You should read this section in conjunction with our consolidated financial information as set out in Appendix I to this document. The consolidated 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 a gold mine hazardous waste treatment company based in Shandong province, 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 second and third largest gold mine hazardous waste treatment company in Shandong province and in the PRC, respectively, with a market share of approximately 15% and 10% in terms of revenue in 2020, respectively. We are also ranked 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 26% and 18% 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.

Due to rich gold resources and the mature gold mining industry chain, the gold mine production in Shandong province is ranked first in the PRC in 2020 according to the F&S Report. Further, our operation is situated in Laizhou city, which is a county-level city within Yantai prefecture-level city in Shandong province, where Laizhou city and Yantai city had proven gold reserves of approximately 2.7 thousand tonnes and 3.9 thousand tonnes. Yantai city accounted for approximately 93% of proven gold reserves of Shandong province in 2020, ranking first in the proven gold reserves in the PRC. Such strategic location also led us to rank first and second in terms of treatment volume and revenue in Yantai city, respectively, in 2020, according to the F&S Report.

We have two production facilities strategically located in Laizhou city, Shandong province, 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						Four months ended 30 April			
	2018		2019		2020		2020		2021	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Gold mine hazardous waste treatment	41,014	40.1	61,567	46.1	107,958	52.6	30,212	61.6	34,277	50.5
Sale of recycled products	57,642	56.4	56,413	42.2	82,514	40.2	13,636	27.8	28,805	42.4
Hazardous waste storage rental services	1,083	1.0	14,490	10.8	14,507	7.1	4,836	9.9	4,836	7.1
Others *(Note)*	2,542	2.5	1,194	0.9	413	0.1	346	0.7	—	—
Total	**102,281**	**100.0**	**133,664**	**100.0**	**205,392**	**100.0**	**49,030**	**100.0**	**67,918**	**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. See "Business — Our Business Model — Our Products" of this document for further details.

For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, our net profits amounted to approximately RMB30.7 million, RMB48.5 million, RMB72.9 million and RMB17.1 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 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.

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%, 52.6% and 50.5% of our total revenue for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, 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. We recorded a relatively stable gold mine hazardous waste treatment volume of approximately 357,705 tonnes and 354,774 tonnes, respectively, for the four months ended 30 April 2020 and 2021.

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 19% 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 environmental 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%, 40.2% and 42.4%, respectively, of our total revenue for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021. 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 480,341 tonnes in 2020, our sale volume of recycled products increased from approximately 80,385 tonnes for the four months ended 30 April 2020 to approximately 162,727 tonnes for the four months ended 30 April 2021. 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 was 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 we 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 and the four months ended 30 April 2021, cost of raw materials amounted to approximately RMB14.2 million, RMB14.3 million, RMB25.9 million and RMB9.1 million, respectively, representing approximately 31.9%, 27.8%, 31.8% and 33.4% of our total cost of sales for the same periods, respectively. For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, transportation costs in our operation amounted to approximately RMB10.0 million, RMB11.2 million, RMB11.8 million and RMB3.5 million, respectively, representing approximately 22.4%, 21.7%, 14.5% and 13.1% 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 and the four months ended 30 April 2021, our consumables used amounted to approximately 6.9%, 6.8%, 6.8% and 8.6% 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
Four months ended 30 April 2021	–/+ 2,080	–/+ 2,849

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
Four months ended 30 April 2021	–/+ 262	–/+ 423

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			Four months ended 30 April	
	2018	**2019**	**2020**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	102,281	133,664	205,392	49,030	67,918
Cost of sales	(44,562)	(51,479)	(81,498)	(20,194)	(27,163)
Gross profit	57,719	82,185	123,894	28,836	40,755
Other income	—	6,463	5,187	1,941	64
Other gains/(losses) — net	77	(240)	412	174	(299)
Reversal/(provision) of impairment on financial assets	22	93	(113)	(27)	41
Selling expenses	(5,972)	(2,518)	(2,886)	(887)	(917)
Administrative expenses	(8,700)	(17,347)	(23,962)	(5,702)	(13,048)
Operating profit	43,146	68,636	102,532	24,335	26,596
Finance income	113	175	40	2	26
Finance costs	(3,023)	(5,398)	(6,083)	(2,005)	(2,051)
Finance costs — net	(2,910)	(5,223)	(6,043)	(2,003)	(2,025)
Profit before income tax	40,236	63,413	96,489	22,332	24,571
Income tax expense	(9,540)	(14,936)	(23,624)	(5,593)	(7,444)
Profit for the year/period	30,696	48,477	72,865	16,739	17,127

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			Four months ended 30 April	
	2018	**2019**	**2020**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Profit for the year/period	30,696	48,477	72,865	16,739	17,127
Add: [REDACTED] expenses	—	—	[REDACTED]	—	[REDACTED]
Adjusted profit for the year/period *(unaudited)*[(2)]	30,696	48,477	[REDACTED]	16,739	[REDACTED]
Adjusted net profit margin *(unaudited)*[(3)]	30.0%	36.3%	[REDACTED]	34.1%	[REDACTED]

Notes:

(1) To supplement our consolidated 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 non-recurring item that does not affect our ongoing operating performance.

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

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

DESCRIPTION OF SELECTED ITEMS IN THE CONSOLIDATED 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						Four months ended 30 April			
	2018		2019		2020		2020		2021	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Gold mine hazardous waste treatment	41,014	40.1	61,567	46.1	107,958	52.6	30,212	61.6	34,277	50.5
Sale of recycled products	57,642	56.4	56,413	42.2	82,514	40.2	13,636	27.8	28,805	42.4
Hazardous waste storage rental services	1,083	1.0	14,490	10.8	14,507	7.1	4,836	9.9	4,836	7.1
Others *(Note)*	2,542	2.5	1,194	0.9	413	0.1	346	0.7	—	—
Total	**102,281**	**100.0**	**133,664**	**100.0**	**205,392**	**100.0**	**49,030**	**100.0**	**67,918**	**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%, 92.8% and 92.9%, 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%, 7.1% and 7.1% of our total revenue, respectively, for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021.

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.

For the four months ended 30 April 2021, our Group's total revenue was approximately RMB67.9 million, representing an increased by approximately RMB18.9 million or 38.6% as compared to total revenue of approximately RMB49.0 million for the four months ended 30 April 2020. It was mainly attributable to (i) increased sale of recycled products due to the increase in number of downstream customers with increased sale volume and average selling price per tonne during the four months ended 30 April 2021; and (ii) increase in revenue from our gold mine hazardous waste treatment services as a result of increased average treatment fee per tonne for the four months ended 30 April 2021.

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, RMB108.0 million and RMB34.3 million, respectively, for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, representing approximately 40.1%, 46.1%, 52.6% and 50.5% 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									Four months ended 30 April					
	2018			2019			2020			2020			2021		
	Revenue	Treatment volume	Average treatment fee per tonne	Revenue	Treatment volume	Average treatment fee per tonne	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*	*RMB'000* (unaudited)	*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	30,212	357,705	84	34,277	354,774	97

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 due to (i) 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; and (ii) the increase in demand of our treatment services, which was reflected by the increase of our upstream customers from three in 2018 to five in 2019, with increased cyanide tailings received from our upstream customers and treated, attributable to their stable gold production volume and the historically accumulated gold mine hazardous waste stored and yet to be treated in the market.

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, which was reflected by the increase of our upstream customers from five in 2019 to eight in 2020, with increased gold mine hazardous waste received from our customers. Our treatment volume remained relatively stable at approximately 357,705 tonnes and 354,774 tonnes, respectively, for the four months ended 30 April 2020 and 2021. See "Business — Customers" in this document for details of our revenue breakdown by customer types during the Track Record Period and "Business — Our Business Model — Our Services" in this document for details of the number of upstream customers and their revenue contribution during the Track Record Period.

Average treatment fee per tonne

According to the F&S Report, the strict environmental regulations imposed by the PRC government, the raising of awareness of environmental protection in the gold mining industry and the declining grading of waste and gold ore give rise to the increasing demand of our treatment services and a relatively higher treatment fee charged to our customers. For example, in 2018, Shandong government issued the Plan for Uphill Battle for Treatment of Hazardous Wastes in Shandong Province (2018–2020) (《山東省打好危險廢物治理攻堅戰作戰方案（2018–2020年）》) and in 2019, the Opinions on Strengthening the Development and Management of Hazardous Wastes Treatment Facilities (《關於加強危險廢物處置設施建設和管理的意見》) was issued to further strengthen the treatment of hazardous wastes, including gold mine hazardous wastes. It is considered the environmental protection regulations of gold mine hazardous wastes in Shandong province have become increasingly stricter in terms of both requirements and enforcement of the relevant policies in 2020 and this gave rise to a significant increase in the demand of our waste treatment services. For the declining grading of waste and gold ore, according to the F&S Report, the naturally declining gold grade of gold ores in Shandong province lead to the decrease in the recyclable materials of the incoming cyanide tailings and result in less valuable and recyclable elements to be extracted therefrom for the production of our recycled products. Thus, in general and which is in line with the industry practice, our Group will negotiate for a higher treatment fee with a lower sulphur content of incoming cyanide tailings. As such, the increase of average treatment fee is in line with the industry trend of stricter environmental protection regulations and policies of hazardous waste treatment market in term of enforcement and the decreasing trend of grade of gold mine hazardous waste due to the naturally declining gold grade in the gold ores with the continuous mining.

According to the F&S Report, our pricing of treatment fee during the Track Record Period is generally in line with the major market players of gold mine hazardous waste treatment industry in Shandong province and the PRC, and the treatment fee ranges of our Group and the industry also remained stable, during the Track Record Period. Further, the treatment fee for generally remained stable for treating cyanide tailings of same grade and contracted treatment volume. As such, our Directors considered that the fluctuation of our overall average treatment fee for each year/period during the Track Record Period was mainly due to the change in the proportions of high and low grade cyanide tailings provided by our upstream customers, and treated during the period mainly due to the fact that the treatment fee varies between high and low grade cyanide tailings. See "Business — Our Business Model — Our Services" in this document for details of our treatment volume, average treatment fee, treatment fee range of the cyanide tailings we treated during the Track Record Period.

The overall average treatment fee per tonne of our gold mine hazardous waste treatment services increased slightly from approximately RMB73 for the year ended 31 December 2018 to approximately RMB76 for the year ended 31 December 2019, because we have provided gold mine hazardous waste treatment services of approximately 54,587 tonnes free of charge in 2018 and no such free-of-charge services were provided in 2019. Overall average treatment fee per tonne increased to approximately RMB100 for the year ended 31 December 2020, which involved the treatment of a mixture of (i) high grade cyanide tailings of approximately 254,530 tonnes with average treatment fee of approximately RMB39 per tonne; (ii) low grade cyanide tailings of approximately 797,578 tonnes with average treatment fee of approximately RMB120 per tonne; and (iii) gold-bearing cyanide tailings of approximately 30,805 tonnes with average treatment fee of approximately RMB57 per tonne. Such increase of the overall average treatment fee in 2020 as compared to that of 2019 was mainly due to the fluctuation of proportions of high and low grade cyanide tailings provided by our upstream customers and treated during the years. With the gradual decrease in grade and sulphur content of the incoming cyanide tailings in the industry, among the total volume of cyanide tailings that we treated in 2020, approximately 74% of those was of low grade cyanide tailings while that of 2019 was approximately 36% with similar average treatment fees of both high and low grade cyanide tailings in 2019 and 2020. Our Directors considered that our average treatment fee per tonne in 2020 of approximately RMB100 per tonne is within the industry range as according to the F&S Report. For details of the industry range of treatment fee in 2020, see "Industry Overview — Analysis of Gold Mine Hazardous Waste Treatment Market in China and Shandong Province — Definition, Value Chain and Business Model Analysis of Gold Mine Hazardous Waste" in this document.

Our overall average treatment fee per tonne increased from approximately RMB84 for the four months ended 30 April 2020 to approximately RMB97 for the four months ended 30 April 2021, which was mainly resulted from the general decrease in sulphur content of cyanide tailings collected from our upstream customers. According to the F&S Report, the charging bases of treatment fee of our Group during the Track Record Period was in line with the industry peers and the average treatment fees during the Track Record Period are at a similar level with those of the other gold mine hazardous waste treatment companies in Shandong province. For details of analysis of our treatment fee against other gold mine hazardous waste treatment companies in Shandong province, see "Business — Our Business Model — Our Services" in this document.

Sale of recycled products

Our revenue from sale of recycled products amounted to approximately RMB57.6 million, RMB56.4 million, RMB82.5 million and RMB28.8 million, respectively for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, accounting for approximately 56.4%, 42.2%, 40.2% and 42.4% 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									Four months ended 30 April					
	2018			2019			2020			2020			2021		
	Revenue	Sale volume	Average selling price per tonne	Revenue	Sale volume	Average selling price per tonne	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/tonne*	*RMB'000*	*Tonnes*	*RMB/tonne*	*RMB'000*	*Tonnes*	*RMB/tonne*	*RMB'000* (unaudited)	*Tonnes*	*RMB/tonne*	*RMB'000*	*Tonnes*	*RMB/tonne*
Sale of recycled products															
— Pyrite concentrate	57,642	280,641	205	56,413	316,137	178	77,015	463,740	166	13,636	80,385	170	28,805	162,727	177
— Gold-bearing pyrite concentrate	—	—	—	—	—	—	5,499	16,601	331	—	—	—	—	—	—
	57,642	280,641	205	56,413	316,137	178	82,514	480,341	172	13,636	80,385	170	28,805	162,727	177

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 was mainly due to the decrease in demand of chemical fertiliser and thus, 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 to the 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. It is confirmed by F&S that the selling price of our gold-bearing pyrite concentrate in 2020 is at the prevailing market price.

For the four months ended 30 April 2021, we recorded sale volume of recycled products of approximately 162,727 tonnes, representing a significant increase from approximately 80,385 tonnes for the four months ended 30 April 2020. Our Directors considered this rebound of sale volume was mainly driven by the increase of downstream customers placing orders for our products with the influence of COVID-19 outbreak wearing off in 2021 in the PRC. According to the F&S Report, the COVID-19 outbreak in early 2020 has negatively impacted the consumption and demand of sulphuric acid and the production of chemical industry in the PRC. Hence, the demand of our products from downstream customers also decreased accordingly in early 2020. Our average selling price per tonne increased from approximately RMB170 for the four months ended 30 April 2020 to approximately RMB177 for the four months ended 30 April 2021, which was mainly because the influence of COVID-19 outbreak wears off in 2021. According to the F&S Report, the average selling price in 2020 was negatively affected by the decrease in downstream demand and market price of sulphuric acid due to the COVID-19 outbreak in early 2020. Based on the latest market situation in 2021, the price of sulphuric acid is increasing significantly driven by the increase in domestic demand from chemical fertilizer industry and export demand for sulphuric acid, and increase in price of raw material. Therefore, it is expected the price of our pyrite concentrate will restore to pre-COVID-19 price level with stable growth in coming years considering the continuous recovery of sulphuric acid industry and the increasing usage of our pyrite concentrate for sulphuric acid production in the PRC.

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. Our Group has concluded two warehouse rental agreements with LZ Assets which became effective in November 2018 and January 2019, and received advance payment of RMB72.0 million and RMB88.0 million in the fourth quarter of 2018 and in the first half year of 2019, respectively, which amounted to RMB160.0 million in aggregate. For further details of the background and major terms of our rental agreements with LZ Assets in regard of this hazardous waste storage rental services, see "Business — Our Business Model — Our Services — Our Rental Services for Storage of Hazardous Wastes" in this document.

Pursuant to the two rental agreements, the contractual rental amount is RMB8 million per annum, inclusive of VAT, and the minimum lease term shall be five years from the respective lease commencement dates and up to 20 years, unless the cyanide tailings in the warehouses are put for tender for treatment through public bidding by the government during the five years fixed term. It is also stipulated in the rental agreements that from the sixth year since the respective date of the rental agreements, either LZ Assets or we would have the right to terminate the lease by paying an amount equivalent to the annual rental fee, being RMB8 million, as compensation to the other party, and we will be required to repay the remaining balance of the advances from LZ Assets within three years from the receipt of the notice of termination of the lease agreements. Our Group considers there is a likelihood for LZ Assets to exercise the right to terminate the lease agreements after the five years fixed term (see "Business — Our Business Model — Our Service — Our Rental Services for Storage of Hazardous Waste" in this document for details); and then we will be liable to pay back LZ Assets of approximately RMB50.4 million and RMB61.6 million, totalling RMB112.0 million, being the total advances received of RMB160.0 million less the five years rental income of RMB40.0 million and the one year compensation rental income of RMB8.0 million upon the expiry of the five years lease term in October and December 2023 for the two warehouses, respectively.

Accordingly, on initial recognition, our obligations to pay back LZ Assets of approximately RMB50.4 million and RMB61.6 million, totalling RMB112.0 million by 2023, was recorded as payables to LZ Assets under other liabilities based on the present value of the amount to be payable to LZ Assets (i.e. RMB112.0 million) within three years from the termination of the fixed lease term, being approximately RMB37.9 million and RMB46.3 million, respectively, totalling approximately RMB84.2 million under the two rental agreements. The difference between the total received advances of RMB160 million (which comprised of RMB72.0 million for the first warehouse and RMB88.0 million for the second warehouse) and the total payables to LZ Assets of approximately RMB84.2 million (which comprised of approximately RMB37.9 million and RMB46.3 million) is approximately RMB75.8 million, representing approximately RMB34.1 million for the first warehouse and RMB41.7 million for the second warehouse. Such amounts were recognised as advances from lessee at initial recognition, which were amortised and credited to rental income evenly over the five years lease term.

The following table sets forth a breakdown of our rental income during the Track Record Period:

	Year ended 31 December			Four months ended 30 April	
	2018	2019	2020	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Rental income					
Nominal rental income	555	7,436	7,450	2,484	2,484
Other lease payments	528	7,054	7,057	2,352	2,352
	1,083	14,490	14,507	4,836	4,836

The effective rental income recognised for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021 was approximately RMB1.1 million, RMB14.5 million, RMB14.5 million and RMB4.8 million, respectively, includes (i) nominal rental income of approximately RMB0.6 million, RMB7.4 million, RMB7.4 million and RMB2.5 million (excluding VAT), respectively, arising from the contractual rental amount of RMB8.0 million (inclusive of VAT) per annum pursuant to the rental agreements; and (ii) other lease payments of approximately RMB0.5 million, RMB7.1 million, RMB7.1 million and RMB2.3 million (excluding VAT), respectively, which consisted of (a) the one year compensation rental income of approximately RMB7.5 million (excluding VAT) for expected early termination by LZ Assets upon expiry of the five years committed lease terms, and (b) the discounting impact of approximately RMB27.8 million resulting from discounting the non-current payables to LZ Assets of RMB112.0 million, which our Group is liable to repay upon the termination and expiry of five years fixed lease term in 2023, to its present value of approximately RMB84.2 million, at the inception of the leasing arrangements. At the same time, our Group also recognised interest expenses in relation to this rental arrangements arising from our payables to LZ Assets.

The abovementioned discounting impact of approximately RMB27.8 million is regarded as part of lease payments in accordance with IFRS 16 *"Lease"*, and is accounted for as part of the lease payments to be amortised as rental revenue together with the one year compensation rental income of approximately RMB7.5 million (excluding VAT) over the five year committed lease period in accordance with IFRS 16.

The fluctuation of both nominal rental income and other lease payments during the Track Record Period was mainly due to the full year effective of the two rental agreements for warehouses rental services in 2019 and 2020 while there was only one rental agreement concluded and became effective in November 2018. Our Directors consider that our effective rental income recognised during the Track Record Period was larger than the contractual rental income of RMB8 million (inclusive of VAT) per annum and such accounting recognition were made after considering the overall lease arrangement, the likelihood that LZ Assets will exercise the right to terminate the lease agreements upon expiry of the five years committed lease term, our Group's obligation of repayment of RMB112 million after five years to LZ Assets and the relevant discounting impact as a whole. For further details of the accounting treatment of our lease arrangement and relevant rental income, see Notes 5(b) and 30 to the historical financial information set out in Appendix I to this document.

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						Four months ended 30 April			
	2018		2019		2020		2020		2021	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Cost of raw materials	14,234	31.9	14,302	27.8	25,936	31.8	6,382	31.6	9,060	33.4
Transportation costs	10,003	22.4	11,190	21.7	11,777	14.5	2,919	14.5	3,546	13.1
Depreciation	2,050	4.6	5,121	9.9	9,841	12.1	2,851	14.1	3,277	12.1
Direct labour cost	2,917	6.6	3,657	7.1	5,772	7.1	1,432	8.2	2,567	9.5
Consumables cost	3,057	6.9	3,476	6.8	5,582	6.8	1,305	7.0	2,339	8.6
Manufacturing overhead	12,301	27.6	13,733	26.7	22,590	27.7	5,305	24.6	6,374	23.3
Total	**44,562**	**100.0**	**51,479**	**100.0**	**81,498**	**100.0**	**20,194**	**100.0**	**27,163**	**100.0**

Our cost of sales amounted to approximately RMB44.6 million, RMB51.5 million, RMB81.5 million and RMB27.2 million, respectively for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021. 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%, 31.8% and 33.4%, 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 tonne due to the increased average transportation distance during the year ended 31 December 2020.

Our cost of raw materials was approximately RMB6.4 million and RMB9.1 million, respectively, for the four months ended 30 April 2020 and 2021, representing approximately 31.6% and 33.4%, respectively of our cost of sales for the corresponding periods. Such increase aligned with the increase of our total revenue during the four months ended 30 April 2021 and was driven by the increase in the treatment volume of gold mine hazardous waste from Customer Y, an upstream customer located in Fushan, Yantai city, during the four months ended 30 April 2021 as compared to same period in 2020. Customer Y are located in Fushan, Yantai city, which had a relatively longer transportation distance to our production facilities and thus, a higher transportation fee per tonne of hazardous waste was charged by the transportation companies. 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%, 14.5% and 13.1% of our total cost of sales for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, 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. For the four months ended 30 April 2021, our transportation costs accounted for approximately 13.1% of our total cost of sales, representing a decrease of approximately 1.4 percentage points as compared to same periods in 2020, which was mainly attributable to the increase in efficiency in our flipping and airing process.

Depreciation amounted to approximately RMB2.1 million, RMB5.1 million, RMB9.8 million and RMB3.3 million, respectively for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, representing approximately 4.6%, 9.9%, 12.1% 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, RMB5.8 million and RMB2.6 million for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, respectively, representing approximately 6.6%, 7.1%, 7.1% and 9.5% of our total cost of sales for the same period, respectively. The fluctuation during the years ended 31 December 2018, 2019 and 2020 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% and approximately 11.3% for the years ended 31 December 2019 and 2020, respectively. Our direct labour cost increased from approximately RMB1.4 million for the four months ended 30 April 2020 to approximately RMB2.6 million for the same periods in 2021, whereas the relevant contributions to the total cost of sales increased from approximately 8.2% to 9.5% for the same period. Such fluctuation was mainly because there was government policy to reduce or exempt the amount of the social insurance contribution in light of the COVID-19 pandemic in 2020, but such government policy was cancelled in 2021.

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 and the four months ended 30 April 2021, consumables cost amounted to approximately RMB3.1 million, RMB3.5 million, RMB5.6 million and RMB2.3 million, respectively, representing approximately 6.9%, 6.8%, 6.8% and 8.6% 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, RMB123.9 million and RMB40.8 million for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, 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									Four months ended 30 April					
	2018			2019			2020			2020			2021		
	Gross profit		Gross profit margin	Gross profit		Gross profit margin	Gross profit		Gross profit margin	Gross profit		Gross profit margin	Gross profit		Gross profit margin
	RMB'000	%	%	*RMB'000*	%	%	*RMB'000*	%	%	*RMB'000* (unaudited)	%	%	*RMB'000*	%	%
Gold mine hazardous waste treatment services	28,619	49.6	69.8	42,591	51.8	69.2	76,311	61.6	70.7	20,214	70.1	66.9	23,387	57.4	68.2
Sale of recycled products	28,735	49.8	49.9	28,389	34.5	50.3	37,439	30.2	45.4	5,229	18.1	38.3	13,994	34.3	48.6
Hazardous waste storage rental services	291	0.5	26.9	11,081	13.5	76.5	10,121	8.2	69.8	3,374	11.7	69.8	3,374	8.3	69.8
Others	74	0.1	3.0	124	0.2	10.4	23	—(Note)	5.6	19	0.1	5.6	—	—	—
Total/overall	**57,719**	**100.0**	**56.4**	**82,185**	**100.0**	**61.5**	**123,894**	**100.0**	**60.3**	**28,836**	**100.0**	**58.8**	**40,755**	**100.0**	**60.0**

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. Our total gross profit increased from approximately RMB28.8 million for the four months ended 30 April 2020 to approximately RMB40.8 million for the four months ended 30 April 2021. Such increase was generally in line with the increase of our revenue from gold mine hazardous waste treatment services and sale of recycled products as a result of our business expansion and the commencement of our hazardous waste storage rental services with LZ Assets since November 2018 and with full year rental services in 2019 and 2020.

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%, 91.8% and 91.7% of our total gross profit for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, respectively.

Our overall gross profit margin was approximately 56.4%, 61.5%, 60.3% and 60.0% for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, 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.

The increase in our overall gross profit margin from approximately 58.8% for the four months ended 30 April 2020 to approximately 60.0% for the four months ended 30 April 2021, and was mainly attributable to (i) the improvement of gross profit margin for sale of recycled products from approximately 38.3% for the four months ended 30 April 2020 to approximately 48.6% for same period in 2021; and the relevant gross profit contribution increased from approximately 18.1% to 34.3% for the same period; and (ii) the improvement of gross profit margin for gold mine hazardous waste treatment services from approximately 66.9% for the four months ended 30 April 2020 to approximately 68.2% for the same period in 2021.

Gold mine hazardous waste treatment services

For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, our gross profit for gold mine hazardous waste treatment services amounted to approximately RMB28.6 million, RMB42.6 million, RMB76.3 million and RMB23.4 million, respectively; and the corresponding gross profit margin was approximately 69.8%, 69.2%, 70.7% and 68.2%, 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 overall 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.

Our Group recorded a relatively high gross profit margin for our gold mine hazardous waste treatment services during the Track Record Period and our Directors considered this is mainly because (i) there is strong demand of our gold mine hazardous waste treatment services under strict enforcement of the relevant environmental protection regulations and policies issued by the Shandong provincial government authorities; and (ii) the mutual reliance between the upstream customers and our Group. Moreover, there are fairly high barriers for gold mine hazardous waste market in the PRC, such as the qualification barrier, high requirement on the technology capability and the need of capital investment. Our Group, being the only company in Laizhou city, Shandong province that has obtained the Hazardous Waste Business Licence issued by Yantai Municipal Ecology and Environment Bureau (煙臺市生態環境局), generally has a high bargaining power for a relatively higher gross profit margin of our treatment services. According to F&S, our gross profit margin of gold mine hazardous waste treatment services during the Track Record Period are comparable to other gold mine hazardous waste treatment companies in Shandong provinces.

Sale of recycled products

The following table sets forth an analysis of our gross profit and gross profit margin by sale of recycled products during the Track Record Period:

	Year ended 31 December						Four months ended 30 April			
	2018		2019		2020		2020		2021	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Sale of recycled products										
— Pyrite concentrate	28,735	49.9	28,389	50.3	33,637	43.7	5,229	38.3	13,994	48.6
— Gold-bearing pyrite concentrate	—	—	—	—	3,802	69.1	—	—	—	—
Total/overall	**28,735**	**49.9**	**28,389**	**50.3**	**37,439**	**45.4**	**5,229**	**38.3**	**13,994**	**48.6**

Our gross profit for sale of recycled products amounted to approximately RMB28.7 million, RMB28.4 million, RMB37.4 million and RMB14.0 million for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, respectively. The overall increase during the years ended 31 December 2018, 2019 and 2020 was in line with the overall 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 for the sale of recycled products increased from approximately RMB5.2 million for the four months ended 30 April 2020 to approximately RMB14.0 million for the four months ended 30 April 2021, which was primarily due to the increase in the relevant revenue as a result of an increase in the number of downstream customers with increased sale volume and average selling price of our products. According to the F&S Report, the COVID-19 outbreak in early 2020 has negatively impacted the consumption and demand of sulphuric acid and the production of chemical industry in the PRC. Our products which are generally used for sulphuric acid production, also recorded a relatively lower sale volume for the four months ended 30 April 2021. With the influence of COVID-19 pandemic wearing off in 2021, we recorded an increase in sale volume for the four months ended 30 April 2021.

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. This decrease was attributable to the decrease in gross profit margin of sale of pyrite concentrate from approximately 50.3% for the year ended 31 December 2019 to approximately 43.7% 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; however, this decrease was partially offset by the recognition of a relatively higher gross profit margin of approximately 69.1% from the sale of gold-bearing pyrite concentrate for the year ended 31 December 2020. For further details regarding our sale of gold-bearing pyrite concentrate in 2020, see "Business — Our Business Model — Our Products" in this document. According to the F&S Report, due to the high content of gold with higher recovery value, the gold-bearing pyrite concentrate is usually sold at a relatively higher price and a higher profit margin than pyrite concentrate.

For the four months ended 30 April 2021, we recorded gross profit margin for sale of recycled products of approximately 48.6% from approximately 38.3% for the four months ended 30 April 2020. Our Directors considered that a relatively lower gross profit margin for the four months ended 30 April 2020 was mainly due to (i) a relatively lower sale volume and selling price of our recycled products as negatively impacted by the outbreak of COVID-19 in early 2020; and (ii) some of our production overhead costs were fixed costs and were relatively less sensitive to the decreased sale for the four months ended 30 April 2020. The improvement of our gross profit margin during the four months ended 30 April 2021 was mainly attributable to (i) the increase in average selling price per tonnes of our products from approximately RMB170 for the four months ended 30 April 2020 to approximately RMB177 for the same period in 2021; and (ii) we enjoyed economies of scale due to the significant increase in sales volume and revenue of sale of recycled products for the four months ended 30 April 2021 which allowed us to decrease our production overhead costs and thereby leading to the decrease of our fixed costs per tonne of our recycled products. Our Directors consider that depreciation expenses and manufacturing overhead expenses are fixed costs to our production, which were less sensitive to the fluctuation of our sale of recycled products. These fixed costs accounted for approximately 50.9% and 43.3% of the total cost of sales of our sale of recycled products business, respectively, for the four months ended 30 April 2020 and 2021. While we recorded a significant increase of our revenue from sale of recycled products by approximately 111.2% during the four months ended 30 April 2021, these fixed costs have aggregately increased by approximately 49.6% only for the same period. Accordingly, with the significant increase in sale volume from approximately 80,385 tonnes for the four months ended 30 April 2020 to approximately 162,727 tonnes for the corresponding period in 2021, the fixed costs allocated to each tonne of recycled products decreased, resulting in the decrease of our average costs per tonne of our recycled products, which ultimately gave rise to an increase in the relevant gross profit margin.

Hazardous waste storage rental services

Our gross profit for hazardous waste storage rental service represents the effective rental income (which consisted of nominal rental income and other lease payments arising from the one-year compensation rental income of RMB8.0 million and the discounting impact of approximately RMB27.8 million, as a result of discounting the non-current payables to LZ Assets of RMB112.0 million, which represented our obligation to repay upon LZ Assets exercising the right to terminate the rental agreements upon the five year fixed lease term in 2023, to its present value of approximately RMB84.2 million at inception of this arrangements) less cost of sale (which mainly included the depreciation expenses); at the same time, our Group recognised interest expenses in relation to this warehouse rental arrangements arising from our payables to LZ Assets. For details, see "— Net Finance Costs" below.

Our gross profit for hazardous waste storage rental services amounted to approximately RMB0.3 million, RMB11.1 million, RMB10.1 million and RMB3.4 million, for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, respectively, which was in line with the increase in the relevant sector revenue. The corresponding gross profit margin was approximately 26.9%, 76.5%, 69.8% and 69.8% during the corresponding periods.

We recorded a relatively lower gross profit margin of approximately 26.9% for the year ended 31 December 2018 because we incurred depreciation expenses since September 2018 as a result of the completion of the construction of one of our two warehouses and storage facilities to be leased to LZ Assets before the commencement of lease arrangements and the recognition of relevant rental income in November 2018. The construction work of our another warehouse and storage facilities was completed by 2019 and upon the full year operations of our hazardous waste storage rental services under the lease agreements, the relevant gross profit margin increased to approximately 76.5% for the year ended 31 December 2019. 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. Our Group has maintained a relatively stable gross profit margin for hazardous waste storage rental services of approximately 69.8% and 69.8%, respectively, for the four months ended 30 April 2020 and 2021.

Other income

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

	Year ended 31 December			Four months ended 30 April	
	2018	2019	2020	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interest income from a related party	—	6,460	5,144	1,921	—
Others	—	3	43	20	64
Total	—	6,463	5,187	1,941	64

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. Such loan to Zhonglian Cement was non-interest bearing since 1 January 2021. See "— Related Parties Transactions" below 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			Four months ended 30 April	
	2018	2019	2020	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Insurance claim	—	—	175	175	30
Foreign exchange loss	—	—	154	—	35
Net gains/(losses) on disposal of property, plant and equipment and other assets	71	(232)	50	—	(368)
Others	6	(8)	33	(1)	4
Total	**77**	**(240)**	**412**	**174**	**(299)**

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. For the four months ended 30 April 2021, we recorded other net losses of approximately RMB0.3 million.

Selling expenses

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

	Year ended 31 December			Four months ended 30 April	
	2018	**2019**	**2020**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Entertainment	515	1,924	2,548	746	848
Promotion expenses	14	1	178	74	—
Staff costs	28	80	148	67	63
Delivery costs	5,413	386	—	—	—
Others	2	127	12	—	6
Total	**5,972**	**2,518**	**2,886**	**887**	**917**

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 the designated ports specified by our downstream customers; and (v) others, which mainly included expenses incurred from our selling activities.

For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, our selling expenses amounted to approximately RMB6.0 million, RMB2.5 million, RMB2.9 million and RMB0.9 million, respectively.

Our entertainment expenses increased significantly from approximately RMB0.5 million for the year ended 31 December 2018 to approximately RMB1.9 million for the year ended 31 December 2019 and further increased to approximately RMB2.5 million for the year ended 31 December 2020. Such increase was generally in line with our expanded scale and operations, and more expenses were incurred to acquaint with new customers and maintain business relationships with our existing customers and suppliers. Our entertainment expenses were relatively stable at approximately RMB0.7 million and RMB0.8 million, respectively, for the four months ended 30 April 2020 and 2021. Our delivery costs decreased from approximately RMB5.4 million for the year ended 31 December 2018 to approximately RMB0.4 million and nil for the years ended 31 December 2019 and 2020, respectively, was mainly due to (i) the change of delivery terms with downstream customers located outside Shandong province from free on board ("**FOB**") terms to ex-factory price since 2019; and (ii) the decrease in revenue from sale of recycled products to customers located outside Shandong province from approximately RMB38.8 million for the years ended 31 December 2018 to approximately RMB24.3 million for the same period in 2019.

Our recycled products were generally sold on ex-factory price for our customers located in Shandong province and on FOB terms for customers located outside Shandong province in order to expand our market share and customer portfolio outside Shandong province before the change of delivery terms. Under the FOB terms, we were generally required to deliver our products to the locations as designated by customers at our own costs and bear the risk of loss and damage of products during transportation. In early 2019, our Directors considered that we have established a stable business relationship with our customers outside Shandong province and with an aim to streamline the delivery and logistic arrangements between our production facilities and the designated locations of our customers thereby reducing our risks during transportation, we have approached the relevant customers, mainly including Qinhuangdao Hefengxiang and Customer A, to bargain for the changes of delivery terms from FOB to ex-factory price since 2019, while our Group would generally agree to offer a lower selling price for the sale of our recycled products. Such discount mainly represented the original delivery costs borne by us before the change of delivery terms which generally accounted for approximately 10% to 20% of the total contract sum and after considering our business relationships with customers, delivery time and sale volume and contract sum. See "Business — Customers — Our Five Largest Customers" in this document for details of background of and our relationships with Qinhuangdao Hefengxiang and Customer A during the Track Record Period.

Our Directors considered it is commercially sensible and justifiable to accept a relatively lower, but yet reasonable, gross profit margin level to an extent of our discount offered for such sales to these relevant customers after the change of delivery term. Our Directors also confirmed that discounts offered to the relevant customers were granted on a case-by-case basis. Our Group's gross profit margin for sale of recycled products remains relatively stable at approximately 49.9% and 50.3%, respectively for the year ended 31 December 2018 and 2019. The changes in the gross profit margin are mostly affected by our production efficiency and cost controls and pricing. Our Directors are of the view that changes in delivery terms and discounts offered will not have a systemic change in our Group's profit margin. According to the F&S Report, it is a normal practice for customers to bear the delivery costs for their purchases of recycled products.

To the best knowledge of our Directors after making reasonable enquiries, save for being our customers, none of the relevant customers have had any past or present relationships with our Group, our Shareholders, Directors or senior management, or any of their respective associates during Track Record Period and up to the Latest Practicable Date. All of the relevant customers during the Track Record Period are Independent Third Parties.

Administrative expenses

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

	Year ended 31 December						Four months ended 30 April			
	2018		2019		2020		2020		2021	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Staff costs	2,935	33.7	5,288	30.5	6,102	25.5	1,658	29.1	2,404	18.4
[REDACTED] expenses	—	—	—	—	[REDACTED]	[REDACTED]	—	—	[REDACTED]	[REDACTED]
Taxes and levies	2,064	23.7	2,535	14.6	3,717	15.5	1,076	18.9	1,220	9.4
Depreciation	886	10.2	1,807	10.4	1,765	7.4	505	8.9	785	6.0
Office expenses	648	7.4	1,089	6.3	1,190	5.0	328	5.8	220	1.7
Entertainment	242	2.8	750	4.3	1,015	4.2	295	5.2	449	3.4
Professional and consultation fee	414	4.8	2,117	12.2	884	3.7	408	7.2	1,998	15.3
Transportation and related expenses	689	7.9	1,345	7.8	748	3.1	191	3.3	291	2.2
Amortisation	330	3.8	365	2.1	327	1.4	82	1.4	122	0.9
Electricity and water expenses	68	0.8	136	0.8	169	0.7	7	—	98	0.8
Donation	128	1.5	154	0.9	781	3.3	650	11.4	—	—
Others (Note)	296	3.4	1,761	10.1	2,725	11.3	502	8.8	547	4.2
Total	**8,700**	**100.0**	**17,347**	**100.0**	**[REDACTED]**	**[REDACTED]**	**5,702**	**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 which mainly included fees paid for conducting feasibility study reports and carrying out inspection and testing works, other consulting services we engaged to increase our operational efficiency and legal fees; (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 and the four months ended 30 April 2021, our administrative expenses amounted to approximately RMB8.7 million, RMB17.3 million, RMB24.0 million and RMB13.0 million, respectively. We recorded an increase of entertainment expenses from approximately RMB0.2 million for the year ended 31 December 2018 to approximately RMB0.8 million for the year ended 31 December 2019 and further increased to approximately RMB1.0 million for the year ended 31 December 2020. Such increase were generally in line with our expanded scale and operations. Our professional and consultation fee increased 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 was mainly due to more fees paid for conducting feasibility study reports and inspection and testing works as we commenced trial operations of our production facilities in Shahe town, Laizhou city in late 2019 and other consulting services engaged to increase our operation efficiency. Our professional and consultation fee decreased to approximately RMB0.9 million for the year ended 31 December 2020, which mainly represented fees paid for regular product and safety inspection fees, laboratory fees and legal fees.

Our administrative expenses increased from approximately RMB5.7 million for the four months ended 30 April 2020 to approximately RMB13.0 million for the four months ended 30 April 2021, and was mainly attributable to (i) the increase of [REDACTED] expenses in connection with the proposed [REDACTED] of approximately RMB4.9 million; (ii) increase of professional and consultation fee by approximately RMB1.6 million as we have engaged consultation companies for conducting feasibility studies with respect to the design and proposed construction of the New Production Facility and technological studies for the recovery of recycled products, mainly construction aggregate, from high silicon tailings; and (iii) the increase in other administrative expenses as a result of our expanded scale and operations.

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 and the four months ended 30 April 2021, we recorded net finance costs of approximately RMB2.9 million, RMB5.2 million, RMB6.0 million and RMB2.0 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			Four months ended 30 April	
	2018	**2019**	**2020**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Finance income					
— Interest income derived from bank balances	113	175	40	2	26
Finance costs					
— Interest expenses on bank borrowings	(2,617)	(1,781)	(1,846)	(635)	(549)
— Interest expenses relating to warehouse lease arrangement	(288)	(3,927)	(4,110)	(1,349)	(1,412)
— Interest expenses on lease liabilities	(118)	(60)	(70)	(21)	(17)
— Other losses	—	—	(57)	—	(73)
Less: borrowing costs capitalised in property, plant and equipment	—	370	—	—	—
	(3,023)	(5,398)	(6,083)	(2,005)	(2,051)
Net finance costs	(2,910)	(5,223)	(6,043)	(2,003)	(2,025)

Interest expenses relating to warehouse rental arrangement are recognised on our liabilities — payables to LZ Assets using the discount rate of the current market rate available to our Group for similar financial instruments. Our Group considered there is a likelihood for LZ Assets to exercise the right to terminate the rental agreements after the five years fixed lease term which we shall then have an obligation to repay LZ Assets. Hence, upon the inception of the rental arrangement, we have recognised other liabilities — payables to LZ Assets with balances of approximately RMB38.2 million, RMB88.4 million, RMB92.5 million and RMB93.9 million as at 31 December 2018, 2019 and 2020 and 30 April 2021, respectively.

For details of our warehouse lease arrangement and its accounting treatment, see "— Description of Certain Items of Consolidated Statements of Financial Position — Other Liabilities" below and Note 30 to the historical financial information in the Accountant's Report set out in Appendix I to this document.

Our net finance costs increased from approximately RMB2.9 million for the year ended 31 December 2018 to approximately RMB5.2 million for the year ended 31 December 2019, which was mainly attributable to the significant increase in interest expenses recognised from the warehouse rental arrangement which was in line with the increase of our other liabilities — payables to LZ Assets as at 31 December 2018 as compared to that of 2019; and partially offset by the decrease in interest expenses on bank borrowings. Our net finance costs was relatively stable for the year ended 31 December 2019 and 2020 and the four months ended 30 April 2020 and 2021.

Income tax expenses

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Act and accordingly is exempted from Cayman Islands income tax. Our Company's directly held subsidiary was incorporated in the BVI as a business 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, RMB23.6 million and RMB7.4 million for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, respectively, reflecting effective tax rates (equal to income tax expenses divided by profit before income tax) of approximately 23.7%, 23.6%, 24.5% and 30.3% for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, 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 it is identified as small-scale taxpayer by local tax bureau in 2018 as mentioned above. Our effective tax rate increased from approximately 25.0% for the four months ended 30 April 2020 to approximately 30.3% for the four months ended 30 April 2021, mainly due to (i) certain tax losses for which no deferred income tax assets were recognised; and (ii) increase of [REDACTED] expenses of approximately [REDACTED] which was not deductible for tax purpose. For the four months ended 30 April 2021, our certain group companies in Hong Kong and the PRC had incurred tax losses which is not likely to generate taxable income in the foreseeable future and therefore no deferred income tax assets were recognised.

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/period

For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, our profit for the year/period was approximately RMB30.7 million, RMB48.5 million, RMB72.9 million and RMB17.1 million, respectively.

REVIEW OF HISTORICAL RESULTS OF OPERATIONS

Four months ended 30 April 2021 compared to four months ended 30 April 2020

Revenue

Our revenue increased by approximately RMB18.9 million or 38.6% from approximately RMB49.0 million for the four months ended 30 April 2020 to approximately RMB67.9 million for the four months ended 30 April 2021. Such increase was mainly attributable to (i) the increase in sale of recycled products due to the increase in number of downstream customers with increased sale volume and average selling price per tonne of our products during the four months ended 30 April 2021; and (ii) the increase in revenue from gold mine hazardous waste treatment services as a result of increased average treatment fee from approximately RMB84 per tonnes for the four months ended 30 April 2020 to approximately RMB97 per tonnes for the four months ended 30 April 2021.

Cost of sales

Our cost of sales increased by approximately RMB7.0 million or 34.7% from approximately RMB20.2 million for the four months ended 30 April 2020 to approximately RMB27.2 million for the four months ended 30 April 2021. Such increase was in line with the increase of our revenue by approximately 38.6% for the four months ended 30 April 2021 and partially offset by the increase of cost of raw materials mainly due to the increase in the treatment volume of gold mine hazardous waste from Customer Y, an upstream customer located in Fushan, Yantai city, which has a relatively longer transportation distance to our production facilities and hence a relatively higher transportation fee was charged by the transportation companies.

Gross profit and gross profit margin

Our gross profit increased by approximately RMB12.0 million or 41.7% from approximately RMB28.8 million for the four months ended 30 April 2020 to approximately RMB40.8 million for the four months ended 30 April 2021, which generally reflected our revenue growth during the four months ended 30 April 2021 as a result of business expansion.

Our overall gross profit margins were approximately 58.8% and 60.0%, respectively for the four months ended 30 April 2020 and 2021. Such fluctuation was primarily due to (i) the improvement of gross profit margin for sale of recycled products of approximately 48.6% for the four months ended 30 April 2021 from approximately 38.3% for the four months ended 30 April 2020, which was mainly attributable to the increase in average selling price from approximately RMB170 per tonne to RMB177 per tonnes for the same period and we enjoyed economies of scale due to the significant increase in sales volume and our revenue of sale of recycled products by approximately 102.4% and 111.2%, respectively, for the four months ended 30 April 2021, which allowed us to decrease our production overhead costs and leading to the decrease of our fixed costs allocated to each tonne of our recycled products. Our fixed costs for the production of recycled products have aggregately accounted for approximately 50.9% and 43.3% of our cost of sales under sale of recycled products for the four months ended 30 April 2020 and 2021, respectively. As such, the average costs of each tonne of recycled products decreased; and (ii) the increase of gross profit margin for our gold mine hazardous waste treatment services from approximately 66.9% for the four months ended 30 April 2020 to approximately 68.2% for the same period in 2021 mainly due to the combining effect of an increase in average treatment fee from approximately RMB84 per tonne for the four months ended 30 April 2020 to approximately RMB97 per tonne for the same period in 2021; and partially offset by increase of cost of raw materials resulted from the increased treatment volume of gold mine hazardous waste from Customer Y, for who, a relatively higher transportation fee was charged.

Other income

Other income decreased from approximately RMB1.9 million for the four months ended 30 April 2020 to approximately RMB64,000 for the four months ended 30 April 2021, which was mainly attributable to the decrease in interest income from our loan offered to Zhonglian Cement. Our loan to Zhonglian Cement was unsecured and non-interest bearing from 1 January 2021 and during the four months ended 30 April 2021 while such loan was bearing interest of 6.86% per annum from 1 January 2020 and during the four months ended 30 April 2020.

Other net gains/losses

We recorded other net gains of approximately RMB0.2 million for the four months ended 30 April 2020 as compared to other net losses of approximately RMB0.3 million for the four months ended 30 April 2021. The other net gains for the four months ended 30 April 2020 primarily consisted of insurance claim of approximately RMB0.2 million, and the other net losses for the four months ended 30 April 2021 were mainly derived from foreign exchange gain of approximately RMB35,000 and net losses on disposal of property, plant and equipment and other assets of approximately RMB0.4 million.

Selling expenses

Our selling expenses were relatively stable at approximately RMB0.9 million and RMB0.9 million, respectively, for the four months ended 30 April 2020 and 2021.

Administrative expenses

Our administrative expenses increased by approximately [REDACTED] or [REDACTED] from approximately [REDACTED] for the four months ended 30 April 2020 to approximately [REDACTED] for the four months ended 30 April 2021, which was mainly attributable to (i) the increase of [REDACTED] expenses in connection with our proposed [REDACTED] of approximately [REDACTED]; (ii) the increase of professional and consultation fee by approximately RMB1.6 million from approximately RMB0.4 million for the four months ended 30 April 2020 to approximately RMB2.0 million for the four months ended 30 April 2021, which we mainly incurred for the feasibility studies of the design and proposed construction of a New Production Facility and technological studies for the recovery of recycled products, mainly construction aggregates, from high silicon tailings; and (iii) an overall increase of other administrative expenses which reflected our expanded scale and operations.

Net finance costs

Our net finance costs remained relatively stable at approximately RMB2.0 million and RMB2.0 million, respectively for the four months ended 30 April 2020 and 2021.

Income tax expenses

Our income tax expenses increased by approximately RMB1.8 million or 32.1% from approximately RMB5.6 million for the four months ended 30 April 2020 to approximately RMB7.4 million for the four months ended 30 April 2021, which reflected our business growth that resulted in an increase in our profit before income tax from approximately RMB22.3 million for the four months ended 30 April 2020 to approximately RMB24.6 million for the four months ended 30 April 2021. Our effective tax rate increased from approximately 25.0% for the four months ended 30 April 2020 to approximately 30.3% for the four months ended 30 April 2021, and was mainly due to (i) tax losses incurred by our certain group companies in Hong Kong and the PRC not recognised as deferred income tax assets as it is not likely that these group companies would generate taxable income in foreseeable future; and (ii) the increase of [REDACTED] expenses of approximately [REDACTED] which was not deductible for tax purpose.

Profit for the period

As a result of the foregoing, our profit for the period increased by approximately RMB0.4 million or 2.4% from approximately RMB16.7 million for the four months ended 30 April 2020 to approximately RMB17.1 million for the four months ended 30 April 2021.

Our net profit margins were approximately 34.1% for the four months ended 30 April 2020 and approximately 25.2% for the four months ended 30 April 2021. Despite our increased gross profit margin from approximately 58.8% for the four months ended 30 April 2020 to approximately 60.0% for the four months ended 30 April 2021, our decreased net profit margin for the four months ended 30 April 2021 was mainly attributable to (i) the decrease of interest income from Zhonglian Cement from approximately RMB1.9 million for the four months ended 30 April 2020 to nil for the four months ended 30 April 2021; (ii) the increase of our administrative expenses primarily due to the increase of [REDACTED] expenses of approximately [REDACTED] and professional and consultation fee of approximately RMB1.6 million during the four months ended 30 April 2021; and (iii) the increase in effective tax rate from approximately 25.0% for the four months ended 30 April 2020 to approximately 30.3% for the four months ended 30 April 2021.

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 overall average treatment fee per tonne from approximately RMB76 in 2019 to approximately RMB100 in 2020 was mainly due to fluctuation of the proportions of high and low grade cyanide tailings provided by our upstream customers and treated during the year of 2020. As such, among all the gold mine hazardous wastes we treated during the year, approximately 74% were of low grade cyanide tailings with average treatment fee of approximately RMB120 per tonne while as compared to that of 2019, approximately 36% were of low grade cyanide tailings with similar average treatment fee of approximately RMB117 per tonne; 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 480,341 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 gross profit margin of sale of pyrite concentrate from approximately 50.3% for the year ended 31 December 2019 to approximately 43.7% for the year ended 31 December 2020 due 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 RMB6.7 million or 38.7% from approximately RMB17.3 million for the year ended 31 December 2019 to approximately RMB24.0 million 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 (i) 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, which further details are set out in "— Description of Selected Items in the Consolidated Statements of Comprehensive Income — Selling Expenses" above in this section; 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 RMB2.9 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% 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, RMB63.2 million and RMB80.3 million as at 31 December 2018, 2019 and 2020 and 30 April 2021, 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/periods indicated during the Track Record Period:

	Year ended 31 December			Four months ended 30 April	
	2018	**2019**	**2020**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Operating cash flows before movements in working capital	47,107	77,481	116,152	28,757	31,723
Changes in working capital	43,428	38,025	(36,023)	(12,844)	18,029
Interest received	113	175	40	2	26
Interest paid and tax paid	(6,422)	(15,320)	(12,630)	(1,770)	(7,165)
Net cash generated from operating activities	84,226	100,361	67,539	14,145	42,613
Net cash used in investing activities	(103,841)	(124,687)	(59,148)	(14,763)	(9,860)
Net cash generated from/(used in) financing activities	23,913	14,305	34,973	4,124	(22,197)
Net increase/(decrease) in cash and cash equivalents	4,298	(10,021)	43,364	3,506	10,556
Cash and cash equivalents at beginning of year/period	7,779	12,077	2,056	2,056	45,363
Effect of exchange rate changes on cash and cash equivalents	—	—	(57)	—	(73)
Cash and cash equivalents at end of year/period	12,077	2,056	45,363	5,562	55,846

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 Consolidated Statements of Financial Statements — Other Liabilities" below 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 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, 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.

For the four months ended 30 April 2021, our net cash generated from operating activities were approximately RMB42.6 million, primarily consists of cash generated from operations of approximately RMB49.8 million and partially offset by income tax paid of approximately RMB6.6 million and interest paid of approximately RMB0.5 million. We had cash generated from operations of approximately RMB49.8 million, mainly as a result of our profit before income tax of approximately RMB24.6 million, which was primarily adjusted for (i) depreciation of property, plant and equipment, right-of-use assets and investment property of approximately RMB3.0 million, RMB0.3 million and RMB1.5 million, respectively; (ii) net finance costs of approximately RMB2.0 million; (iii) loss on disposal of property, plant and equipment and others of approximately RMB0.4 million; (iv) increase of contract liabilities of approximately RMB12.3 million; (v) decrease of trade and other receivables and prepayments of approximately RMB12.5 million; and (vi) increase of trade and other payables of approximately RMB1.2 million. This was partially offset by (i) decrease of inventories of approximately RMB3.1 million; and (ii) decrease of advances from LZ Assets of approximately RMB4.8 million as a result of recognition of hazardous waste storage rental income for the four months ended 30 April 2021.

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.

For the four months ended 30 April 2021, we had net cash used in investing activities of approximately RMB9.9 million, and primarily attributable to (i) the payment for purchases of property, plant and equipment and investment property of approximately RMB19.1 million; and partially offset by (i) repayments from related parties and third parties of approximately RMB10.2 million and RMB0.5 million, respectively; (ii) advance to our Controlling Shareholder of approximately RMB2.0 million; and (iii) proceeds of approximately RMB0.5 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 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.

For the four months ended 30 April 2021, our net cash used in financing activities of approximately RMB22.2 million were mainly attributable to (i) repayments of amounts due to our Controlling Shareholder of approximately RMB4.7 million; (ii) dividends paid of RMB11.6 million; (iii) deemed distributions to shareholders in relation to the reorganisation of approximately RMB6.7 million; and (iv) [REDACTED] expenses paid of approximately [REDACTED]. This was partially offset by increase in amounts due to our Controlling Shareholder of approximately RMB3.2 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 30 April	As at 31 August
	2018	2019	2020	2021	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Current assets					
Inventories	4,537	17,276	23,996	27,116	23,251
Trade receivables	18,902	348	22,833	14,715	32,300
Other receivables and prepayments	6,429	17,826	9,997	7,582	5,765
Amounts due from related parties	86,295	139,075	33,887	23,429	—
Amount due from the Controlling Shareholder	—	—	—	1,990	4,082
Financial assets measured at fair value through other comprehensive income	10,243	2,890	1,960	1,250	730
Restricted bank balance	6,000	—	—	—	—
Cash and cash equivalents	12,077	2,056	45,363	55,846	57,303
	144,483	179,471	138,036	131,928	123,431
Current liabilities					
Trade payables	9,174	13,224	20,147	16,091	10,737
Other payables and accruals	117,540	162,792	23,726	25,139	23,632
Dividend payable	—	—	11,600	—	—
Amount due to the Controlling Shareholder	50,679	23,572	8,217	—	—
Borrowings	28,480	32,000	2,120	2,120	2,120
Current income tax liabilities	3,781	5,123	17,803	18,490	15,585
Contract liabilities	12,468	15,241	10,827	23,095	21,951
Lease liabilities	4,486	539	762	376	250
Other liabilities	6,825	15,167	33,059	22,282	15,493
	233,433	267,658	128,261	107,593	89,768
Net current (liabilities)/assets	(88,950)	(88,187)	9,775	24,335	33,663

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.

As at 30 April 2021, our Group had net current assets of approximately RMB24.3 million, representing an increase of approximately RMB14.5 million or 148.0% as compared to 31 December 2020, which was attributed to (i) our business growth and cash generated from our operations for the four months ended 30 April 2021; (ii) decrease in other liabilities which mainly represented the decrease in retention payable for construction works of approximately RMB10.8 million upon the expiry of warranty period; and (iii) decrease in amounts due from related parties of approximately RMB8.5 million. In addition, the increase of cash and cash equivalents generated from our operations was partially offset by the increase in current income tax liabilities of approximately RMB0.7 million and decrease of dividend payables and amounts due to our Controlling Shareholder of RMB11.6 million and approximately RMB8.2 million, respectively.

We recorded net current assets of approximately RMB33.7 million as at 31 August 2021, representing an increase of approximately RMB9.4 million or 38.7% as compared to 30 April 2021, which was attributed to (i) our business growth and cash generated from our operations for the eight months ended 31 August 2021; (ii) decrease in other liabilities which mainly represented the decrease in retention payables of approximately RMB6.8 million due to the expiry of warranty period; (iii) decrease in current income tax liabilities of approximately RMB2.9 million; and (iv) the decrease in amounts due from related parties from approximately RMB23.4 million as at 30 April 2021 to nil as at 31 August 2021.

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 RMB24.3 million, respectively as at 31 December 2020 and 30 April 2021. We had sufficient cash and cash equivalents of approximately RMB12.1 million, RMB2.1 million, RMB45.4 million and RMB55.8 million as at 31 December 2018, 2019 and 2020 and 30 April 2021 for our working capital needs. We recorded net cash generated from operating activities of approximately RMB84.2 million, RMB100.4 million, RMB67.5 million and RMB42.6 million, respectively, for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021.

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, including the existing bank borrowings, 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 CONSOLIDATED 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.

As at 30 April 2021, the carrying values of our property, plant and equipment amounted to approximately RMB132.1 million, representing an increase of approximately RMB1.7 million or 1.3% as compared to 31 December 2020. Such increase was mainly due to the purchase of property, plant and equipment of approximately RMB5.1 million and partially offset by the depreciation expense of approximately RMB3.0 million incurred during the four months ended 30 April 2021.

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, RMB28.3 million and RMB26.8 million, respectively, as at 31 December 2018, 2019 and 2020 and 30 April 2021. The fluctuation of our right-of-use assets as at the end of respective year/period during the Track Record Period mainly reflected the amortisation charges provided for during the years/periods.

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. As at 30 April 2021, our investment properties decreased to approximately RMB132.5 million, which reflected the depreciation expenses of approximately RMB1.5 million incurred during the four months ended 30 April 2021.

Intangible assets (Computer software)

Our intangible assets mainly represent separately acquired accounting software and amounted to nil, approximately RMB28,000, RMB21,000 and RMB19,000, respectively, as at 31 December 2018, 2019 and 2020 and 30 April 2021. Our computer software with acquisition cost of approximately RMB34,000 is amortised on a straight-line method over an estimated useful live of six years which is estimated by us based on the expected technical obsolescence and innovations and the useful life of similar computer software estimated by comparable companies in the market.

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:

	As at 31 December			As at 30 April
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	918	2,007	2,586	2,376
Work-in-progress	502	1,491	1,304	1,479
Finished goods	3,117	13,778	20,106	23,261
Total	**4,537**	**17,276**	**23,996**	**27,116**

As at 31 December 2018, 2019 and 2020 and 30 April 2021, our inventories amounted to approximately RMB4.5 million, RMB17.3 million, RMB24.0 million and RMB27.1 million, respectively. This overall increase in inventories at the end of respective year/period was mainly driven by the increase in finished goods which amounted to approximately RMB3.1 million, RMB13.8 million, RMB20.1 million and RMB23.3 million as at 31 December 2018, 2019 and 2020 and 30 April 2021, 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			Four months ended 30 April
	2018	**2019**	**2020**	**2021**
Average inventory turnover days *(Note)*	36.7	77.3	92.4	112.9

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

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.

Our average inventory turnover days increased from approximately 92.4 days for the year ended 31 December 2020 to approximately 112.9 days for the four months ended 30 April 2021. Such increase was mainly attributable to the increase in inventory balance of finished goods from approximately RMB20.1 million as at 31 December 2020 to approximately RMB23.3 million as at 30 April 2021 in order to satisfy the expected increasing demand of our recycled products from downstream customers, which was also reflected by the increase in advance payments received from our downstream customers that was recognised as contract liabilities with the balance of approximately RMB21.4 million as at 30 April 2021.

As at the Latest Practicable Date, all of our inventories as at 30 April 2021 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			As at 30 April
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables, gross, related to:				
Gold mine hazardous waste treatment services	7,787	—	1,781	14,780
Sales of recycled products	11,210	350	21,167	9
	18,997	350	22,948	14,789
Less: provision for impairment	(95)	(2)	(115)	(74)
Trade receivables, net	18,902	348	22,833	14,715

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 and the decrease in trade receivables from sale recognised near the year ended as we have temporarily suspended our production facility in Jincheng town, Laizhou city from mid of November 2019 to 19 January 2020 for a comprehensive repair and maintenance. Our gross 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 with full operations of our two production facilities in Laizhou city. The decrease in our trade receivables from approximately RMB22.9 million as at 31 December 2020 to approximately RMB14.8 million as at 30 April 2021 was mainly because (i) we have strictly required our new downstream customers to make prepayments for their sale orders before the delivery of products leading to the decrease in trade receivables from sale of recycled products; and (ii) the increase in our treatment volume of gold mine hazardous waste treatment services recognised by the last two months of the four months ended 30 April 2021 which had not been settled prior to 30 April 2021, leading to an increase of our receivables from upstream customers of gold mine hazardous waste treatment service.

Our Group adopted simplified approach as permitted under IFRS 9 "*Financial Instruments*" 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. Our Group did not consider that there would be a significant change in the risk profile of our customer base as we continued to serve our long-standing customers and the historical cash flow recovery is good. As there is no significant change in the business, actual loss rates for trade receivables, customer profile and the adjustments for forward looking information during the Track Record Period, the change in the expected credit loss rates for the provision matrix is insignificant throughout the Track Record Period. Consequently, our expected credit loss rate remain unchanged at 0.5% during the Track Record Period. In determining the 0.5% expected credit loss rate, our Group calculated the probability of default and potential loss given default for each class of trade receivables by incorporating forward-looking adjustments, taking into account the effect of macroeconomic variables such as the gross domestic product index of the PRC in which we provide services.

We recorded provision for impairment of trade receivables of approximately RMB95,000, RMB2,000, RMB115,000 and RMB74,000 respectively as at 31 December 2018, 2019 and 2020 and 30 April 2021, which we consider sufficient for the Track Record Period. As such, as at 31 December 2018, 2019 and 2020 and 30 April 2021, our net trade receivables amounted to approximately RMB18.9 million, RMB348,000, RMB22.8 million and RMB14.7 million, respectively. 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			As at 30 April
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
1 to 30 days	3,339	350	9,243	10,439
31 to 60 days	5,279	—	10,673	4,350
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	14,789
Less: provision for impairment	(95)	(2)	(115)	(74)
Trade receivables, net	18,902	348	22,833	14,715

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

	Year ended 31 December			Four months ended 30 April
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Average trade receivables turnover days *(Note)*	75.4	26.3	20.6	33.2

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

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.

Our average trade receivables turnover days increased to approximately 33.2 days for the four months ended 30 April 2021, was mainly attributable to the increase in our treatment volume and revenue recognised from gold mine hazardous waste treatment services in the last two months for the four months ended 30 April 2021 which had not been settled as at 30 April 2021. 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, all of our trade receivables outstanding as at 30 April 2021 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		**As at 30 April**
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments	658	4,196	5,424	2,898
Prepayment for [REDACTED] expenses	—	—	[REDACTED]	[REDACTED]
VAT recoverables	—	2,788	1,164	711
Amounts due from third parties	4,827	9,215	491	—
Others	944	1,627	1,366	579
	6,429	17,826	[REDACTED]	[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 represented (i) non-trade cash advances to third parties of approximately RMB4.8 million, RMB9.1 million, RMB0.4 million and nil, respectively, as at 31 December 2018, 2019 and 2020 and 30 April 2021. Such balances were unsecured, interest free and without fixed repayment terms; and (ii) others mainly included deposits and staff advance.

During the Track Record Period, our non-trade cash advances were made to (i) certain individuals and companies, with whom Mr. Liu had personal connections, for their personal use of short-term capital needs, with the aggregate balance of approximately RMB4.8 million, RMB1.0 million, RMB0.4 million and nil, respectively, as at 31 December 2018, 2019 and 2020 and 30 April 2021. A cash advance of approximately RMB3.5 million as at 31 December 2018 was outstanding from a company engaged in the trading of chemical, machinery and electrical products and was fully repaid in 2019. Our Directors considered these cash advances were made to them based on their long term and stable relationships with Mr. Liu. These individuals and companies who have connection and is engaging in various industries such as sale of construction materials, trading of chemical, machinery and electrical products, manufacturing and consultancy services, may be able to bring referral of future business opportunities to us. Hence, we believe such cash advances for their short-term capital needs would help strengthen our existing and potential business relationships with them; and (ii) Supplier E of RMB8.1 million as at 31 December 2019 for business use in supporting its operational activities. See "Business — Purchases, Services and Goods — Our Five Largest Suppliers" in this document for the background of Supplier E.

The number of third parties who had outstanding balances of non-trade cash advances from us as at 31 December 2018, 2019 and 2020 and 30 April 2021 were seven, three, one and nil, respectively. Fluctuation of this balance of non-trade cash advances to third parties during the Track Record Period was primarily due to cash advanced to and repayments made by the relevant third parties.

We had cash advance outstanding from Supplier E of RMB8.1 million as at 31 December 2019 which was fully repaid in 2020. The non-trade cash advances to Supplier E were mainly due to the personal connection between Mr. Liu and one of the ultimate beneficial owners of Supplier E, an Independent Third Party. Considering the need to secure a stable transportation service provider for our Group at the time of business expansion in 2019, which was upon commencement of operation of our second production facility in Shahe town, Laizhou city, the provision of cash advances to Supplier E would allow us to secure a stable service provider for transportation services which in turn would diversify the risk of delivery in our operation. Our Directors at the material time were of the view that it is justifiable and commercially desirable to provide such cash advances without charging interest. The ultimate beneficial owners of Supplier E at the material time were two Independent Third Parties, each held 60% and 40% of the beneficial interests of Supplier E, respectively.

To the best knowledge of our Directors after making reasonable enquiries, the two ultimate beneficial owners are businessmen based in the PRC who are involved in various industries including transportation services, trading of agricultural products, trading businesses, and processing of construction materials. Our Group was not the sole customer of Supplier E since its establishment in March 2019, but is one of its major customers for transportation services. Since around mid-2019, we had made two advances payments to Supplier E with an aggregate amount of RMB14.6 million. As confirmed by our Directors, our Group no longer advanced cash to Supplier E subsequent to the full settlement in 2020; and we do not intend to advance cash to Supplier E in the future. To the best knowledge of our Directors after making reasonable enquiries, the financial performance and profitability of Supplier E has gradually improved as the business operation has been steadily developing since its establishment in 2019, and was therefore able to finance its capital needs and business operations with its internal resources as well as shareholder contributions derived from shareholder's internal resources.

The other counterparties for our non-trade cash advances balance during the Track Record Period were Independent Third Parties. To the best knowledge of our Directors after making reasonable enquiries, other than the cash advances and personal and business relationships with the relevant third parties disclosed above, there are no past or present relationships between these third parties and our Group, our Shareholders, Directors or senior management, or any of their respective associates. Our Directors also confirmed that there were no, and had not been any other, side agreements, arrangements, understanding or undertaking between our Group and each of the third parties in relation to the respective cash advance from us during the Track Record Period.

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.

Our other receivables and prepayments decreased from approximately RMB10.0 million as at 31 December 2020 to approximately RMB7.6 million as at 30 April 2021, and was primarily attributable to the (i) decrease in prepayment for transportation services and technical consulting services by approximately RMB1.8 million and RMB1.1 million, respectively; (ii) settlement of amounts due from third parties during the four months ended 30 April 2021 leading to a decrease of such balance by approximately RMB0.5 million; and (iii) decrease in VAT recoverables of approximately RMB0.5 million; while partially offset by the increase of prepayment for [REDACTED] expenses of approximately [REDACTED].

Contract liabilities

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

	As at 31 December			As at 30 April
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contract liabilities relating to				
— Gold mine hazardous waste treatment services	7,010	11,279	8,676	1,704
— Sale of recycled products	5,458	3,962	2,151	21,391
	12,468	15,241	10,827	23,095

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. Our contract liabilities increased from approximately RMB12.5 million as at 31 December 2018 to approximately RMB15.2 million as at 31 December 2019, due to the increased advance payments made by our customers for hazardous waste treatment services which was mainly attributable to the increase in the number of our upstream customers with increasing demand for our hazardous waste treatment service during the year ended 31 December 2019, and partially offset by the decreased contract liabilities for sale of recycled products as a result of revenue recognised during the end of 2019 upon utilisation of the advance payments received from our downstream customers during the same year. Compared to that of 2018, we delivered our products in early 2019 to customers after we received deposit near the end of 2018.

Our contract liabilities decreased from approximately RMB15.2 million as at 31 December 2019 to approximately RMB10.8 million as at 31 December 2020, primarily due to recognising revenue during the year as a result of the significant increase of our hazardous waste treatment services and sale of recycled products upon the full year operations of our production facilities in Jincheng town and Shahe town, Laizhou city during the year ended 31 December 2020. Our contract liabilities increased to approximately RMB23.1 million as at 30 April 2021, mainly because of the increase in advance payments received from our downstream customers for sales of recycled products pursuant to new contracts with relatively larger sale volume signed in April 2021 and offset by the decreased in amounts received for gold mine hazardous waste treatment services primarily because we completed services near the end of 30 April 2021 for our customers which we received deposit in the same period.

As at the Latest Practicable Date, all of our contract liabilities as at 30 April 2021 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			**As at 30 April**
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables				
— related to transportation costs	7,092	13,117	17,308	12,934
— related to raw materials	2,082	107	2,839	3,157
	9,174	13,224	20,147	16,091

Trade payables are non-interest bearing and are normally settled within 30 to 90 days. 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. Our trade payables decreased from approximately RMB20.1 million as at 31 December 2020 to approximately RMB16.1 million as at 30 April 2021, and was mainly attributable to the decrease in transportation services engaged by our Group to collect gold mine hazardous waste during the four months ended 30 April 2021 due to the Chinese New Year holiday.

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			As at 30 April
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
1 to 30 days	3,670	964	5,898	5,453
31 to 60 days	1,630	2,173	8,908	3,629
61 to 90 days	1,008	3,422	2,337	1,745
91 to 180 days	2,708	4,610	2,611	5,156
Over 180 days	158	2,055	393	108
	9,174	13,224	20,147	16,091

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

	Year ended 31 December			Four months ended 30 April
	2018	**2019**	**2020**	**2021**
Average trade payables turnover days *(Note)*	156.4	79.4	74.7	80.0

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

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, 74.7 days and 80.0 days for the years ended 31 December 2019 and 2020 and the four months ended 30 April 2021, respectively, which were in line with our normal settlement days.

As at the Latest Practicable Date, approximately RMB15.9 million or 99.1% of our trade payables as at 30 April 2021 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		**As at 30 April**
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Payable for construction and purchases of property, plant and equipment	90,765	148,874	6,347	2,969
Bills payable for purchase of land use rights and construction	11,500	—	—	—
Employee benefit payables	1,860	2,542	3,048	3,011
Other taxes payable	6,522	7,975	11,506	12,221
Payable for [REDACTED] expenses	—	—	[REDACTED]	[REDACTED]
Others	6,893	3,401	1,278	516
	117,540	162,792	[REDACTED]	[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 [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 and approximately RMB3.0 million as at 30 April 2021, which was mainly due to the settlement of such balances during the year ended 31 December 2020 and the four months ended 30 April 2021.

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, RMB11.5 million and RMB12.2 million as at 31 December 2018, 2019 and 2020 and 30 April 2021, 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			As at 30 April
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Retention payable for construction projects	—	17,892	17,892	7,115
Lease arrangements				
— Advance from LZ Assets	28,679	55,899	41,392	36,557
— Payable to LZ Assets	38,162	88,380	92,489	93,901
	66,841	144,279	133,881	130,458
	66,841	162,171	151,773	137,573

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 which became effective in November 2018 and January 2019, 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" in this document. Pursuant to the rental agreements, LZ Assets advanced RMB72.0 million in the fourth quarter of 2018 and RMB88.0 million in the first half year of 2019, totalling RMB160.0 million to us for the leasing of two warehouses at an annual rental of RMB8 million, inclusive of VAT on rental income.

Pursuant to the rental agreements, 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 for detoxing treatment through public bidding by the government during the five years term, and in the event that we won the tender, the lease term would terminate and the future treatment fee would then be deducted from the remaining amount of the advanced payment made by LZ Assets after the deduction of rental income up to the date of termination. 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 to the other party, 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 of approximately RMB50.4 million and RMB61.6 million, totalling 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 by October and December 2023. Accordingly, on initial recognition, our obligation to pay LZ Assets of approximately RMB50.4 million and RMB61.6 million upon the expiry of fixed lease term by 2023 was recorded as payables to LZ Assets under other liabilities based on the present value of the amount to be payable to LZ Assets, being approximately RMB37.9 million and RMB46.3 million, respectively, totalling approximately RMB84.2 million for the two rental agreements. The difference between the total received advances of RMB160.0 million (which comprised of RMB72.0 million for the first warehouse and RMB88.0 million for the second warehouse) and the total payables to LZ Assets of approximately RMB84.2 million (which comprised of approximately RMB37.9 million and RMB46.3 million) is RMB75.8 million, representing approximately RMB34.1 million for the first warehouse and RMB41.7 million for the second warehouse, and were recorded as advance from lessee which was amortised and credited to rental income evenly over five years. 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 and 30 April 2021, we had long-term payables to LZ Assets amounting to approximately RMB38.2 million, RMB88.4 million, RMB92.5 million and RMB93.9 million, respectively. The overall increase of such balance throughout the Track Record Period was mainly because (i) there was only one rental agreement with LZ Assets which became effective since November 2018 and our Group has concluded the second rental agreement with LZ Assets which became effective from January 2019 and an another sum of RMB88.0 million was received in 2019; and (ii) the recognition of interest expenses on our payables to LZ Assets during the Track Record Period.

The difference between the received advance of RMB160.0 million and payable to LZ Assets of approximately RMB75.8 million was recognised as advances from lessee at initial recognition which comprised of (i) five years rental income of RMB40.0 million; (ii) one year compensation rental income of RMB8.0 million; and (iii) discounting impact of payable to LZ Assets upon expiry of five years rental period of approximately RMB27.8 million. Such discounting impact of approximately RMB27.8 million is regarded as part of lease payments in accordance with IFRS 16, and is accounted for as part of the lease payments to be amortised as rental revenue over the five year committed lease period in accordance with IFRS 16. As at 31 December 2018, 2019 and 2020 and 30 April 2021, we recognised total advances from lessee of approximately RMB28.7 million, RMB55.9 million, RMB41.4 million and RMB36.6 million, respectively. Hence, advances from lessee was amortised as rental income evenly over five years. The effective rental income recognised for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021 was approximately RMB1.1 million, RMB14.5 million, RMB14.5 million and RMB4.8 million, respectively. The increase of advance from lessee from approximately RMB28.7 million as at 31 December 2018 to approximately RMB55.9 million as at 31 December 2019 was mainly due to the advance payment of RMB88.0 million received from LZ Assets in relation to the second rental agreement in 2019. Advance from lessee decreased to approximately RMB41.4 million and RMB36.6 million, respectively as at 31 December 2020 and 30 April 2021, which mainly reflected the rental income amortised and recognised during the year/period.

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

Balances with our Controlling Shareholders and related parties

Details of balances with our Controlling Shareholders and related parties are disclosed in Note 33 to the historical financial information set out in Appendix I to this document. All balances with our Controlling Shareholders and related parties as at 30 April 2021 have been fully settled as at the Latest Practicable Date.

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			Four months ended 30 April
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Right-of-use assets	21,620	653	727	—
Property, plant and equipment	16,058	103,275	9,263	5,099
Investment properties	103,934	38,631	—	—
	141,612	142,559	9,990	5,099

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 consolidated financial statements:

	As at 31 December			As at 30 April
	2018	**2019**	**2020**	**2021**
	RMB'000	*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	3,169

INDEBTEDNESS

As at 31 August 2021, being the latest practicable date for this indebtedness statement, our Group had outstanding indebtedness of approximately RMB136.5 million, which comprised (i) bank borrowings of approximately RMB40.9 million; (ii) lease liabilities of approximately RMB0.3 million; and (iii) other liabilities in relation to rental arrangement of approximately RMB95.3 million.

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

	As at 31 December			As at 30 April	As at 31 August
	2018	**2019**	**2020**	**2021**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Non-current					
Bank borrowings	—	—	39,880	39,880	38,820
Lease liabilities	408	683	823	—	—
Other liabilities in relation to rental arrangement	38,162	88,380	92,489	93,901	95,335
	38,570	89,063	133,192	133,781	134,155
Current					
Amount due to the Controlling Shareholder	50,679	23,572	8,217	—	—
Bank borrowings	28,480	32,000	2,120	2,120	2,120
Lease liabilities	4,486	539	762	376	250
	83,645	56,111	11,099	2,496	2,370
Total	122,215	145,174	144,291	136,277	136,525

Bank borrowings

Our bank borrowings, which are secured and guaranteed, amounted to approximately RMB28.5 million, RMB32.0 million, RMB42.0 million, RMB42.0 million and RMB40.9 million as at 31 December 2018, 2019 and 2020, 30 April 2021 and 31 August 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 30 April	As at 31 August
	2018	**2019**	**2020**	**2021**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Within 1 year	28,480	32,000	2,120	2,120	2,120
1 to 2 years	—	—	2,120	2,120	2,120
2 to 3 years	—	—	37,760	37,760	36,700
	28,480	32,000	42,000	42,000	40,940

For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, the weighted average effective interest rates on bank borrowings were approximately 5.93%, 5.61% and 4.83% and 4.05%, 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. The guarantee by related parties was released in February 2021 and replaced by guarantees provided by the subsidiaries of our Group.

As at 30 April 2021, the above bank borrowings were secured by our land use rights and property, plant and equipment and investment properties with (i) net book values of approximately RMB6.0 million, RMB70.5 million, RMB69.5 million, respectively; and (ii) guarantees provided by subsidiaries of our Group.

As at 31 August 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 RMB5.9 million, RMB69.6 million and RMB68.7 million, respectively; and (ii) guarantees provided by our subsidiaries.

Banking facilities

As at 31 August 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, RMB0.4 million and RMB0.3 million, respectively as at 31 December 2018, 2019 and 2020, 30 April 2021 and 31 August 2021, comprised mainly of leases of office premises and equipment for operations.

Balance with our Controlling Shareholder

We had amount due to our Controlling Shareholder of approximately RMB50.7 million, RMB23.6 million, RMB8.2 million, respectively as at 31 December 2018, 2019 and 2020. Amount due to our Controlling Shareholder were unsecured, interest free, repayable on demand and non-trade in nature. As at 30 April 2021, we recorded amount due from our Controlling Shareholder of approximately RMB2.0 million which has been fully settled as at the Latest Practicable Date. 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, RMB93.9 million and RMB95.3 million, respectively as at 31 December 2018, 2019 and 2020, 30 April 2021 and 31 August 2021. See "— Description of Certain Items of Consolidated Statements of Financial Position — Other Liabilities" above for further details.

Contingent liabilities

As at 31 December 2018, 2019 and 2020, 30 April 2021 and 31 August 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 Consolidated Statements of Financial Position — Balances with the Controlling Shareholder and Related Parties" above 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/periods indicated:

	Year ended 31 December			Four months ended 30 April	
	2018	**2019**	**2020**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interest income	—	6,460	5,144	1,921	—
Sales of goods	2,542	741	413	346	—
Purchase of goods and services	—	1,849	2,764	239	—

Interest income

We recorded loan to Zhonglian Cement of approximately RMB86.3 million, RMB98.4 million, RMB33.6 million and RMB23.4 million, respectively as at 31 December 2018, 2019 and 2020 and 30 April 2021. Such balances as at 31 December 2018 and 30 April 2021 was unsecured and non-interest bearing. On 1 January 2019 and 1 January 2020, we have provided an interest-bearing loan to Zhonglian Cement with interest of 6.86% per annum. For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, we recorded interest income of nil, approximately RMB6.5 million and RMB5.1 million and nil, respectively. The loan to Zhonglian Cement was unsecured and repayment within one year.

Zhonglian Cement is engaged in cement manufacturing business which is not related to our Group's business. To streamline our core business, Zhonglian Cement was disposed of in April 2020 as a result of the Reorganisation. For details, see "History, Reorganisation and Corporate Structure — Reorganisation — Corporate Reorganisation" in this document. During the Track Record Period and prior to the disposal of Zhonglian Cement, Zhonglian Cement was owned as to 61.68% by HC Mining. As at the Latest Practicable Date, Zhonglian Cement is ultimately beneficially owned as to 58.60% by Mr. Liu, our Controlling Shareholder, with the remaining equity interests owned by an Independent Third Party.

Our loan to Zhonglian Cement was provided for as operation fundings allocated between the two companies controlled by Mr. Liu before our plan for the [REDACTED]. Our loan to Zhonglian Cement was interest-bearing at 6.86% per annum for the years ended 31 December 2019 and 2020, which represented the cost of funding to be borne by Zhonglian Cement. It was non-trade in nature and was intended for, and applied by Zhonglian Cement mainly to satisfy its financial needs arising from its business operations and payment for construction costs and capital expenditure.

Mr. Liu, being our executive Director and Controlling Shareholder, is a director, general manager and supervisor of Zhonglian Cement during the Track Record Period. Despite the overlapping role assumed by Mr. Liu, when performing his duties in each of our Group and Zhonglian Cement, he has been and will continue to be supported by the separate and independent board and senior management team of each of our Group and Zhonglian Cement. Mr. Zhan, being an executive Director and the chief executive officer, is a supervisor of Zhonglian Cement during from April 2017 to December 2020. As confirmed by our Directors, Mr. Zhan was not involved in the day-to-day operation and management of Zhonglian Cement. As at the Latest Practicable Date, Mr. Zhan has resigned from his position as supervisor in Zhonglian Cement. Other than Mr. Liu, Mr. Zhan and our finance director (who has also resigned from Zhonglian Cement as at the Latest Practicable Date), there are no overlapping personnel and resources between us and Zhonglian Cement during the Track Record Period. There is also no overlap between the products and services offered by our Group and Zhonglian Cement.

Our Directors confirm that no costs or expenses relating to our operations were borne by Zhonglian Cement, any related parties or connected persons of our Group or any other third parties without being recharged to us during the Track Record Period. Balances with Zhonglian Cement have been fully settled in July 2021 and we do not plan to engage in such practice in the future. Our Directors confirmed, to the best of their knowledge, Zhonglian Cement was not the subject of any material non-compliant incidents, claims, litigation, or any actual or threatened legal proceedings during the Track Record Period and up to the Latest Practicable Date.

We also recorded non-trade cash advances to Independent Third Parties of approximately RMB4.8 million, RMB9.1 million, RMB0.4 million and nil as at 31 December 2018, 2019 and 2020 and 30 April 2021, respectively, which were unsecured, interest free and without fixed repayment terms.

As advised by our PRC Legal Advisers, the provision of loan to Zhonglian Cement and cash advances to Independent Third Parties may not be in compliance with the General Lending Provisions (貸款通則) issued by the PBOC. According to the General Lending Provisions, the PBOC may impose penalties on the lender in the amount equivalent to one to five times of the income generated from loan advancing activities. However, based on the current laws and regulations, and the interpretation and implementation thereof in the PRC and the following reasons, our PRC Legal Advisers are of the view that (i) such loan and advances are legally binding on the parties; (ii) the provisions of such loan and advances are not in violation of PRC mandatory laws and administrative regulations; and (iii) the risk of us being penalised by the PBOC is remote:

(i) according to the Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases (《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》) (the "**No. 6 Provisions**") promulgated on 6 August 2015, last revised on 29 December 2020 and became effective on 1 January 2021, (a) in terms of a private lending contract concluded between legal persons or unincorporated organisations or between a legal person and an unincorporated organisation for the need of production and operation, except under any of the circumstances as prescribed in Article 13 thereof and the Civil Code of the PRC, relevant people's court shall recognise the validity of the private lending contract, and (b) relevant people's court shall support the claim by the lender for the payment of the interests under the lending contract where the annual interest rate agreed by the parties to the lending contract does not exceed four times the LPR for one-year loan when the contract is concluded;

(ii) moreover, in accordance with the Legislation Law of the People's Republic of China (《中華人民共和國立法法》), National People's Congress and Standing Committee of the National People's Congress enact the laws, the State Council enacts administrative regulations in accordance with the constitution and the laws of the PRC, while the PBOC enacts rules in accordance with laws and administrative regulations. Hence, the General Lending Provisions issued by the PBOC are not laws and administrative regulations of the PRC; and

(iii) according to the No. 6 Provisions, the fact that the General Lending Provisions are not laws and administrative regulations of the PRC, and the confirmation provided by our Group that such loan and advances provided by us to the parties were made for the purpose of the parties' normal business operation, the loan and advances were derived from the Group's business income, and did not involve the circumstances as set forth in Article 146, Article 153, Article 154 of the Civil Code of the PRC or Article 13 of the No. 6 Provisions and the annual interest rate of each of the loan and advances is within the scope allowed by the No. 6 Provisions.

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, RMB0.4 million and nil, respectively for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, which accounted for approximately 2.5%, 0.6%, 0.1% and nil, respectively of our total revenue for the same periods. During the year ended 31 December 2018, revenue of trading of recycled products of approximately RMB2.5 million was wholly transacted with Zhonglian Cement. 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 and the four months ended 30 April 2021, purchase of goods and services from these four companies amounted to nil, approximately RMB1.8 million, RMB2.8 million and nil, 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 years/periods, or as at the dates indicated:

	Year ended 31 December			Four months ended 30 April
	2018	2019	2020	2021
Return on equity(1)	171.6%	73.0%	68.7%	N/A(10)
Return on total assets(2)	9.8%	10.1%	16.8%	N/A(10)
Interest coverage(3)	14.3 times	12.7 times	16.9 times	13.0 times
Gross profit margin(4)	56.4%	61.5%	60.3%	60.0%
Net profit margin(5)	30.0%	36.3%	35.5%	25.2%

	As at 31 December			As at 30 April
	2018	2019	2020	2021
Current ratio(6)	0.6 times	0.7 times	1.1 times	1.2 times
Quick ratio(7)	0.6 times	0.6 times	0.9 times	1.0 times
Gearing ratio(8)	683.0%	218.7%	136.0%	110.6%
Net debt to equity ratio(9)	615.5%	215.6%	93.2%	65.3%

Notes:

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

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

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

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

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

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

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

(8) Gearing ratio was calculated based on total debts divided by total equity as at the respective year/period 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/period and multiplied by 100%.

(10) This four-month number is not meaningful as it is not comparable to the annual number.

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, 16.9 times and 13.0 times, for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, 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.

As at 30 April 2021, our current ratio was approximately 1.2 times which is relatively stable as compared to that of approximately 1.1 times as at 31 December 2020.

Our quick ratio remained relatively stable at approximately 0.6 times, 0.6 times, 0.9 times and 1.0 times as at 31 December 2018, 2019 and 2020 and 30 April 2021, 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.

As at 30 April 2021, our gearing ratio further decreased to approximately 110.6%, which was mainly attributable to the decrease of our total indebtedness as a result of settlement of amounts due to our Controlling Shareholders and increase in total equity attributed from the net profit for the four months ended 30 April 2021.

Net debt to equity ratio

Our net debt to equity ratio was at approximately 615.5%, 215.6%, 93.2% and 65.3% as at 31 December 2018, 2019 and 2020 and 30 April 2021, 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 and the [REDACTED] is not exercised, the total estimated [REDACTED] expenses in connection with the [REDACTED] (including [REDACTED] commission and discretionary incentive fee) was approximately [REDACTED] (equivalent to approximately [REDACTED]), representing approximately [REDACTED] of the gross [REDACTED] from the [REDACTED], comprising (i) [REDACTED] commission and discretionary incentive fee of approximately [REDACTED] (equivalent to approximately [REDACTED]); and (ii) non-[REDACTED] related expenses of approximately [REDACTED] (equivalent to approximately [REDACTED]), which consist of fees paid and payable to legal advisers and reporting accountant of approximately [REDACTED] (equivalent to approximately [REDACTED]), and other fees and expenses, including sponsor fees, of approximately [REDACTED] (equivalent to approximately [REDACTED]).

Among the estimated [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]) and approximately [REDACTED] (equivalent to approximately [REDACTED]) had been recognised for the year ended 31 December 2020 and the four months ended 30 April 2021, respectively, and the remaining amount of approximately [REDACTED] (equivalent to approximately [REDACTED]) is expected to be recognised for the remaining eight months ending 31 December 2021, which mainly consists of professional fees and other expenses that would be incurred upon [REDACTED]. Expenses in relation to the [REDACTED] are non-recurring in nature.

Our Directors consider that our financial results will be adversely affected by the [REDACTED] expenses in relation to the [REDACTED] as we expect to recognise approximately [REDACTED] (equivalent to approximately [REDACTED]) in the consolidated profit or loss for the year ending 31 December 2021 and our Group expects to record a decrease in our profit for year ending 31 December 2021 as compared to that for the year ended 31 December 2020.

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. In February and April 2021, dividend payable of RMB11.6 million was fully settled by cash. As at 30 April 2021, the total dividend payable was RMB40.6 million which had been fully settled with our own internal resources as at the Latest Practicable Date.

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 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 30 April 2021.

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 August 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 30 April 2021 as sets forth in Appendix I to this document and the revalued amount of our property interests as at 31 August 2021.

	RMB'000
Net book value of property interest as at 30 April 2021 as sets out in Appendix I to this document	259,495
Less: Depreciation for the four months ended 31 August 2021	3,204
Net book value of property interest as at 31 August 2021	256,291
Valuation surplus, before tax	53,209
Valuation as at 31 August 2021	309,500

As at 30 April 2021, 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. Save as disclosed in "[REDACTED] expenses" in this section, our Directors confirm 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 30 April 2021, being the end of the reporting period in Appendix I to this document, and there has been no event since 30 April 2021 which would materially affect the information shown in Appendix I to this document.