You should read this section in conjunction with our combined financial information as set out in Appendix I to this document. The combined financial information has been prepared in accordance with International Financial Reporting Standard ("IFRSs").

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include those discussed in "Risk Factors" in this document.

OVERVIEW

We are one of the leading gold mine hazardous waste treatment companies in the PRC focusing on (i) gold mine hazardous waste treatment, and (ii) recycling and extracting therefrom resources with economic value for sale. According to the F&S Report, we are the third largest gold mine hazardous waste treatment company in the PRC with a market share of approximately 10.0% in terms of revenue in 2020. We are also ranked the first in gold mine hazardous waste treatment volume in Shandong province and the PRC, with actual treatment volume of approximately 1.08 million tonnes, accounting for approximately 25.8% and 17.6% of the total actual treatment volume in Shandong province and the PRC, respectively, in 2020. We specialise in gold mine hazardous waste treatment and resource recovery, and comprehensive utilisation of gold mine hazardous wastes. We collect cyanide tailings, which is a kind of gold mine hazardous waste resulted from smelting of gold, from our upstream customers, which we, leveraging on our experience and expertise, detoxify the cyanide tailings and recover therefrom resources with economic value such as pyrite concentrate and gold-bearing pyrite concentrate. We then sell the recycled products to our downstream customers to attain comprehensive utilisation of gold mine hazardous wastes.

We are strategically located in Laizhou city, Shandong province. Due to rich gold resources and the mature gold mining industry Chain, the gold mine production in Shandong province ranked the first in the PRC in 2019 and expected to continue to rank the first in 2020, according to the F&S Report. As at the Latest Practicable Date, we have two production facilities, where the gold reserves ranked first among the county-level cities in the PRC. The total site area of our production facilities is approximately 228,683 sq.m. and they process the gold mine hazardous wastes from our upstream customers and recycle them into recycled products for sale to our downstream customers. As at the Latest Practicable Date, we are the only company in Laizhou city, Shandong province that has obtained the Hazardous Waste Business Licences issued by Yantai Municipal Ecology and Environment Bureau, which we are licensed to treat up to 1.16 million tonnes per year.

While the gold mine hazardous waste treatment services and the sale of recycled products were our major business activities during the Track Record Period, we also derived revenue from hazardous waste storage rental services since November 2018. The following table sets out our revenue by business activities during the Track Record Period:

	Year ended 31 December					
	2018		**2019**		**2020**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Gold mine hazardous waste treatment	41,014	40.1	61,567	46.1	107,958	52.6
Sale of recycled products	57,642	56.4	56,413	42.2	82,514	40.2
Hazardous waste storage rental services	1,083	1.0	14,490	10.8	14,507	7.1
Others *(Note)*	2,542	2.5	1,194	0.9	413	0.1
Total	**102,281**	**100.0**	**133,664**	**100.0**	**205,392**	**100.0**

Note: Others represented revenue from the trading of recycled products, which mainly included desulphurisation gypsum, copper concentrate powders and waste rocks, that we procured from our suppliers during the Track Record Period.

For the years ended 31 December 2018, 2019 and 2020, our net profits amounted to approximately RMB30.7 million, RMB48.5 million and RMB72.9 million, respectively.

BASIS OF PRESENTATION AND PREPARATION OF FINANCIAL INFORMATION

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Act on 12 January 2021. In preparation of the [REDACTED], our Group had undergone the Reorganisation, after which our Company has became the holding company of the companies now comprising our Group. For details, see "History, Reorganisation and Corporate Structure" in this document.

The historical financial information of our Group has been prepared by our Directors based on the accounting policies which conform with IFRSs issued by the International Accounting Standards Board, on the basis of presentation and preparation as set out in Notes 1.3 and 2.1 to the Accountant's Report set out in Appendix I to this document.

Our Group has consistently adopted IFRS 9 *Financial Instruments* ("**IFRS 9**"), IFRS 15 *Revenue from Contracts with Customers* ("**IFRS 15**") and IFRS 16 *Leases* ("**IFRS 16**") that are relevant to our operations and are effective during the Track Record Period. We believe that the adoption of IFRS 9, IFRS 15 and IFRS 16 did not have significant impact on our Group's financial position and performance throughout the Track Record Period when compared to those that would have been presented under IAS 39 *Financial Instruments: Recognition and Measurement*, IAS 18 *Revenue* and IAS 17 *Leases*, respectively.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been and will continue to be affected by a number of factors, including those set out below:

PRC's governmental policies and regulations

We are engaged in an industry where policies and regulations play a critical role in our business. Our operations are sensitive to changes in PRC governmental policies, laws and regulations relating to the hazardous waste treatment industry or changes in the implementation of such policies, laws and regulations. With the increasing focus on environmental awareness and increasingly stringent environment regulations imposed by the PRC government, a number of regions in China face shortages in hazardous waste treatment facilities. It is estimated there would be a total investment of approximately RMB53 billion in the hazardous waste treatment and comprehensive utilisation facilities over the 13th Five-Year Plan period. We believe that this anticipated increase in government investment in hazardous waste treatment and comprehensive utilisation of industrial solid waste will further improve the prospects of our business.

In addition, the PRC government has been active in encouraging the hazardous waste treatment and comprehensive utilisation of solid waste by way of policies and regulations, such as providing tax incentives. Our Group currently benefits from the favourable tax policies for enterprise income tax for the revenue derived from the sale of recycled products during the Track Record Period according to the relevant PRC tax rules and regulations.

Any changes in the current favourable government policies and regulations and industrial requirement to the hazardous waste treatment industry and our abilities to adapt to future changes in policies and regulations could affect our financial condition and results of operations.

Demand for our gold mine hazardous waste treatment services and recycled products

Customer demand for our gold mine hazardous waste treatment services and recycled products in the PRC, particularly in Shandong province is driven by various factors of China's hazardous waste treatment market, such as stricter environmental requirements, increasing utilisation value through technological improvement, increase in utilisation channels and the increasing hazardous waste output rate, according to the F&S Report. If there is any significant fluctuation in the market drivers of the market for our services and products, thereby the market demand of our services and products faces a significant decline, our business, financial condition, and operation results may be adversely affected.

During the Track Record Period, revenue from gold mine hazardous waste treatment services accounted for approximately 40.1%, 46.1% and 52.6% of our total revenue for the years ended 31 December 2018, 2019 and 2020, respectively. The treatment volume of gold mine hazardous waste we treated increased from approximately 560,067 tonnes in 2018 to approximately 805,811 tonnes in 2019 and further increased to approximately 1,082,913 tonnes in 2020.

According to the F&S Report, the gold mine production in Shandong province reached 58.7 tonnes in 2019, ranking first in China and accounting for approximately 18.7% of the total gold mine production in China. Laizhou city, among which its gold reserves is ranked first among the county-level cities in the PRC. The output volume of gold mine hazardous wastes in Shandong province increased at a CAGR of 9.3% from 2.0 million tonnes in 2015 to 3.1 million tonnes in 2020 and is expected to increase further to 4.3 million tonnes in 2025, representing a CAGR of 6.7% from 2020 to 2025. The treatment volume of gold mine hazardous waste in Shandong province increase significantly from 0.7 million tonnes in 2015 to 4.2 million tonnes in 2020, representing a CAGR of 42.2% from 2015 to 2020. Under the stricter environment requirements, the treatment demand from increasing annual hazardous waste output and accumulated hazardous waste which has not been treated from historical period is expected to drive the treatment volume of gold mine hazardous waste in Shandong to increase continuously to 5.7 million tonnes in 2025, representing a CAGR of 6.2% from 2020 to 2025.

Revenue from sale of recycled products accounted for approximately 56.4%, 42.2% and 40.2%, respectively, of our total revenue for the years ended 31 December 2018, 2019 and 2020. We recorded an increase in sale volume of recycled products during the Track Record Period from approximately 280,641 tonnes in 2018 to approximately 316,137 tonnes in 2019 and further increase to approximately 480,342 tonnes in 2020. According to the F&S Report, the utilisation rate of China's mineral resources still lags far behind that of developed countries such as the United States and Canada. With the favourable policy supporting and continuous development of environmental protection technology in recent years, China's mining circular economy industry has made considerable progress and is starting a period of rapid development. The total output of circular economy in mining industry in China increased from RMB45.2 billion in 2015 to RMB69.2 billion in 2020, representing a CAGR of 8.9% from 2015 to 2020. Driven by industrial upgrading and strengthening environment protection, the total output of circular economy in mining industry in China is expected to increase to RMB112.8 billion with a CAGR of 10.3% from 2020 to 2025.

Nevertheless, if there were a decline in the market demand for our services and products, or if there is a slowdown in the market we operate in, the demand for our services and products may be curtailed and our growth prospects and profitability may in turn be adversely affected.

Transportation costs and price of consumables

Our principal raw materials are the gold mine hazardous wastes collected from upstream customers and the purchase cost of recycled products for our trading business. We generally engage transportation companies to collect gold mine hazardous wastes from our customers and transport them to our warehouses. Accordingly, our cost of raw materials under our cost of sales mainly represents transportation fee charged by those transportation companies to collect gold mine hazardous wastes treated during the Track Record Period Transportation costs under our cost of sales mainly represent the costs in engaging transportation companies to assist in the transition of high silicon tailings and flipping and airing of gold mine hazardous wastes in our production facilities.

For the years ended 31 December 2018, 2019 and 2020, cost of raw material amounted to approximately RMB14.2 million, RMB14.3 million and RMB25.9 million, respectively, representing approximately 31.9%, 27.8% and 31.8% of our total cost of sales for the same period, respectively. For the years ended 31 December 2018, 2019 and 2020, transportation costs in our operation amounted to approximately RMB10.0 million, RMB11.2 million and RMB11.8 million, respectively, representing approximately 22.4%, 21.7% and 14.5% of our total cost of sales for the same period, respectively.

According to the F&S Report, the transportation costs is mainly affected by the gasoline and diesel price in China, which is related to the crude oil price in China and affected by global crude oil price. The global crude oil price is further influenced by factors including global oil supply and demand volume, price of alternative energy, international economy, international political relations. In the past few years, the price of gasoline and diesel in China experienced a process of rise and fall.

Our Group did not engage in any long term contracts with transportation companies. Therefore, any increases in the price of our transportation costs may have a material effect on our business and results of operations. We try to manage the impact of such fluctuations on our profitability through adjustments to the selling prices of our products or our treatment fee of our service from time to time according to the movements in our transportation costs, with a view to pass the additional costs to our customers to an extent that it is commercially practicable.

During the Track Record Period, we procured consumables which mainly included Xanthate and Sodium Sulphide for our production. For the years ended 31 December 2018, 2019 and 2020, our consumables used amounted to approximately 6.9%, 6.8% and 6.8% of our total cost of sales, respectively. If prices of the consumables we use substantially increase, we may incur additional costs to acquire sufficient quantity of these consumables to meet our production needs. The impact of any volatility in the prices of consumables we rely on or the reduction in the demand could result in a loss of revenue and profitability and could adversely affect our results of operations.

Hypothetical fluctuations in cost of raw materials and transportation costs

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the total transportation costs incurred in our operation on our profit before tax during the Track Record Period. The hypothetical fluctuation rates are set at 16.5% and 22.6%, with reference to the range of historical price of gasoline and diesel in China from 2018 to 2020 as shown in the F&S Report and are therefore considered reasonable for the purpose of this sensitivity analysis:

	+/– 16.5%	**+/– 22.6%**
	RMB'000	*RMB'000*
Change in profit before tax:		
Year ended 31 December 2018	–/+ 3,999	–/+ 5,478
Year ended 31 December 2019	–/+ 4,206	–/+ 5,761
Year ended 31 December 2020	–/+ 6,223	–/+ 8,523

Hypothetical fluctuations in price of consumables

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in price of consumables on our profit before tax during the Track Record Period. The hypothetical fluctuation rates are set at 11.2% and 18.1%, with reference to the range of historical price trend of xanthate and sodium sulphide in the PRC from 2018 to 2020 as shown in the F&S Report and are therefore considered reasonable for the purpose of this sensitivity analysis:

	+/– 11.2%	**+/– 18.1%**
	RMB'000	*RMB'000*
Changes in profit before tax		
Year ended 31 December 2018	–/+ 342	–/+ 553
Year ended 31 December 2019	–/+ 389	–/+ 625
Year ended 31 December 2020	–/+ 625	–/+ 1,010

Prospective [REDACTED] should note that the above analysis on the historical financials is based on assumptions and is for reference only and should not be viewed as actual effect.

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

We identified certain accounting policies that are significant to the preparation of our historical financial information in accordance with the IFRSs. Some of our accounting policies requires us to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience, nature of our business operations, relevant rules and regulations that we believe to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. We review the estimates and underlying assumptions regularly as they may have a significant impact on our operational results as reported in our historical financial information or included elsewhere in this document. For further details regarding our significant accounting policies and critical accounting estimates and judgements, see Notes 2 and 4 to the Accountant's Report set out in Appendix I to this document.

RESULTS OF OPERATIONS

The following table sets out a summary of the results of our Group during the Track Record Period, derived from the Accountant's Report set out in Appendix I to this document.

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	102,281	133,664	205,392
Cost of sales	(44,562)	(51,479)	(81,498)
Gross profit	57,719	82,185	123,894
Other income	—	6,463	5,187
Other gains/(losses) — net	77	(240)	412
Reversal/(provision) of impairment on financial assets	22	93	(113)
Selling expenses	(5,972)	(2,518)	(2,886)
Administrative expenses	(8,700)	(17,347)	[REDACTED]
Operating profit	43,146	68,636	102,532
Finance income	113	175	40
Finance costs	(3,023)	(5,398)	(6,083)
Finance costs — net	(2,910)	(5,223)	(6,043)
Profit before income tax	40,236	63,413	96,489
Income tax expense	(9,540)	(14,936)	(23,624)
Profit for the year	30,696	48,477	72,865

NON-IFRS MEASURES*(1)*

The following table sets forth the adjusted profit and adjusted net profit margin in each respective year during the Track Record Period:

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Profit for the year	30,696	48,477	72,865
Add: [REDACTED] expenses	—	—	[REDACTED]
Adjusted profit for the year *(unaudited)(2)*	30,696	48,477	[REDACTED]
Adjusted net profit margin *(unaudited)(3)*	30.0%	36.3%	[REDACTED]

Notes:

(1) To supplement our combined financial statements which are presented in accordance with IFRS, we also presented adjusted profit and adjusted net profit margin as non-IFRS financial measures which are not required by, or presented in accordance with, IFRS. We believe that the presentation of non-IFRS financial measures when shown in conjunction with the corresponding IFRS financial measures provides useful information to potential [REDACTED] and management in understanding and evaluating our operating performance from period to period by eliminating potential impact of nonrecurring item that does not affect our ongoing operating performance.

(2) We calculated the adjusted profit for the year by adding back the [REDACTED] expenses to the profit for the year as presented in accordance with IFRS.

(3) We calculated the adjusted net profit margin by dividing adjusted net profit for the year by revenue for the year end and multiplied by 100%.

DESCRIPTION OF SELECTED ITEMS IN THE COMBINED STATEMENTS OF COMPREHENSIVE INCOME

Revenue

Our Group principally collects cyanide tailings, which is a kind of gold mine hazardous waste, from our upstream customers and applied our technical know-how to (i) detoxify those wastes for meeting the safety standards, and (ii) recover and recycle therefrom resources with economic value for sale, such as pyrite concentrate and gold-bearing pyrite concentrate. Therefore, our revenue during the Track Record Period is mainly derived from (i) gold mine hazardous waste treatment services, and (ii) sale of recycled products. Since November 2018, we also derived revenue from hazardous waste storage rental services.

The following table sets forth a breakdown of our revenue by business activities during the Track Record Period:

	Year ended 31 December					
	2018		2019		2020	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Gold mine hazardous waste treatment	41,014	40.1	61,567	46.1	107,958	52.6
Sale of recycled products	57,642	56.4	56,413	42.2	82,514	40.2
Hazardous waste storage rental services	1,083	1.0	14,490	10.8	14,507	7.1
Others *(Note)*	2,542	2.5	1,194	0.9	413	0.1
Total	**102,281**	**100.0**	**133,664**	**100.0**	**205,392**	**100.0**

Note: Others represented revenue from the trading of recycled products, which mainly included desulphurisation gypsum, copper concentrate powders and waste rocks, that we procured from our suppliers during the Track Record Period.

During the Track Record Period, revenue from our gold mine hazardous waste treatment services and sale of recycled products has been our major revenue sources, which collectively accounted for approximately 96.5%, 88.3% and 92.8%, respectively, of our total revenue. Since November 2018, our Group also derived revenue from the hazardous waste storage rental services, which accounted for approximately 1.0%, 10.8% and 7.1% of our total revenue, respectively for the years ended 31 December 2018, 2019 and 2020.

Our Group's total revenue increased by approximately RMB31.4 million or 30.7% from approximately RMB102.3 million for the year ended 31 December 2018 to approximately RMB133.7 million for the year ended 31 December 2019; and further increased by approximately RMB71.7 million or 53.6% to approximately RMB205.4 million for the year ended 31 December 2020. Such overall increasing trend was mainly attributable to (i) the increase in revenue from gold mine hazardous waste treatment services and sale of recycled products due to the increase in permitted treatment volume and production capacity as a result of our business expansion driven by the completion of our second production facility in Shahe town, Laizhou city which commenced trial operation in October 2019; and (ii) the full year rental services for hazardous waste storage services for the year of 2019 and 2020.

Gold mine hazardous waste treatment services

Our Group mainly provides gold mine hazardous waste treatment services for our upstream customers, who are gold mining companies with mine operations in the Shandong province. Our revenue from gold mine hazardous waste treatment services were approximately RMB41.0 million, RMB61.6 million and RMB108.0 million, respectively, for the years ended 31 December 2018, 2019 and 2020, representing approximately 40.1%, 46.1% and 52.6% of our total revenue respectively for the same periods.

The following table sets forth a breakdown of revenue from gold mine hazardous waste treatment services, treatment volume and average treatment fee per tonne during the Track Record Period:

	Year ended 31 December								
	2018			2019			2020		
	Revenue	Treatment volume	Average treatment fee per tonne	Revenue	Treatment volume	Average treatment fee per tonne	Revenue	Treatment volume	Average treatment fee per tonne
	RMB'000	*Tonnes*	*RMB/ tonne*	*RMB'000*	*Tonnes*	*RMB/ tonne*	*RMB'000*	*Tonnes*	*RMB/ tonne*
Gold mine hazardous waste treatment services	41,014	560,067	73	61,567	805,811	76	107,958	1,082,913	100

Treatment volume

For the years ended 31 December 2018 and 2019, our treatment volume increased from approximately 560,067 tonnes to approximately 805,811 tonnes, representing an increase of approximately 43.9%. This increase was mainly attributable to the increase in our permitted treatment volume and production capacity upon the completion of our second production facility in Shahe town, Laizhou city, which we obtained a temporary permit (with a permitted treatment capacity of 300,000 tonnes) to commence operation in October 2019. Our Group was subsequently granted the Hazardous Waste Business Licence from Yantai Municipal Ecology and Environment Bureau with the permitted annual treatment capacity of 600,000 tonnes in July 2020.

Our treatment volume further increased by approximately 34.4% to approximately 1,082,913 tonnes for the year ended 31 December 2020, which was primarily attributable to the full year operation of our production facility in Shahe town, Laizhou city and the increased demand of our gold mine hazardous waste treatment services from upstream customers.

Average treatment fee per tonne

The average treatment fee per tonne of our gold mine hazardous waste treatment services was relatively stable at approximately RMB73 for the year ended 31 December 2018 and approximately RMB76 for the year ended 31 December 2019. Average treatment fee per tonne increased to approximately RMB100 for the year ended 31 December 2020, which was mainly attributable to the stricter environment regulations imposed by the PRC government and the declining grading of waste and gold ore according to the F&S Report. Our Directors considered that our average treatment fee per tonne in 2020 of approximately RMB100 per tonne is within the industry range of RMB40 to RMB180 per tonne as according to the F&S Report.

Sale of recycled products

Our revenue from sale of recycled products amounted to approximately RMB57.6 million, RMB56.4 million and RMB82.5 million, respectively for the years ended 31 December 2018, 2019 and 2020, accounting for approximately 56.4%, 42.2% and 40.2% of our total revenue, respectively for the same periods. During the Track Record Period, we sold our recycled products to our downstream customers, which are mainly chemical manufacturing companies and trading companies of chemicals in the PRC.

The following table sets forth a breakdown of revenue from sale of recycled products, sale volume and average selling price per tonne during the Track Record Period:

	Year ended 31 December								
	2018			2019			2020		
	Revenue	Sale volume	Average selling price per tonne	Revenue	Sale volume	Average selling price per tonne	Revenue	Sale volume	Average selling price per tonne
	RMB'000	*Tonnes*	*RMB'000/ tonne*	*RMB'000*	*Tonnes*	*RMB'000/ tonne*	*RMB'000*	*Tonnes*	*RMB'000/ tonne*
Sale of recycled products									
— Pyrite concentrate	57,642	280,641	205	56,413	316,137	178	77,015	463,740	166
— Gold-bearing pyrite concentrate	—	—	—	—	—	—	5,499	16,601	331
	57,642	280,641	205	56,413	316,137	178	82,514	480,341	172

Sale volume and average selling price per tonne

According to the F&S Report, more companies prefer to use pyrite concentrate for sulfuric acid production as it can generate high value by-products and could have a lot of synergy with steel, chemical and other downstream industries to achieve cleaner production and circular economy of mining resources. Following the increase of our production capacity upon the commencement of operation of our second production facility in Shahe town, Laizhou city in October 2019, we recorded an increase of sale volume of our recycled products from approximately 280,641 tonnes for the year ended 31 December 2018 to approximately 316,137 tonnes for the year ended 31 December 2019. Nevertheless, we recorded a decrease of average selling price per tonne from approximately RMB205 in 2018 to approximately RMB178 in 2019. According to the F&S Report, the market price of sulphuric acid experienced a decline from RMB375.4 per tonne in 2018 to RMB265.0 per tonne in 2019, which negatively affected the price of our pyrite concentrate in 2019.

With the full year operation of our production facility in Shahe town, Laizhou city in 2020, we recorded a further increase of our sale volume of recycled products to approximately 480,341 tonnes for the year ended December 2020; while the average selling price of pyrite concentrate per tonne decreased from approximately RMB178 in 2019 to approximately RMB166 in 2020. This was in line with the decreasing trend of market price of sulphuric acid in the PRC as according to the F&S Report. Impacted by the COVID-19 outbreak in 2020, downstream demand of sulphuric acid has plummeted and prices decreased significantly and so as selling price of our pyrite concentrate. In 2020, we also provided treatment services for gold-bearing cyanide tailings and recovered gold-bearing pyrite concentrate. According to the F&S Report, gold-bearing pyrite concentrate is usually sold at higher price and higher profit margin than pyrite concentrate due to its high content of gold with higher recovery value. The average selling price of gold-bearing pyrite concentrate in 2020 was approximately RMB331 per tonne.

Hazardous waste storage rental services

Since November 2018, we provide rental services for hazardous waste storage to LZ Assets, a state-owned enterprise, pursuant to which our Group leased certain hazardous waste storage facilities, inclusive of two warehouses and ancillary facilities such as rainwater-harvesting pools, roads and passages for storage of hazardous waste. For further details of our rental agreements with LZ Assets in regard of this hazardous waste storage rental services, see "Business — Our Production Facilities — Our Warehouses — Our Rental Services for Storage of Hazardous Wastes" in this document.

The rental income recognised for the years ended 31 December 2018, 2019 and 2020 was approximately RMB1.1 million, RMB14.5 million and RMB14.5 million, respectively. The fluctuation of rental income during the Track Record Period was due to the full year rental services provided in 2019 and 2020.

Cost of sales

Our cost of sales primarily include (i) cost of raw materials, (ii) transportation costs, (iii) depreciation of property, plant and equipment related to our production, (iv) direct labour cost, (v) consumables cost, and (vi) manufacturing overhead which mainly included electricity and water, fuel, repair and maintenance, production safety cost and others. The following table sets forth the breakdown of our cost of sales during the Track Record Period:

	Year ended 31 December					
	2018		2019		2020	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Cost of raw materials	14,234	31.9	14,302	27.8	25,936	31.8
Transportation costs	10,003	22.4	11,190	21.7	11,777	14.5
Depreciation	2,050	4.6	5,121	9.9	9,841	12.1
Direct labour cost	2,917	6.6	3,657	7.1	5,772	7.1
Consumables cost	3,057	6.9	3,476	6.8	5,582	6.8
Manufacturing overhead	12,301	27.6	13,733	26.7	22,590	27.7
Total	**44,562**	**100.0**	**51,479**	**100.0**	**81,498**	**100.0**

Our cost of sales amounted to approximately RMB44.6 million, RMB51.5 million and RMB81.5 million, respectively for the years ended 31 December 2018, 2019 and 2020. The fluctuation in our cost of sales during the Track Record Period were generally in line with our fluctuation in revenue for the same period.

Cost of raw materials during the Track Record Period mainly represent (i) transportation costs incurred to collect gold mine hazardous waste from our upstream customers for recycling and thereafter capitalised when our services completed, and (ii) purchase cost of recycled products for our trading business. Cost of raw materials accounted for a significant portion of our cost of sales during the Track Record Period, representing approximately 31.9%, 27.8% and 31.8%, respectively of our cost of sales for the same periods. Cost of raw materials accounted for approximately 31.9% and 27.8%, respectively of our total cost of sale for the years ended 31 December 2018 and 2019. Such decrease aligned with the decrease in revenue from trading of recycled products with increased gross profit margin of approximately 3.0% in 2018 to approximately 10.4% in 2019. With the full year operation of our second production facility in Shahe town, Laizhou city in 2020, our cost of raw materials further increased to approximately RMB25.9 million for the year ended 31 December 2020, accounting for approximately 31.8% of our cost of sales for the same period. This increase was largely attributable to (i) our revenue growth with increased treatment volume, and (ii) the increase of average transportation fee per transaction due to the increased average transportation distance during the year ended 31 December 2020. Our Directors consider that in agreeing the price of transportation with our suppliers, we usually consider a variety of factors including the size of container trucks, distance required for delivery, duration of waiting time and prevailing market rate.

Transportation costs mainly represents costs incurred in transiting high silicon tailings and flipping and airing of gold mine hazardous waste in our production facilities before putting them into machines for chemical reaction for further process. Transportation costs accounted for approximately 22.4%, 21.7% and 14.5% of our total cost of sales for the years ended 31 December 2018, 2019 and 2020, respectively. Our Directors consider that we have incurred a relatively higher transportation costs in 2018 in transiting our high silicon tailings which we have accumulated from previous years to be stored in our new land in Shahe town, Laizhou city which we acquired in 2018. Our transportation costs was approximately RMB11.2 million and RMB11.8 million, respectively for the years ended 31 December 2019 and 2020; whereas the contribution decreased from approximately 21.7% to approximately 14.5% for the same periods. Such decrease is mainly attributable to the increase in efficiency in our flipping and airing process.

Depreciation amounted to approximately RMB2.1 million, RMB5.1 million and RMB9.8 million, respectively for the years ended 31 December 2018, 2019 and 2020, representing approximately 4.6%, 9.9% and 12.1% of our total cost of sales for the same period, respectively. The increase throughout the Track Record Period is mainly attributable to the significant addition of property, plant and equipment in connection with our second production facility in Shahe town, Laizhou city in 2019.

Direct labour cost mainly represents our staff costs attributable to production. Our direct labour cost amounted to approximately RMB2.9 million, RMB3.7 million and RMB5.8 million for the years ended 31 December 2018, 2019 and 2020, respectively, representing approximately 6.6%, 7.1% and 7.1% of our total cost of sales for the same period, respectively. The fluctuation over the Track Record Period was mainly due to increase in our production headcount to cope with our business expansion and increase in the average monthly salary of production staff by approximately 8.0% approximately 11.3% for the years ended 31 December 2019 and 2020, respectively.

Consumables cost comprises purchase costs of xanthate, sodium sulfide and other chemicals which we used in our production. For the years ended 31 December 2018, 2019 and 2020, consumables cost amounted to approximately RMB3.1 million, RMB3.5 million and RMB5.6 million, respectively, representing approximately 6.9%, 6.8% and 6.8% of our total cost of sales for the same period, respectively.

Gross profit and gross profit margin

Our gross profit was approximately RMB57.7 million, RMB82.2 million and RMB123.9 million for the years ended 31 December 2018, 2019 and 2020, respectively. The following table sets forth an analysis of our gross profit and gross profit margin by business activities during the Track Record Period:

	Year ended 31 December								
	2018			2019			2020		
	Gross profit		Gross profit margin	Gross profit		Gross profit margin	Gross profit		Gross profit margin
	RMB'000	*%*	*%*	*RMB'000*	*%*	*%*	*RMB'000*	*%*	*%*
Gold mine hazardous waste treatment services	28,619	49.6	69.8	42,591	51.8	69.2	76,311	61.6	70.7
Sale of recycled products	28,735	49.8	49.9	28,389	34.5	50.3	37,439	30.2	45.4
Hazardous waste storage rental services	291	0.5	26.9	11,081	13.5	76.5	10,121	8.2	69.8
Others	74	0.1	3.0	124	0.2	10.4	23	— (Note)	5.6
Total/overall	**57,719**	**100.0**	**56.4**	**82,185**	**100.0**	**61.5**	**123,894**	**100.0**	**60.3**

Note: The percentage figure is less than 0.1%.

Our total gross profit increased from approximately RMB57.7 million for the year ended 31 December 2018 to approximately RMB82.2 million for the year ended 31 December 2019 and further increased to approximately RMB123.9 million for the year ended 31 December 2020. Such increase was generally in line with the increase of our total revenue as a result of our business expansion. Since gold mine hazardous waste treatment services and sale of recycled products are our major business activities during the Track Record Period, the gross profit generated from them in aggregate, accounted for approximately 99.4%, 86.3% and 91.8% of our total gross profit for the years ended 31 December 2018, 2019 and 2020, respectively.

Our overall gross profit margin was approximately 56.4%, 61.5% and 60.3% for the years ended 31 December 2018, 2019 and 2020, respectively. Such fluctuation was mainly attributable to the change in revenue mix throughout the Track Record Period. Our gross profit margin increased from approximately 56.4% for the year ended 31 December 2018 to approximately 61.5% for the year ended 31 December 2019, mainly attributable to (i) the increase of revenue and gross profit contribution from our hazardous waste storage rental services; with the full year rental services provided in 2019, our rental income and relevant gross profit increase from approximately RMB1.1 million and RMB0.3 million, respectively for the year ended 31 December 2018 to approximately RMB14.5 million and RMB11.1 million, respectively for the year ended 31 December 2019. Our Group also recorded an improvement in gross profit margin from hazardous waste storage rental services from approximately 26.9% for the year ended 31 December 2018 to approximately 76.5% for the year ended 31 December 2019; and (ii) slight increase of gross profit contribution from our hazardous waste treatment services, which have a relatively higher gross profit margin as compared to sale of recycled products, from approximately 49.6% for the year ended 31 December 2018 to approximately 51.8% for the year ended 31 December 2019. We recorded a slight decrease in our overall gross profit margin to approximately 60.3% for the year ended 31 December 2020, which was mainly driven by the further increase in gross profit contribution from gold mine hazardous waste treatment services and the improvement for such gross profit margin and partially offset by the decrease of gross profit margin for sale of recycled products from approximately 50.3% for the year ended 31 December 2019 to approximately 45.4% for the year ended 31 December 2020.

Gold mine hazardous waste treatment services

For the years ended 31 December 2018, 2019 and 2020, our gross profit for gold mine hazardous waste treatment services amounted to approximately RMB28.6 million, RMB42.6 million and RMB76.3 million, respectively; and the corresponding gross profit margin was approximately 69.8%, 69.2% and 70.7%, respectively, which was relatively stable during the Track Record Period.

The increase in our gross profit from gold mine hazardous waste treatment services was generally in line with the increase in our revenue from gold mine hazardous waste treatment services which was mainly due to the increase in our treatment volume upon the commencement of operation of our production facility in Shahe town, Laizhou city in 2019 which reflected the increasing demand of our treatment services.

Sale of recycled products

Our gross profit for sale of recycled products amounted to approximately RMB28.7 million, RMB28.4 million and RMB37.4 million for the years ended 31 December 2018, 2019 and 2020, respectively. Such overall increase was in line with the increase in our revenue from sale of recycled products which was mainly attributable to the increase in sale volume as a result of business expansion and increasing demand of pyrite concentrate from our downstream customers; and partially offset by the decrease of average selling price per tonne of our products which was negatively affected by the drop of market price of sulphuric acid during the years.

Our gross profit margin for sale of recycled products were relatively stable at approximately 49.9% and 50.3% for the year ended 31 December 2018 and 2019, respectively. Our gross profit margin for sale of recycled products decreased by approximately 4.9 percentage point to approximately 45.4% for the year ended 31 December 2020, which was mainly due to decrease in average selling price per tonne of our pyrite concentrate by approximately 6.7% from approximately RMB178 for the year ended 31 December 2019 to approximately RMB166 for the year ended 31 December 2020. Our Directors consider such decrease is aligned with the decrease in market price of sulphuric acid which resulted from its decreased demand and consumption as impacted by the outbreak of COVID-19 in 2020.

Hazardous waste storage rental services

Our gross profit for hazardous waste storage rental services amounted to approximately RMB0.3 million, RMB11.1 million and RMB10.1 million, which was in line with the increase in the relevant sector revenue. The corresponding gross profit margin was approximately 26.9%, 76.5% and 69.8%, for the years ended 31 December 2018, 2019 and 2020, respectively.

We recorded a relatively lower gross profit margin of approximately 26.9% for the year ended 31 December 2018 because we incurred depreciation expenses as a result of capital expenditure incurred for construction of warehouses and storage facilities to be leased to LZ Assets before the recognition of rental income in November 2018. Gross profit margin for hazardous waste storage rental services decreased from approximately 76.5% for the year ended 31 December 2019 to approximately 69.8% for the year ended 31 December 2020, which was mainly due to the increase in depreciation expenses on our related capital expenditure during the year.

Other income

The following table sets forth the breakdown of other income during the Track Record Period:

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Interest income from a related party	—	6,460	5,144
Others	—	3	43
Total	—	6,463	5,187

Other income mainly represents interest income from an interest-bearing loan entered into between our Group and Zhonglian Cement, a company controlled by Mr. Liu, our Controlling Shareholder, on 1 January 2019 with interest rate of 6.86% per annum. See "Related Parties Transactions" in this section for details.

Other gains/(losses) — net

The following table sets forth the breakdown of our other gains/(losses) — net during the Track Record Period:

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Insurance claim	—	—	175
Foreign exchange loss	—	—	154
Net gains/(losses) on disposal of property, plant and equipment and other assets	71	(232)	50
Others	6	(8)	33
Total	**77**	**(240)**	**412**

Other net gains or losses primarily consist of our net gains or losses in connection with our disposal of property, plant and equipment and other assets, insurance claim and foreign exchange loss.

We recorded other net gains of approximately RMB77,000 and RMB0.4 million for the years ended 31 December 2018 and 2020, respectively as compared to other net losses of approximately RMB0.2 million for the year ended 31 December 2019.

Selling expenses

The following table sets forth the breakdown of our selling expenses during the Track Record Period:

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Entertainment	515	1,924	2,548
Promotion expenses	14	1	178
Staff costs	28	80	148
Delivery costs	5,413	386	—
Others	2	127	12
Total	**5,972**	**2,518**	**2,886**

Our selling expenses mainly consist of (i) entertainment, (ii) promotion expenses, (iii) employee salary and benefit expenses for our sales team, (iv) costs of delivery of our products to downstream customers, and (v) others, which mainly included expenses incurred from our selling activities.

For the years ended 31 December 2018, 2019 and 2020, our selling expenses amounted to approximately RMB6.0 million, RMB2.5 million and RMB2.9 million, respectively.

Administrative expenses

The table below sets out the breakdown of our administrative expenses during the Track Record Period:

	Year ended 31 December					
	2018		2019		2020	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Staff costs	2,935	33.7	5,288	30.5	6,102	25.5
[REDACTED] expenses	—	—	—	—	[REDACTED]	[REDACTED]
Taxes and levies	2,064	23.7	2,535	14.6	3,717	15.5
Depreciation	886	10.2	1,807	10.4	1,765	7.4
Office expenses	648	7.4	1,089	6.3	1,190	5.0
Entertainment	242	2.8	750	4.3	1,015	4.2
Professional and consultation fee	414	4.8	2,117	12.2	884	3.7
Transportation and related expenses	689	7.9	1,345	7.8	748	3.1
Amortisation	330	3.8	365	2.1	327	1.4
Electricity and water expenses	68	0.8	136	0.8	169	0.7
Donation	128	1.5	154	0.9	781	3.3
Others *(Note)*	296	3.4	1,761	10.1	2,725	11.3
Total	**8,700**	**100.0**	**17,347**	**100.0**	**[REDACTED]**	**[REDACTED]**

Note: "Others" mainly represents repair and maintenance for administrative facilities, insurance expenses, communication expenses, decoration, research expenses and other expenses.

Our administrative expenses mainly represent (i) employee benefit expenses, including salaries and wages and staff welfare for administrative and management staff, (ii) [REDACTED] expenses incurred in connection with the proposed [REDACTED], (iii) taxes and levies which primarily represented various kinds of government levies or taxes such as real estate tax (房產稅), urban construction tax (城市建設維護稅), tenure tax (土地使用稅) and stamp duty (印花稅), (iv) depreciation and amortisation for administrative facilities, (v) office expenses, (vi) entertainment, (vii) professional and consultation fee, (viii) transportation and related expenses, including those incurred in business travels of administrative and management staff and business use of vehicles expenses, and (ix) other expenses of similar nature.

For the years ended 31 December 2018, 2019 and 2020, our administrative expenses amounted to approximately RMB8.7 million, RMB17.3 million and RMB24.0 million, respectively.

Net finance costs

Our net finance costs reflected the sum of interest expenses on bank borrowings, lease liabilities and other liabilities after offsetting interest income we received from bank balances. For the years ended 31 December 2018, 2019 and 2020, we recorded net finance costs of approximately RMB2.9 million, RMB5.2 million and RMB6.0 million, respectively. The following table sets forth the breakdown of our finance income and finance costs during the Track Record Period:

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Finance income			
— Interest income derived from bank balances	113	175	40
Finance costs			
— Interest expenses on bank borrowings	(2,617)	(1,781)	(1,846)
— Interest expenses relating to warehouse lease arrangement	(288)	(3,927)	(4,110)
— Interest expenses on lease liabilities	(118)	(60)	(70)
— Other losses	—	—	(57)
Less: borrowing costs capitalized in property, plant and equipment	—	370	—
	(3,023)	(5,398)	(6,083)
Net finance costs	(2,910)	(5,223)	(6,043)

For details of our warehouse lease arrangement, see "Description of Certain Items of Combined Statements of Financial Position — Other Liabilities" below.

Income tax expenses

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Act of the Cayman Islands and accordingly is exempted from Cayman Islands income tax. Our Company's directly held subsidiary was incorporated in the BVI as an exempted company with limited liability under the BVI Companies Act 2004 and accordingly is exempted from BVI income tax.

Hong Kong profits tax

No Hong Kong profits tax has been provided for as our Group did not generate any assessable profit in Hong Kong during the Track Record Period.

PRC corporate income tax ("CIT")

In accordance with the relevant tax rules and regulations, except for HC Mining which is identified as small-scale taxpayer under the PRC CIT regime for the year ended 31 December 2018 and its CIT is assessed on a deemed basis of which the taxable income that is subject to CIT at rate of 25% was pre-determined at 4% of the revenue, the tax rate of our subsidiaries established in the PRC is 25% during the Track Record Period. HC Environmental and HC Mining, engaging in comprehensive utilisation of resources are also entitled to a reduction of 10% revenue from sales of recycled products from the taxable income of the companies in the calculation of CIT. See Note 11 to the historical financial information set out in Appendix I to this document.

Our income tax expense amounted to approximately RMB9.5 million, RMB14.9 million and RMB23.6 million for the years ended 31 December 2018, 2019 and 2020, respectively, reflecting effective tax rates (equal to income tax expenses divided by profit before income tax) of approximately 23.7%, 23.6% and 24.5% for the years ended 31 December 2018, 2019 and 2020, respectively. Our effective tax rates for the years ended 31 December 2018, 2019 and 2020 were lower than the statutory tax rate of 25% mainly because (i) HC Environmental and HC Mining are entitled to a tax preferential treatment for revenue derived from sale of recycled products, and (ii) HC Mining has enjoyed preferential tax for the year ended 31 December 2018 as he is identified as small-scale taxpayer by local tax bureau in 2018 as mentioned above.

As at the Latest Practicable Date and during the Track Record Period, we had fulfilled all our tax obligations and did not have any unresolved tax disputes with the relevant tax authorities.

Profit for the year

For the years ended 31 December 2018, 2019 and 2020, our profit for the year was approximately RMB30.7 million, RMB48.5 million and RMB72.9 million, respectively.

REVIEW OF HISTORICAL RESULTS OF OPERATIONS

Year ended 31 December 2020 compared to year ended 31 December 2019

Revenue

Our revenue increased by approximately RMB71.7 million or 53.6% from approximately RMB133.7 million for the year ended 31 December 2019 to approximately RMB205.4 million for the year ended 31 December 2020. Such increase was mainly attributable to (i) the increase in revenue from gold mine hazardous waste treatment services from approximately RMB61.6 million for the year ended 31 December 2019 to approximately RMB108.0 million for the year ended 31 December 2020, primarily due to the increase in our treatment volume upon full year operation of our second production facility in Shahe city, Laizhou town and the increase in average treatment fee per tonne from approximately RMB76 in 2019 to approximately RMB100 in 2020 attributable to the stricter environment regulations and the declining grading of waste and gold ore according to the F&S Report, and (ii) the increase in revenue from sale of recycled products from approximately RMB56.4 million for the year ended 31 December 2019 to approximately RMB82.5 million for the year ended 31 December 2020, mainly due to the increase in sale volume from approximately 316,137 tonnes in 2019 to approximately 480,342 tonnes in 2020 as a result of increased demand of our pyrite concentrate from downstream customers because it allows companies to enjoy more synergy during sulfuric acid production, and together with our expanded operation.

Cost of sales

Our cost of sales increased by approximately RMB30.0 million or 58.3% from approximately RMB51.5 million for the year ended 31 December 2019 to approximately RMB81.5 million for the year ended 31 December 2020. Such increase was primarily attributable to (i) the increase in our cost of raw materials by approximately RMB11.6 million as a result of our increased treatment volume and increase of transportation costs incurred in collecting gold mine hazardous wastes as a result of increased average transportation distance, (ii) increase of depreciation by approximately RMB4.7 million, with our expanded operation, and (iii) overall increase in direct labour cost, consumables and manufacturing overhead, which was generally in line with the increase in our total revenue as a result of business expansion.

Gross profit and gross profit margin

Our gross profit increased by approximately RMB41.7 million or 50.7% from approximately RMB82.2 million for the year ended 31 December 2019 to approximately RMB123.9 million for the year ended 31 December 2020, which generally reflected our revenue growth as a result of business expansion.

Our overall gross profit margins were approximately 61.5% and 60.3%, respectively for the years ended 31 December 2019 and 2020. Such fluctuation was a combining effect of (i) a stable gross profit margin for gold mine hazardous waste treatment services of approximately 69.2% for the year ended 31 December 2019 and approximately 70.7% for the year ended 31 December 2020, and (ii) the decrease of gross profit margin of sale of recycled products from approximately 50.3% for the year ended 31 December 2019 to approximately 45.4% for the year ended 31 December 2020, mainly attributable to the decrease in average selling price of our pyrite concentrate by approximately 6.7% from RMB178 in 2019 to RMB166 per tonne in 2020 which was negatively affected by the drop in market price of sulphuric acid and decreased consumption as impacted by the outbreak of COVID-19 according to the F&S Report; while other costs such as depreciation and staff costs, remained relatively fixed and stable.

Other income

Other income decreased by approximately RMB1.3 million or 20.0% from approximately RMB6.5 million for the year ended 31 December 2019 to approximately RMB5.2 million for the year ended 31 December 2020, which was mainly due to the decrease in interest income as a result of the decrease in the average balance of our loan to Zhonglian Cement.

Other net gains/losses

We recorded other net losses of approximately RMB0.2 million for the year ended 31 December 2019 as compared to other net gains of approximately RMB0.4 million for the year ended 31 December 2020. The other net losses for the year ended 31 December 2019 were primarily a result of losses recorded in connection with the disposal of property, plant and equipment and other assets. Other net gains for the year ended 31 December 2020 were primarily a result of foreign exchange loss, insurance claim and gains recorded in connection with the disposal of property, plant and equipment and other assets.

Selling expenses

Our selling expenses increased by approximately RMB0.4 million or 16.0% from approximately RMB2.5 million for the year ended 31 December 2019 to approximately RMB2.9 million for the year ended 31 December 2020, primarily attributable to the approximately RMB0.4 million decrease in delivery costs of our products to customers upon the changes of delivery term in early 2019; and partially offset with the increase in entertainment and promotion expenses as a result of our business expansion.

Administrative expenses

Our administrative expenses increased by approximately [REDACTED] or [REDACTED] from approximately RMB17.3 million for the year ended 31 December 2019 to approximately [REDACTED] for the year ended 31 December 2020. The increase was mainly attributable to (i) an increase in [REDACTED] expenses incurred in connection with the proposed [REDACTED] of approximately [REDACTED], (ii) an increase of approximately RMB0.8 million in staff costs as we recruited more administrative staff and increased their salary level, and (iii) an overall increase of taxes and levies, entertainment and office expenses which reflected our expanded operation.

Net finance costs

Our net finance costs increased by approximately RMB0.8 million or 15.4% from approximately RMB5.2 million for the year ended 31 December 2019 to approximately RMB6.0 million for the year ended 31 December 2020, primarily due to a higher average balance of our bank borrowings and other liabilities relating to our hazardous waste storage rental services during the year ended 31 December 2020.

Income tax expenses

Our income tax expense increased by approximately RMB8.7 million or 58.4% from approximately RMB14.9 million for the year ended 31 December 2019 to approximately RMB23.6 million for the year ended 31 December 2020, which reflected our business growth that resulted in an increase in our profit before income tax from approximately RMB63.4 million for the year ended 31 December 2019 to approximately RMB96.5 million for the year ended 31 December 2020. Our effective tax rate were approximately 23.6% and 24.5% for the year ended 31 December 2019 and 2020, respectively. A higher effective tax rate of approximately 24.5% for the year ended 31 December 2020 was mainly due to the increase of [REDACTED] expenses of approximately [REDACTED] not deductible for tax purpose.

Profit for the year

As a result of the foregoing, our profit for the year increased by approximately RMB24.4 million or 50.3% from approximately RMB48.5 million for the year ended 31 December 2019 to approximately RMB72.9 million for the year ended 31 December 2020.

Our net profit margin slightly decreased from approximately 36.3% for the year ended 31 December 2019 to approximately 35.5% for the year ended 31 December 2020, primarily attributable to (i) the slight decrease of our gross profit margin from approximately 61.5% for the year ended 31 December 2019 to approximately 60.3% for the year ended 31 December 2020, (ii) and the increase of [REDACTED] expenses of approximately [REDACTED] for the year ended 31 December 2020, and (iii) the increase in effective tax rate from approximately 23.6% for the year ended 31 December 2019 to approximately 24.5% for the year ended 31 December 2020.

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

Revenue

Our revenue increased by approximately RMB31.4 million or 30.7% from approximately RMB102.3 million for the year ended 31 December 2018 to approximately RMB133.7 million for the year ended 31 December 2019 mainly due to the increase of treatment volume and production capacity upon the completion and the commencement of trial operation of our production facility in Shahe town, Laizhou city in October 2019 with a permitted treatment capacity of 300,000 tonnes. In connection to this, there was an increase in revenue from gold mine hazardous waste treatment services from approximately RMB41.0 million for the year ended 31 December 2018 to approximately RMB61.6 million for the year ended 31 December 2019, representing an increase of approximately 50.2%, and (ii) the increase of income for hazardous waste storage rental services from approximately RMB1.1 million for the year ended 31 December 2018 to approximately RMB14.5 million for the year ended 31 December 2019 as a result of full year services provided for the year ended 31 December 2019.

Cost of sales

Our cost of sales increased by approximately RMB6.9 million or 15.5% from approximately RMB44.6 million for the year ended 31 December 2018 to approximately RMB51.5 million for the year ended 31 December 2019. The increase in our cost of sales was primarily attributable to the increase in our depreciation and direct labour cost by approximately 149.8% and 25.4%, respectively. Given that our certain manufacturing costs mainly included depreciation, repair and maintenance and other fixed costs which were relatively less sensitive to the fluctuation of revenue, hence, in term of percentage, the increase in our cost of sales was less than that of increase in revenue for the year ended 31 December 2019.

Gross profit and gross profit margin

Our gross profit increased by approximately RMB24.5 million or 42.5% from approximately RMB57.7 million for the year ended 31 December 2018 to approximately RMB82.2 million for the year ended 31 December 2019, which reflected our revenue growth resulted from our business expansion. Our gross profit margins were approximately 56.4% and 61.5%, respectively for the years ended 31 December 2018 and 2019. Such increase was mainly attributable to the change in revenue mix as explained by (i) the increase in gross profit contribution from gold mine hazardous waste treatment services (which recorded a relatively higher gross profit margin of approximately 69.8% in 2018 and approximately 69.2% in 2019 as compared to that of sale of recycled products) from approximately 49.6% of our total gross profit for the year ended 31 December 2018 to approximately 51.8% for the year ended 31 December 2019, and (ii) the significant increase in gross profit contribution from hazardous waste storage rental services for the year ended 31 December 2019 with a relatively higher gross profit margin of approximately 76.5% as compared to that for the year ended 31 December 2018 of approximately 26.9%.

Other income

Other income increased from nil for the year ended 31 December 2018 to approximately RMB6.5 million for the year ended 31 December 2019 mainly due to the increase in interest income derived from an interest-bearing loan entered into between our Group and Zhonglian Cement on 1 January 2019 with interest rate of 6.86% per annum.

Other net gains/losses

We recorded other net gains of approximately RMB77,000 for the year ended 31 December 2018 as compared to other net losses of approximately RMB0.2 million for the year ended 31 December 2019. Other net gains for the year ended 31 December 2018 were primarily a result of gains in connection with the disposal of property, plant and equipment and other assets, while other net losses for the year ended 31 December 2019 were primarily a result of losses recorded in connection with the disposal of property, plant and equipment and other assets.

Selling expenses

The decrease of our selling expenses by approximately RMB3.5 million or 58.3% from approximately RMB6.0 million for the year ended 31 December 2018 to approximately RMB2.5 million for the year ended 31 December 2019, was mainly due to the decrease in delivery costs from approximately RMB5.4 million for the year ended 31 December 2018 to approximately RMB0.4 million for the year ended 31 December 2019 as a result of change in delivery terms with customers from sale of recycled products, of which our certain customers agreed to bear the delivery costs in 2019; and partially offset by the approximately RMB1.4 million increase of entertainment expenses incurred to maintain business relationship with customers.

Administrative expenses

Our administrative expenses increased by approximately RMB8.6 million or 98.9% from approximately RMB8.7 million for the year ended 31 December 2018 to approximately RMB17.3 million for the year ended 31 December 2019, mainly due to (i) the increase in staff costs from approximately RMB2.9 million for the year ended 31 December 2018 to approximately RMB5.3 million for the year ended 31 December 2019, driven by the increase in our administrative staff due to expanded operation and increase in average salary level, (ii) the increase in professional and consultancy fee from approximately RMB0.4 million for the year ended 31 December 2018 to approximately RMB2.1 million for the year ended 31 December 2019, which we incurred for the feasibility studies and inspection works for our production facilities, (iii) increase in depreciation expenses from approximately RMB0.9 million for the year ended 31 December 2018 to approximately RMB1.8 million for the year ended 31 December 2019, and (iv) the overall increase in entertainment, office expenses and electricity and water expenses which generally aligned to our expanded operation.

Net finance costs

Our net finance costs increased by approximately RMB2.3 million or 79.3% from approximately 2.9 million for the year ended 31 December 2018 to approximately RMB5.2 million for the year ended 31 December 2019, mainly attributable to the increase in the balance of our other liabilities.

Income tax expense

Our income tax expense increased by approximately RMB5.4 million or 56.8% from approximately RMB9.5 million for the year ended 31 December 2018 to approximately RMB14.9 million for the year ended 31 December 2019, which was primarily attributable to the increase of our profit before tax from approximately RMB40.2 million for the year ended 31 December 2018 to approximately RMB63.4 million for the year ended 31 December 2019. Our effective tax rates were relatively stable at approximately 23.7% and 23.6% for the years ended 31 December 2018 and 2019, respectively.

Profit for the year

In light of the foregoing, our profit for the year increased by approximately RMB17.8 million or 58.0% from approximately RMB30.7 million for the year ended 31 December 2018 to approximately RMB48.5 million for the year ended 31 December 2019.

Our net profit margin increased from approximately 30.0% for the year ended 31 December 2018 to approximately 36.3% for the year ended 31 December 2019, which was mainly due to (i) the increase in our overall gross profit margin from approximately 56.4% for the year ended 31 December 2018 to approximately 61.5% for the year ended 31 December 2019, and (ii) the increase in other income from nil for the year ended 31 December 2018 to approximately RMB6.5 million for the year ended 31 December 2019.

ACCUMULATED LOSSES AS AT 1 JANUARY 2018

Our Group recorded accumulated loss of approximately RMB18.1 million as at 1 January 2018. Our Directors consider that such accumulated losses as at 1 January 2018 mainly arose from the prior years' operating loss due to a relatively smaller scale of operation, and we had made substantial investment and incurred significant costs and expenses in relation to the construction of our first production facility in Jincheng town, Laizhou city in prior years, such as depreciation and finance costs. Our Group is able to generate operating profit from 2018 and onward, primarily attributable to the increasingly stricter environmental protection policies imposed by the PRC government in the recent years (such as cyanide leaching residue, including gold concentrates cyaniding tailings was listed on the Directory of National Hazardous Wastes (國家危廢名錄) as hazardous waste in 2016 and the implementation of environmental protection tax for hazardous waste which come to effect on 1 January 2018) leading to the significant growth of the gold mine hazardous waste treatment market.

According to the F&S Report, the gold mine hazardous waste treatment market was relatively small due to the lack of attention in prior years and a large amount of mine solid waste produced by gold producers in history were either stored or discarded at will. Our Group collected cyanide tailings free of charge or at lower cost and recycled into recycled products for sale. With stricter environmental policies and regulations, the treatment of cyanide leaching residue has attracted greater attention and the gold mine hazardous waste treatment market has grown significantly, driven by the increasing demand from the huge amount of historical storage and together with abundant upstream supply from the new production of gold mine hazardous waste every year. The gold producers usually pay treatment fee and outsource the disposal of the hazardous waste to hazardous waste treatment companies with qualification, who typically charge for the hazardous waste treatment services. According to the F&S Report, the gold mine hazardous waste treatment market size increased from RMB59.5 million in 2015 to RMB1,288.8 million in 2020 in Shandong province, representing a CAGR of 85.0% from 2015 to 2020.

As a result, our financial performance has greatly improved during the Track Record Period, primarily attributable to (i) increased demand for our gold mine hazardous waste treatment services from upstream customers, and (ii) increased demand for our recycled products from downstream customers. As an indication for our improved financial performance, we recorded retained earnings of approximately RMB10.2 million, RMB54.2 million and RMB63.2 million as at 31 December 2018, 2019 and 2020, respectively.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, our Group's operations and capital requirements were financed principally through a combination of internal resources, contributions from our Controlling Shareholder and bank borrowings. During the Track Record Period, we were able to repay our bank borrowings when they became due. We expect that there will not be any material change in the sources and uses of the cash of our Group upon completion of the [REDACTED] and in the future, except that we will have additional funds from the net [REDACTED] of the [REDACTED] for implementing our future plans as set out in "Future Plans and Use of [REDACTED]" in this document.

Cash flows

The following table sets forth a summary of our net cash flows for the years indicated during the Track Record Period:

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Net cash generated from operating activities	84,226	100,361	67,539
Net cash used in investing activities	(103,841)	(124,687)	(59,148)
Net cash generated from financing activities	23,913	14,305	34,973
Net increase/(decrease) in cash and cash equivalents	4,298	(10,021)	43,364
Cash and cash equivalents at beginning of year	7,779	12,077	2,056
Effect of exchange rate changes on cash and cash equivalents	—	—	(57)
Cash and cash equivalents at end of year	12,077	2,056	45,363

Operating activities

For the year ended 31 December 2018, our net cash generated from operating activities were approximately RMB84.2 million, primarily consists of cash generated from operations of approximately RMB90.5 million and partially offset by income tax paid of approximately RMB3.8 million and interest paid of approximately RMB2.6 million. Our cash generated from operations of approximately RMB90.5 million, was mainly resulted from our profit before income tax of approximately RMB40.2 million, which was primarily adjusted for (i) depreciation of property, plant and equipment, right-of-use assets and investment property of approximately RMB2.5 million, RMB0.8 million and RMB0.8 million, respectively, (ii) net finance costs of approximately RMB2.9 million, (iii) increase of contract liabilities of approximately RMB9.6 million, (iv) increase in advances from LZ

Assets in relation to our hazardous waste storage rental services of approximately RMB28.7 million (see "Description of Certain Items of Combined Statements of Financial Statements — Other Liabilities" for further details), and (v) decrease in trade and other receivables and prepayments of approximately RMB24.0 million; and partially offset by the decrease of trade and other payables of approximately RMB18.8 million.

For the year ended 31 December 2019, our net cash generated from operating activities were approximately RMB100.4 million, primarily reflecting our business growth that resulted in cash generated from operations of approximately RMB115.5 million and partially offset by income tax paid of approximately RMB13.9 million and interest paid of approximately RMB1.4 million. Our Group had cash generated from operations of approximately RMB115.5 million, mainly as a result of our profit before income tax of approximately RMB63.4 million, which was primarily adjusted for (i) depreciation of property, plant and equipment, right-of-use assets and investment property of approximately RMB4.4 million, RMB0.9 million and RMB3.4 million, respectively, (ii) net finance costs of approximately RMB5.2 million, (iii) increase of contract liabilities of approximately RMB2.8 million, (iv) increase of advances from LZ Assets in relation to our hazardous waste storage rental services of approximately RMB27.2 million, and (v) decrease of trade and other receivables and prepayments of approximately RMB20.9 million. This was partially offset by (i) decrease of inventories of approximately RMB12.7 million. The decrease in trade and other receivables and prepayment was mainly due to the improvement of settlement of trade receivable balances during the year ended 31 December 2019.

For the year ended 31 December 2020, our net cash generated from operating activities were approximately RMB67.5 million, primarily consists of cash generated from operations of approximately RMB80.1 million and partially offset by income tax paid of approximately RMB10.8 million and interest paid of approximately RMB1.8 million. We had cash generated from operations of approximately RMB80.1 million, mainly as a result of our profit before income tax of approximately RMB96.5 million, which was primarily adjusted for (i) depreciation of property, plant and equipment, right-of-use assets and investment property of approximately RMB8.0 million, RMB1.1 million and RMB4.4 million for the years ended 31 December 2018, 2019 and 2020, respectively, (ii) net finance costs of approximately RMB6.0 million, and (iii) increase of trade and other payables of approximately RMB11.7 million. This was partially offset by (i) increase of trade and other receivables and prepayments of approximately RMB22.1 million which reflected our revenue growth, (ii) decrease of advances from LZ Assets of approximately RMB14.5 million as a result of recognition of hazardous waste storage rental services for the year ended 31 December 2020, (iii) decrease of inventories of approximately RMB6.7 million, and (iv) decrease of contract liabilities of approximately RMB4.4 million.

Investing activities

For the year ended 31 December 2018, we had net cash used in investing activities of approximately RMB103.8 million, primarily attributable to (i) the purchases of land use rights of approximately RMB19.6 million, (ii) the payment for purchases of property, plant and equipment and investment property of approximately RMB13.0 million, and (iii) loans and advances to related parties of approximately RMB91.9 million. This was partially offset by settlement from related parties and third parties of approximately RMB18.1 million and RMB2.2 million, respectively.

For the year ended 31 December 2019, we had net cash used in investing activities of approximately RMB124.7 million, primarily attributable to (i) the payment for purchases of property, plant and equipment and investment property of approximately RMB70.2 million, and (ii) loans and advances to related parties and third parties of approximately RMB161.3 million and RMB14.6 million, respectively. This is partially offset by (i) repayments from related parties and third parties of approximately RMB109.5 million and RMB10.2 million, respectively, and (ii) proceeds of approximately RMB1.7 million from disposal of property, plant and equipment and other assets.

For the year ended 31 December 2020, we had net cash used in investing activities of approximately RMB59.1 million, primarily attributable to (i) the payment for purchases of property, plant and equipment and investment property of approximately RMB149.8 million, and (ii) loans and advances to related parties of approximately RMB30.1 million. This is partially offset by (i) repayments from related parties and third parties of approximately RMB111.8 million and RMB8.7 million, respectively, and (ii) proceeds of approximately RMB0.2 million from disposal of property, plant and equipment and other assets.

Financing activities

For the year ended 31 December 2018, our net cash generated from financing activities of approximately RMB23.9 million were mainly attributable to (i) proceeds received in relation to rental arrangement of approximately RMB37.9 million; (ii) new banks borrowings of approximately RMB42.5 million, and (iii) increase in amount due to our Controlling Shareholder of approximately RMB60.5 million. This is partially offset by (i) repayments of bank borrowings of approximately RMB57.5 million, (ii) repayments of amount due to our Controlling Shareholder of approximately RMB52.4 million, (iii) decrease of restricted cash of restricted cash of RMB6.0 million, and (iv) repayment of lease liabilities of approximately RMB1.1 million.

For the year ended 31 December 2019, our net cash generated from financing activities of approximately RMB14.3 million were mainly attributable to (i) proceeds received in relation to rental arrangement of approximately RMB46.3 million, (ii) proceeds from bank borrowings of RMB32.0 million, (iii) increase in amount due to our Controlling Shareholder of approximately RMB67.7 million, and (iv) increase of restricted cash of RMB6.0 million. This was partially offset by (i) repayments of bank borrowings of approximately RMB28.5 million, (ii) repayments of amount due to our Controlling Shareholder of approximately RMB94.8 million, and (iii) repayment of lease liabilities of approximately RMB14.4 million.

For the year ended 31 December 2020, our net cash generated from financing activities of approximately RMB35.0 million were mainly attributable to (i) proceeds from bank borrowings of RMB84.0 million, (ii) increase in amount due to our Controlling Shareholder of approximately RMB87.3 million, and (iii) contributions from shareholders of approximately RMB29.6 million. This were partially offset by (i) repayments of bank borrowings of RMB74.0 million, (ii) repayments amount due to our Controlling Shareholder of approximately RMB67.6 million, (iii) deemed distribution to shareholders of approximately RMB22.7 million, (iv) deemed distribution to shareholders in relation to reorganisation of approximately RMB22.7 million, (v) [REDACTED] expenses paid of approximately [REDACTED], and (vi) repayment of lease liabilities of approximately RMB0.5 million.

Net current liabilities/assets

The following table sets forth our current assets and current liabilities as at the dates indicated:

	As at 31 December			As at 28 February
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Current assets				
Inventories	4,537	17,276	23,996	30,456
Trade receivables	18,902	348	22,833	17,355
Other receivables and prepayments	6,429	17,826	9,997	15,313
Amounts due from related parties	86,295	139,075	33,887	33,887
Amounts due from the Controlling shareholders	—	—	—	4,098
Financial assets measured at fair value through other comprehensive income	10,243	2,890	1,960	1,000
Restricted bank balance	6,000	—	—	—
Cash and cash equivalents	12,077	2,056	45,363	21,753
	144,483	179,471	138,036	123,862
Current liabilities				
Trade payables	9,174	13,224	20,147	18,065
Other payables and accruals	117,540	162,792	23,726	19,058
Dividend payable	—	—	11,600	11,600
Amount due to the Controlling Shareholder	50,679	23,572	8,217	—
Borrowings	28,480	32,000	2,120	2,120
Current income tax liabilities	3,781	5,123	17,803	14,167
Contract liabilities	12,468	15,241	10,827	10,714
Lease liabilities	4,486	539	762	926
Other liabilities	6,825	15,167	33,059	33,059
	233,433	267,658	128,261	109,709
Net current (liabilities)/assets	(88,950)	(88,187)	9,775	14,153

We had net current liabilities of approximately RMB89.0 million and RMB88.2 million as at 31 December 2018 and 2019, respectively. Our net current liabilities as at 31 December 2018 and 2019 was primarily attributable to a relatively higher balance of payables for construction costs and purchases of property, plant and equipment for our production facility in Shahe town, Laizhou city, of approximately RMB90.8 million and RMB148.9 million, respectively as at 31 December 2018 and 2019, while the corresponding capital expenditure was recorded under our non-current assets.

We had net current assets of approximately RMB9.8 million as at 31 December 2020. The change of net current liabilities position of approximately RMB88.2 million as at 31 December 2019 to net current assets position of approximately RMB9.8 million as at 31 December 2020 is because we continuously generated cash from our operations and by replacing short-term borrowings with long-term borrowings while partially offset by the substantial settlement of payables for construction costs and purchases of property, plant and equipment during the year ended 31 December 2020.

Our net current assets position further improved to approximately RMB14.2 million as at 28 February 2021 which was mainly attributable to the cash generated from operations during the period and the increase of amount due from the Controlling Shareholders of approximately RMB4.1 million.

Working capital sufficiency

We had net current liabilities as at 31 December 2018 and 2019, respectively, which were mainly attributable to relatively higher balance of payables for construction costs and purchases of property, plant and equipment as described above. A net current liability position may pose certain risks to our operations. We had net current assets of approximately RMB9.8 million and RMB14.2 million, respectively as at 31 December 2020 and 28 February 2021. We had sufficient cash and cash equivalents of approximately RMB12.1 million, RMB2.1 million and RMB45.4 million as at 31 December 2018, 2019 and 2020 for our working capital needs. We recorded net cash generated from operating activities of approximately RMB84.2 million, RMB100.4 million and RMB67.5 million, respectively, for the years ended 31 December 2018, 2019 and 2020.

Our Directors confirm that we have sufficient working capital for our requirements for at least the next 12 months from the date of this document, taking into account the financial resources available to our Group, the anticipated cash flows from our operations and the estimated net [REDACTED] of the [REDACTED]. Our Directors are not aware of any other factors that would have a material impact on our liquidity and performance.

DESCRIPTION OF CERTAIN ITEMS OF COMBINED STATEMENTS OF FINANCIAL POSITION

Property, plant and equipment

Our property, plant and equipment consist of building, machinery, furniture fixtures and equipment, vehicles and construction in progress. The carrying values of our property, plant and equipment increased from approximately RMB31.9 million as at 31 December 2018 to approximately RMB129.4 million as at 31 December 2019 and further increased to approximately RMB130.4 million as at 31 December 2020, primarily attributable to our construction costs and corresponding purchases of property, plant and equipment for our production facility in Shahe town, Laizhou city during the year ended 31 December 2019.

Right-of-use assets

Leases are recognised as right-of-use assets and a corresponding liability at the date at which the leased asset is available for use by our Group. Assets arising from a lease are initially measured on a present value basis. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Our right-of-use assets which mainly include land use rights, leased properties and leased equipment, amounted to approximately RMB29.5 million, RMB28.7 million and RMB28.3 million, respectively, as at 31 December 2018, 2019 and 2020. The fluctuation of our right-of-use assets as at the end of respective year during the Track Record Period mainly reflected the amortisation charges provided for during the years.

Investment properties

Our investment properties represent our warehouses and storage facilities for which we entered into hazardous waste storage rental agreements with LZ Assets. For details of the rental agreements with LZ Assets, see "Business — Our Production Facilities — Our Warehouses — Our Rental Services for Storage of Hazardous Wastes" and Note 15 to the Historical Financial Information set out in Appendix I to this document.

Our investment properties increased from approximately RMB103.1 million as at 31 December 2018 to approximately RMB138.4 million as at 31 December 2019, primarily due to an addition of approximately RMB38.6 million to the construction of warehouses and storage facilities outweighed the depreciation expenses incurred of approximately RMB3.4 million during the year ended 31 December 2019. Our investment properties decreased to approximately RMB134.0 million as at 31 December 2020, primarily attributable to the depreciation expenses incurred of approximately RMB4.4 million during the year ended 31 December 2020.

Inventories

Our inventories consist of raw materials, work-in-progress and finished goods of recycled products available for sale. Raw materials mainly include (i) cyanide tailings we collected from customers, and (ii) consumables to be used during our production process. Our working-in-progress represents gold mine hazardous waste that have entered into the production process as at the year end.

The table below sets out a breakdown of our inventories at the respective date indicated:

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	918	2,007	2,586
Work-in-progress	502	1,491	1,304
Finished goods	3,117	13,778	20,106
Total	**4,537**	**17,276**	**23,996**

As at 31 December 2018, 2019 and 2020, our inventories amounted to approximately RMB4.5 million, RMB17.3 million and RMB24.0 million, respectively. This overall increase in inventories at the end of respective year was mainly driven by the increase in finished goods which amounted to approximately RMB3.1 million, RMB13.8 million and RMB20.1 million as at 31 December 2018, 2019 and 2020, respectively. This increase was also in line with our revenue growth during the Track Record Period and the expected increasing demand of our recycled products from downstream customers. During the Track Record Period, we have not made any provision or written off any inventories due to damage or obsolescence as we have not experienced any significant damage or loss in respect of our inventories.

The following table sets forth the average inventory turnover days for the Track Record Period:

	Year ended 31 December		
	2018	**2019**	**2020**
Average inventory turnover days *(Note)*	36.7	77.3	92.4

Note: Average inventory turnover days is the average of the beginning and ending balances of inventories for the year divided by cost of sales for the year and multiplied the resulting value by the number of day for the year.

Our average inventory turnover days for the years ended 31 December 2018, 2019 and 2020 were approximately 36.7 days, 77.3 days and 92.4 days, respectively. The increasing trend of our average inventory turnover days was consistent to the increase in our inventories balance throughout the Track Record Period, which was generally in line with our revenue and business growth, in particular in relation to the expansion of our production capacities, which led to increased raw materials and more finished goods of recycled products produced to meet the expected increasing demand of our products and services.

As at the Latest Practicable Date, approximately RMB16.6 million or 69.1% of our inventories as at 31 December 2020 had been subsequently consumed/sold.

Trade receivables

Our trade receivables mainly represent receivables from our upstream customers for gold mine hazardous waste treatment services; and from our downstream customers for sale of recycled products.

The following table sets forth a breakdown of our trade receivables as at the dates indicated:

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables related to:			
Gold mine hazardous waste treatment services	7,787	—	1,781
Sales of recycled products	11,210	350	21,167
	18,997	350	22,948
Less: provision for impairment	(95)	(2)	(115)
	18,902	348	22,833

The credit period offered by our Group is generally ranging from 30 to 60 days, except for certain customers, where advance payment is required. Our Group seeks to maintain strict control over our outstanding receivables. There is no significant concentration of credit risk. Overdue balances are reviewed regularly by our senior management. Our Group does not hold any collateral or other credit enhancements over our trade receivable balances. Trade receivables are non-interest-bearing.

Our gross trade receivables decreased from approximately RMB19.0 million as at 31 December 2018 to approximately RMB0.4 million as at 31 December 2019, primarily attributable to improvement of settlement of trade receivables balances during the year ended 31 December 2019. Our trade receivables increased to approximately RMB22.9 million as at 31 December 2020, which was largely in line with the increase in our total revenue.

Our Group adopted simplified approach as permitted under IFRS 9 and measured the expected credit loss for all trade receivables. Trade receivables have been grouped and assessed for expected credit loss based on shared credit risk characteristics and the ageing of trade receivables. Our Group assess the credit quality of our customers by taking into account various factors such as their financial position, past experience and other factors including, but not limited to, the economic impact of the unprecedented COVID-19 pandemic on the customers and the regions in which they operate. We recorded provision for impairment of trade receivables of approximately RMB95,000, RMB2,000 and RMB115,000, respectively as at 31 December 2018, 2019 and 2020. For details of our credit risk exposure, see Note 3.1(b) to the Historical Financial Information set out in Appendix I to this document.

The following table sets forth the ageing analysis of our trade receivables based on invoice date as at the dates indicated:

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
1 to 30 days	3,339	350	9,243
31 to 60 days	5,279	—	10,673
61 to 90 days	3,098	—	1,890
91 to 180 days	2,060	—	1,142
Over 180 days	5,221	—	—
Trade receivables, gross	18,997	350	22,948
Less provision for impairment	(95)	(2)	(115)
Trade receivables, net	18,902	348	22,833

The following table sets out a summary of trade receivables turnover days for the Track Record Period:

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Average trade receivables turnover days *(Note)*	75.4	26.3	20.6

Note: Average trade receivables turnover days is the average of the beginning and ending balance of trade receivables for the year divided by revenue for the year and multiplied the resulting value by the number of day for the year.

Our average trade receivables turnover days decreased from approximately 75.4 days for the year ended 31 December 2018 to approximately 26.3 days for the year ended 31 December 2019 primarily due to our comparatively large amount of receivables balance as at 1 January 2018, which caused the average trade receivables amount for the year ended 31 December 2018 to be higher than that for the year ended 31 December 2019. Our average trade receivables turnover days for the years ended 31 December 2019 and 2020 remained relatively stable of approximately 26.3 days and 20.6 days, respectively. The average trade receivables turnover days during the Track Record Period was generally consistent with our credit policy of 30 to 60 days. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, our Group had not experienced any material default in payment from our customers.

As at the Latest Practicable Date, approximately RMB16.6 million or 72.1% of our trade receivables outstanding as at 31 December 2020 were settled.

Other receivables and prepayments

The following table sets forth a breakdown of other receivables and prepayments as at the dates indicated:

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Prepayments	658	4,196	5,424
Prepayment for [REDACTED] expenses	—	—	[REDACTED]
VAT recoverables	—	2,788	1,164
Amounts due from third parties	4,827	9,215	491
Others	944	1,627	1,366
	6,429	17,826	[REDACTED]

Other receivables and prepayments mainly consisted of (i) prepayments made to transportation companies, suppliers for purchase of raw materials, prepaid electricity and water and prepayment for technical consultation services, (ii) prepayment for [REDACTED] expenses, (iii) VAT recoverables, and (iv) amounts due from third parties.

Our amounts due from third parties over the Track Record Period mainly represented advances to third parties, which were unsecured, interest free and without fixed repayment terms.

Our other receivables and prepayments increased from approximately RMB6.4 million as at 31 December 2018 to approximately RMB17.8 million as at 31 December 2019, mainly resulted from (i) the increase of amounts due from third parties from approximately RMB4.8 million as at 31 December 2018 to approximately RMB9.2 million as at 31 December 2019, (ii) increase of prepaid electricity and water of approximately RMB3.1 million, and (iii) increase of VAT recoverables of approximately RMB2.8 million.

Our other receivables and prepayments decreased to approximately [REDACTED] as at 31 December 2020, which was a net result of (i) settlement of amounts due from third parties during the year leading to a decrease of such balance to approximately RMB0.5 million as at 31 December 2020, (ii) prepayment for [REDACTED] expenses of approximately [REDACTED], and (iii) increase of prepayment made to transportation companies of approximately RMB1.8 million near the end of the year.

Contract liabilities

The following table set forth our contract liabilities as at the dates indicated:

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Contract liabilities relating to			
— Gold mine hazardous waste treatment services	7,010	11,279	8,676
— Sale of recycled products	5,458	3,962	2,151
	12,468	15,241	10,827

Our contract liabilities represent advance payments received from our customers for gold mine hazardous waste treatment services and sales of recycled products before the completion of services or delivery of goods. As at 31 December 2018, 2019 and 2020, our contract liabilities amounted to approximately RMB12.5 million, RMB15.2 million and RMB10.8 million, respectively. Our contract liabilities will subsequently be recognised as revenue when the relevant services are rendered to customers.

As at the Latest Practicable Date, approximately RMB9.6 million or 88.3% of our contract liabilities as at 31 December 2020 were subsequently recognised as revenue.

Trade payables

Our trade payables mainly represent payables due to transportation companies and suppliers of consumables.

The following table sets forth our trade and payables as at the dates indicated:

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables			
— related to transportation costs	7,092	13,117	17,308
— related to raw materials	2,082	107	2,839
	9,174	13,224	20,147

Our trade payables increased from approximately RMB9.2 million as at 31 December 2018 to approximately RMB13.2 million as at 31 December 2019, and further increased to approximately RMB20.1 million as at 31 December 2020 which was in line with our business expansion and increasing cost of sales throughout the Track Record Period. Trade payables are non-interest bearing and are normally settled within 30 to 90 days.

The following table sets forth the ageing analysis of our trade payables based on the invoice date as at the dates indicated:

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
1 to 30 days	3,670	964	5,898
31 to 60 days	1,630	2,173	8,908
61 to 90 days	1,008	3,422	2,337
91 to 180 days	2,708	4,610	2,611
Over 180 days	158	2,055	393
	9,174	13,224	20,147

The following table sets forth a summary of average trade payables turnover days for the years indicated:

	Year ended 31 December		
	2018	**2019**	**2020**
Average trade payables turnover days *(Note)*	156.4	79.4	74.7

Note: Average trade payables turnover days is the average of the beginning and ending balances of trade payables for the year divided by cost of sales for the year and multiplied the resulting value by the number of days for the year.

We recorded a relatively higher average trade payables turnover days of approximately 156.4 days for the year ended 31 December 2018, primarily due to our comparatively large amount of balance as at 1 January 2018, which caused the average trade payables amount for the year ended 31 December 2018 to be higher than that for the year ended 31 December 2019. Our average trade payables turnover days were relatively stable of approximately 79.4 days and 74.7 days for the years ended 31 December 2019 and 2020, respectively, which were in line with our normal settlement days.

As at the Latest Practicable Date, approximately RMB14.8 million or 73.6% of our trade payables as at 31 December 2020 were settled.

Other payables and accruals

The following table sets forth a breakdown of our other payables and accruals as at the dates indicated:

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Payable for construction and purchases of property, plant and equipment	90,765	148,874	6,347
Bills payable for purchase of land use rights and construction	11,500	—	—
Employee benefit payables	1,860	2,542	3,048
Other taxes payable	6,522	7,975	11,506
Payable for [REDACTED] expenses	—	—	[REDACTED]
Others	6,893	3,401	1,278
	117,540	162,792	[REDACTED]

Other payables and accruals mainly consist of (i) payable for construction and purchase of property, plant and equipment, (ii) bills payable for purchase of land use rights and construction, (iii) employee benefit payables, (iv) other taxes payable, and (v) payable for the [REDACTED] expenses.

Payable for construction and purchases of property, plant and equipment

Our payable for construction and purchases of property, plant and equipment increased from approximately RMB90.8 million as at 31 December 2018 to approximately RMB148.9 million as at 31 December 2019, which was mainly attributable to the construction of our second production facility in Shahe town, Laizhou city for our business expansion. Our payable for construction and purchases of property, plant and equipment decreased to approximately RMB6.3 million as at 31 December 2020, which was mainly due to the settlement of such balances during the year ended 31 December 2020.

Other tax payables

Our other tax payables mainly represent various government levies or taxes such as VAT, urban construction tax, real estate tax and tenure tax. Our other tax payables amounted to approximately RMB6.5 million, RMB8.0 million and RMB11.5 million as at 31 December 2018, 2019 and 2020, respectively. The increasing trend was mainly due to (i) increase in VAT from products we sold to our customers which was consistent with our revenue growth, and (ii) increase in real estate tax, tenure tax and urban construction tax as a result of our expanded operation.

Other liabilities

The following table set forth our other liabilities as at the dates indicated:

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Retention payable for construction projects	—	17,892	17,892
Lease arrangements			
— Advance from LZ Assets	28,679	55,899	41,392
— Payable to LZ Assets	38,162	88,380	92,489
	66,841	144,279	133,881
	66,841	162,171	151,773

Retention payable for construction projects

According to the contracts with the contractors for the construction of our buildings, 10% of the total payables for construction cost was withheld as retention fund with a warranty period of two years from the date of inspection for certification of completion of our buildings.

Lease arrangements

In the fourth quarter of 2018, we entered into two hazardous waste storage rental agreements with LZ Assets with the minimum term of the lease period of five years and up to 20 years. Details of the background of rental arrangement and our rental agreements with LZ Assets, see "Business — Our Production Facilities — Our Warehouses — Our Rental Service for Storage of Hazardous Wastes" to this document. Pursuant to the rental agreements, LZ Assets advanced a total amount of RMB160.0 million to us for the leasing of two warehouses at an annual rental of RMB8 million, inclusive of VAT on rental income.

Both LZ Assets and us agreed that the minimum term of the lease period shall be five years from the respective lease commencement dates, unless the cyanide tailings in the warehouses are put for tender through public bidding by the government for detoxing treatment during the five years term, and when we win the tender, by then the lease term will terminate and the treatment fee will then be firstly deducted from the remaining amount of the advanced payment made by LZ Assets. It is also stipulated in the lease agreements that from the sixth year onward, either LZ Assets or we has the right to terminate the lease by paying an amount equivalent to one year rental, being RMB8 million, as compensation, and we will be required to repay the remaining balance of the advances from LZ Assets within three years, being 20% for the first year, 30% for the second year and full repayment in the third year, from the receipt of the notice of termination of the lease agreements.

We consider there is a likelihood for LZ Assets to exercise the right to terminate the lease agreements after the five years fixed term and then we are liable to pay LZ Assets a total amount of RMB112.0 million, being the total advances received of RMB160 million less the five years of rental income of RMB40.0 million and the compensation of RMB8.0 million upon the expiry of the five years lease term in 2023. Accordingly, on initial recognition of the advances from LZ Assets of RMB160.0 million, approximately RMB112 million was recorded as payable to LZ Assets under other liabilities, being our obligations to repay to LZ Assets upon the expiry of five years lease terms, and based on the present value of the discounted RMB112 million to be payable to LZ Assets within three years from the termination of the five years fixed lease terms. The remaining balances were recorded as advance from lessee. The discount rate applied in deriving the present value of the payable was the current market rate available to our Group for similar financial instruments. Accordingly, as at 31 December 2018, 2019 and 2020, we had long-term payables to LZ Assets amounting to approximately RMB38.2 million, RMB88.4 million and RMB92.5 million, respectively.

The difference between the advance of RMB160.0 million and payable to LZ Assets was recognised as advances from lessee. As at 31 December 2018, 2019 and 2020, we recognised total advances from lessee of approximately RMB28.7 million, RMB55.9 million and RMB41.4 million, respectively. Hence, advances from lessee was amortised as rental income evenly over five years. The rental income recognised for the years ended 31 December 2018, 2019 and 2020 was approximately RMB1.1 million, RMB14.5 million and RMB14.5 million, respectively.

For further details, see Note 30 to the Historical Financial Information set out in Appendix I to this document.

Balances with our Controlling Shareholder and related parties

Details of balances with our Controlling Shareholder and related parties are disclosed in Note 33 to the Historical Financial Information set out in Appendix I to this document. Our Directors confirm that all balances with our Controlling Shareholder and related parties as at 31 December 2020 will be fully settled before [REDACTED].

CAPITAL EXPENDITURES

Our capital expenditures mainly consist of purchases of items of property, plant and equipment, investment properties and right-of-use assets. The following table sets forth our capital expenditures incurred during the Track Record Period:

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Right-of-use assets	21,620	653	727
Property, plant and equipment	16,058	103,275	9,263
Investment properties	103,934	38,631	—
	141,612	142,559	9,990

CAPITAL COMMITMENTS

We had the following significant capital commitments mainly related to construction and acquisition of property, plant and equipment, which were not provided for in our combined financial statements:

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Contracted but not recognised as liabilities			
— Commitments for construction and acquisition of property, plant and equipment	176,667	2,887	3,408

INDEBTEDNESS

As at 28 February 2021, being the latest practicable date for this indebtedness statement, our Group had outstanding indebtedness of approximately RMB136.7 million, which comprised (i) bank borrowings of approximately RMB42.0 million, (ii) lease liabilities of approximately RMB1.5 million, and (iii) other liabilities in relation to rental arrangement of approximately RMB93.2 million.

The table below sets out our indebtedness as at the respective dates indicated:

	As at 31 December			As at 28 February
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)
Non-current				
Bank borrowings	—	—	39,880	39,880
Lease liabilities	408	683	823	574
Other liabilities in relation to rental arrangement	38,162	88,380	92,489	93,193
	38,570	89,063	133,192	133,647
Current				
Amount due to the Controlling Shareholder	50,679	23,572	8,217	—
Bank borrowings	28,480	32,000	2,120	2,120
Lease liabilities	4,486	539	762	926
	83,645	56,111	11,099	3,046
Total	122,215	145,174	144,291	136,693

Bank borrowings

Our bank borrowings, which are secured and guaranteed, amounted to approximately RMB28.5 million, RMB32.0 million, RMB42.0 million and RMB42.0 million as at 31 December 2018, 2019 and 2020 and 28 February 2021, respectively, to finance our business operations and to fulfil our working capital requirements.

The following table sets forth the maturity profile of our bank borrowings as at the dates indicated:

	As at 31 December			As at 28 February
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)
Within 1 year	28,480	32,000	2,120	2,120
1 to 2 years	—	—	2,120	2,120
2 to 3 years	—	—	37,760	37,760
	28,480	32,000	42,000	42,000

For years ended 31 December 2018, 2019 and 2020, the weighted average effective interest rates on bank borrowings were approximately 5.93%, 5.61% and 4.83%, respectively. Our Group's bank borrowings were denominated in RMB.

As at 31 December 2018, the above bank borrowings were secured by (i) our land use rights and property, plant and equipment with net book values of approximately RMB6.3 million and RMB4.5 million, respectively, (ii) personal guarantee from Mr. Liu, Mr. Liu YS and Ms. Lv, and (iii) the property, plant and equipment of Laizhou Jiamingda New Building Material Co., Ltd., an entity controlled by Mr. Liu YS.

As at 31 December 2019, the above bank borrowings were secured by (i) our land use rights and property, plant and equipment with net book values of approximately RMB6.2 million and RMB4.2 million, respectively, (ii) personal guarantee from Mr. Liu and Ms. Lv, and (iii) the property, plant and equipment of Zhonglian Cement.

As at 31 December 2020, the above bank borrowings were secured by (i) our land use rights and property, plant and equipment and investment properties with net book values of approximately RMB6.0 million, RMB71.4 million and RMB70.3 million, respectively, and (ii) personal guarantee from Mr. Liu, Ms. Li Liyan (the wife of Mr. Liu) and Ms. Lv.

As at 28 February 2021, the above bank borrowings were secured by (i) our Group's land use rights, property, plant and equipment and investment properties with net book values of approximately RMB6.0 million, RMB70.9 million and RMB69.9 million, respectively. There was no personal guarantee provided by our Controlling Shareholders and his/their close associates as at 28 February 2021.

Banking facilities

As at 28 February 2021, being the latest practicable date for this indebtedness statement, we do not have any undrawn banking facilities. Our Directors confirmed that we have not experienced any difficulty in obtaining credit facilities or withdrawal of facilities, default in payment of bank borrowings or breach of financial covenants during the Track Record Period and up to the Latest Practicable Date. During the Track Record Period and as at the Latest Practicable Date, there were no material covenants related to our outstanding debts that would materially limit our ability to undertake additional debt or equity financing necessary to carry out our business plan.

Lease liabilities

Our Group has consistently applied IFRS16, which are effective for the accounting period beginning on 1 January 2019 throughout our Track Record Period. Our lease liabilities (current and non-current portion) amounted to approximately RMB4.9 million, RMB1.2 million, RMB1.6 million and RMB1.5 million, respectively as at 31 December 2018, 2019 and 2020 and 28 February 2021, comprised mainly of leases of office premises and equipment for operations.

Amount due to our Controlling Shareholder

We had amount due to our Controlling Shareholder of approximately RMB50.7 million, RMB23.6 million, RMB8.2 million and nil, respectively as at 31 December 2018, 2019 and 2020 and 28 February 2021. Amount due to our Controlling Shareholder were unsecured, interest free, repayable on demand and non-trade in nature. See Note 33(c) to the historical financial information set out in Appendix I to this document for details.

Other liabilities in relation to our rental arrangement (payable to LZ Assets)

We had payable to LZ Assets in relation to our hazardous waste storage rental arrangement of approximately RMB38.2 million, RMB88.4 million, RMB92.5 million and RMB93.2 million, respectively as at 31 December 2018, 2019 and 2020 and 28 February 2021. See "Description of Certain Items of Combined Statements of Financial Position — Other Liabilities" for further details.

Contingent liabilities

As at 31 December 2018, 2019 and 2020, and 28 February 2021, we did not have any material contingent liabilities. We are not currently involved in any material legal proceedings, nor are we aware of any pending or potential material legal proceedings involving us.

Save as disclosed above, we did not have outstanding mortgages, charges, pledges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, lease liabilities or lease commitments, liabilities under acceptances (other than normal trade bills) or acceptance credits, guarantees or other material contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENTS AND COMMITMENTS

Our Directors confirm that there has been no material off-balance sheet arrangements and commitments.

RELATED PARTIES TRANSACTIONS

During the Track Record Period, certain entities controlled by our Controlling Shareholders and their associates entered into related party transactions with our Group. For details, see "Description of Certain Items of Combined Statements of Financial Position — Balances with the Controlling Shareholder and Related Parties" and Note 33 to the historical financial information set out in Appendix I to this document. The following table sets forth our related party transactions for the years indicated:

	For the year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Interest income	—	6,460	5,144
Sales of goods	2,542	741	413
Purchase of goods and services	—	1,849	2,764

Interest income

We recorded loan to Zhonglian Cement of approximately RMB86.3 million, RMB98.4 million and RMB33.6 million, respectively as at 31 December 2018, 2019 and 2020. Such balance as at 31 December 2018 was unsecured and non-interest bearing. On 1 January 2019, we have provided an interest-bearing loan to Zhonglian Cement with interest of 6.86% per annum. For the years ended 31 December 2019 and 2020, we recorded interest income of approximately RMB6.5 million and RMB5.1 million, respectively. The loan to Zhonglian Cement was unsecured and repayment within one year. As confirmed with our Controlling Shareholder, balances with Zhonglian Cement will be fully settled upon [REDACTED].

Sales of goods

During the Track Record Period, we sold recycled products under our trading business to two companies ultimately controlled by Mr. Liu. As a result, we recognised revenue of approximately RMB2.5 million, RMB0.7 million and RMB0.4 million, respectively for the years ended 31 December 2018, 2019 and 2020, which accounted for approximately 2.5%, 0.6% and 0.1%, respectively of our total revenue for the same period. These transactions have been discontinued as at the Latest Practicable Date.

Purchase of goods and services

During the Track Record Period, we engaged four companies ultimately controlled by Mr. Liu for the purchase of construction materials, transportation services and consultation services. For the years ended 31 December 2018, 2019 and 2020, purchase of goods and services from these four companies amounted to nil, approximately RMB1.8 million and RMB2.8 million, respectively. These transactions have been discontinued as at the Latest Practicable Date.

It is the view of our Directors that each of the related party transactions set out above and in Note 33(b) to the historical financial information set out in Appendix I to this document was conducted in the ordinary course of business on an arm's length basis and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our historical results or make our historical results not reflective of our future performance.

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios for the year/as at the dates indicated:

	Year ended 31 December		
	2018	**2019**	**2020**
Return on equity(1)	171.6%	73.0%	68.7%
Return on total assets(2)	9.8%	10.1%	16.8%
Interest coverage(3)	14.3 times	12.7 times	16.9 times
Gross profit margin(4)	56.4%	61.5%	60.3%
Net profit margin(5)	30.0%	36.3%	35.5%

	As at 31 December		
	2018	**2019**	**2020**
Current ratio(6)	0.6 times	0.7 times	1.1 times
Quick ratio(7)	0.6 times	0.6 times	0.9 times
Gearing ratio(8)	683.0%	218.7%	136.0%
Net debt to equity ratio(9)	615.5%	215.6%	93.2%

Notes:

(1) Return on equity was calculated by profit for the respective year divided by total equity as at the respective year end and multiplied by 100%.

(2) Return on total assets was calculated by profit for the respective year divided by total assets as at the respective year end and multiplied by 100%.

(3) Interest coverage was calculated by profit before interest and tax divided by interest expenses for the respective year.

(4) Gross profit margin was calculated by gross profit divided by revenue for the respective year and multiplied by 100%.

(5) Net profit margin was calculated by profit divided by revenue for the respective year and multiplied by 100%.

(6) Current ratio was calculated based on total current assets divided by total current liabilities as at the respective year end.

(7) Quick ratio was calculated based on total current assets less inventories and divided by total current liabilities as at the respective year end.

(8) Gearing ratio was calculated based on total debts divided by total equity as at the respective year end and multiplied by 100%. Debts are defined as payables incurred not in the ordinary course of business, including bank borrowings, lease liabilities, amount due to our Controlling Shareholders and other liabilities in relation to our rental arrangement.

(9) Net debt to equity ratio was calculated based on net debts (being total debts net of cash and cash equivalents) divided by total equity as at the end of the respective year and multiplied by 100%.

Return on equity

Our return on equity decreased from approximately 171.6% for the year ended 31 December 2018 to approximately 73.0% for the year ended 31 December 2019 mainly due to the increase in our equity as a result of the accumulation of our profit for the year ended 31 December 2019. Our return on equity decreased to approximately 68.7% for the year ended 31 December 2020 mainly due to the increase in our profit generated of approximately RMB24.4 million or 50.3% and partially offset with dividend declared of RMB58.0 million for the year ended 31 December 2020.

Return on total assets

Our return on total assets were relatively stable of approximately 9.8% and 10.1% for the years ended 31 December 2018 and 2019, respectively. Our return on total assets increased to approximately 16.8% for the year ended 31 December 2020 mainly due to the continuous increase in our profit resulted from our business expansion.

Interest coverage

Our interest coverage were maintained at similar level of approximately 14.3 times, 12.7 times and 16.9 times, for the year ended 31 December 2018, 2019 and 2020, respectively.

Current ratio and quick ratio

Our current ratio remained relatively stable at approximately 0.6 times and 0.7 times as at 31 December 2018 and 2019, respectively. Our current ratio increased to approximately 1.1 times as at 31 December 2020, primarily due to the decrease in current liabilities which in turn was the result of a significant decrease in other payables for construction and purchase of property, plant and equipment and decrease in amount due to our Controlling Shareholders.

Our quick ratio remained relatively stable at approximately 0.6 times, 0.6 times and 0.9 times as at 31 December 2018, 2019 and 2020, respectively.

Gearing ratio

The decrease in gearing ratio from approximately 683.0% as at 31 December 2018 to approximately 218.7% as at 31 December 2019 was mainly attributable to the increase in total equity as a result of the profit generated for the year ended 31 December 2019. Our gearing ratio as at 31 December 2020 further decreased to approximately 136.0% which was mainly due to our settlement of balances with our Controlling Shareholders and further increase in our total equity as at 31 December 2020 as a result of profit generated for the year ended 31 December 2020 comparable to that as at 31 December 2019.

Net debt to equity ratio

Our net debt to equity ratio was at approximately 615.5%, 215.6% and 93.2% as at 31 December 2018, 2019 and 2020, respectively. The decreasing trend was similar to the decrease in our gearing ratio as explained above.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

For the risks that we are exposed to such as interest rate risk, credit risk and liquidity risk. See to Note 3 to the Accountant's Report in Appendix I to this document.

[REDACTED] EXPENSES

Assuming an [REDACTED] of [REDACTED] per Share, being the mid-point of the indicative [REDACTED] range of [REDACTED] to [REDACTED] per Share, the total estimated [REDACTED] expenses in connection with the [REDACTED] (including [REDACTED] commission) was approximately [REDACTED] (equivalent to approximately [REDACTED]).

Among the estimated total [REDACTED] expenses, (i) approximately [REDACTED] (equivalent to approximately [REDACTED]) is expected to be accounted for as a deduction from equity upon [REDACTED], and (ii) approximately [REDACTED] (equivalent to approximately [REDACTED]) will be recognised as expenses in the profit or loss, of which approximately [REDACTED] (equivalent to approximately [REDACTED]) had been recognised for the year ended 31 December 2020, and the remaining amount of approximately [REDACTED] (equivalent to approximately [REDACTED]) is expected to be recognised for the year ending 31 December 2021, which mainly consists of professional fees and other expenses that would be incurred upon [REDACTED].

Our Directors would like to emphasise that the [REDACTED] expenses above are current estimates and are for reference only. The actual amount to be recognised in the consolidated financial statements of our Group for the year ending 31 December 2021 is subject to adjustment based on audit and the then changes in variables and assumptions and may differ from this estimate.

DIVIDENDS

On 20 January 2020, our subsidiary has declared dividends in the total amount of RMB58.0 million to the then shareholders. In December 2020, dividend payable of RMB5.8 million to Mr. Liu was offset by the amount due from Zhonglian Cement pursuant to an agreement between the relevant parties. As at 31 December 2020, the total dividend payable was RMB52.2 million which will be fully settled with our own internal resources before [REDACTED].

We do not have any fixed dividend policy nor pre-determined dividend payout ratio. The declaration of dividends is subject to the discretion of our Board. Any declaration of final dividend by our Company shall also be subject to the approval of our Shareholders in a Shareholders' meeting. Our Directors may recommend a payment of dividends in the future after taking into account our operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditure and future development requirements, shareholders' interests and other factors which they may deem relevant at such time. Any declaration and payment as well as the amount of the dividends will be subject to constitutional documents, any applicable laws and regulations, including the Cayman Companies Act. Historical dividend distributions are not indicative of our future dividend distribution.

Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 12 January 2021 in the Cayman Islands as an exempted company with limited liability. There were no reserves available for distribution to our Shareholders as at 31 December 2020.

PROPERTY INTERESTS AND PROPERTY VALUATION

Cushman & Wakefield Limited, an independent property valuer, has valued the owned properties held by our Group in the PRC as at 31 March 2021 and is of the opinion that the fair value as at such date was approximately RMB309.5 million. The texts of its letter, summary of value and valuation certificate are set out in the property valuation report in Appendix III to this document.

The table below sets forth the reconciliation between the net book value of the property interests as at 31 December 2020 as sets forth in Appendix I to this document and the revalued amount of our property interests as at 31 March 2021.

	RMB'000
Net book value of property interest as at 31 December 2020 as sets out in Appendix I to this document	261,372
Less: Depreciation for the three months ended 31 March 2021	2,347
Net book value of property interest as at 31 March 2021	259,025
Valuation surplus, before tax	50,475
Valuation as at 31 March 2021	309,500

As at 31 December 2020, the property interest forming part of our Group's non-property activities had a carrying amount of 15% or more of our total assets. This document is in compliance with the requirements of Rule 5.01A of the Listing Rules and the requirements of section 342(1) of the Companies (WUMP) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (WUMP) Ordinance, with respect to the inclusion of a property valuation report in this document. See Appendix III to this document for the property valuation.

UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

Please see the section headed "Unaudited Pro Forma Financial Information" in Appendix II to this document for details.

DISCLOSURE PURSUANT TO RULES 13.13 TO 13.19 OF THE HONG KONG LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this document, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

RECENT DEVELOPMENTS AND MATERIAL ADVERSE CHANGE

See "Summary — Recent Developments and Material Adverse Change" for further details of recent developments of our Group. Our Directors have confirmed that up to the date of this document, there has been no material adverse change in our financial or trading position or prospects of our Company or its subsidiaries since 31 December 2020, being the end of the reporting period in Appendix I to this document, and there has been no event since 31 December 2020 which would materially affect the information shown in Appendix I to this document.