributable to a cash outflow of RMB74.3 million during the year ended 31 December 2018 and was primarily due to (a) increase in inventories of RMB19.5 million, (b) increase in trade and bills receivables of RMB64.2 million, (c) increase in deposits, prepayments and other receivables of RMB6.7 million, (d) increase in trade payables of RMB6.6 million, (e) increases in accruals and other payables of RMB7.6 million and (f) increase in contract liabilities of RMB2.0 million.

During the year ended 31 December 2017, the net cash generated from our operating activities amounted to RMB43.9 million, which was mainly attributable to the amount of cash generated from operations of RMB57.2 million, partially offset by interest paid of RMB13.2 million. Our operating cash flows before working capital changes was RMB53.3 million which was primarily attributable to our profit before tax of RMB40.1 million which subject to adjustments for non-cash or non-operating activities related items, which principally included (a) finance cost of RMB14.1 million; (b) depreciation of properties, plant and equipment of RMB16.6 million; and (c) the reversal of impairment losses for trade and other receivables during the year of RMB14.5 million.

Our changes in working capital was attributable to a cash inflow of RMB3.9 million during the year ended 31 December 2017 and was primarily due to (a) increase in inventories of RMB4.9 million, (b) increase in trade and bills receivables of RMB1.0 million; (c) increase in deposits, prepayments and other receivables of RMB1.3 million; (d) increase in trade payables of RMB2.9 million; (e) increases in accruals and other payables of RMB8.0 million; and (f) increase in contract liabilities of RMB0.3 million.

Cash flows used in investing activities

The table below sets forth further information on cash flows used in investing activities during the Track Record Period (together with the comparative figures for the nine months ended 30 September 2019):

	Year ended 31 December			Nine months ended 30 September	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Purchase of property, plant and equipment	(29,787)	(5,817)	(55,503)	(1,763)	(25,348)
Proceeds from disposal of property, plant and equipment	77	—	—	141	—
Payments for right-of-use assets	—	—	(9,764)	(9,764)	(13,342)
Deposits paid for acquisition of property, plant and equipment and right-of-use assets	(21,324)	(71,186)	(26,487)	(1,000)	—
Government grant received	2,330	3,920	—	—	—
Interest received	79	697	1,683	1,163	1,497
Net cash (used in) investing activities	(48,625)	(72,386)	(90,071)	(11,223)	(37,193)

During the Track Record Period, our cash used in investing activities mainly attributable to purchase of property, plant and equipment, payments for right-of-use assets and deposits paid for acquisition of property, plant and equipment and right-of-use assets.

During the nine months ended 30 September 2020, the amount of our cash used in investing activities was RMB37.2 million, which was mainly due to (a) purchase of property, plant and equipment of RMB25.3 million and (b) payment for the right-of-use assets of RMB13.3 million.

During the nine months ended 30 September 2019, the amount of our cash used in investing activities was RMB11.2 million, which was mainly due to (a) payment of right-of-use assets of RMB9.8 million and (b) purchase of property, plant and equipment of RMB1.8 million.

During the year ended 31 December 2019, the amount of our cash used in investing activities was RMB90.1 million, which was mainly due to (a) purchase of property, plant and equipment of RMB55.5 million; (b) payment for right-of-use assets of RMB9.8 million; and (c) deposits paid for acquisition of property, plant and equipment and right-of-use assets of RMB26.5 million.

During the year ended 31 December 2018, the amount of our cash used in investing activities was RMB72.4 million, which was mainly due to (a) purchase of property, plant and equipment of RMB5.8 million and (b) deposits paid for acquisition of property, plant and equipment and right-of-use assets of RMB71.2 million. We also received a government grant of RMB3.9 million for innovative grants from Department of Science and Technology of Guangxi Zhuang Autonomous Region and project grants from Department of Finance of Luzhai County.

During the year ended 31 December 2017, the amount of our cash used in investing activities was RMB48.6 million, which was mainly due to (a) purchase of property, plant and equipment of RMB29.8 million and (b) deposits paid for acquisition of property, plant and equipment and right-of-use assets of RMB21.3 million. We also received a government grant of RMB2.3 million from Financial Treasury Payment Centre of Liuzhou City and Department of Finance of Luzhai County.

Cash flows generated from financing activities

The table below sets forth further information on cash flows generated from financing activities during the Track Record Period (together with the comparative figures for the nine months ended 30 September 2019):

	Year ended 31 December			Nine months ended 30 September	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Bank loans and other borrowings raised	15,000	32,628	151,740	54,000	17,485
Repayment of bank loans and other borrowings	(6,666)	(30,845)	(182,128)	(80,561)	(7,956)
Repayment of convertible loans	—	—	(30,000)	(30,000)	—
Proceeds from issue of convertible loans	30,000	—	72,240	72,240	—
Principal elements of lease payments	(323)	(276)	(527)	(396)	(404)
Capital contribution from non-controlling interests	—	150,000	—	—	—
Increase in amount due to a director	—	56	49	30	23
Proceeds from issue of share capital of Chesir Pearl	—	—	303,140	303,140	—
Net cash generated from financing activities	38,011	151,563	314,514	318,453	9,148

During the Track Record Period, our cash inflow from financing activities was primarily attributable to the proceeds from bank loans, the 2017 Convertible Loan, the 2019 Convertible Bonds and the capital contributions from new equity investors. Our cash outflow from financing activities was mainly attributable to the repayments of bank loans and repayment of the 2017 Convertible Loan.

During the nine months ended 30 September 2020, our net cash generated from financing activities amounted to RMB9.1 million. Such amount was primarily due to the proceeds from bank loans of RMB17.5 million, which was partially offset by the repayment of bank loans of RMB8.0 million.

During the nine months ended 30 September 2019, our net cash generated from financing activities amounted to RMB318.5 million, of which we received proceeds from the follow-on offering completed in June 2019 by Chesir Pearl of RMB303.1 million, proceeds from the issue of 2019 Convertible Bonds of RMB72.2 million, and proceeds from bank loans and other borrowings of RMB54.0 million, which was partially offset by repayment of bank loans and 2017 Convertible Loan and other borrowings of RMB80.6 million and RMB30.0 million, respectively.

During the year ended 31 December 2019, our net cash generated from financing activities amounted to RMB314.5 million. Such amount was primarily due to the proceeds from the follow-on offering completed in June 2019 by Chesir Pearl of RMB303.1 million, proceeds from the issue of 2019 Convertible Bonds of RMB72.2 million, and proceeds from bank loans and other borrowings of RMB151.7 million, which was partially offset by repayment of bank loans and 2017 Convertible Loan and other borrowings of RMB182.1 million and RMB30.0 million, respectively.

During the year ended 31 December 2018, our net cash generated from financing activities amounted to RMB151.6 million. Such amount was mainly derived from the capital contribution of RMB150 million in Chesir Luzhai by Liuzhou Industrial Investment pursuant to the Luzhai Capital Contribution Agreement and proceeds from bank loans and other borrowings of RMB32.6 million which was partially offset by repayment of bank loans and other borrowings of RMB30.8 million.

During the year ended 31 December 2017, our net cash generated from financing activities amounted to RMB38.0 million, which was primarily due to the proceeds from the issue of 2017 Convertible Loan of RMB30.0 million and proceeds from bank loans and other borrowings of RMB15.0 million which was partially offset by repayment of bank loans and other borrowings of RMB6.7 million.

WORKING CAPITAL

We believe that we will be able to settle our commitments and repay our borrowings by using funds from a combination of sources, including internally generated operating cash flows, being revenue generated from the sales of our products, [REDACTED] from the [REDACTED], and available banking facilities.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any undue difficulty in obtaining banking facilities or withdrawal of banking facilities from banks or any default in payment of bank loans or other borrowings or breach of any covenants.

Taking into consideration the estimated amount of [REDACTED] from the [REDACTED], the available banking facilities, cash inflows generated from our operating activities, our Directors are of the opinion that we have sufficient working capital for our present requirement and for the next 12 months from the date of this document. Based on the financial resources available to us, the Sole Sponsor concurs with the view of our Directors.

COMPONENTS OF OUR CURRENT ASSETS AND CURRENT LIABILITIES

Our net current assets represent the differences between our current assets and our current liabilities. As of 31 December 2017, 2018 and 2019, we had net current assets of RMB133.2 million, RMB130.1 million and RMB684.9 million, respectively. As of 30 September 2020, we had net current assets of RMB645.4 million. As of 31 October 2020, we had net current assets of RMB932.2 million (unaudited). The table below sets forth the composition of our current assets and current liabilities as of 31 December 2017, 2018 and 2019, 30 September 2020 and 31 October 2020:

	As of 31 December			As of 30 September	As of 31 October
	2017	2018	2019	2020	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)
Current assets					
Inventories	54,902	74,420	80,134	78,141	73,706
Trade and bills receivables	79,090	144,019	121,692	165,246	186,423
Deposits, prepayments and other receivables	7,689	14,305	4,029	8,346	7,897
Amount due from a shareholder	—	330	330	375	375
Bank and cash balances	66,656	171,854	559,839	605,949	789,178
	208,337	404,928	766,024	858,057	1,057,579
Current liabilities					
Bank loans and other borrowings	29,842	181,146	11,953	74,302	69,911
Convertible loans	—	29,921	—	70,899	—
Derivative component of convertible loans	564	—	1,642	4,070	—
Lease liabilities	353	85	543	569	569
Trade payables	17,215	23,839	29,941	20,710	23,281
Accruals and other payables	24,214	31,839	30,890	32,184	25,790
Amount due to a director	—	56	105	128	188
Contract liabilities	416	2,398	710	383	370
Deferred revenue	2,487	2,723	2,692	1,924	2,019
Current tax liabilities	—	2,806	2,688	7,509	3,272
	75,091	274,813	81,164	212,678	125,400
Net current assets	133,246	130,115	684,860	645,379	932,179

Inventories

Our inventories consist of raw materials, work-in-progress and finished products. The table below sets forth an analysis of the balance of our inventories as of 31 December 2017, 2018 and 2019 and 30 September 2020:

	As of 31 December			As of 30 September
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Work-in-progress	23,059	35,904	36,863	42,598
Finished products	25,419	25,764	39,340	29,362
Raw materials	6,424	12,752	3,931	6,181
Total	54,902	74,420	80,134	78,141

The costs of individual items of inventories are determined using the weighted average costs at each month end.

Our inventories of raw materials included natural mica flakes and chemical raw materials used in the production of pearlescent pigment products, synthetic mica flakes and synthetic mica powder used by us for our own production purpose. Our inventories of work-in-progress included the semi-finished products produced during the production of pearlescent pigment products. Our inventories of finished products included pearlescent pigment products and synthetic mica powder produced by us for sales to our customers.

Movements of our inventories

The table below sets forth the movements of our inventory of principal raw materials for production and research and development for the Track Record Period:

	Year ended 31 December			Nine months ended 30 September
	2017	2018	2019	2020
	(tonnes)	*(tonnes)*	*(tonnes)*	*(tonnes)*
Balance brought forward on 1 January				
Natural mica flakes	1,132	232	1,698	240
Titanium tetrachloride	24	7	112	1
Calcium carbonate	826	193	288	36
Other raw materials	389	668	1,019	696
	2,371	1,099	3,117	973
Purchase of raw materials during the year/period	17,993	31,989	39,874	37,086
	20,364	33,089	42,991	38,060
Less: Inventory of raw materials used for production	(18,345)	(29,553)	(40,625)	(35,499)
Less: Inventory of raw materials used for research and development	(920)	(420)	(1,394)	(855)
Balance carried forward on 31 December/30 September	1,099	3,117	973	1,706
Represented by the inventory of				
Natural mica flakes	232	1,698	240	916
Titanium tetrachloride	7	112	1	1
Calcium carbonate	193	288	36	144
Other raw materials	668	1,019	696	646
	1,099	3,117	973	1,706

During the Track Record Period, the level of our inventory of raw materials were in the range of 973 tonnes and 3,117 tonnes. The movements in the levels of inventory of principal raw materials were primarily due to the time of delivery of the regular purchases of raw materials. During the Track Record Period, we did not purchase any raw materials because of price fluctuations.

The table below sets forth the movements of our inventory of finished products for the Track Record Period:

	Year ended 31 December			Nine months ended 30 September
	2017	2018	2019	2020
	(tonnes)	*(tonnes)*	*(tonnes)*	*(tonnes)*
Balance brought forward on 1 January				
Pearlescent pigment products	1,112	1,269	1,620	1,867
Synthetic mica powder	5	18	20	16
	1,117	1,287	1,640	1,883
Addition of finished products during the years/period				
— Pearlescent pigment products	5,447	8,809	11,348	9,816
— Synthetic mica powder	73	86	164	46
	6,637	10,183	13,152	11,745
Less: Sales of finished products	(5,350)	(8,536)	(11,265)	(10,351)
Less: Use of finished products other than sales purpose[(1)]	—	(7)	(4)	(2)
Balance carried forward on 31 December/30 September	1,287	1,640	1,883	1,392
Represented by the inventory of				
Pearlescent pigment products	1,269	1,620	1,867	1,392
Synthetic mica powder	18	20	16	—
	1,287	1,640	1,883	1,392

Note:

(1) Other decrease were related to the use of finished products for marketing and promotion.

During the Track Record Period, the level of our inventory of finished products were in the range of 1,287 tonnes and 1,883 tonnes. The fluctuations of the inventory levels were primarily due to the increase in our production capacity and the increase in our sales volume.

Aging analysis

The table below sets forth an aging analysis of inventories as of 31 December 2017, 2018 and 2019 and 30 September 2020:

	As of 31 December			As of 30 September
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Up to 30 days	21,098	37,824	37,572	45,694
31 to 90 days	11,690	24,455	29,707	26,002
91 to 180 days	6,940	4,384	8,707	5,062
180 days to 360 days	6,331	4,576	4,012	771
Over one year	8,843	3,181	136	612
Total	54,902	74,420	80,134	78,141

Our inventory provision was made on specific basis by comparing the costs and the net realisable values of the inventories. Allowance for slow-moving inventories was made for the year ended 31 December 2017, 2018 and 2019 and nine months ended 30 September 2019 (unaudited) and 2020 amounted to approximately RMB282,000, RMB9,000, RMB nil and RMB nil, respectively. The inventories that are aged over one year were mainly unpacked work-in-progress products of synthetic mica powder which are normally with long quality guarantee period. For other raw material inventories, they were within the quality guarantee period. Hence, no provision has been made for inventories of raw materials. Regarding the inventory of our finished products, our Directors confirm that the net realisable values were higher than the costs and hence, no provision has been made throughout the Track Record Period.

Turnover days and subsequent usage

The table below sets forth our inventory turnover days during the Track Record Period:

	Year ended 31 December			Nine months ended 30 September
	2017	**2018**	**2019**	**2020**
Inventory turnover days(1)	185.0	141.4	129.3	103.6

Note:

(1) The inventory turnover days are derived by dividing the average of the beginning and ending inventory by cost of goods sold for that year and multiplied by 365 days for 2017, 2018 and 2019. For the nine months ended 30 September 2020, the number of the turnover days is based on 270 days.

Our inventory turnover days decreased from 185.0 days in 2017 to 141.4 days in 2018 and further to 129.3 days in 2019, it was primarily due to the decrease in the level of inventory of raw materials from RMB6.4 million in 2017 to RMB3.9 million in 2019 due to the increase in market demand for our products resulting in an increase in production and the consumption level of raw materials. The level of inventory of work-in-progress during the Track Record Period increased from RMB23.1 million in 2017 to RMB36.9 million in 2019 due to the increase in our production activities. As of 30 September 2020, the inventory of work-in-progress amounted to RMB42.8 million because of the increased level of production activities. The increase in the level of inventory of finished products throughout the three years ended 31 December 2019 was primarily due to continuous growth in market demand resulting in an increase in the production of our products. The decrease in the level of inventory of finished products as of 30 September 2020 to RMB29.4 million was due to delivery and acceptance of finished products as of the date. Our inventory turnover days further decreased to 103.6 days for the nine months ended 30 September 2020 because of the continuous growth in sales and our strengthened control/reduction of the production lead time of our finished products.

As of 31 October 2020, RMB43.9 million, or 56.2%, of inventory comprising raw materials and finished products as of 30 September 2020, was used and consumed for our production requirement or sold to our customers.

Trade and bill receivables

The table below sets forth an analysis of trade and bills receivables as of 31 December 2017, 2018 and 2019 and 30 September 2020:

	As of 31 December			As of 30 September
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	80,197	141,763	120,714	170,040
Allowance for doubtful debts	(1,677)	(1,053)	(851)	(4,884)
	78,520	140,710	119,863	165,156
Bills receivables	570	3,309	1,829	90
Total	79,090	144,019	121,692	165,246

We generally allow a credit period from 90 to 180 days for our customers. Each customer has a maximum credit limit. For new customers, payment in advance is normally required. We seek to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by our Directors.

Impairment of trade receivables and loss allowances

Customer credit risk is managed by each business unit subject to our established policy, procedures and control relating to customer credit risk management. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 90-180 days from the date of billing. Debtors with balances that are more than six months past due are requested to settle all outstanding balances before any further credit is granted. Normally, we do not obtain collateral from customers.

We measure loss allowances for trade receivables at an amount equal to lifetime expected credit losses, which is calculated using a provision matrix. As our historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between our different customer bases.

The table below provides information about our exposure to credit risk and expected credit losses for trade receivables as of 31 December 2017, 2018 and 2019 and 30 September 2020:

	As of 30 September 2020		
	Expected loss rate	**Gross carrying amount**	**Loss allowance**
	%	*RMB'000*	*RMB'000*
Current (not past due)	1.8%	167,549	3,092
1-90 days past due	33.3%	861	287
91-365 days past due	83.3%	747	622
Over one year past due	100.0%	883	883
Total		170,040	4,884

	As of 31 December 2019		
	Expected loss rate	**Gross carrying amount**	**Loss allowance**
	%	*RMB'000*	*RMB'000*
Current (not past due)	0.1%	119,079	151
1-90 days past due	10.0%	711	71
91-365 days past due	38.7%	481	186
Over one year past due	100.0%	443	443
Total		120,714	851

	As of 31 December 2018		
	Expected loss rate	**Gross carrying amount**	**Loss allowance**
	%	*RMB'000*	*RMB'000*
Current (not past due)	0.3%	111,399	323
1-90 days past due	0.3%	27,656	82
91-365 days past due	6.7%	2,208	148
Over one year past due	100.0%	500	500
Total		141,763	1,053

	As of 31 December 2017		
	Expected loss rate	**Gross carrying amount**	**Loss allowance**
	%	*RMB'000*	*RMB'000*
Current (not past due)	0.0%	65,608	31
1-90 days past due	0.3%	11,776	40
91-365 days past due	1.0%	1,219	12
Over one year past due	100.0%	1,594	1,594
Total		80,197	1,677

Expected credit loss rates are based on actual credit loss experience over the past one year. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and our view of economic conditions over the expected lives of the receivables.

The table below sets forth the movements in the loss allowance for trade receivables as of 31 December 2017, 2018 and 2019 and 30 September 2020:

	As of 31 December			As of 30 September
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As of 1 January	16,340	1,677	1,053	851
Impairment loss recognised for the year/period	—	—	—	4,033
Reversal of impairment loss for the year/period	(14,663)	(624)	(202)	—
As of the end of year/period	1,677	1,053	851	4,884

The origination of new trade receivables net of those settled resulted in an increase in loss allowance of RMB4.0 million represented the significant changes in the gross carrying amounts of trade receivables contributed to the increase in the loss allowance during the nine months ended 30 September 2020.

Carrying amount in different currencies

The table below sets forth the carrying amounts of our trade receivables in different currencies as of 31 December 2017, 2018 and 2019 and 30 September 2020:

	As of 31 December			As of 30 September
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
RMB	67,422	136,669	113,010	159,405
US$	11,098	3,512	6,853	5,751
GBP	—	529	—	—
Total	78,520	140,710	119,863	165,156

Turnover days and settlement

The table below sets forth our trade receivable turnover days during the Track Record Period:

	Year ended 31 December			Nine months ended 30 September
	2017	**2018**	**2019**	**2020**
Trade receivable turnover days[(1)]	136.9	125.7	107.9	96.4

Note:

(1) The trade receivable turnover days are derived by dividing the average of the beginning and ending trade receivable balance by revenue for that year and multiplied by 365 days for 2017, 2018 and 2019. For the nine months ended 30 September 2020, the number of the turnover days is based on 270 days.

Our trade receivables turnover days decreased from 136.9 days in 2017 to 125.7 days in 2018 and further to 107.9 days in 2019 was primarily due to our efforts in monitoring and controlling the amounts due from our customers even though the amount of our trade receivables continue to increase during the Track Record Period. Our trade receivables turnover days further decreased to 96.4 days for the nine months ended 30 September 2020.

As of 31 October 2020, RMB45.5 million, or 27.6%, of our trade receivables as of 30 September 2020 had been subsequently settled.

Aging analysis

The table below sets forth an aging analysis of trade and bills receivables as of 31 December 2017, 2018 and 2019 and 30 September 2020:

	As of 31 December			As of 30 September
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 90 days	52,105	89,263	118,457	147,313
91 to 180 days	24,470	48,084	550	17,758
181 to 365 days	1,937	3,075	856	36
Over 365 days	8	288	—	49
Total	78,520	140,710	119,863	165,156

Deposits, prepayments and other receivables

The table below sets forth an analysis of deposits, prepayments and other receivables as of 31 December 2017, 2018 and 2019 and 30 September 2020:

	As of 31 December			As of 30 September
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deposits	2,935	2,168	2,067	2,996
Prepayments	2,995	11,263	1,199	5,001
VAT recoverable	1,081	160	272	—
Other receivables	678	714	491	349
Total	7,689	14,305	4,029	8,346

Prepayments mainly represented the prepayment to our suppliers and contractors of our Phase 1 Production Plant. Our prepayment amounted to RMB11.3 million as of 31 December 2018 was mainly due to our prepayments to three suppliers of natural mica flakes amounted to RMB6.9 million and one supplier of titanium tetrachloride of RMB1.4 million.

Deposits mainly represented deposits for utilities, leased properties and finance leases.

Bank and cash balances

As of 31 December 2017, 2018 and 2019, the balance of bank and cash balances amounted to RMB66.7 million, RMB171.9 million and RMB559.8 million, respectively. As of 30 September 2020, we had bank and cash balances of RMB605.9 million. Our Directors confirm that our bank and cash balances were maintained at a prudent level for the purpose of satisfying the requirements for our daily business operations. The significant increase in our bank and cash balances as of 31 December 2019 was mainly generated from our operating activities and the proceeds received from the follow-on offering completed in June 2019 by Chesir Pearl and the issuance of the 2019 Convertible Bonds. The table below sets forth an analysis of bank and cash balances as of the date indicated:

	As of 31 December			As of 30 September
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
RMB	66,265	169,395	555,581	604,577
US$	4	2,316	4,192	762
EUR	387	143	66	190
HK$	—	—	—	420
Total	66,656	171,854	559,839	605,949

Bank loans and other borrowings

The table below sets forth an analysis of bank loans and borrowings as of the date indicated:

	As of 31 December			As of 30 September
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Secured bank loans	176,000	175,500	137,740	137,640
Other borrowings				
- Secured	8,334	10,617	17,989	22,133
- Unsecured	—	—	—	5,485
Total	184,334	186,117	155,729	165,258

The bank loans and other borrowings are repayable as follows:

	As of 31 December			As of 30 September
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	29,842	181,146	11,953	74,302
More than one year, but not exceeding two years	154,492	2,757	68,410	82,456
More than two years, but not more than five years	—	2,214	75,366	8,500
	184,334	186,117	155,729	165,258
Represented by:				
Current portion of bank loans and other borrowings	29,842	181,146	11,953	74,302
Non-current portion of bank loans and other borrowings	154,492	4,971	143,776	90,956
Total	184,334	186,117	155,729	165,258

The carrying amounts of our bank loans and other borrowings are denominated in the following currencies:

	As of 31 December			As of 30 September
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
RMB	184,334	186,117	155,729	159,773
HK$	—	—	—	5,485
Total	184,334	186,117	155,729	165,258

The average interest rates as of 31 December/30 September were as follows:

	As of 31 December			As of 30 September
	2017	2018	2019	2020
Secured bank loans	6.50% per annum	6.49% per annum	7.18% per annum	7.18% per annum
Other borrowings				
- Secured	7.00% per annum	7.67% per annum	8.72% per annum	8.85% per annum
- Unsecured	—	—	—	2.00% per annum

Bank loans and other borrowings of RMB25.0 million, RMB31.7 million, RMB142.2 million and RMB145.6 as of 31 December 2017, 2018 and 2019 and 30 September 2020, respectively, are arranged at fixed interest rates and expose us to fair value interest rate risk. The remaining balances of bank loans and other borrowings are arranged at floating rates, thus exposing us to cash flow interest rate risk.

Our bank secured loans are secured by our property, plant and equipment and right-of-use assets and also secured by the corporate guarantees from related parties, together with personal guarantees of a Director and the close family members of a Director and pledged by non-controlling equity interests of the Group held by related parties.

Our secured other borrowings are secured by our property, plant and equipment and also secured by the corporate guarantees from related parties, together with personal guarantees of a Director and the close family members of a Director.

Lease liabilities

Our lease liabilities represented the amount due for lease payments to Independent Third Parties. During the Track Record Period, we leased offices and warehouses in the PRC and an office in France. Lease contracts were entered into on a monthly basis or up to 108 months. Lease terms were negotiated on an arm's length basis. The increase in the amount of lease liabilities to RMB2.6 million as of 31 December 2019 was mainly due to the amount payable under a long-term lease entered into in January 2019 for our office and warehouse in Shanghai. The table below sets forth an analysis of lease liabilities as of 31 December 2017, 2018 and 2019 and 30 September 2020:

	Minimum lease payments				Present value of minimum lease payments			
	As of 31 December			As of 30 September	As of 31 December			As of 30 September
	2017	2018	2019	2020	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	394	102	705	708	353	85	543	569
In the second to fifth years, inclusive	226	168	2,889	2,403	170	121	2,586	2,194
After five years	121	78	33	—	106	70	29	—
	741	348	3,627	3,111	629	276	3,158	2,763
Less: Future finance charges	(112)	(72)	(469)	(348)	N/A	N/A	N/A	N/A
Present value of lease obligations	629	276	3,158	2,763				
Less: Amount due for settlement within 12 months (shown under current liabilities)					(353)	(85)	(543)	(569)
Amount due for settlement after 12 months					276	191	2,615	2,194

The carrying amounts of our lease payables are denominated in RMB and EUR.

Deferred revenue

Our deferred revenue represented the government grant received by us in relation to the research and development activities carried out by us. The table below sets forth an analysis of deferred revenue as of 31 December 2017, 2018 and 2019 and 30 September 2020:

	As of 31 December			As of 30 September
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Government grant	12,182	12,902	10,179	8,149

	As of 31 December			As of 30 September
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Represented by:				
Current portion	2,487	2,723	2,692	1,924
Non-current portion	9,695	10,179	7,487	6,225
Total	12,182	12,902	10,179	8,149

Trade payables

Our trade and other payables primarily consist of the amount due to our suppliers for our purchase of raw materials. As of 31 December 2017, 2018 and 2018 and 30 September 2020, our trade payables amounted to RMB17.2 million, RMB23.8 million, RMB29.9 million and RMB20.7 million, respectively. The payment arrangements with our suppliers are either cash payment upon delivery or we are granted a credit limit within which a credit term of up to 90 days from the invoice date would be granted by our suppliers.

Carrying amount in different currencies

The table below sets forth the carrying amount of trade payables as of 31 December 2017, 2018 and 2019 and 30 September 2020:

	As of 31 December			As of 30 September
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
RMB	14,009	23,765	28,773	18,353
US$	3,206	74	1,168	2,357
Total	17,215	23,839	29,941	20,710

Turnover days and settlement

The table below sets forth our trade payable turnover days during the Track Record Period:

	Year ended 31 December			Nine months ended 30 September
	2017	**2018**	**2019**	**2020**
Trade payable turnover days[(1)]	55.7	44.9	45.0	33.2

Note:

(1) The trade payable turnover days are derived by dividing the average of the beginning and ending trade payable balance by cost of goods sold for that year and multiplied by 365 days for 2017, 2018 and 2019. For the nine months ended 30 September 2020, the number of the turnover days is based on 270 days.

Our trade payables turnover days decreased throughout the Track Record Period from 55.7 days in 2017 to 44.9 days in 2018 and further to 45.0 days in 2019. The decrease in the turnover days was primarily due to our prompt settlement to our creditors for the purpose of securing the constant supply from our suppliers. Whilst we believe that we have maintained a proper settlement practice for the amount due from us in the ordinary course of business, the length of the trade payable turnover days is significantly less than that of the trade receivable turnover days even though the amounts involved was also less than that of trade receivables.

As of 31 October 2020, RMB14.2 million, or 68.6%, of our trade payable as of 30 September 2020 had been subsequently settled.

Aging analysis

The table below sets forth further information on our trade payables as of 31 December 2017, 2018 and 2019 and 30 September 2020:

	As of 31 December			As of 30 September
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 90 days	6,920	21,328	24,439	19,825
91 to 180 days	5,478	2,511	5,486	705
181 to 365 days	4,817	—	16	165
Over 365 days	—	—	—	15
Total	17,215	23,839	29,941	20,710

Accruals and other payables

	As of 31 December			As of 30 September
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Accruals	11,978	12,309	20,470	17,315
Other payables	12,236	19,530	10,420	14,869
Total	24,214	31,839	30,890	32,184

Accruals mainly consisted of accrued staff costs and provision for employees' benefits. Our accruals increased from RMB12.3 million as of 31 December 2018 to RMB20.5 million as of 31 December 2019. Such increase was primarily due to the increase in accrued staff costs arising from the bonus provided to our staff and the adjustment to the under-payment of social insurance contributions.

Other payables mainly consisted of other payables for construction works. We recorded other payables of RMB19.5 million as of 31 December 2018 which primarily represented the value of certain improvements and construction-in-progress in our Phase 1 Production Plant.

Contract liabilities

The table below sets forth the contract liabilities as of 31 December 2017, 2018 and 2019 and 30 September 2020:

	As of 31 December			As of 30 September
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deposit received in advance	416	2,398	710	383

The table below set forth further information on the contract liabilities as of 31 December 2017, 2018 and 2019 and 30 September 2020:

	As of 31 December			As of 30 September
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance as of 1 January	140	416	2,398	710
Decrease in contract liabilities as a result of recognising revenue during the year/period was included in the contract liabilities at the beginning of the period	(140)	(416)	(2,398)	(710)
Increase in contract liabilities as a result of deposit received in advance	416	2,398	710	383
Balance as of 31 December or 30 September	416	2,398	710	383

Current tax liabilities

The table below sets forth the calculation of the amount of the current tax liabilities as of 31 December 2017, 2018 and 2019 and 30 September 2020:

	Year ended 31 December			Nine months ended 30 September
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current tax — PRC				
Provision for the year/period	—	6,828	16,308	17,968
Under provision in prior year/period	—	—	1,660	218
	—	6,828	17,968	18,186
PRC income tax paid	—	(4,022)	(18,086)	(13,365)
	—	2,806	(118)	4,821
Balance bought forward as of 1 January	—	—	2,806	2,688
Balance carried forward as of 31 December or 30 September	—	2,806	2,688	7,509

COMPONENTS OF OUR NON-CURRENT ASSETS AND NON-CURRENT LIABILITIES

	As of 31 December			As of 30 September
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment	262,786	304,696	353,907	362,165
Right-of-use assets	18,726	17,932	29,949	67,819
Deposits paid for acquisition of property, plant and equipment and right-of-use assets	924	16,367	26,671	1,095
Deferred tax assets	744	1,190	1,190	1,190
	283,180	340,185	411,717	432,269
Non-current liabilities				
Bank loans and other borrowings	154,492	4,971	143,776	90,956
Convertible loans	28,700	—	69,106	—
Lease liabilities	276	191	2,615	2,194
Deferred revenue	9,695	10,179	7,487	6,225
	193,163	15,341	222,984	99,375

Property, plant and equipment

The table below sets forth the movements of property, plant and equipment during the Track Record Period:

	Buildings	Plant and machinery	Motor vehicles	Office equipment	Leasehold improvements	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST							
As of 1 January 2017	165,606	51,326	2,036	9,343	1,059	29,425	258,795
Additions	—	2,283	171	184	—	53,633	56,271
Disposals	—	(20)	—	—	—	(61)	(81)
Transfer	32,544	9,219	—	—	—	(41,763)	—
As of 31 December 2017 and 1 January 2018	198,150	62,808	2,207	9,527	1,059	41,234	314,985
Additions	32	1,200	16	105	—	61,317	62,670
Disposals	—	—	—	—	(1,059)	—	(1,059)
Transfer	50,361	3,297	—	—	8,534	62,192	—
As of 31 December 2018 and 1 January 2019	241,543	67,305	2,223	9,632	8,534	40,359	376,596
Additions	531	10	356	99	—	71,368	72,364
Transfer	6,961	86	—	—	—	(7,047)	—
As of 31 December 2019 and 1 January 2020	256,035	67,401	2,579	9,731	8,534	104,680	448,960
Additions	19	3,857	—	191	—	21,281	25,348
Disposals	—	—	—	(17)	—	—	(17)
Transfer	—	838	—	—	—	(838)	—
As of 30 September 2020	256,054	72,096	2,579	9,905	8,534	125,123	474,291
ACCUMULATED DEPRECIATION							
As of 1 January 2017	19,654	10,194	1,250	3,717	792	—	35,607
Charge for the year	8,175	5,430	303	2,421	267	—	16,596
Disposals	—	(4)	—	—	—	—	(4)
As of 31 December 2017 and 1 January 2018	27,829	15,620	1,553	6,138	1,059	—	52,199
Charge for the year	10,671	6,849	321	1,777	1,142	—	20,760
Disposals	—	—	—	—	(1,059)	—	(1,059)
As of 31 December 2018 and 1 January 2019	38,500	22,469	1,874	7,915	1,142	—	71,900
Charge for the year	12,565	6,543	159	959	2,927	—	23,153
As of 31 December 2019 and 1 January 2020	51,065	29,012	2,033	8,874	4,069	—	95,053
Charge for the period	9,605	5,099	93	159	2,134	—	17,090
Disposals	—	—	—	(17)	—	—	(17)
As of 30 September 2020	60,670	34,111	2,126	9,016	6,203	—	112,126
CARRYING AMOUNT							
As of 30 September 2020	195,384	37,985	453	889	2,331	125,123	362,165
As of 31 December 2019	204,970	38,389	546	857	4,465	104,680	353,907
As of 31 December 2018	210,043	44,836	349	1,717	7,392	40,359	304,696
As of 31 December 2017	170,321	47,188	654	3,389	—	41,234	262,786

As of 31 December 2017, 2018 and 2019 and 30 September 2020, the carrying amounts of property, plant and equipment pledged as security for bank loans and other borrowings amounted to RMB145.3 million, RMB139.9 million, RMB125.5 million and RMB121.9 million, respectively.

Right-of-use assets

Our right-of-use assets comprise the leasehold lands in the PRC and leased property in the PRC and France. During the Track Record Period, we leased various offices and warehouses for our operations. Lease contracts were entered into for fixed term of one month to 108 months. Lease terms were negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, we applied the definition of a contract and determines the period for which the contract is enforceable. The carrying amount of our right-of-use assets includes leasehold lands in the PRC and leased properties in the PRC and France. The table below sets forth the movements of our right-of-use assets during the Track Record Period:

	As of 31 December			As of 30 September
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As of 1 January	19,462	18,726	17,932	29,949
Additions	—	—	13,177	38,918
Depreciation	(754)	(717)	(1,156)	(1,057)
Written-off	—	(79)	—	—
Exchange differences	18	2	(4)	9
Total	18,726	17,932	29,949	67,819

The table below sets forth our expenses incurred for the right-of-use assets during the Track Record Period:

	As of 31 December			As of 30 September
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Depreciation expenses on right-of-use assets	754	717	1,156	1,057
Interest expense on lease liabilities (included in finance cost)	71	40	184	125

As of 31 December 2017, 2018 and 2019 and 30 September 2020, the carrying amount of right-of-use assets pledged as security for bank loans amounted to RMB18.1 million, RMB17.7 million, RMB17.3 million and RMB17.0 million, respectively.

Deferred tax assets

The table below sets forth the information on the deferred tax assets as of 31 December 2017, 2018 and 2019 and 30 September 2020:

	Doubtful debts
	RMB
As of 1 January 2017	700
Credit to profit or loss for the year	44
As of 31 December 2017 and 1 January 2018	744
Credit to profit or loss for the year	446
As of 31 December 2018 and 1 January 2019	1,190
Credit to profit or loss for the year	—
As of 31 December 2019 and 1 January 2020	1,190
Credit to profit or loss for the period	—
As of 30 September 2020	1,190

Convertible loans

2017 Convertible Loan

The 2017 Convertible Loan is an unlisted, guaranteed and secured convertible loan issued by Chesir Pearl on 6 January 2017 with a nominal value of RMB30,000,000.

If the 2017 Convertible Loan is not converted, it will be redeemed at par on 6 January 2019. It has coupon rate of 11% per annum on the principal amount outstanding and interest will be paid quarterly in arrears until that settlement date.

If the lender of the 2017 Convertible Loan requests a share conversion within one year from the date of issue of the 2017 Convertible Loan, the conversion price shall be the lower of the latest non-public offering of equity financing of Chesir Pearl after the date of issue of the 2017 Convertible Loan or RMB10 per share.

If the lender of the 2017 Convertible Loan requests a share conversion after one year from the date of issue of the 2017 Convertible Loan but before the settlement date on 6 January 2019, the conversion price is the latest non-public offering of equity financing of Chesir Pearl after the date of issue of the 2017 Convertible Loan and RMB10 per share, whichever is lower, times 110%.

Under certain conditions as stipulated in the agreement of the 2017 Convertible Loan ("**Early Repayment Conditions**") occurs during the loan period of the 2017 Convertible Loan, the lender of the 2017 Convertible Loan has the right to require Chesir Pearl to repay the 2017 Convertible Loan in advance, or if the lender of the 2017 Convertible Loan has converted shares in accordance with the contract of the 2017 Convertible Loan, the lender of the 2017 Convertible Loan has the right to require Chesir Pearl's prevailing controlling shareholder to repurchase all or some of the converted shares.

In the inception date of the 2017 Convertible Loan, our Directors have assessed that the probability of the occurrence of the Early Repayment Conditions were remote and eventually these Early Repayment Conditions also had not been occurred. our Directors have also assessed the fair value of the derivative component of early repayment option of the 2017 Convertible Loan are immaterial in both the inception date of the 2017 Convertible Loan and in each subsequent reporting period end during the loan period, and thus the liability of the derivative component of early repayment option of the 2017 Convertible Loan has not been recognised during the Track Record Period.

The 2017 Convertible Loan was guaranteed by the then prevailing controlling shareholder of Chesir Pearl, Mr. SU and the spouse of Mr. SU and secured by pledged of certain equity interest in Chesir Pearl held by the then prevailing controlling shareholder of Chesir Pearl.

The net proceeds received from the issue of the 2017 Convertible Loan has been split between the liability element and the derivative component, as follows:

	RMB'000
Nominal value of the 2017 Convertible Loan	30,000
Derivative component	(2,536)
Liability component as of date of issue	27,464
Interest charged	4,435
Interest paid	(3,199)
Liability component as of 31 December 2017 and 1 January 2018	28,700
Interest charged	4,713
Interest paid	(3,492)
Liability component as of 31 December 2018 and 1 January 2019	29,921
Interest charged	79
Repayment of the liability component	(30,000)
Liability component as of 31 December 2019	—
Derivative component at date of issue	2,536
Fair value gain for the year	(1,972)
Derivative component as of 31 December 2017	564
Fair value gain for the year	(564)
Derivative component as of 31 December 2018, 1 January 2019 and 31 December 2019	—

The interest charged is calculated by applying an effective interest rate of 17.16% to the liability component for the 24 month period since the 2017 Convertible Loan was issued.

Our Directors estimate the fair value of the liability component of the 2017 Convertible Loan as of 31 December 2017 and 31 December 2018 to be RMB28,700,000 and RMB29,921,000, respectively. This fair value has been calculated by discounting the future cash flows at the market interest rate (level 2 fair value measurements).

The derivative component of the 2017 Convertible Loan is measured at its fair value at the date of issue of the 2017 Convertible Loan and at the end of each reporting period. The fair values are estimated using binomial option pricing model (level 3 fair value measurements). The key assumptions used are as follows:

		As of 31 December	
	Date of issue	**2017**	**2018**
Weighted average share price of Chesir Pearl	RMB10.50	RMB10.70	RMB7.38
Weighted average exercise price of Chesir Pearl	RMB10	RMB10	RMB11
Expected volatility	57.28%	39.38%	36.05%
Expected life	2.00 years	1.02 years	0.02 year
Risk free rate	2.86%	3.84%	2.45%
Expected dividend yield	14.57%	15.13%	15.21%

Information about level 3 fair value measurements

	Valuation techniques	**Significant unobservable input**	**Range**	**Effect on fair value for increase of inputs**
Derivative component of the 2017 Convertible Loan	Binomial option pricing model	Expected volatility	2017: 57.28% to 39.38% 2018: 39.38% to 36.05%	2017: Increase

The fair value of derivative component of the 2017 Convertible Loan is determined using binomial option pricing model and the significant unobservable input in the fair value measurement is expected volatility. As of 31 December 2017, it is estimated that with all other variables held constant, an increase in the expected volatility by 10% would have decreased/increased the Group's profit by RMB0.5 million and RMB0.4 million, respectively. As of 31 December 2018, the fair value of derivative component of 2017 Convertible Loan was insensitive to the change in expected volatility.

2019 Convertible Bonds

The 2019 Convertible Bonds are the unlisted, guaranteed and unsecured convertible loans issued by our Group on 31 May 2019 with a nominal value of RMB72,240,000. The 2019 Convertible Bonds is convertible at 8,000,000 shares of Chesir Pearl per RMB9.03 of each share.

If the 2019 Convertible Bonds is not converted, it will be redeemed at par on 31 May 2021. It has coupon rate of 8% per annum on the principal amount outstanding and interest will be paid annually in arrears until that settlement date.

If Chesir Pearl fails to complete or meet the qualifications for a qualified listing before 31 December 2020, and the holder of the 2019 Convertible Bonds has not exercised the debt-to-equity swap option, the holder of the 2019 Convertible Bonds has the right (but not the obligation) to choose to extend the loan period of the 2019 Convertible Bonds to 31 December 2021, and the coupon rate of the 2019 Convertible Bonds during the extension period is remained at 8% per annum.

During the loan period and extension period, when one of the following situations occurs, the holder of the 2019 Convertible Bonds has the right (but not the obligation) to choose to convert its the 2019 Convertible Bonds into the ordinary share of Chesir Pearl. Holder of the 2019 Convertible Bonds also has the right to convert its 2019 Convertible Bonds into ordinary share of Chesir Pearl after 30 September 2019 regardless of the occurrence of the following situations:

— Chesir Pearl meets the qualifications for a qualified listing; or

— The loan period expires and Chesir Pearl does not have any breach of the 2019 Convertible Bonds contract. "Qualified listing" refers to the Chesir Pearl's initial public offering of shares and listing and trading of its shares on the Shanghai Stock Exchange, the Shenzhen Stock Exchange or other overseas stock exchanges (such as the Hong Kong Stock Exchange and the Singapore Stock Exchange, etc.) recognised by the holders of the 2019 Convertible Bonds.

The 2019 Convertible Bonds was guaranteed by the then prevailing controlling shareholder of Chesir Pearl and Mr. SU.

The net proceeds received from the issue of the 2019 Convertible Bonds has been split between the liability element, the derivative component of extension option and an equity component, as follows:

	RMB'000
Nominal value of the 2019 Convertible Bonds	72,240
Derivative component of extension option	(522)
Equity component	(8,163)
Liability component as of date of issue	63,555
Interest charged	5,551
Liability component at of 31 December 2019 and 1 January 2020	69,106
Interest charged	7,572
Interest paid	5,779
Liability component as of 30 September 2020	70,899
Derivative component of extension option at date of issue	522
Fair value loss for the year	1,120
Derivative component of extension option as of 31 December 2019 and 1 January 2020	1,642
Fair value loss for the period	2,428
Derivative component of extension option as of 30 September 2020	4,070

The interest charged is calculated by applying an effective interest rate of 15.44% to the liability component for the 24 month period since the 2019 Convertible Bonds was issued.

Our Directors estimate the fair value of the liability component of the 2019 Convertible Bonds as of 31 December 2019 and 30 September 2020 to be RMB69.1 million and RMB70.9 million, respectively. This fair value has been calculated by discounting the future cash flows at the market interest rate (level 2 fair value measurements).

The derivative component of extension option of the 2019 Convertible Bonds is measured at its fair value at the date of issue of the 2019 Convertible Bonds and at the end of each reporting period. The fair values are estimated using binomial option pricing model (level 3 fair value measurements). The key assumptions used are as follows:

	Date of issue	**As of 31 December 2019**	**As of 30 September 2020**
Weighted average share price of Chesir Pearl . .	RMB9.41	N/A	N/A
Weighted average exercise price of Chesir Pearl	RMB9.03	RMB9.03	RMB9.03
Expected volatility	44.24%	45.60%	42.07%
Expected life	2.0 years	1.4 years	0.7 year
Risk free rate	2.81%	2.43%	2.55%
Expected dividend yield	15.44%	15.08%	14.52%

Information about level 3 fair value measurements

	Valuation techniques	**Significant unobservable input**	**Range**	**Effect on fair value for increase of inputs**
Derivative component of extension option of the 2019 Convertible Bonds	Binomial option pricing model	Expected volatility	31 December 2019: 44.24% to 45.60% 30 September 2020: 45.60% to 42.07%	31 December 2019 and 30 September 2020: Increase

The fair value of derivative component of extension option of the 2019 Convertible Bonds is determined using binomial option pricing model and the significant unobservable input in the fair value measurement is expected volatility. As of 31 December 2019 and 30 September 2020, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 10% would have decreased/increased our profit by RMB230,000 and RMB226,000, respectively, and RMB737,000 and RMB432,000, respectively.

RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed above, our Group had the following transactions and balances with its related parties during the Track Record Period:

	Year ended 31 December			Nine months ended 30 September	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Loan from a related party					
Beginning of the year/period	—	—	—	—	—
Loans advanced	13,600	—	—	—	—
Loan repayments made	(13,600)	—	—	—	—
End of the year/period	—	—	—	—	—

The related party, Hongzun Investment, is controlled by Mr. SU and Mr. ZHENG, who are our Directors. The loans advanced were used as working capital by us.

CAPITAL COMMITMENTS

The table below sets forth the capital commitments contracted for during the Track Record Period but not yet incurred:

	As of 31 December			As of 30 September
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	11,908	11,873	589,952	568,332

Capital commitments represent capital expenditure contracted for as of a particular date but not yet incurred. As of 31 December 2017, 2018 and 2019 and 30 September 2020, our capital commitments amounted to RMB11.9 million, RMB11.9 million, RMB590.0 million and RMB568.3 million, respectively, which represent our commitments to purchase property, plant and equipment which include modifications and expansions of our Phase 1 Production Plant and the construction of our Phase 2 Production Plant and the acquisition of the related production facilities.

On 25 August 2019, we entered into a construction agreement with an Independent Third Party, which is a construction contractor, for the construction of our Phase 2 Production Plant for RMB600.0 million. As a result, our capital commitments increased significantly from RMB11.9 million as of 31 December 2018 to RMB590.0 million as of 31 December 2019. The payments under the construction agreement would be settled from time to time according to the construction work progress.

The original contract period of the construction agreement commenced from 1 September 2019 and will end on 31 August 2021. The construction progress has been delayed. On 21 December 2020, we entered into a supplemental construction agreement for the purpose of extending the contract period to 30 June 2023. The scope of work under the construction agreement includes the construction of an industrial complex which will include (a) four factory buildings for the production of pearlescent pigment product with an aggregate designed annual production capacity of 30,000 tonnes; (b) supply of electricity facilities; (c) ancillary facilities and warehouses; (d) staff quarters; and (e) administrative buildings. Out of the contract sum of RMB600.0 million, we have settled RMB66.9 million as of 30 September 2020. The remaining balance will be settled partially out of the [REDACTED] from the [REDACTED] according to the construction progress. See the section headed "Future Plans and [REDACTED] — Construction of our Phase 2 Production Plant" in this document for further information.

INDEBTEDNESS

The table below the total amount of our indebtedness as of 31 December 2017, 2018 and 2019, 30 September 2020 and 31 October 2020:

	As of 31 December			As of 30 September	As of 31 October
	2017	2018	2019	2020	2020
	RMB '000	*RMB '000*	*RMB '000*	*RMB '000*	*RMB '000* (Unaudited)
Non-current portion					
Bank loans and other borrowings	154,492	4,971	143,776	90,956	92,249
Convertible loans	28,700	—	69,106	—	—
Lease liabilities	276	191	2,615	2,194	2,194
	183,468	5,162	215,497	93,150	94,443
Current portion					
Bank loans and other borrowings	29,842	181,146	11,953	74,302	69,911
Convertible loans	—	29,921	—	70,899	—
Derivative component of convertible loans	564	—	1,642	4,070	—
Lease liabilities	353	85	543	569	569
Amount due to a director	—	56	105	128	188
	30,759	211,208	14,243	149,968	70,668
Total	214,227	216,370	229,740	243,118	165,111

Our bank loans and other borrowings during the Track Record Period were denominated in RMB and HK$. As of 31 December 2017, 2018 and 2019 and 30 September 2020, the outstanding bank loans and other borrowings amounted to RMB184.3 million, RMB186.1 million, RMB155.7 million and RMB165.3 million, respectively. Our bank loans and other borrowings increased from RMB184.3 million as of 31 December 2017 to RMB186.1 million as of 31 December 2018 was mainly due to the entering of new finance lease in July 2018 of RMB8.0 million, which partially offset by the repayment of then existing finance lease of RMB6.2 million during the year ended 31 December 2018. Our bank loans and other borrowings decreased from RMB186.1 million as of 31 December 2018 to RMB155.7 as of 31 December 2019 was mainly due to the repayment of bank loans of RMB171.5 million and finance lease of RMB10.6 million during the year ended 31 December 2019, which partially offset the bank loans entered between August to November 2019 of RMB133.7 million in aggregate. Our bank loans and other borrowings increased from RMB155.7 million as of 31 December 2019 to RMB165.5 million as of 30 September 2020 was mainly due to the entering of the finance lease in April 2020 of RMB12.0 million and other borrowings of RMB5.5 million, which was partially offset by the repayment of then existing finance lease of RMB7.9 million.

See the paragraphs under "Components of our current assets and current liabilities — Bank loans and other borrowings" above for further information of the maturity profile and average interest rates of our bank loans and other borrowings during the Track Record Period. During the Track Record Period, our bank loans and other borrowings were secured by our property, plant and equipment and right-of-use assets and also secured by the corporate guarantee from Hongzun Investment, together with personal guarantees of Mr. SU, Mr. JIN, Mr. ZHENG and their close family members, and pledged by equity interests of Chesir Pearl held by them. The guarantees and pledges given by Hongzun Investment and these persons will be released or replaced by corporate guarantees executed by our Company upon the [REDACTED].

The outstanding value of the 2019 Convertible Bonds of RMB75.0 million as of 30 September 2020 was mainly due to the liability component of the 2019 Convertible Bonds of RMB70.9 million and derivative component of the 2019 Convertible Bonds of RMB4.1 million as of 30 September 2020. The conversion rights of the 2019 Convertible Bonds have been exercised in full on 19 October 2019.

As of 31 October 2020, save as disclosed in this paragraph, our Directors confirm that we did not have any debt securities issued and outstanding or agreed to be issued, term loans, borrowings or other similar indebtedness, liabilities under acceptances, acceptance credits, debentures, mortgages, charges, finance leases, or hire purchase commitments, other material contingent liabilities or guarantees. Our Directors further confirm that we had not experienced any difficulties in obtaining or repaying of our bank loans or other borrowings during the Track Record Period. As of the Latest Practicable Date, there were no material covenants related to our outstanding debts that would materially limit our ability to undertake additional debt or equity financing. Our Directors further confirm that there has been no material change in our indebtedness or contingent liabilities since 31 October 2020 and up to the Latest Practicable Date. Our Directors further confirm that as of the Latest Practicable Date, we did not have any immediate plan for additional and material external debt financing.

CONTINGENT LIABILITIES

Except as disclosed in above and other than intra-group liabilities disclosed in this document, we did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, debentures, mortgage, charges, finance leases, liabilities under acceptance credits (other than normal trade-related bills), hire purchase commitment, guarantees or other material contingent liabilities as of the Latest Practicable Date. As of the same date, we had not guaranteed the indebtedness or any Independent Third Parties.

PROPERTY VALUATION

Pursuant to Rule 5.01A(2) of the Listing Rules, we are required to perform valuation on property interest that formed part of our non-property activities had a carrying amount of 15% or more of our consolidated total assets as of 30 September 2020. Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer, has valued our property interests as of 31 October 2020 and is of the opinion that the aggregate value of our property interests as of such date was RMB443.7 million. The full text of the letter and the valuation certificates issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited as set forth in Appendix IV to this document.

A reconciliation of the net book value of our properties as of 30 September 2020 as set forth in Accountants' Report in Appendix I to their market value as of 31 October 2020 as stated in the property valuation report in Appendix IV is set forth below:

	Amount
	RMB'000
Net book value of our property interests as of 30 September 2020	
Buildings and construction-in-progress of buildings included in property, plant and equipment	319,739
Land use rights	65,236
Additions for the month ended 31 October 2020	
Building and construction-in-progress of buildings included in property, plant and equipment	—
Land use rights	931
Less: Depreciation and amortisation for the month ended 31 October 2020	(1,185)
	384,721
Valuation surplus	58,979
Valuation as of 31 October 2020 as set forth in Appendix IV to this document	443,700

OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, we did not have any material off-balance sheet arrangements or contingencies except as disclosed in the paragraphs under "Capital commitments" and "Indebtedness" above.

KEY FINANCIAL RATIOS

		Numerator	Denominator	Year-to-Year/Period-to-Period comparison (2018/2017)	(2019/2018)	(2020/2019)
Revenue growth[1]	(%)			68.6%	38.4%	24.6%
Net profit growth[2]	(%)			102.5%	31.9%	18.7%

				Year ended 31 December 2017	2018	2019	Nine months ended 30 September 2020 (annualised)
Gross profit margin[3]	(%)			43.0%	46.2%	49.5%	47.3%
Net profit margin[4]	(%)			21.3%	25.6%	24.4%	26.2%
Return on equity[5]	(%)	Profit for the year	Equity	18.0%	17.9%	12.3%	N/A[11]
Return on total assets[6]	(%)	Profit for the year	Total assets	8.2%	10.9%	9.1%	N/A[11]
Gearing ratio[7]	(%)	Total liabilities	Equity	120.2%	63.8%	34.8%	31.9%
Current ratio[8]	Times	Current assets	Current liabilities	2.77	1.47	9.44	4.03
Quick ratio[9]	Times	Current assets-Inventories	Current liabilities	2.04	1.20	8.45	3.67
Net debt to equity ratio[10]	Times	Bank loans and other borrowings net of bank and cash balances	Equity	52.7%	3.1%	Net Cash	Net Cash

Notes:

(1) Revenue growth is calculated based on the difference in our revenue of each reporting year/period from our revenue of the previous reporting year/period divided by our revenue of previous year/period and multiplied by 100%.

(2) Net profit growth is calculated based on the difference in our net profit of each reporting year/period from the net profit of the previous reporting year/period divided by the profit of previous year/period and multiplied by 100%.

(3) Gross profit margin is calculated based on the gross profit for each reporting year/period divided by total revenue for each reporting year/period and multiplied by 100%.

(4) Net profit margin is calculated based on the net profit for each reporting year/period divided by the total revenue for each reporting year/period and multiplied by 100%.

(5) Return on equity is calculated based on our net profit for each reporting year divided by the total equity as of the end of each reporting year and multiplied by 100%.

(6) Return on total assets is calculated based on our net profit for each reporting year divided by total assets of each reporting year and multiplied by 100%.

(7) Gearing ratio is calculated based on our total liability divided by our total equity as of the end of each reporting year/period and multiplied by 100%.

(8) Current ratio is calculated based on total current assets divided by the total current liabilities as of the end of each reporting year/period.

(9) Quick ratio is calculated based on our total current assets excluding inventories and biological assets divided by the total current liabilities as of the end of each reporting year/period.

(10) Net debt to equity ratio is calculated by dividing our net debt, being our total bank loans and other borrowings net of bank and cash balances, by total equity as of the end of each reporting year/period and multiplied by 100%.

(11) Calculation of return on equity and return on total assets is on a full-year basis.

See the paragraphs under "Our operating results" above for further information on our revenue growth, net profit growth, gross profit margin, net profit margin during the Track Record Period.

Return on equity

Our return on equity for the three years ended 31 December 2019 was 18.0%, 17.9% and 12.3%, respectively. Our return on equity decreased throughout the three years ended 31 December 2019 was mainly due to the increase in the amount of our equity financing.

Return on total assets

The return on total assets for the three years ended 31 December 2019 was 8.2%, 10.9% and 9.1%, respectively. Our return on total assets increased during the two years ended 31 December 2018 was mainly due to the increase in our profit for the year from RMB40.2 million in 2017 to RMB81.4 million in 2018. Our return on total assets decreased during the two years ended 31 December 2019 was mainly due to the increase in bank and cash balances as of 31 December 2019 as a result of completion of the follow-on share offering in June 2019 by Chesir Pearl before the NEEQ Listing Withdrawal.

Gearing ratio

As of 31 December 2017, 2018 and 2019 and 30 September 2020, our gearing ratio was 120.2%, 63.8%%, 34.8% and 31.9%, respectively. The decrease in our gearing ratio during the three years ended 31 December 2019 was mainly due to the increase in equity of Chesir Luzhai during the two years ended 31 December 2019 and completion of the follow-on share offering in June 2019 by Chesir Pearl before the NEEQ Listing Withdrawal. The gearing ratio remained generally stable at 34.8% and 31.9% as of 31 December 2019 and 30 September 2020.

Current ratio

As of 31 December 2017, 2018 and 2019 and 30 September 2020, the current ratio was 2.77, 1.47, 9.44 and 4.03, respectively. The significant increase of current ratio as of 31 December 2019 was mainly due to the increase in cash and bank balances as of 31 December 2019 as a result of completion of the follow-on share offering in June 2019 by Chesir Pearl before the NEEQ Listing Withdrawal. The subsequent decrease of current ratio as of 30 September 2020 was mainly due to the issuance of the 2019 Convertible Bonds.

Quick ratio

As of 31 December 2017, 2018 and 2019 and 30 September 2020, the quick ratio was 2.04, 1.20, 8.45 and 3.67, respectively. The significant increase of quick ratio as of 31 December 2019 was mainly due to the increase in cash and bank balances as of 31 December 2019 as a result of completion of the follow-on share offering in June 2019 by Chesir Pearl before the NEEQ Listing Withdrawal. The subsequent decrease of the quick ratio as of 30 September 2020 was mainly due to the issuance of the 2019 Convertible Bonds.

Net debt to equity ratio

As of 31 December 2017 and 2018, the net debt to equity ratio was 52.7% and 3.1%, respectively. The decrease in the net debt to equity ratio as of 31 December 2018 was mainly due to the increase in equity of Chesir Luzhai during the two years ended 31 December 2019 and completion of the follow-on share offering in June 2019 by Chesir Pearl before the NEEQ Listing Withdrawal.

QUANTITATIVE AND QUALITATIVE ANALYSIS OF MARKET RISKS

We are exposed to market risks from changes in market rates and prices, such as interest rates, credit and liquidity. See note 5 to the Accountants' Report of "Financial Risk Management" for further information.

[REDACTED] EXPENSES

Assuming the [REDACTED] of HK$[REDACTED], being the mid-point of the indicative range of the [REDACTED], the total amount of [REDACTED] expenses and [REDACTED] in connection with the [REDACTED] is estimated to be RMB[REDACTED]. Out of this amount, RMB[REDACTED] will be accounted for as a deduction from equity upon the [REDACTED]. [REDACTED] expenses of RMB[REDACTED] were charged to the profit or loss during the nine months ended 30 September 2020. We expect that an additional amount of [REDACTED] expenses of RMB[REDACTED] and RMB[REDACTED] would be charged to the profit or loss for the year ended 31 December 2020 and for the year ending 31 December 2021, respectively. [REDACTED] expenses are non-recurring in nature, and the amount stated above is only the best estimate of our Directors as of the Latest Practicable Date and for reference only. The actual amount of [REDACTED] expenses may differ from the above estimated amount. We do not expect [REDACTED] expenses to have a material impact on our operating results for the year ended 31 December 2020.

DIVIDENDS

During the Track Record Period, we did not declare and pay any dividend to our Shareholders. Following the [REDACTED], dividends may be paid out by way of cash or by such other means as we consider appropriate. Declaration and payment of any dividends would require the recommendation of our Directors and will be at their discretion. In addition, any final dividend for a financial year will be subject to the approval of our Shareholders. A decision to declare or pay any dividend in the future, and the amount of any of such dividends, depends on a number of factors, including our results of operations, financial condition, amount of capital expenditures, payment by our subsidiaries of cash dividends to us and other factors our Directors may deem relevant. There can be no assurance that our Company will be able to declare or distribute any dividend in the future.

DISTRIBUTABLE RESERVE

Our Company's reserves available for distribution to Shareholders consist of share premium and retained earnings. Under the Cayman Companies Act and subject to compliance with the Articles, the share premium account may be applied by our Company for paying distributions of dividends to our

Shareholders if immediately following the date on which the distribution or dividend is proposed to be paid, we will be able to pay off our debts as they fall due in the ordinary course of business. As of 30 September 2020, our Company did not have distributable reserves.

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

There was no interruption to our business that has or may have a significant effect on our financial position in the last 12 months. Except to the extent disclosed in this document and the [REDACTED] expenses in connection with the [REDACTED], our Directors confirm that there has been no material adverse change in our financial, operational or trading position since 30 September 2020 (being the date as of which our latest audited consolidated financial statements were prepared as set forth in the Accountants' Report) and up to the date of this document.

COVID-19 IMPACT

Since early 2020, the outbreak of COVID-19 pandemic has materially and adversely affected the global economy as well as the economy in the PRC. The PRC Government and other governments around the world have implemented strict measures to contain such outbreak. We are not in the industries which are severely affected by the COVID-19. In around February 2020, our business was slightly affected as a lockdown was imposed by the PRC Government in Hubei Province in response to the COVID-19. We were affected temporarily then as we were unable to deliver our products to our customers and our production activities had to be suspended until the middle of March 2020. As a result, our operating results during the first quarter of 2020 were adversely affected due to the combined impact of the Chinese New Year holiday and the measures implemented by the PRC Government to contain the pandemic. With the decrease in the number of confirmed cases of COVID-19 in the PRC and the effective quarantine measures, the PRC economy was stabilised during the second and third quarters of 2020. Our revenue during the nine months ended 30 September 2020 bounced back with increases in ours sales to customers in the PRC and other countries, as a result our profitability had also improved, as compared to the amounts of revenue and profit during the nine months ended 30 September 2019.

Our sales in the PRC during the nine months ended 30 September 2020 grew by 25.8% as compared to our sales in the PRC during the nine months ended 30 September 2019, with insignificant impact on our sales in the PRC market caused by COVID-19. Our Directors believe that this was primarily due to the fact that we had continued our efforts to promote our products during the pandemic and the fact that our business in not in the industries which are severely hit by the pandemic.

Our sales to overseas customers during the nine months ended 30 September 2020 recorded a modest growth of 6.3% as compared to our overseas sales during the nine months ended 30 September 2019. Sales to almost all international markets (other than Europe and South America) had increased primarily due to our effective marketing campaigns during the period. Our Directors have not noticed that the COVID-19 pandemic has created any imminent and adverse impact on our sales to the international markets.

Our Directors accept that the COVID-19 pandemic has a profound impact on the global business and economic outlook at large. Some of our customers, particularly those engaged in international trade, were affected in various ways and to different extent. In response to the current situation, we have slightly reduced the average unit selling prices during the nine months ended 30 September 2020 and have extended the credit period provided to our customers on a case-by-case basis. These measures have resulted in an increase in the balance of trade and other receivables as of 30 September 2020, but there was no significant increase in the impairment loss as of 30 September 2020. Our travelling and business development expenses had also increased during the same period as a result of more frequent customers' visits made by our sales personnel after the lifting of the lockdown measures in the PRC.

According to the Frost & Sullivan Report, with gradual recovery from COVID-19, the PRC's pearlescent pigment market will maintain its further growth.

UNAUDITED [REDACTED] NET TANGIBLE ASSETS

The following unaudited [REDACTED] statement of adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purpose only and is set forth below to illustrate the effect of the [REDACTED] on the consolidated net tangible assets of our Group attributable to the equity holders of our Company as of 30 September 2020 as if the [REDACTED] had taken place on 30 September 2020.

The unaudited [REDACTED] adjusted net tangible assets have been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group had the [REDACTED] been completed as of 30 September 2020 or at any future dates.

	Audited consolidated net tangible assets of our Group attributable to the equity holders of our Company as of 30 September 2020(1)	**Estimated [REDACTED] from the [REDACTED](2)**	**Unaudited [REDACTED] adjusted net tangible assets of our Group attributable to the equity holders of our Company**	**Unaudited [REDACTED] adjusted net tangible assets per Share (3), (4), (5)**	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
Based on an [REDACTED] of HK$[REDACTED] per Share	813,511	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on an [REDACTED] of HK$[REDACTED] per Share	813,511	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Notes:

(1) The audited consolidated net tangible assets of our Group attributable to the equity holders of our Company as of 30 September 2020 is arrived at after deduting the non-controlling interests of RMB164.8 million from the audited consolidated net tangible assets of RMB978.3 million as of 30 September 2020, as shown in the Accountants' Report.

(2) The adjustment to the [REDACTED] statement of net tangible assets reflects the estimated [REDACTED] from the [REDACTED] to be received by our Company. The estimated [REDACTED] from the [REDACTED] are based on the [REDACTED] of HK$[REDACTED] and HK$[REDACTED], respectively, being the low-end and high-end of the indicative range of the [REDACTED], respectively, and [REDACTED] Shares, net of estimated issue expenses of are RMB[22.1] million.

(3) The number of Shares is based on a total of [REDACTED] Shares issued, adjusted as if the [REDACTED] had occurred on 30 September 2020. Our property interests as of 31 October 2020 have been valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix IV to this document. The above adjustment does not take into account the surplus arising from the revaluation of our property interests amounting to RMB[REDACTED] million. The revaluation surplus was not incorporated in our financial statements for the nine months ended 30 September 2020. If the valuation surplus was recorded in our financial statements, an additional annual depreciation expenses of property, plant and equipment and amortisation charges of right-of-use assets would be increased by RMB[REDACTED].

(4) The unaudited [REDACTED] adjusted net tangible assets attributable to owners of our Company and the amounts per Share are arrived at after the adjustments referred to in the preceding paragraphs and on the basis that [1,162,695,586] Shares are expected to be in issue following the [REDACTED] (including [REDACTED] Shares newly issued upon the [REDACTED]) and the [REDACTED] of HK$[REDACTED] and HK$[REDACTED], respectively, being the low-end and high-end of the indicative range of the [REDACTED], respectively.

(5) The estimated [REDACTED] from the [REDACTED] and the unaudited [REDACTED] adjusted net tangible assets attributable to owners of the Company per Share are converted from or into Hong Kong dollars at an exchange rate of RMB1.1412 to HK$1.00, the prevailing rate of Hong Kong Association of Banks on 30 September 2020. No representation is made that the HK$ amounts have been, could have been or may be converted into RMB, or vice versa, at that rate.

(6) No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to 30 September 2020.

NO ADDITIONAL DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, there were no circumstances which would have given rise to any disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules had our Shares been [REDACTED] on the Stock Exchange on that date.

[REDACTED]

[REDACTED]