The following is the text of a report set out on pages I-[●] to I-[●], received from the Company's reporting accountants, RSM Hong Kong, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this investment circular.

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[REDACTED]

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF GLOBAL NEW MATERIAL INTERNATIONAL HOLDINGS LIMITED (环球新材国际控股有限公司) AND ESSENCE CORPORATE FINANCE LIMITED

Introduction

We report on the historical financial information of Global New Material International Holdings Limited (环球新材国际控股有限公司) (the "Company") and its subsidiaries (together, the "Group") set out on pages I-[●] to I-[●], which comprises the consolidated statements of financial position of the Group as at 31 December 2018, 2019 and 2020, the statements of financial position of the Company as at 31 December 2018, 2019 and 2020, and 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 for each of the years then ended (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-[●] to I-[●] forms an integral part of this report, which has been prepared for inclusion in the investment circular of the Company dated [REDACTED] (the "Investment Circular") in connection with the initial [REDACTED] of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that give a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Company's financial position as at 31 December 2018, 2019 and 2020 and the Group's financial position as at 31 December 2018, 2019 and 2020 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Report on matters under the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements as defined on page I-[●] have been made.

Dividends

We refer to note 14 to the Historical Financial Information which states that no dividends have been paid by Global New Material International Holdings Limited (环球新材国际控股有限公司) in respect of the Track Record Period.

RSM Hong Kong
Certified Public Accountants
Hong Kong

HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by RSM Hong Kong in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

A. CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December		
	Note	**2018**	**2019**	**2020**
		RMB'000	*RMB'000*	*RMB'000*
Revenue	6	318,244	440,583	569,113
Cost of goods sold		(166,917)	(218,222)	(280,046)
Sales related tax and auxiliary charges		(4,380)	(4,084)	(5,002)
Gross profit		146,947	218,277	284,065
Other income and other gains and losses	7	4,971	5,295	14,778
Reversals of impairment losses on trade and other receivables/ (Impairment losses for trade and other receivables)		612	208	(4,118)
Selling expenses		(13,347)	(23,292)	(24,607)
Administrative and other operating expenses		(35,568)	(56,712)	(72,898)
Profit from operations		103,615	143,776	197,220
Finance costs	9	(15,869)	(18,475)	(19,399)
Profit before tax		87,746	125,301	177,821
Income tax expense	10	(6,382)	(17,968)	(24,960)
Profit for the year	11	81,364	107,333	152,861
Attributable to:				
Owners of the Company		77,400	102,806	148,172
Non-controlling interests		3,964	4,527	4,689
		81,364	107,333	152,861
Profit for the year		81,364	107,333	152,861
Other comprehensive income:				
Item that may be reclassified to profit or loss:				
Exchange differences on translating foreign operations		2	(2)	2
Other comprehensive income for the year, net of tax		2	(2)	2
Total comprehensive income for the year		81,366	107,331	152,863
Attributable to:				
Owners of the Company		77,402	102,804	148,174
Non-controlling interests		3,964	4,527	4,689
		81,366	107,331	152,863

B. CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December		
	Note	**2018**	**2019**	**2020**
		RMB'000	*RMB'000*	*RMB'000*
ASSETS				
Non-current assets				
Property, plant and equipment	16	304,696	353,907	486,170
Right-of-use assets	17	17,932	29,949	68,247
Deposits paid for acquisition of property, plant and equipment and right-of-use assets		16,367	26,671	184
Deferred tax assets	30	1,190	1,190	1,190
Total non-current assets		340,185	411,717	555,791
Current assets				
Inventories	19	74,420	80,134	75,371
Trade and bills receivables	20	144,019	121,692	191,951
Deposits, prepayments and other receivables	21	14,305	4,029	23,609
Amount due from a shareholder	22	330	330	—
Bank and cash balances	23	171,854	559,839	747,582
Total current assets		404,928	766,024	1,038,513
TOTAL ASSETS		745,113	1,177,741	1,594,304
EQUITY AND LIABILITIES				
Equity attributable to owners of the Company				
Share capital	24	330	330	12,342
Reserves	25	297,771	711,878	[1,168,897]
		298,101	712,208	[1,181,239]
Non-controlling interests		156,858	161,385	[166,074]
Total equity		454,959	873,593	[1,347,313]

		As at 31 December		
	Note	**2018**	**2019**	**2020**
		RMB'000	*RMB'000*	*RMB'000*
LIABILITIES				
Non-current liabilities				
Bank loans and other borrowings	26	4,971	143,776	75,366
Convertible loans	27	—	69,106	—
Lease liabilities	28	191	2,615	2,044
Deferred revenue	29	10,179	7,487	5,351
Total non-current liabilities		15,341	222,984	82,761
Current liabilities				
Bank loans and other borrowings	26	181,146	11,953	90,273
Convertible loans	27	29,921	—	—
Derivative component of convertible loans	27	—	1,642	—
Lease liabilities	28	85	543	577
Trade payables	31	23,839	29,941	21,891
Accruals and other payables	32	31,839	30,890	42,056
Amount due to a director	22	56	105	—
Contract liabilities	33	2,398	710	446
Deferred revenue	29	2,723	2,692	2,136
Current tax liabilities		2,806	2,688	6,851
Total current liabilities		274,813	81,164	164,230
TOTAL EQUITY AND LIABILITIES		745,113	1,177,741	1,594,304

C. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Other reserve	Merger reserve	Convertible loans reserve	Foreign currency translation reserve	Statutory surplus reserve	(Accumulated losses)/ Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000 (note 25(c)(ii))	RMB'000 (note 25(c)(i))	RMB'000 (note 25(c)(iii))	RMB'000 (note 25(c)(iv))	RMB'000 (note 25(c)(v))	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	83,100	160,600	—	—	14	—	(23,345)	220,369	2,894	223,263
Total comprehensive income for the year	—	—	—	—	2	—	77,400	77,402	3,964	81,366
Transfer to statutory reserve	—	—	—	—	—	20,195	(20,195)	—	—	—
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	—	150,000	150,000
Issue of share capital (note 24))	330	—	—	—	—	—	—	330	—	330
Group reorganisation	(83,100)	—	83,100	—	—	—	—	—	—	—
Changes in equity for the year	(82,770)	—	83,100	—	2	20,195	57,205	77,732	153,964	231,696
At 31 December 2018	330	160,600	83,100	—	16	20,195	33,860	298,101	156,858	454,959
At 1 January 2019	330	160,600	83,100	—	16	20,195	33,860	298,101	156,858	454,959
Total comprehensive income for the year	—	—	—	—	(2)	—	102,806	102,804	4,527	107,331
Transfer to stationery reserve	—	—	—	—	—	9,998	(9,998)	—	—	—
Recognition of equity component of convertible loans	—	—	—	8,163	—	—	—	8,163	—	8,163
Issue of share capital of廣西七色珠光材料股份有限公司(Guangxi Chesir Pearl Material Co., Ltd.) ("Chesir Pearl")	—	269,466	33,674	—	—	—	—	303,140	—	303,140
Changes in equity for the year	—	269,466	33,674	8,163	(2)	9,998	92,808	414,107	4,527	418,634
At 31 December 2019	330	430,066	116,774	8,163	14	30,193	126,668	712,208	161,385	873,593
At 1 January 2020	330	430,066	116,774	8,163	14	30,193	126,668	712,208	161,385	873,593
Total comprehensive income for the year	—	—	—	—	2	—	148,172	148,174	4,689	152,863
Transfer to stationery reserve	—	—	—	—	—	15,307	(15,307)	—	—	—
Issue share of convertible bonds converted (note 27)	—	73,056	[8,000]	(8,163)	—	—	—	[72,893]	—	[72,893]
Issue of share capital of Chesir Pearl	—	[223,177]	[24,787]	—	—	—	—	[247,964]	—	[247,964]
Issue of share capital (note 24)	[12,012]	—	(12,012)	—	—	—	—	—	—	—
Changes in equity for the year	12,012	[296,233]	[20,775]	(8,163)	2	15,307	132,865	[469,031]	4,689	[473,720]
At 31 December 2020	12,342	[726,299]	[137,549]	—	16	45,500	259,533	[1,181,239]	166,074	[1,347,313]

D. CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended 31 December		
	Notes	**2018**	**2019**	**2020**
		RMB'000	*RMB'000*	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		87,746	125,301	177,821
Adjustments for:				
Finance costs		15,869	18,475	19,399
Interest income		(697)	(1,683)	(2,106)
Depreciation of property, plant and equipment		20,760	23,153	22,867
Depreciation of right-of-use assets		717	1,156	1,557
Amortisation of deferred revenue		(3,200)	(2,723)	(2,692)
(Reversals of impairment losses on trade and other receivables)/ impairment losses for trade and other receivables		(612)	(208)	4,118
Fair value (gain)/loss on derivative component of convertible bonds		(564)	1,120	1,998
Operating profit before working capital changes		120,019	164,591	222,962
(Increase)/decrease in inventories		(19,518)	(5,714)	4,763
(Increase)/decrease in trade and bills receivables		(64,238)	22,546	(74,346)
(Increase)/decrease in deposits, prepayments and other receivables		(6,695)	10,265	(19,611)
Increase/(decrease) in trade payables		6,624	6,102	(8,050)
Increase/(decrease) in accruals and other payables		7,582	(1,112)	11,781
Increase/(decrease) in contract liabilities		1,982	(1,688)	(264)
Cash generated from operations		45,756	194,990	137,235
Income tax paid		(4,022)	(18,086)	(20,797)
Interest on lease liabilities		(40)	(184)	(162)
Interest paid		(15,675)	(13,176)	(19,705)
Net cash generated from operating activities		26,019	163,544	96,571

	Notes	Year ended 31 December		
		2018	2019	2020
		RMB'000	*RMB'000*	*RMB'000*
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment		(5,817)	(55,503)	(155,130)
Payments for right-of-use assets		—	(9,764)	(13,362)
Prepayment for acquisition of property, plant and equipment and right-of-use assets		(71,186)	(26,487)	—
Government grant received		3,920	—	—
Interest received		697	1,683	2,106
Net cash used in investing activities		(72,386)	(90,071)	(166,386)
CASH FLOWS FROM FINANCING ACTIVITIES				
Bank loans and other borrowings raised		32,628	151,740	21,718
Repayment of bank loans and other borrowings		(30,845)	(182,128)	(11,808)
Proceeds from issue of convertible loans		—	72,240	—
Repayment of convertible loans		—	(30,000)	—
Principal elements of lease payments		(276)	(527)	(539)
Increase/(decrease) in amount due to a director		56	49	(105)
Capital contribution from non-controlling interests		150,000	—	—
Repayment in amount due from a shareholder		—	—	330
Proceeds from issue of share capital of Chesir Pearl		—	303,140	247,960
Net cash generated from financing activities		151,563	314,514	257,556
NET INCREASE IN CASH AND CASH EQUIVALENTS		105,196	387,987	187,741
Effect of foreign exchange rate changes		2	(2)	2
Non cash transaction		—	—	—
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		66,656	171,854	559,839
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	171,854	559,839	747,582

E. STATEMENTS OF FINANCIAL POSITION

	Note	As at 31 December 2018	2019	2020
		RMB'000	*RMB'000*	*RMB'000*
Non-current assets				
Investment in a subsidiary	18	330	330	[296,393]
Current assets				
Prepayments		—	—	4,168
Amount due from a shareholder	22	330	330	—
Amount due from a subsidiary		—	—	65
Bank and cash balances		—	—	2,959
Total current assets		330	330	7,192
TOTAL ASSETS		660	660	[303,585]
EQUITY AND LIABILITIES				
Equity attributable to owners of the Company				
Share capital	24	330	330	12,342
Reserves	25(b)	(48)	(81)	[274,674]
Total equity		282	249	[287,016]
LIABILITIES				
Current liabilities				
Other borrowing		—	—	3,783
Accruals and other payables		2	4	6,338
Amount due to fellow subsidiaries	18	330	330	6,448
Amount due to a director	22	46	77	—
Total current liabilities		378	411	16,569
TOTAL EQUITY AND LIABILITIES		660	660	[303,585]

F. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. Group Reorganisation and Basis of Preparation and Presentation of Historical Financial Information

The Company was incorporated in the Cayman Islands with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business is Pearlescent Industrial Park, No. 380, Feilu Road, Luzhai Town, Luzhai County, Liuzhou City, Guangxi Zhuang Autonomous Region, People's Republic of China ("the PRC").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 18 to the Historical Financial Information.

Pursuant to the group reorganisation as more fully explained in the paragraph headed "History, Development and Reorganisation" section to this investment circular ("Reorganisation"), the Company became the holding company of the companies now comprising the Group on [●]. As the Reorganisation involved only the insertion of new holding companies at the top of the existing group and did not result in any change in economic substance in terms of the ownership and control of the Group, the Historical Financial Information for the Track Record Period 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 group structure had been in existence throughout the Track Record Period. The consolidated statements of financial position as at 31 December 2018, 2019 and 2020 present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates.

Upon completion of the Reorganisation and as at the date of this report, the Company had direct or indirect interests in the following subsidiaries:

Name of subsidiary	Place of incorporation / establishment	Authorised capital	Issued / paid up capital	Attributable equity interest of the Group as at 31 December	Principal activities
Generous Fortune Limited (盛富有限公司) ("Generous Fortune")	British Virgin Islands	Hong Kong Dollar ("HKD") 12,590,725.2	HKD 12,590,725.2	100% (Direct)	Investment holding
Global New Material (China) Limited (環球新材(中國)有限公司) ("Global New Material (HK)")	Hong Kong	N/A	Hong Kong Dollar ("HKD") [30,000]	100% (Indirect)	Investment holding
Chesir Pearl	The PRC	RMB 149,561,191	RMB 149,561,191	97.19% (Indirect)	Manufacturing and sales of pearlescent pigmented and synthetic mica
上海萬紫千紅珠光效應材料有限公司 (Shanghai Multicolor Pearl Effect Material Co., Ltd ("Shanghai Multicolor"))	The PRC	RMB 10,000,000	RMB 10,000,000	97.19% (Indirect)	Trading of pearlescent pigment and synthetic mica
鹿寨七色珠光雲母材料有限公司 (Luzhai Chesir Pearl Mica Material Co., Ltd ("Chesir Luzhai"))	The PRC	RMB 104,927,076	RMB 104,927,076	58.35% (Indirect)	Manufacturing and sales of synthetic mica
Chesir Europe S.A.S. ("Chesir France")	France	Euro ("EUR") 50,000	EUR 50,000	97.19% (Indirect)	Inactive

No audited statutory financial statements have been issued for entities incorporated in Cayman Islands, British Virgin Islands and France as there are no statutory audit requirement in the respective places of their incorporation.

No audited statutory financial statements of Global New Material (HK) have been prepared as it is newly incorporated on 30 December 2020.

The financial statements of Chesir Pearl for the years ended 31 December 2018 have been prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC and were audited by Moore Stephens Da Hua Certified Public Accountants registered in the PRC. Since 2019, no audited financial statements of Chesir Pearl have been prepared as there are no statutory audit requirement in the place of its registration.

No audited statutory financial statements of Shanghai Multicolor and Chesir Luzhai have been prepared as there are no statutory audit requirement in the place of their registration.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

During the Track Record Period, the Group has adopted all the new and revised International Financial Reporting Standards ("IFRSs") that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2020. IFRSs comprise International Financial Reporting Standards ("IFRS"), International Accounting Standards ("IAS") and Interpretations.

New and revised IFRSs in issue but not yet effective

The Group has not early applied new and revised IFRSs that have been issued but are not yet effective for the financial period beginning 1 January 2020. These new and revised IFRSs include the following which may be relevant to the Group.

List of new and revised IFRSs in issue but not yet effective:

	Effective for accounting periods beginning on or after
Amendments to IAS 8 Accounting Policies, Changes to Accounting Estimates and Errors: Definition of Accounting Estimates	1 January 2023
Amendments to IAS 1 Presentation of Financial Statements: Disclosure of Accounting Policies	1 January 2023
IFRS 17 Insurance Contracts	1 January 2023
Amendments to IAS 1 Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to IFRS 3 Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 37 Onerous Contracts - Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to IFRS Standards 2018—2020	1 January 2022
Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform — Phase 2	1 January 2021
Amendments to IFRS 16 COVID-19 Related Rent Concession	1 June 2020

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Historical Financial Information.

3. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below (e.g. certain financial instruments that are measured at fair value).

The preparation of the Historical Financial Information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in note 4.

The significant accounting policies applied in the preparation of the Historical Financial Information are set out below.

(a) Consolidation

The Historical Financial Information includes the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as 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 the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Group's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve relating to that subsidiary.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the 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 the Company.

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

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the Historical Financial Information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Historical Financial Information is presented in Renminbi ("RMB"), which is the Company's presentation and functional currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

— Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

— Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

— All resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are reclassified to consolidated profit or loss as part of the gain or loss on disposal.

(c) 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 the Group 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	5 years
Office equipment	3 - 5 years
Leasehold improvement	3 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.

(d) Leases

At inception of a contract, the Group assesses 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.

The Group as a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has 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, the Group recognises 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 the Group are primarily office equipment. When the Group enters into a lease in respect of a low-value asset, the Group decides 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 the Group is 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 the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group 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.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16. In such cases, the group took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognised the change in consideration as if it were not a lease modification.

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

(e) 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 goods 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.

(f) Contract assets and contract liabilities

Contract asset is recognised when the Group recognises 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 the policy set out in note 3(v) 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 the Group recognises the related revenue. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises 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.

(g) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

(h) Financial assets

All regular way 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 the Group 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.

(i) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statements of cash flows. Cash and cash equivalents are assessed for ECL.

(k) 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 the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(l) 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 current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(m) Convertible loans

Convertible loans which entitle the holder to convert the loans into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consisting of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loans and the fair value assigned to the liability component, representing the embedded option for the holder to convert the loans into equity of the Group, is included in equity as convertible loans reserve. The liability component 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 equity components of the convertible loans based on their relative carrying amounts at the date of issue. The portion related to the equity component is charged directly to equity.

Convertible loans which entitle the holder 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.

(n) Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Equity instruments

An equity instrument is any contract that evidence a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(p) Revenue and other income

Revenue is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which the Group is 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 discounts.

Revenue from the sale of goods is 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 the Group 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.

(q) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(iii) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

(r) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(s) Government grants

A government grant is recognised when there is reasonable assurance that the Group 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 the Group 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.

(t) 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. 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. The Group's 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 in the Historical Financial Information 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 the Group is 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 in 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 the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines 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, the Group applies 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 the Group intends to settle its current tax assets and liabilities on a net basis.

(u) 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.

(v) Impairment of financial assets and contract assets

The Group recognises 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.

The Group always recognises lifetime ECL for trade receivables and contract assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's 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, the Group recognises 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, the Group measures 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, the Group compares 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, the Group considers 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 the Group's 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 the Group's 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, the Group presumes 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 the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes 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.

The Group considers 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.

The Group regularly monitors 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

The Group considers 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 the Group, in full (without taking into account any collaterals held by the Group).

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

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

The Group writes off a financial asset 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, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. 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 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 assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has 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, the Group measures 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.

The Group recognises 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.

(w) Provisions and contingent liabilities

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

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

(x) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the Historical Financial Information. Events after the reporting period that are not adjusting events are disclosed in the notes to the Historical Financial Information when material.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the Historical Financial Information (apart from those involving estimations, which are dealt with below).

(a) Significant increase in credit risk

ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

(b) Determining the lease term

In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation.

Generally, periods covered by an extension option in other properties leases have not been included in the lease liability because the Group could replace the assets without significant cost or business disruption. See note 17 for further information.

The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. During the Track Record Period, no lease term has been reassessed.

Key sources of estimation uncertainty

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

(a) Impairment of property, plant and equipment, right-of-use assets and intangible assets

Property, plant and equipment, right-of-use assets and intangible assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has 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), the Group estimates 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 recoverable amounts.

As at 31 December 2018, 2019 and 2020, the carrying amount of the property, plant and equipment and right-of-use assets were approximately RMB304,696,000, RMB353,907,000 and RMB486,170,000 and RMB17,932,000, RMB29,949,000 and RMB68,247,000 respectively.

(b) Impairment loss of trade receivables

The management of the Group estimates 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 the Group in accordance with the contract and all the cash flows that the Group expects 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 at 31 December 2018, 2019 and 2020, the carrying amount of trade receivables were approximately RMB140,710,000 (net of allowance for doubtful debts of approximately RMB1,053,000), approximately RMB119,863,000 (net of allowance for doubtful debts of approximately RMB851,000) and approximately RMB191,951,000 (net of allowance for doubtful debts of approximately RMB4,938,000) respectively.

(c) 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 of RMB9,000, RMB Nil and RMB Nil made for the year ended 31 December 2018, 2019 and 2020 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. The Group will reassess the estimates by the end of each reporting period.

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has minimal certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in RMB. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions with high credit-rating assigned by international credit-rating agencies, for which the Group considers to have low credit risk.

Trade receivables

Customer credit risk is managed by each business unit subject to the Group's 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 90 - 180 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's 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 the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018, 2019 and 2020:

	At 31 December 2020		
	Expected loss rate	**Gross carrying amount**	**Loss allowance**
	%	*RMB'000*	*RMB'000*
Current (not past due)	1.7%	194,949	3,402
1 - 90 days past due	32.1%	206	66
91 - 365 days past due	69.1%	855	591
Over 1 year past due	100.0%	879	879
		196,889	4,938

	At 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 1 year past due	100.0%	443	443
		120,714	851

	At 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 1 year past due	100.0%	500	500
		141,763	1,053

Expected loss rates are based on actual loss experience over the past 1 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Movement in the loss allowance for trade receivables during the Track Record Period is as follows:

	As at 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	1,677	1,053	851
Impairment loss recognised for the year	—	—	4,087
Reversal of impairment loss for the year	(624)	(202)	—
At 31 December	1,053	851	4,938

The following significant changes in the gross carrying amounts of trade receivables contributed to the increase in the loss allowance during the year ended 31 December 2020:

— origination of new trade receivables net of those settled resulted in an increase in loss allowance of approximately RMB4,087,000.

Financial assets at amortised cost

All of the Group's financial assets at amortised cost are considered to have low credit risk, and the loss allowance recognised during the Track Record Period was therefore limited to 12-month expected losses. Management considers financial assets at amortised cost to be low credit risk when they have a low of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis based on contractual undiscounted cash flows of the Group's non-derivative financial liabilities is as follows:

	Weighted average interest rate	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over and 5 years	Undiscounted cash flows	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2020							
Trade payables.		21,891	—	—	—	21,891	21,891
Accruals and other payables		42,056	—	—	—	42,056	42,056
Bank loans and other borrowings							
- fixed rate	6.85	84,578	77,526	—	—	162,104	148,881
- variable rate.	8.89	16,149	1,636	—	—	17,785	16,758
Lease liabilities	4.89	707	728	1,494	—	2,929	2,621
		165,381	79,890	1,494	—	246,765	232,207

	Weighted average interest rate	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over and 5 years	Undiscounted cash flows	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2019							
Trade payables		29,941	—	—	—	29,941	29,941
Accruals and other payables		30,890	—	—	—	30,890	30,890
Amount due to a director		105	—	—	—	105	105
Bank loans and other borrowings							
- fixed rate	7.21	16,860	70,869	77,526	—	165,255	142,230
- variable rate	8.96	6,881	6,585	1,636	—	15,102	13,499
Convertible loans	15.44	5,779	78,019	—	—	83,798	69,106
Lease liabilities	5.87	705	706	2,183	33	3,627	3,158
		91,161	156,179	81,345	33	328,718	288,929

	Weighted average interest rate	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over and 5 years	Undiscounted cash flows	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2018							
Trade payables		23,839	—	—	—	23,839	23,839
Accruals and other payables		31,839	—	—	—	31,839	31,839
Amount due to a director		56	—	—	—	56	56
Bank loans and other borrowings							
- fixed rate	7.49	28,651	3,026	2,269	—	33,946	31,656
- variable rate	6.37	162,297	—	—	—	162,297	154,461
Convertible loans	17.16	30,000	—	—	—	30,000	29,921
Lease liabilities	9.32	102	41	127	78	348	276
		276,784	3,067	2,396	78	282,325	272,048

(d) Interest rate risk

The Group's convertible loans and certain of the Group's bank loans and other borrowings bear interest at fixed interest rates and therefore are subject to fair value interest rate risk.

The Group's exposure to interest-rate risk arises from its bank deposits and certain of the Group's bank loans and other borrowings. These deposits and bank loans and other borrowings bear interest at variable rates varied with the then prevailing market condition.

At 31 December 2018, 2019 and 2020, it is estimated that a general increase/decrease of 10 basis points in interest rates, with all other variables held constant, would have increased/(decreased) the Group's profit after tax for the year as follows:

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Increase/(decrease) in interest rates			
10 basis points	130	4,097	5,485
(10) basis points	(130)	(4,097)	(5,485)

The sensitivity analysis above indicates the impact on the Group's profit for the year and retained profits that would have arisen assuming that there is an annualised impact on interest income and expense by a change in interest rates. The analysis has been performed on the same basis thorough the Track Record Period.

(e) Categories of financial instruments:

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets:			
Financial assets measured at amortised cost	319,245	684,691	946,677
Financial liabilities:			
Derivative component of convertible loans	—	1,642	—
Financial liabilities measured at amortised cost	272,048	288,929	232,207

(f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

6. REVENUE

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products for the Track Record Period is as follows:

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Revenue from contracts with customers within the scope of IFRS 15			
Disaggregated by major products			
Pearlescent pigments	314,976	434,155	565,788
Synthetic mica	3,268	6,428	3,325
Total	318,244	440,583	569,113

The Group derives revenue from the transfer of goods at a point in time.

7. OTHER INCOME AND OTHER GAINS AND LOSSES

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Interest income on bank deposits	697	1,683	2,106
Government grant (note)	4,285	3,616	13,229
Net foreign exchange (losses)/gains	(580)	1,110	451
Fair value gain/(loss) on derivative component of convertible loans	564	(1,120)	(1,998)
Sundry income	5	6	990
	4,971	5,295	14,778

Note: Government grant mainly related to the subsidies and rewards received from the local government authority for research and development ("R&D") and the achievements accomplished by the Group.

8. SEGMENT INFORMATION

The Group has carried on a single business in a single geographical location, which is manufacturing and sales of pearlescent pigments and synthetic mica in the PRC, and all the assets are substantially located in the PRC. Accordingly, there is only one single business reportable segment which is regularly reviewed by the chief operating decision maker.

The Group's reportable segment is a strategic business unit that offers different products. It is centrally managed with the required technology and marketing strategies.

The accounting policies of the operating segments are the same as those described in note 3 to the Historical Financial Information.

Geographical information:

The Group's revenue from external customers by location of operations are detailed below:

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
The PRC	293,202	410,428	539,172
Thailand	4,927	724	—
Others	20,115	29,431	29,941
Consolidated total	318,244	440,583	569,113

Revenue from major customers:

There was no customer that had contributed over 10% of the Group's revenue during the Track Record Period.

9. FINANCE COSTS

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Interest on bank loans and other borrowings	12,226	13,339	11,126
Interest expenses on lease liabilities (note 17)	40	184	162
Interest on convertible loans (note 27)	4,713	5,630	8,111
Total borrowing costs	16,979	19,153	19,399
Amount capitalised	(1,110)	(678)	—
	15,869	18,475	19,399

10. INCOME TAX EXPENSE

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Current tax - PRC:			
Provision for the year	6,828	16,308	24,742
Under provision in prior year	—	1,660	218
Deferred tax (note 30)	(446)	—	—
	6,382	17,968	24,960

Under the two-tiered profits tax regime, profits tax rate for the first HK$2 million of assessable profits of qualifying corporations established in Hong Kong will be lowered to 8.25%, and profits above that amount will be subject to the tax rate of 16.5%.

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

France Corporation Tax is calculated at the applicable rate of 33.33% in accordance with the relevant law and regulations in France for the Track Record Period.

The 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 and France have had no assessable profit subject to Hong Kong Profits Tax or France Corporation Tax during the Track Record Period, respectively.

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

Chesir Pearl obtained 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 reconciliation between the income tax expense and the product of profit before tax multiplied by the PRC Enterprise Income Tax rate is as follows:

	Year ended 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Profit before tax	87,746	125,301	177,821
Tax at the domestic income tax rate of 25%	21,937	31,325	44,455
Tax effect of income that is not taxable	(5,300)	(8,199)	(7,039)
Tax effect of expenses that are not deductible	2,866	7,566	9,283
Tax effect of tax concession	(6,434)	(14,166)	(21,862)
Tax effect of utilisation of tax losses not previously recognised	(5,106)	—	—
Under provision in prior year	—	1,660	218
(Under)/over provision in current year	(1,581)	(218)	(95)
Income tax expense	6,382	17,968	24,960

11. PROFIT FOR THE YEAR

The Group's profit for the year is stated after charging/(crediting) the following:

	Year ended 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Depreciation on property plant and equipment	20,760	23,153	22,867
Depreciation on right-of-use assets	717	1,156	1,557
Research and development expenditures	10,745	23,247	29,284
Cost of inventories sold	166,917	218,222	280,046
Allowance for inventories (included in cost of inventories sold)	9	—	—
(Reversals of impairment losses on trade and other receivables)/Impairment losses for trade and other receivables	(612)	(208)	4,118
[REDACTED] expense	—	—	13,206
Operating lease charge	729	936	965

Note:

The following costs are included in the amounts of cost of inventories sold disclosed separately above:

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Staff costs	22,139	23,935	26,708
Depreciation	11,123	12,998	13,419

12. EMPLOYEE BENEFIT EXPENSE

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Employee benefits expense:			
Salaries, bonuses and allowances	31,962	38,803	45,712
Retirement benefit scheme contributions	9,061	10,146	4,871
	41,023	48,949	50,583

Five highest paid individuals

The five individuals with the highest emoluments in the Group during the Track Record Period included, 4, 4, and 4 were directors of the Company whose are reflected in the analysis presented in note 13.

The emoluments of the remaining 1, 1, and 1 individual during the Track Record Period were as follows:

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Salaries, bonuses and allowances	360	390	550
Retirement benefit scheme contributions	54	—	24
	414	390	574

The emoluments fell within the following band:

	Number of Individuals		
	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Nil to HK$1,000,000	5	5	5

During the Track Record Period, there was no arrangement under which a director of the Company waived or agreed to waive any remuneration, and no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

13. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of every director is set out below:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking								
	Fees	Salaries	Discretionary bonus	(Note i) Estimated money value of other benefits	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director	Housing allowance	(Note ii) Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:									
Mr. SU Ertian (苏尔田先生)	—	246	254	—	63	—	—	—	563
Mr. ZHENG Shizhan (郑世展先生)	—	168	282	—	55	—	—	—	505
Mr. JIN Zengqin (金增勤先生)	—	149	251	—	50	—	—	—	450
Mr. ZHOU Fangchao (周方超先生)	—	162	238	—	54	—	—	—	454
Non-executive director:									
Mr. QIN Min (秦敏先生)	—	—	—	—	—	—	—	—	—
Total for the year ended 31 December 2018	—	725	1,025	—	222	—	—	—	1,972

The remuneration of every director is set out below:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking							(Note ii) Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	
	Fees	Salaries	Discretionary bonus	(Note i) Estimated money value of other benefits	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director	Housing allowance		Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:									
Mr. SU Ertian (苏尔田先生)	—	258	362	—	62	—	—	—	682
Mr. ZHENG Shizhan (郑世展先生)	—	192	338	—	57	—	—	—	587
Mr. JIN Zengqin (金增勤先生)	—	168	312	—	52	—	—	—	532
Mr. ZHOU Fangchao (周方超先生)	—	186	294	—	56	—	—	—	536
Non-executive director:									
Mr. QIN Min (秦敏先生)	—	—	—	—	—	—	—	—	—
Total for the year ended 31 December 2019	—	804	1,306	—	227	—	—	—	2,337

The remuneration of every director is set out below:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking							(Note ii) Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	
	Fees	**Salaries**	**Discretionary bonus**	**(Note i) Estimated money value of other benefits**	**Employer's contribution to a retirement benefit scheme**	**Remunerations paid or receivable in respect of accepting office as director**	**Housing allowance**		**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:									
Mr. SU Ertian (苏尔田先生)	—	480	220	—	38	—	—	—	738
Mr. Zheng Shizhan (郑世展先生)	—	420	180	—	36	—	—	—	636
Mr. JIN Zengqin (金增勤先生)	—	360	190	—	33	—	—	—	583
Mr. ZHOU Fangchao (周方超先生)	—	360	190	—	33	—	—	—	583
Non-executive director:									
Mr. QIN Min (秦敏先生)	—	—	—	—	—	—	—	—	—
Mr. HU Yongxiang (胡永祥先生)	—	—	—	—	—	—	—	—	—
Mr. NG Teck Sim (黃得森先生)	—	—	—	—	—	—	—	—	—
Mr. KOK Hoong Chwan (郭宏船先生)	—	—	—	—	—	—	—	—	—
Independent non-executive directors:									
Mr. MAK Hing Keung, Thomas (麥興強先生)	—	—	—	—	—	—	—	—	—
Professor HAN Gaorong (韓高榮教授)	—	—	—	—	—	—	—	—	—
Mr. LEUNG Kwai Wah Alex (梁貴華先生)	—	—	—	—	—	—	—	—	—
Total for the year ended 31 December 2020		1,620	780		140				2,540

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company and the director's connected party had a material interest, whether directly or indirectly, subsisted during the Track Record Period.

14. DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation.

15. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this financial information, is not considered meaningful due to the Reorganisation and the basis of presentation of the results of the Group for the Track Record Period as further explained in note 1 to the Historical Financial Information.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Motor vehicles	Office equipment	Construction in progress	Leasehold improvement	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost							
At 1 January 2018	198,150	62,808	2,207	9,527	41,234	1,059	314,985
Additions	32	1,200	16	105	61,317	—	62,670
Disposals	—	—	—	—	—	(1,059)	(1,059)
Transfer	50,361	3,297	—	—	(62,192)	8,534	—
At 31 December 2018 and 1 January 2019	248,543	67,305	2,223	9,632	40,359	8,534	376,596
Additions	531	10	356	99	71,368	—	72,364
Transfer	6,961	86	—	—	(7,047)	—	—
At 31 December 2019 and 1 January 2020	256,035	67,401	2,579	9,731	104,680	8,534	448,960
Additions	19	6,521	54	281	148,255	—	155,130
Disposals	—	—	—	(17)	—	—	(17)
Transfer	—	838	—	—	(838)	—	—
At 31 December 2020	256,054	74,760	2,633	9,995	252,097	8,534	604,073
Accumulated depreciation							
At 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)
At 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
At 31 December 2019 and 1 January 2020	51,065	29,012	2,033	8,874	—	4,069	95,053
Charge for the year	12,807	6,902	122	191	—	2,845	22,867
Disposals	—	—	—	(17)	—	—	(17)
At 31 December 2020	63,872	35,914	2,155	9,048	—	6,914	117,903
Carrying amount							
At 31 December 2020	192,182	38,846	478	947	252,097	1,620	486,170
At 31 December 2019	204,970	38,389	546	857	104,680	4,465	353,907
At 31 December 2018	210,043	44,836	349	1,717	40,359	7,392	304,696

As at 31 December 2018, 2019, and 2020, the carrying amounts of property, plant and equipment pledged as security for the Group's bank loans and other borrowings amounted to approximately RMB139,913,000, RMB125,503,000 and RMB118,302,000 respectively.

17. RIGHT-OF-USE ASSETS

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	18,726	17,932	29,949
Additions	—	13,177	39,849
Depreciation	(717)	(1,156)	(1,557)
Written-off	(79)	—	—
Exchange differences	2	(4)	6
	17,932	29,949	68,247

Right-of-use assets comprised the leasehold lands in the PRC, and leased property in the PRC and France.

As at 31 December 2018, 2019, and 2020, the carrying amount of right-of-use assets pledged as security for the Group's bank loans amounted to approximately RMB17,669,000, RMB17,260,000 and RMB16,851,000 respectively.

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Depreciation expenses on right-of-use assets	717	1,156	1,557
Interest expense on lease liabilities (included in finance cost)	40	184	162

Details of total cash outflow for leases is set out in note 34.

During the Track Record Period, the Group leases various offices and warehouses for its operations. Lease contracts are entered into for fixed term of 6 months to 108 months. Lease terms are 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, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

18. INVESTMENTS IN SUBSIDIARIES

The amounts due to subsidiaries are unsecured, interest free and have no fixed terms of repayment.

Particulars of the subsidiaries are as follow:

Name of subsidiary	Place of incorporation / establishment	Authorised capital	Issued / paid up capital	Attributable equity interest of the Group	Principal activities
Generous Fortune	British Virgin Islands	HKD 12,590,725.2	HKD12,590,725.2	100% (Direct)	Investment holding
Global New Material (HK)	Hong Kong	N/A	HKD[30,000]	100% (Indirect)	Investment holding
Chesir Pearl	The PRC	RMB149,561,191	RMB149,561,191	97.19% (Indirect) (31 December 2018, 2019 and 2020)	Manufacturing and sales of pearlescent pigments and synthetic mica
Shanghai Multicolor	The PRC	RMB10,000,000	RMB10,000,000	97.19% (Indirect) (31 December 2018, 2019 and 2020)	Trading of pearlescent pigments and synthetic mica
Chesir Luzhai	The PRC	RMB104,927,076	RMB104,927,076	58.35% (Indirect) (31 December 2018, 2019 and 2020)	Manufacturing and sales of synthetic mica
Chesir France	France	EUR50,000	EUR50,000	97.19% (Indirect) (31 December 2018, 2019 and 2020)	Inactive

The following table shows information on the subsidiaries that have non-controlling interests ("NCI") material to the Group. The summarised financial information represents amounts before inter-company eliminations.

Name	**Chesir Luzhai**
Principal place of business	**The PRC**

	As at 31 December		
	2018	**2019**	**2020**
% of ownership interests / voting rights held by NCI	41.65%/ 41.65%	41.65%/ 41.65%	41.65%/ 41.65%
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets	150,578	157,178	144,770
Current assets	237,714	231,744	244,834
Non-current liabilities	—	—	—
Current liabilities	(8,711)	(5,714)	(5,771)
Net assets	379,581	383,208	383,833
Accumulated NCI	151,748	153,260	153,521

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	89,847	59,776	59,845
Profit	4,193	3,627	625
Total comprehensive income	4,193	3,627	625
Profit allocated to NCI	1,748	1,512	261
Net cash generated from/(used in) operating activities	185	(26,178)	12,308
Net cash used in investing activities	—	(6,600)	(5,199)
Net cash generated from financing activities	150,000	—	—
Net increase/(decrease) in cash and cash equivalents	150,185	(32,778)	7,109

Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

19. INVENTORIES

	As at 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	12,752	3,931	6,506
Work in progress	35,904	36,863	45,126
Finished goods	25,764	39,340	23,739
	74,420	80,134	75,371

20. TRADE AND BILLS RECEIVABLES

	As at 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	141,763	120,714	196,889
Bills receivables	3,309	1,829	—
Allowance for doubtful debts	(1,053)	(851)	(4,938)
	144,019	121,692	191,951

The Group generally allows a credit period from 90 to 180 days for its customers. Each customer has a maximum credit limit. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors of the Company.

The aging analysis of trade receivables based on the invoice date (or date of revenue recognition, if earlier), and net of allowance, is as follows:

	As at 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
0 to 90 days	89,263	118,457	168,476
91 to 180 days	48,084	550	23,161
181 to 365 days	3,075	856	290
Over 365 days	288	—	24
	140,710	119,863	191,951

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	As at 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
RMB	136,669	113,010	185,823
USD	3,512	6,853	6,128
Great British Pound ("GBP")	529	—	—
Total	140,710	119,863	191,951

21. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Deposits	2,168	2,067	2,997
Prepayments	11,263	1,199	16,465
Value-added tax recoverable	160	272	3,776
Other receivables	714	491	371
	14,305	4,029	23,609

22. AMOUNTS DUE FROM/(TO) A SHAREHOLDER / A DIRECTOR

The amounts due are unsecured, interest-free and have no fixed terms of repayment. The balances are non-trade in nature and have been settled in full during the year ended 31 December 2020.

23. BANK AND CASH BALANCES

The carrying amounts of the Group's bank and cash balances are denominated in the following currencies:

	As at 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
RMB	169,395	555,581	743,520
USD	2,316	4,192	3,895
EUR	143	66	89
HKD	—	—	78
Total	171,854	559,839	747,582

Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

24. SHARE CAPITAL

	Number of shares issued	Authorised	Authorised	Authorised	Issued and fully paid
		RMB'000	*USD'000*	*HKD'000*	*RMB'000*
Share capital of Chesir Pearl included in the Group					
At 1 January 2018	83,100,000	83,100	—	—	83,100
Group reorganisation	(83,100,000)	(83,100)	—	—	(83,100)
At 31 December 2018, 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	—	—	—	—	—
Share capital of the Company ordinary shares of USD1 each					
- upon incorporation on 8 June 2018 (note (b))	—	—	[50]	—	—
- issue of 1 share at USD1 paid (note (b))	1	—	—	—	—
- issued and allotted of 49,999 share at USD1 paid (note (b))	49,999	—	—	—	330
At 31 December 2018, 1 January 2019, 31 December 2019, 1 January 2020	50,000	—	[50]	—	330
Share capital of the Company ordinary shares of USD1 each					
- cancellation of authorised capital (note (c))	(50,000)	—	(50)	—	—
Share capital of the Company ordinary shares of HKD0.1 each					
- issued and allotted of 3,900,000 shares (note (c))	3,900,000	—	—	—	—
- increase of authorised capital (note (c))	—	—	—	8,000,000	—
- share issue (note (d))	141,436,931	—	—	—	12,012
At 31 December 2018, 1 January 2019, 31 December 2019, 1 January 2020	145,336,931	—	—	8,000,000	12,342

Notes:

(a) Upon the incorporation of the Company on 6 June 2018, the share capital of Chesir Pearl of RMB83,100,000 was transferred to merger reserve and share capital reflected that of the Company.

(b) The Company was incorporated in the Cayman Islands under the Cayman Islands Companies Act as an exempted company with limited liability on 6 June 2018 with an authorised share capital of US$1 divided into 1 share of US$1 each. On the same day, the initial subscribing shareholder transferred one issued share to Continuous Profit Limited at par and allotted credited as fully paid at par. The one share was transferred to Continuous Profit Limited on the same date for nominal consideration. On the same date, the Company issued and allotted 49,999 shares to Continuous Profit Limited as fully-paid at par value.

(c) Pursuant to the written resolutions approved by the then sole shareholder of the Company on 30 October 2020, (a) the authorised share capital of the Company was increased to HK$8,000,000,000 by the creation of 80,000,000,000 ordinary shares of HK$0.1 each; (b) the authorised share capital of the Company has been diminished by the cancellation of all unissued shares of par value of US$1.0 each; and (c) the issued share capital has been increased to 3,900,000 ordinary shares of HK$0.1 each allotted and issued to the then sole shareholder in consideration for the repurchase by the Company for cancellation from the then sole shareholder the 50,000 shares of par value of US$1.0 each of the Company.

(d) On 18 November 2020, the Company allotted and issued 122,007,252 new ordinary shares of the Company of HK$0.1 each pursuant to a share swap implemented and accepted by all shareholders of Generous Fortune, whereby one ordinary share of Generous Fortune was exchanged for one ordinary share of the Company, except for the 7,493,138 shares of Generous Fortune held by Ertian International Investment Limited ("Ertian International"), a company wholly owned by Mr. SU, which were exchanged for 3,593,138 ordinary shares of the Company allotted and issued to Ertian International and as a result, the 22 equity holders of Chesir Pearl who have agreed and completed the required procedures under the applicable PRC laws and regulations to transfer their equity interests in Chesir Pearl for the same number of shares of Generous Fortune ("Consent Chesir Pearl Equity Holders") have become the shareholders of the Company. On the same date, 19,429,679 new ordinary shares of the Company of HK$0.1 each have been allotted and issued to the bond holder and a shareholder of Chesir Pearl.

The number of shares of the Company held by each of the shareholders following completion of the Reorganisation mirrors the previous equity holding of the Consent Chesir Pearl Equity Holders in Chesir Pearl. Further details please refer to the group reorganisation as more fully explained in the paragraph headed "History, Development and Reorganisation" section of this investment circular.

For the purpose of this report, the share capital as presented in the consolidated statements of the financial position as at 31 December 2018, 2019 and 2020 represented the combined equity capital of the subsidiaries now comprising the Group after elimination of inter-company investments.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

The Group monitors capital on the basis of the debt-to-equity ratio. This ratio is calculated as net debt divided by total equity. Total debt comprises bank loans and other borrowings, convertible loans and lease liabilities. Adjusted capital comprises all components of equity (i.e. share capital, retained profits and other reserves etc.) except for non-controlling interests.

During the Track Record Period, the Group's strategy, which was unchanged from previous years, was to maintain the debt-to-equity ratio at a level of industry average.

The debt-to-adjusted capital ratios at 31 December 2018, 2019 and 2020 were as follows:

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Total debts	216,314	227,993	168,260
Less: Cash and cash equivalents	(171,854)	(559,839)	(747,582)
Net debt/(capital)	44,460	(331,846)	(579,322)
Total equity	298,101	712,208	1,181,239
Debt-to-adjusted capital ratio	15%	N/A	N/A

The externally imposed capital requirements for the Group are to meet financial covenants attached to the interest-bearing borrowings.

Breaches in meeting the financial covenants would permit the bank to immediately call borrowings. There have been no breaches in the financial covenants of any interest-bearing borrowing during the Track Record Period.

25. RESERVES

(a) The Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statements of profit or loss and other comprehensive income and consolidated statements of changes in equity.

(b) The Company

	Special reserve	**Accumulated losses**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 8 June 2018 (date of incorporation)	—	—	—
Total comprehensive income for the period	—	(48)	(48)
At 31 December 2018 and 1 January 2019	—	(48)	(48)
Total comprehensive income for the year		(33)	(33)
At 31 December 2019 and 1 January 2020	—	(81)	(81)
Group Reorganisation	[284,381]	—	[284,381]
Total comprehensive income for the year	—	(9,626)	(9,626)
At 31 December 2020	[284,381]	(9,707)	[274,674]

(c) Nature and purpose of reserves

(i) Merger reserve

Merger reserve arose as a result of the group reorganisation upon incorporation of the Company on 6 June 2018. The share capital of Chesir Pearl was transferred to merger reserve and share capital reflected that of the Company.

(ii) Other reserve

Other reserve arose as a result of excess of capital contribution over the share capital of the subsidiaries.

(iii) Convertible loans reserve

The convertible loans reserve represents the value of the unexercised equity component of convertible loans issued by a subsidiary recognised in accordance with the accounting policy adopted for convertible loans in note 3(m) to the Historical Financial Information.

(iv) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(b) to the Historical Financial Information.

(v) Statutory surplus reserve

The statutory surplus reserve, which is non-distributable, is appropriated from the profit after tax of the Group's PRC subsidiaries under the applicable laws and regulations in the PRC.

(vi) Special reserve

Special reserve represents the difference between the consideration and the share capital of a subsidiary acquired under common control pursuant to the group reorganisation.

26. BANK LOANS AND OTHER BORROWINGS

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Secured bank loans	175,500	137,740	137,340
Other borrowings			
- Secured	10,617	17,989	18,581
- Unsecured	—	—	9,718
	186,117	155,729	165,639

The bank loans and other borrowings are repayable as follows:

	As at 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Within one year	181,146	11,953	90,273
More than one year, but not exceeding two years	2,757	68,410	75,366
More than two years, but not more than five years	2,214	75,366	—
	186,117	155,729	165,639
Less: Amount due for settlement within 12 months (shown under current liabilities)	(181,146)	(11,953)	(90,273)
	4,971	143,776	75,366

The carrying amounts of the Group's borrowings are denominated in RMB and HKD.

	As at 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
RMB	186,117	155,729	155,921
HK$	—	—	9,718
	186,117	155,729	165,639

The average interest rates at 31 December were as follows:

	As at 31 December		
	2018	2019	2020
Bank loans	6.49% per annum	7.18% per annum	7.17% per annum
Other borrowings			
- Secured	7.67% per annum	8.72% per annum	8.80% per annum
- Unsecured	—	—	2.00% per annum

Bank loans and other borrowings of approximately RMB31,656,000, RMB142,230,000 and RMB148,881,000 as at 31 December 2018, 2019 and 2020 respectively are arranged at fixed interest rates and expose the Group to fair value interest rate risk. The remaining balances of bank loans and other borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

The Group's secured bank loans are secured by the Group's property, plant and equipment (note 16) and right-of-use assets (note 17) and also secured by the corporate guarantees from related parties, together with personal guarantees of a director of the Company and the close family members of a director of the Company and pledged by non-controlling equity interests of the Group held by related parties.

The Group's secured other borrowings are secured by the Group's property, plant and equipment (note 16) and also secured by the corporate guarantees from related parties, together with personal guarantees of a director of the Company and the close family members of a director of the Company.

Upon [REDACTED] of the Shares of the Company, the corporate guarantees from related parties, together with personal guarantees of a director of the Company and the close family members of a director of the Company and the pledge from non-controlling equity interests of the Group held by related parties will be released or replaced by corporate guarantees executed by the Company.

27. CONVERTIBLE LOANS

2017 Convertible loan

The unlisted, guaranteed and secured convertible loan was issued by Chesir Pearl, a subsidiary of the Group on 6 January 2017 with a nominal value of RMB30,000,000. ("2017 Convertible loan")

If 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 holder of 2017 Convertible loan requests a share conversion within one year from the date of issue of 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 2017 Convertible loan or RMB10 per share.

If the holder of 2017 Convertible loan requests a share conversion after one year from the date of issue of 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 2017 Convertible loan and RMB10 per share, whichever is lower, times 110%.

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

In the inception date of 2017 Convertible loan, the directors has 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. The directors has also assessed the fair value of the derivative component of early repayment option of 2017 Convertible loan are immaterial in both the inception date of 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 2017 Convertible loan has not been recognised in the Track Record Period.

2017 Convertible loan is guaranteed by the then prevailing controlling shareholder of Chesir Pearl and a director of Chesir Pearl and secured by certain equity interest of Chesir Pearl held by the prevailing controlling shareholder of the Company.

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

	RMB'000
Liability component at 1 January 2018	28,700
Interest charged (note 9)	4,713
Interest paid	(3,492)
Liability component at 31 December 2018 and 1 January 2019	29,921
Interest charged (note 9)	79
Repayment of the liability component	(30,000)
Liability component at 31 December 2019	—
Derivative component at 1 January 2018	564
Fair value gain for the year at 31 December 2018 and 1 January 2019	(564)
Derivative component at 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 2017 Convertible Loan was issued.

The directors estimate the fair value of the liability component of 2017 Convertible Loan at 31 December 2018 to be approximately RMB29,921,000. 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 2017 Convertible loan is measured at its fair value at the date of issue of 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:

	Date of issue	31 December 2018
Weighted average share price of Chesir Pearl	RMB 10.50	RMB 7.38
Weighted average exercise price of Chesir Pearl	RMB 10	RMB 11
Expected volatility	57.28%	36.05%
Expected life	2.00 years	0.02 year
Risk free rate	2.86%	2.45%
Expected dividend yield	14.57%	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 2017 Convertible loan	Binomial option pricing model	Expected volatility	2018: 39.38% to 36.05%	N/A

The fair value of derivative component of 2017 Convertible loan is determined using binomial option pricing model and the significant unobservable input in the fair value measurement is expected volatility. As at 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 unlisted, guaranteed and unsecured convertible loan was issued by Chesir Pearl on 31 May 2019 with a nominal value of RMB72,240,000. The convertible loan is convertible at 8,000,000 shares of Chesir Pearl per RMB9.03 convertible loan ("2019 Convertible Bonds").

If 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 2019, and the holders of 2019 Convertible Bonds has not exercised the debt-to-equity swap option, the holders of 2019 Convertible Bonds has the right (but not the obligation) to choose to extend the loan period of 2019 Convertible Bonds to 31 December 2021, and the coupon rate of 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 holders of 2019 Convertible Bonds have the right (but not the obligation) to choose to convert its 2019 Convertible Bonds into ordinary share of Chesir Pearl; the holders of 2019 Convertible Bonds also has the right to convert its 2019 Convertible Bonds into ordinary share of Chesir Pearl after 31 December 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 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 2019 Convertible Bonds.

2019 Convertible Bonds is guaranteed by the prevailing controlling shareholder of Chesir Pearl and a director of Chesir Pearl.

The net proceeds received from the issue of 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 2019 Convertible Bonds issued	72,240
Derivative component of extension opinion	(522)
Equity component	(8,163)
Liability component at date of issue	63,555
Interest charged (note 9)	5,551
Liability component at 31 December 2019 and 1 January 2020	69,106
Interest charged (note 9)	8,111
Interest paid	(7,964)
Converted during the year	(69,253)
Liability component at 31 December 2020	—
Derivative component of extension option at date of issue	522
Fair value loss for the year	1,120
Derivative component of extension option at 31 December 2019 and 1 January 2020	1,642
Fair value loss for the year	1,998
Converted during the year	(3,640)
Derivative component of extension option at 30 December 2020	—

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

The directors estimate the fair value of the liability component of 2019 Convertible Bonds at 31 December 2019 to be approximately RMB69,106,000. This fair value has been calculated by discounting the future cash flows at the market interest rate (level 2 fair value measurements).

On 19 October 2020, Chesir Pearl and the new bond holder entered into a convertible bond conversion agreement for the purpose of converting the 2019 Convertible Bonds into 8,000,000 shares of Chesir Pearl. These shares were issued to the new bond holder on the same date.]

The derivative component of extension option of 2019 Convertible Bonds is measured at its fair value at the date of issue of 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	**31 December 2019**
Weighted average share price of Chesir Pearl	RMB9.41	N/A
Weighted average exercise price of Chesir Pearl	RMB 9.03	RMB 9.03
Expected volatility	44.24%	45.60%
Expected life	2.0 years	1.4 years
Risk free rate	2.81%	2.43%
Expected dividend yield	15.44%	15.08%

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 2019 Convertible Bonds	Binomial option pricing model	Expected volatility	31 December 2019: 44.24% to 45.60%	2019: Increase

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

28. LEASE LIABILITIES

	Minimum lease payments			Present value of minimum lease payments		
	As at 31 December			As at 31 December		
	2018	2019	2020	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	102	705	707	85	543	577
In the second to fifth years, inclusive	168	2,889	2,222	121	2,586	2,044
After five years	78	33		70	29	
	348	3,627	2,929	276	3,158	2,621
Less: Future finance charges	(72)	(469)	(308)	N/A	N/A	N/A
Present value of lease obligations	276	3,158	2,621			
Less: Amount due for settlement within 12 months (shown under current liabilities)				(85)	(543)	(577)
Amount due for settlement after 12 months				191	2,615	2,044

The carrying amounts of the Group's lease liabilities are denominated in the following currencies:

	As at 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
RMB	62	2,970	2,452
EUR	214	188	169
	276	3,158	2,621

29. DEFERRED REVENUE

	As at 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Government grant	12,902	10,179	7,487

	As at 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Analysed as:			
Current liabilities	2,723	2,692	2,136
Non-current liabilities	10,179	7,487	5,351
	12,902	10,179	7,487

The deferred revenue arises in respect of the Group's government grant.

The deferred revenue arises as a result of the government grant received during the Track Record Period.

30. DEFERRED TAX

Deferred tax assets

	Doubtful debts
	RMB
At 1 January 2018	744
Credit to profit or loss for the year	446
At 31 December 2018 and 1 January 2019	1,190
Credit to profit or loss for the year	—
At 31 December 2019 and 1 January 2020	1,190
Credit to profit or loss for the year	—
At 31 December 2020	1,190

The deferred tax liabilities in relation to convertible bond's equity component have been charged/credited to equity directly.

31. TRADE PAYABLES

The aging analysis of trade payables based on the date of receipt of goods, is as follows:

	As at 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
0 to 90 days	21,328	24,439	21,507
91 to 180 days	2,511	5,486	—
181 to 365 days	—	16	263
Over 365 days	—	—	121
	23,839	29,941	21,891

The carrying amounts of the Group's trade payables are denominated in the following currencies:

	As at 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
RMB	23,765	28,773	19,426
USD	74	1,168	2,465
Total	23,839	29,941	21,891

32. ACCRUALS AND OTHER PAYABLES

	As at 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Accruals	12,309	20,470	25,322
Other payables	19,530	10,420	16,734
	31,839	30,890	42,056

33. CONTRACT LIABILITIES

	As at 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Contract liabilities			
Deposit received in advance	2,398	710	446

Movements in contract liabilities:

	As at 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Balance at 1 January	416	2,398	710
Decrease in contract liabilities as a result of recognising revenue during the year was included in the contract liabilities at the beginning of the period	(416)	(2,398)	(710)
Increase in contract liabilities as a result of deposit received in advance	2,398	710	446
Balance at 31 December	2,398	710	446

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

i Major non-cash transaction

During the year 2020, the Group utilised approximately RMB26,487,000 of deposits paid for acquisition of property, plant and equipment and right-of-use assets as at 31 December 2019, for purchasing approximately RMB39,849,000 of additional leasehold land in the PRC.

ii Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	1 January 2018	Cash flows	Interest expenses/ lease charges	31 December 2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans and other borrowings	184,334	(10,443)	12,226	186,117
Convertible loans	28,700	(3,492)	4,713	29,921
Lease liabilities	629	(393)	40	276
	213,663	(14,328)	16,979	216,314

	1 January 2019	Entering into new leases	Cash flows	Interest expenses/ lease charges	Recognition of derivative and equity components of convertible loans	31 December 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans and other borrowings	186,117	—	(43,727)	13,339	—	155,729
Convertible loans	29,921	—	42,240	5,630	(8,685)	69,106
Lease liabilities	276	3,409	(711)	184	—	3,158
	216,314	3,409	(2,198)	19,153	(8,685)	227,993

	1 January 2020	Cash flows	Interest expenses/ lease charges	Transfer to equity	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans and other borrowings	155,729	(1,216)	11,126	—	165,639
Convertible loans	69,106	(7,964)	8,111	(69,253)	—
Lease liabilities	3,158	(699)	162	—	2,621
	227,993	(9,879)	19,399	(69,253)	168,260

35. CONTINGENT LIABILITIES

As at 31 December 2018, 2019, and 2020, the Group did not have any significant contingent liabilities.

36. CAPITAL COMMITMENTS

Capital commitments contracted for at the end of respective financial period during the Track Record Period but not yet incurred are as follows:

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	11,873	589,952	[568,332]

37. EVENTS AFTER THE REPORTING PERIOD

[●]

38. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to 31 December 2020.