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Post Hearing Information Pack of



HONGCHENG ENVIRONMENTAL TECHNOLOGY COMPANY LIMITED

鴻承環保科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(the “Company”)

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HONGCHENG ENVIRONMENTAL TECHNOLOGY COMPANY LIMITED

鴻承環保科技有限公司

(Incorporated in the Cayman Islands with limited liability)

[REDACTED]

Number of [REDACTED] under the [REDACTED] : [REDACTED] Shares (subject to the [REDACTED])
Number of [REDACTED] : [REDACTED] Shares (subject to [REDACTED])
Number of [REDACTED] : [REDACTED] Shares (subject to [REDACTED] and the [REDACTED])

[REDACTED] : [REDACTED]
Nominal value : HK\$0.01 per Share
[REDACTED] : [REDACTED]

Sole Sponsor and [REDACTED]



[REDACTED] and [REDACTED]

[REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED]

[REDACTED]

[REDACTED] [REDACTED]

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EXPECTED TIMETABLE

[REDACTED]

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We have issued this document solely in connection with the [REDACTED] and the [REDACTED], and it does not constitute an [REDACTED] to sell or a solicitation of an [REDACTED] to buy any security other than the [REDACTED] [REDACTED] by this document pursuant to the [REDACTED]. This document may not be used for the purpose of, and does not constitute, an [REDACTED] or invitation in any other jurisdiction or in any other circumstances. We have taken no action to permit a [REDACTED] of the [REDACTED] in any jurisdiction other than Hong Kong, and we have taken no action to permit the distribution of this document in any jurisdiction other than Hong Kong. The distribution of this document and the [REDACTED] and sale of the [REDACTED] in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

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SUMMARY

This summary aims to give you an overview of the information contained in this document. Because this is a summary, it does not contain all the information that may be important to you. You should read the entire document before you decide to [REDACTED] in the [REDACTED]. There are risks associated with any [REDACTED].

Some of the particular risks in [REDACTED] in the [REDACTED] are set out in “Risk Factors”. You should read that section carefully before you decide to [REDACTED] in the [REDACTED]. Various expressions used in this section are defined in “Definitions” and “Glossary of Technical Terms”.

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 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.

Due to rich gold resources and the mature gold mining industry chain, the gold mine production in Shandong province 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 and 3.9 thousand tonnes. Yantai city accounted for approximately 93% of proven gold reserves of Shandong province in 2020, ranking first among prefecture-level cities 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 collected 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 Licence issued by Yantai Municipal Ecology and Environment Bureau (煙臺市生態環境局), and our business operation was not restricted from serving upstream customers in cities outside Laizhou city but within Shandong province.

SUMMARY

During the Track Record Period, our upstream customers for gold mine hazardous waste treatment services mainly comprised of gold smelting companies under gold mining companies with mine operations in Shandong province and in particular, in Yantai city, whilst our downstream customers for the sale of recycled products mainly comprised of chemical manufacturing companies and trading companies of chemicals in the PRC. We have developed and maintained strong and stable relationships with industry-renowned customers, such as Shandong Gold Smelting Co., Ltd (山東黃金冶煉有限公司) (a subsidiary of Shandong Gold Mining Co., Ltd. (山東黃金礦業股份有限公司), whose shares are listed on the Main Board (stock code: 1787) and Shanghai Stock Exchange (stock code: 600547)) (“**Shandong Gold Smelting**”), Zhongkuang Gold Industry Company Limited (中礦金業股份有限公司) (“**Zhongkuang Gold**”), in the PRC.

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. For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, our total revenue amounted to approximately RMB102.3 million, RMB133.7 million, RMB205.4 million and RMB67.9 million, respectively. Our Group’s net profit increased from approximately RMB30.7 million for the year ended 31 December 2018 to approximately RMB48.5 million for the year ended 31 December 2019, and further increased to approximately RMB72.9 million for the year ended 31 December 2020. Our Group’s net profit increased from approximately RMB16.7 million for the four months ended 30 April 2020 to approximately RMB17.1 million for the same period in 2021.

The following table sets out our revenue by business activities during the Track Record Period:

| | 2018 | | Year ended 31 December | | | | Four months ended 30 April | | | |
|--|----------------|--------------|------------------------|--------------|----------------|--------------|----------------------------|--------------|---------------|--------------|
| | RMB'000 | % | 2019 | | 2020 | | 2020 | | 2021 | |
| | | | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| | | | | | | | | | | |
| | | | | | | | (unaudited) | | | |
| Gold mine hazardous waste treatment services | 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. However, our Directors confirm that we are not actively pursuing and do not intend to pursue business opportunities in trading of recycled products actively, as these trading activities were conducted only for maintaining good business relationship with our customers and suppliers. See “Business — Our Business Model — Our Products” in this document for further details.

SUMMARY

According to the F&S Report, gold production from gold mines in Shandong province and China declined from 62.2 tonnes and 379.4 tonnes in 2015 to 57.6 tonnes and 303.7 tonnes in 2020, representing a CAGR of -1.5% and -4.5% , respectively, which was mainly due to the stricter safety and environmental policies in the PRC and the COVID-19 impact. Gold production from gold mines is expected to increase gradually and reach 62.1 tonnes in Shandong province and 339.0 tonnes in China in 2025, representing a CAGR of 1.5% and 2.4% from 2020 to 2025, respectively, which is mainly driven by the increasing gold demand, rising gold price, technology advances and completion of safety and environmental protection rectification. Yantai city of Shandong province is the prefecture-level city with the largest gold production volume in the PRC, with approximately 50 tonnes of gold production volume in 2020, accounting for approximately 17% and 83% of total gold production volume in the PRC and Shandong province, respectively. Accordingly, the gold mine hazardous waste treatment market in the PRC, particularly in Shandong province and Yantai city, is expected to grow due to increasing output rate of gold mine hazardous waste, increasing utilisation value through technology improvement, more utilise channels and stricter requirements and enforcement of environmental policies. For details, see “Industry Overview — Drivers of Gold Mine Hazardous Waste Market in China”.

We believe that by leveraging on the industry expertise and technical know-how that we possess, together with the growth of the gold mining industry and support of favourable government policies, we are well-positioned to capture more business opportunities from gold mining companies, chemical manufacturing companies and trading companies of chemicals in the PRC. As such, we plan to expand our production capacity, enhance our production capabilities on diversifying products offerings and strengthen research and development ability to capitalise on the growing demand of gold mine hazardous waste treatment services and recycled products.

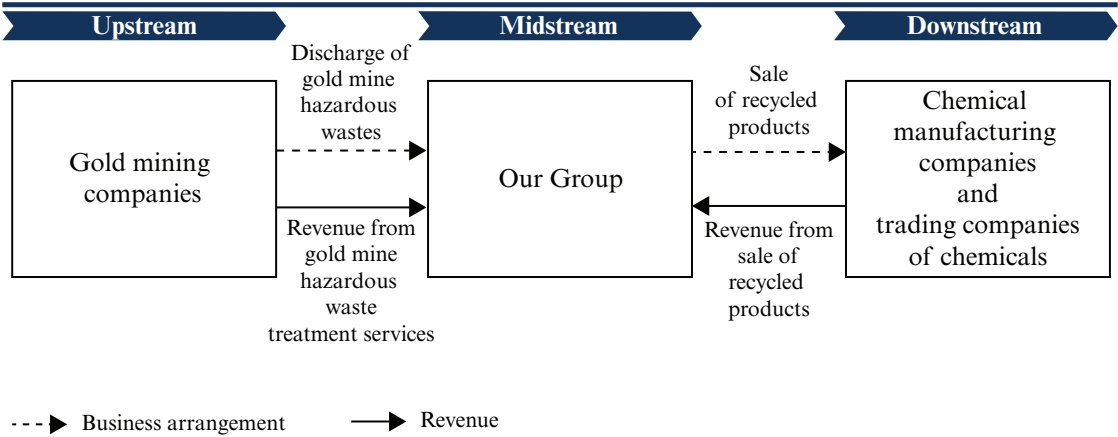
SUMMARY

OUR BUSINESS MODEL

During the Track Record Period, our upstream customers mainly engaged us to provide treatment services for cyanide tailings, which is a kind of gold mine hazardous waste resulting from smelting of gold. These cyanide tailings consist of cyanide, which is one of the only few chemical reagents that will dissolve gold in water. Cyanide is a toxic substance and can be lethal if ingested or inhaled in sufficient amounts. Gold mining companies employ stringent risk management systems to prevent injury or damage from the use of cyanide. Cyanide in mining solutions is collected, either be recycled or disposed, after gold is removed. Due to the restrictions on technical expertise and cost consideration, gold smelting companies of gold mining companies engage gold mine hazardous waste treatment companies, like us, to collect the cyanide tailings from them and pay the corresponding treatment fee.

In our operation process, we are capable of detoxifying the gold mine hazardous wastes. Further, we are able to extract resources with economic value from gold mine hazardous wastes, and pyrite concentrate and gold-bearing pyrite concentrate are the major recycled products extracted, which can be used for the production of sulphur and sulphuric acid that can be applied in various industrial process. We usually sell our recycled products to our downstream customers which are chemical manufacturing companies and trading companies of chemicals.

The following diagram shows our business activities in gold mine hazardous waste treatment services and sale of recycled products during the Track Record Period:



In addition, during the Track Record Period, our Group has provided hazardous waste storage rental service to one customer. For further details, see “Business — Our Business Model — Our Rental Services for Storage of Hazardous Wastes” in this document.

SUMMARY

OUR COMPETITIVE STRENGTHS

We believe that our success can be attributed to the following competitive strengths:

- we are one of the leading gold mine hazardous waste treatment companies in Shandong province, the PRC;
- we are situated in Yantai city, one of the areas with the largest production of gold in the PRC and in Shandong province with the largest gold reserves among prefecture-level cities in the PRC;
- we have proven track record with stable relationship and maintain a strong customer base;
- we possess strong technical capabilities in the gold mine hazardous waste treatment process and production of recycled products; and
- we have an experienced and professional management team.

OUR BUSINESS STRATEGIES AND USE OF [REDACTED]

As the utilisation rates of our two existing production facilities in Jincheng town and Shahe town in Laizhou city were approximately 95% and 92%, respectively, for the year ended 31 December 2020, our Directors consider that we can only capture the business opportunities arising from the growing demand of the gold mine hazardous waste treatment services in the coming years and solidify our leading market position in Shandong province by building a new production facility (the “**New Production Facility**”), which we intend to:

- increase our production capacity and capabilities to solidify our market position; and
- strengthen our research and development capabilities to improve our efficiency on treatment services, and diversify our product offerings.

It is planned that the construction of the New Production Facility will be completed by the end of the first quarter of 2023 in two phases, which Phase One Production Compartment, being the first phase comprising the construction of the production compartment for gold mine hazardous waste treatment and the new research and development laboratory, and Phase Two Production Compartment, being the second phase comprising the construction of the production compartment for production of recycled products including construction aggregates.

SUMMARY

We estimate that the net [REDACTED] we will receive from the [REDACTED] (after deducting [REDACTED] commissions, fees and anticipated expenses payable by us in connection with the [REDACTED]) will be approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), assuming the [REDACTED] is not exercised and an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED] per Share as stated in this document. We intend to use the net [REDACTED] we receive from the [REDACTED] for the following purposes, subject to changes in light of our evolving business needs and changing market conditions:

| Use of [REDACTED] | % of the net [REDACTED] | HK\$ million | Equivalent to RMB million |
|--|---|---|---|
| <ul style="list-style-type: none"> ● build the New Production Facility, comprising two production compartments, with a permitted annual treatment capacity of 600,000 tonnes, and diversification of our product offerings, among which: <ul style="list-style-type: none"> (a) acquire the land use rights for a parcel of land of approximately 166,500 sq.m. for the construction (b) construct the New Production Facility (c) acquire machinery and equipment (d) expand our production team ● strengthen our research and development capabilities to enhance existing products and diversify our product offering ● general working capital | <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> | <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> | <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> |

For further details, see “Future Plans and Use of [REDACTED] — Use of [REDACTED]” in this document.

SUMMARY

PRODUCTION FACILITIES AND UTILISATION RATES

Our two production facilities, with a total site area of approximately 228,683 sq.m., are located in Laizhou city, Shandong province, the PRC. Our production facilities are located in Jincheng town and Shahe town in Laizhou city, with aggregate gross floor areas of approximately 15,407 sq.m. and 143,607 sq.m., respectively. For further details, see “Business — Properties” in this document. Our production facilities comprised warehouses, production compartments, office buildings and dormitory. As at the Latest Practicable Date, our production facilities are equipped with our major production machinery and equipment, including but not limited to ore feeders, scrapers, rotary screening machine, activities tanks, flotation tanks and excavators. For the year ended 31 December 2020, the utilisation rates (representing the percentage of actual annual treatment volume over the permitted annual treatment volume pursuant to the Hazardous Waste Business Licence) of each of our production facility in Jincheng town and Shahe town, Laizhou city, were approximately 95% and 92%, respectively. For the eight months ended 31 August 2021, the utilisation rates (illustrated by the permitted treatment capacity on pro-rata basis) of each of our production facility in Jincheng town and Shahe town, Laizhou city, reached approximately 80% and 88%, respectively. For further details, see “Business — Our Production Facilities — Production Capacity and Utilisation Rate” in this document.

MAJOR CUSTOMERS AND SUPPLIERS

Major customers

Our customers for the gold mine hazardous waste treatment services are mainly gold smelting companies of gold mining companies with gold mine operations in Shandong province and in particular, in Yantai city, while our customers for the sale of recycled products are mainly chemical manufacturing companies and trading companies of chemicals in the PRC. For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, our five largest customers accounted for approximately 69.8%, 67.3%, 71.8% and 82.1% of our total revenue, respectively. During the same periods, our largest customer accounted for approximately 22.6%, 21.4%, 27.3% and 24.1% of our total revenue, respectively. During the Track Record Period, we had eight upstream customers who have engaged our Group for the gold mine hazardous waste treatment services, and over 45 downstream customers who have purchased recycled products from us.

SUMMARY

Major suppliers

During the Track Record Period, suppliers of goods and services to our Group mainly included: (i) transportation companies; (ii) suppliers of consumables such as xanthate and sodium sulphide; (iii) supplier of electricity and water; and (iv) suppliers for other services such as laboratory testing. For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, our five largest suppliers accounted for approximately 50.2%, 66.2%, 54.1% and 51.5% of our total cost of sales, respectively. During the same periods, our largest supplier accounted for approximately 18.1%, 25.3%, 18.9% and 15.4% of our total cost of sales, respectively.

Pricing policy

For our gold mine hazardous waste treatment services, we adopt a cost-plus model where we determine the service fee by taking into account various factors such as the grade and type of the gold mine hazardous waste to be treated, the estimated transportation costs, customer relationships, competitive landscape, market circumstances and our business strategies adopted from time to time. Our products are generally not subject to any price control or regulations by the PRC governmental authorities. Generally, we adopt a cost-plus model where we determine the price of our products by taking into account various factors such as the cost of consumables, customer relationships, competitive landscape, market circumstances (including the prevailing market price of sulphur, iron and sulphuric acid) and our business strategies adopted from time to time.

MAJOR COST COMPONENTS

During the Track Record Period, 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 and production safety cost. 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. See “Financial Information — Description of Selected Items in the Consolidated Statements of Comprehensive Income — Cost of Sales” of this document for further details.

SUMMARY

MARKET AND COMPETITION

According to the F&S Report, the gold mine hazardous waste treatment market in the PRC and Shandong province is concentrated. In 2020, the top five market participants in the PRC took up a market share of approximately 67% in terms of revenue, and we are ranked third in terms of revenue representing a market share of approximately 10%. Due to its rich gold resources and mature gold mining industry chain, the gold mine production in Shandong province reached approximately 57.6 tonnes in 2020, ranking first in the PRC and accounting for approximately 19.1% of the total gold mine production in the PRC, according to the F&S Report. Laizhou city, Shandong province is also rich in natural resources, among which its gold reserves is ranked first with proven gold reserves of around 2.7 thousand tonnes among the county-level cities in the PRC. Laizhou city, being a county-level city in Yantai city of Shandong province, also benefited from the high level of gold resources in Yantai city. According to the F&S Report, Yantai city accounted for approximately 93% of proven gold reserves of Shandong province in 2020, ranking first among all prefecture-level cities in terms of proven gold reserves in the PRC. Yantai city is also the prefecture-level city with the largest gold production in the PRC, with approximately 50 tonnes of gold production volume in 2020, accounting for approximately 17% and 83% of total gold production volume in the PRC and Shandong province, respectively.

The distribution of gold mine hazardous waste treatment company follows the gold producers and has a strong regional characteristics. As a gold mine hazardous waste treatment company located in Laizhou city, Shandong province, according to the F&S Report, we are ranked first in gold mine hazardous waste treatment volume in Shandong province and the PRC, with treatment volume of approximately 1.08 million tonnes, accounting for approximately 26% and 18% of the total treatment volume in Shandong province and the PRC, respectively, in 2020. Further, the treatment volume of gold mine hazardous waste in Yantai city amounted to approximately 3.5 million tonnes in 2020, and our Group accounted for approximately 31% of market share in Yantai city in terms of treatment volume of gold mine hazardous waste in 2020, ranking first in terms of treatment volume in Yantai city in 2020. In 2020, the revenue of gold mine hazardous waste treatment market in Yantai city contributed approximately 87% of total revenue in Shandong province, and we ranked second in terms of revenue in gold mine hazardous waste treatment market Yantai city in 2020, according to the F&S Report.

Subject to increasingly strict environmental policies and initiatives in the PRC, including gold extraction with more environmentally-friendly methods, it is considered that gold extraction by cyanidation is a mature, low-cost, high-recovery gold extraction process, and is the most widely used process in gold production in the PRC and worldwide. More environmentally-friendly gold extraction method generally does not change the process of gold extraction by cyanidation, but uses low-toxic beneficiation agents to replace traditional sodium cyanate. The penetration rate of these low-toxic beneficiation agents is lower than 5% in gold production market. The application of these beneficiation agents are not mature yet, and are still at the stage of market introduction and customer cultivation. According to the F&S Report, gold extraction by cyanidation will not be eliminated in the foreseeable future.

SUMMARY

RISK FACTORS

Our business and the [REDACTED] involve certain risks, which are set out in “Risk Factors” in this document. You should read that section in its entirety before you decide to [REDACTED] in the [REDACTED]. Some of the major risks we face include:

- the development of the industry we operate in is highly dependent on the PRC government’s environmental protection policies, relevant laws and regulations, which may change from time to time;
- we are exposed to environmental compliance risks due to the nature of our operations;
- we have a concentration of customers during the Track Record Period, which may cause our business to be materially and adversely affected;
- we engaged transportation companies which did not fully comply with the applicable PRC laws and regulations during the Track Record Period and may face investigation, prosecution, administrative penalties and other administrative measures by the relevant authorities; and
- we cannot assure you that we can secure our existing hazardous waste storage rental agreements. Early termination of the two hazardous waste storage rental agreements with our customer may lead to a material adverse effect on our business operation, financial position and results of operations.

RESEARCH AND DEVELOPMENT

We believe that we possess experience and knowledge, research and development capabilities and hazardous waste treatment technologies. Our research and development team is led by Mr. Sheng, our executive Director and chief technical officer, who has more than 29 years of experience in chemical related industry. As at the Latest Practicable Date, we had registered, obtained governmental approvals or applied various patents in the PRC. For details of our research and development, see “Business — Research and Development” in this document.

OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the [REDACTED] and [REDACTED] without taking account of any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] and the options which were granted or may be granted under the Share Option Scheme, we will be owned as to approximately [REDACTED]% by Zeming International, an investment holding company and is wholly-owned by Mr. Liu. For the purpose of the Listing Rules, Zeming International and Mr. Liu are our Controlling Shareholders. As at the Latest Practicable Date, none of our Controlling Shareholders and his/its respective close associates had any other company or business that competes with or is likely to compete, directly or indirectly, with our business. See “Relationship with our Controlling Shareholders” in this document for further details.

SUMMARY

[REDACTED]

We undertook [REDACTED] in preparation for the [REDACTED]. Immediately following completion at the [REDACTED] and the [REDACTED] (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] (if any) and any options which may be granted under the Share Option Scheme), the issued share capital of our Company is owned as to the [REDACTED], namely, [REDACTED]% by Mr. Sze (through his shareholding in Keen Day), [REDACTED]% by Mr. Chi (through his shareholding in Ace Quality), [REDACTED]% by Mr. Cai YL (through his shareholding in Golden Clover) and [REDACTED]% by Mr. Cai QZ (through his shareholding in Azure Astro). See “History, Reorganisation and Corporate Structure — [REDACTED]” in the document for further details.

KEY FINANCIAL INFORMATION

The following tables set forth the selected financial and operating data from our consolidated financial information for the years/periods indicated below. For more details on the financial information, see “Financial Information” and the Accountant’s Report in Appendix I to this document.

Consolidated Statements of Comprehensive Income

| | Year ended 31 December | | | Four months ended | |
|--|------------------------|----------------|----------------|-------------------|----------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| | | | | (unaudited) | |
| 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 | <u>30,696</u> | <u>48,477</u> | <u>72,865</u> | <u>16,739</u> | <u>17,127</u> |

SUMMARY

Non-IFRS Measures⁽¹⁾

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

| | Year ended 31 December | | | Four months ended 30 April | |
|--|------------------------|----------------|-------------------|----------------------------|-------------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| | | | | (unaudited) | |
| Profit for the year/period | 30,696 | 48,477 | 72,865 | 16,739 | 17,127 |
| Add: [REDACTED] | — | — | [REDACTED] | — | [REDACTED] |
| Adjusted profit for the year/period <i>(unaudited)</i> ⁽²⁾ | <u>30,696</u> | <u>48,477</u> | <u>[REDACTED]</u> | <u>16,739</u> | <u>[REDACTED]</u> |
| Adjusted net profit margin <i>(unaudited)</i> ⁽³⁾ | 30.0% | 36.3% | 37.7% | 34.1% | 32.5% |

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%.

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, 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.

SUMMARY

Our Group’s 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, mainly attributable to (i) increased sale of recycled products due to the increase in the number of downstream customers with increased sale volume during the four months ended 30 April 2021 as compared to the four months ended 30 April 2020; 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. Our Group did not generate revenue from the trading of recycled products for the four months ended 30 April 2021 as we have focused on the development of our main business activities of gold mine hazardous waste services and sale of recycled products. Our Directors confirm that we are not actively pursuing and do not intend to pursue business opportunities in trading business.

Our net profit increased by approximately RMB17.8 million or 57.9% from RMB30.7 million for the year ended 31 December 2018 to approximately RMB48.5 million for the year ended 31 December 2019, and further increased by approximately RMB24.4 million or 50.3% to approximately RMB72.9 million for the year ended 31 December 2020, mainly due to (i) the full year rental income for hazardous waste storage services for the years of 2019 and 2020; and (ii) the recognition of interest income for an interest-bearing loan offered to Zhonglian Cement, a company controlled by our Controlling Shareholder, for the years of 2019 and 2020, which is non-recurring in nature, while partially offset by the increase of our net finance costs during the Track Record Period. Our net profit 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, which was mainly due to an increase in revenue and gross profit during the period and partially offset by (i) decrease in interest income from Zhonglian Cement as such loan to Zhonglian Cement was non-interest bearing in 2021 and for the four months ended 30 April 2021; (ii) increase of our administrative expenses primarily due to the increase of [REDACTED] expenses and professional and consultation fee; and (iii) increase in income tax expenses.

SUMMARY

Gross profit and gross profit margin

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 | % | % | RMB'000 | % | % |
| | (unaudited) | | | | | | | | | | | | | | |
| 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 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 and further increased by approximately RMB41.7 million or 50.7% to approximately RMB123.9 million for the year ended 31 December 2020, and 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. Such increase was generally in line with the increase of our total revenue as a result of our business expansion.

Our overall 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 slight increase of gross profit contribution from our hazardous waste treatment services, which has a relatively higher gross profit margin of approximately 69.2% for the year ended 31 December 2019 as compared to that of sale of recycled products of approximately 50.3% for the same period; and (ii) the increase of gross profit contribution from our hazardous waste storage rental services with significant improvement of gross profit margin from approximately 26.9% for the year ended 31 December 2018 to approximately 76.5% for the year ended 31 December 2019.

SUMMARY

We recorded a relatively lower gross profit margin of hazardous waste storage rental services of approximately 26.9% for the year ended 31 December 2018 because we incurred depreciation expenses since September 2018 marking the completion of the construction of one of our two warehouses and storage facilities, 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 in 2019 and upon the full year of our hazardous waste storage rental services in 2019, the relevant gross profit margin increased to approximately 76.5% for the year ended 31 December 2019. Our overall gross profit margin for the year ended 31 December 2020 was approximately 60.3%, which was relatively stable as compared to that of approximately 61.5% for the year ended 31 December 2019.

The increase of 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, was mainly attributable to (i) 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 the four months ended 30 April 2021, and the relevant gross profit contribution increased from approximately 18.1% to 34.3% for the corresponding periods; and (ii) the slight increase 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 four months ended 30 April 2021.

For a more detailed discussion, see “Financial Information” in this document.

Selected Consolidated Statements of Financial Position

| | As at 31 December | | | As at 30 April |
|----------------------------------|--------------------------|----------------|----------------|---------------------------|
| | 2018 | 2019 | 2020 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Total non-current assets | 167,267 | 302,244 | 296,470 | 294,970 |
| Total current assets | 144,483 | 179,471 | 138,036 | 131,928 |
| Total non-current liabilities | 60,424 | 147,687 | 200,121 | 196,054 |
| Total current liabilities | 233,433 | 267,658 | 128,261 | 107,593 |
| Net current (liabilities)/assets | (88,950) | (88,187) | 9,775 | 24,335 |
| Total equity | 17,893 | 66,370 | 106,124 | 123,251 |

SUMMARY

Net Current Liabilities/Assets

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 operation for the four months ended 30 April 2021; (ii) decrease in other liabilities which mainly represented the decrease in the retention payable for construction works of approximately RMB10.8 million upon the expiry of warranty period; and (iii) repayments from 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 in dividend payable and amounts due to our Controlling Shareholder of RMB11.6 million and approximately RMB8.2 million, respectively.

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SUMMARY

Selected Consolidated Statements of Cash Flows

| | Year ended 31 December | | | Four months ended 30 April | |
|--|------------------------|---------------------|----------------------|----------------------------|----------------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| | | | | (unaudited) | |
| 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 | <u>(6,422)</u> | <u>(15,320)</u> | <u>(12,630)</u> | <u>(1,770)</u> | <u>(7,165)</u> |
| 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 | <u>23,913</u> | <u>14,305</u> | <u>34,973</u> | <u>4,124</u> | <u>(22,197)</u> |
| 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 | <u>—</u> | <u>—</u> | <u>(57)</u> | <u>—</u> | <u>(73)</u> |
| Cash and cash equivalents at end of year/period | <u><u>12,077</u></u> | <u><u>2,056</u></u> | <u><u>45,363</u></u> | <u><u>5,562</u></u> | <u><u>55,846</u></u> |

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SUMMARY

Key Financial Ratios

| | Year ended 31 December | | | Four months ended |
|------------------------|------------------------|------------|------------|-------------------|
| | 2018 | 2019 | 2020 | 30 April 2021 |
| Return on equity | 171.6% | 73.0% | 68.7% | N/A |
| Return on total assets | 9.8% | 10.1% | 16.8% | N/A |
| Interest coverage | 14.3 times | 12.7 times | 16.9 times | 13.0 times |

| | As at 31 December | | | As at |
|------------------------------|-------------------|-----------|-----------|---------------|
| | 2018 | 2019 | 2020 | 30 April 2021 |
| Current ratio | 0.6 times | 0.7 times | 1.1 times | 1.2 times |
| Quick ratio | 0.6 times | 0.6 times | 0.9 times | 1.0 times |
| Gearing ratio ⁽¹⁾ | 683.0% | 218.7% | 136.0% | 110.6% |
| Net debt to equity ratio | 615.5% | 215.6% | 93.2% | 65.3% |

Notes:

- (1) 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 Shareholder and other liabilities in relation to our rental arrangement.
- (2) For the calculation of the other key financial ratio, see “Financial Information — Key Financial Ratios” to this document.

SUMMARY

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. 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. See “Financial Information — Accumulated Losses as at 1 January 2018” of this document for further details.

DIVIDENDS

On 20 January 2020, our subsidiary declared dividends in the total amount of RMB58.0 million to the then shareholders. In December 2020, dividend payment of RMB5.8 million was offset with the amount due from Zhonglian Cement pursuant to an offsetting agreement between the 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.

SUMMARY

We do not have a 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.

[REDACTED] STATISTICS

| | Based on an [REDACTED] of [REDACTED] | Based on an [REDACTED] of [REDACTED] |
|---|---|---|
| [REDACTED] of the Shares ⁽¹⁾ Unaudited pro forma adjusted net tangible assets per Share ⁽²⁾ | [REDACTED] | [REDACTED] |
| | <u>[REDACTED]</u> | <u>[REDACTED]</u> |

Notes:

- (1) The calculation of [REDACTED] is based on each indicative [REDACTED] and [REDACTED] Shares in issue immediately after completion of the [REDACTED] and the [REDACTED] but takes no account of any Shares which may fall to be issued upon the exercise of the [REDACTED] or any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme or any Shares which may be allotted, issued or repurchased by our Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in “Further Information about Our Group — 3. Resolutions in Writing of our Shareholders passed on 23 October 2021” in Appendix V to this document.
- (2) See “Unaudited Pro Forma Financial Information” in Appendix II to this document for further details regarding the assumptions used and the calculation methods.

SUMMARY

[REDACTED] EXPENSES

Assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the proposed [REDACTED] range of HK\$[REDACTED] to HK\$[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] million (equivalent to approximately [REDACTED] million), representing approximately [REDACTED]% of the gross [REDACTED] from the [REDACTED], comprising (i) [REDACTED] commission and discretionary incentive fee of approximately [REDACTED] million (equivalent to approximately [REDACTED] million); and (ii) non-[REDACTED] related expenses of approximately [REDACTED] million (equivalent to approximately [REDACTED] million) which consist of fees paid and payable to legal advisers and reporting accountant of approximately [REDACTED] million (equivalent to approximately [REDACTED] million), and other fees and expenses, including sponsor fee, of approximately [REDACTED] million (equivalent to approximately [REDACTED] million).

Among the estimated [REDACTED] expenses, (i) approximately [REDACTED] million (equivalent to approximately [REDACTED] million) is expected to be accounted for as a deduction from equity upon [REDACTED]; and (ii) approximately [REDACTED] million (equivalent to approximately [REDACTED] million) 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 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.

SUMMARY

LEGAL PROCEEDINGS AND NON-COMPLIANCES

During the Track Record Period and up to the Latest Practicable Date, there was no litigation or arbitration pending or threatened against our Group or any of our Directors which could have a material adverse effect on our Group’s financial condition or results of operations. During the Track Record Period, we experienced three non-compliance incidents in relation to the failure to make social insurance and housing provident fund contributions in full, failure to engage transportation companies with permits for transporting cyanide tailings and non-compliant bill financing arrangements. See “Business — Regulatory Compliance” for further details. Save as the above, our Directors confirm that our Group has complied with all applicable laws and regulations in all material respects, and was not involved in any other legal proceedings or disputes of material importance or subject to any material claims, damages or losses during the Track Record Period and up to the Latest Practicable Date.

RECENT DEVELOPMENTS AND MATERIAL ADVERSE CHANGE

In view of the outbreak of COVID-19 in the PRC, measures including temporary suspension of operations and travel restrictions have been imposed by the PRC government including Shandong province’s local governmental authorities. Our major upstream customers in Shandong province experienced temporary suspension in February 2020 due to the *Urgent Notice on Delaying the Resumption of Work of Enterprises in Shandong Province* (關於延遲省內企業復工的緊急通知) issued by Shandong Ministry of Human Resources and Social Security on 29 January 2020 in response to the outbreak of COVID-19. According to the F&S Report, the enterprises in Shandong province gradually resumed work and production in March 2020 and there was no suspension of gold mine operations of more than three months in Shandong province caused by the COVID-19 outbreak during the Track Record Period. In order to further reduce the risk of nationwide outbreak of COVID-19 cases during Chinese New Year in 2021, the General Office of People’s Government of Shandong Province has implemented various measures including mandatory COVID-19 testing, quarantine measures and travel restrictions in preventing high volume of cross-provincial travels during the festive period. Although temporary suspension of business operation of some customers outside Shandong province occurred under the implementation of the aforementioned restrictions and measures since late February 2021, as at the Latest Practicable Date, local governmental authorities in Shandong province have lifted such travel restrictions and quarantine measures. Our Directors confirmed that there was no material disruption to our Group’s supply chain in gold mine hazardous waste during the Track Record Period. Our Group’s revenue generated from gold mine hazardous waste treatment services and sale of recycled products for the eight months ended 31 August 2021 has increased as compared to the corresponding period in 2020. See “Business — Outbreak of COVID-19 — Impact on Our Operations and Financial Performance” for further details.

SUMMARY

Our Directors, after careful and due consideration, confirmed that the business, financial condition and results of operation of our Group would not be materially affected by the outbreak of COVID-19. Our Directors will continue to assess the impact of COVID-19 on our Group’s operation and financial performance and closely monitor our exposure to the risks and uncertainties in connection with the pandemic. We will take appropriate measures as necessary and inform our Shareholders and potential [REDACTED] as and where necessary. For further details, see “Risk Factors — Risks Relating to Our Business and Industry — Ongoing Pandemic of COVID-19 could Significantly Affect Our Production, Demand for Our Services and Products and Our Business.”, and “Industry Overview” in this document for further details of the potential impact of the COVID-19 outbreak and the risk we face our in relation to the outbreak of COVID-19.

Given the total [REDACTED] expenses which are non-recurring in nature, an amount of approximately [REDACTED] had been recognised as expenses for the four months ended 30 April 2021 and an additional amount of approximately [REDACTED] is expected to be recognised as expenses for the remaining eight months ending 31 December 2021, as such our Directors consider that our profit for the year ending 31 December 2021 will be decreased as compared to the year ended 31 December 2020.

Subsequent to the Track Record Period, we had performed renovation and maintenance works on production compartment of our production facility in Jincheng town, Laizhou city, which led to a temporary suspension of the production facility from 1 July 2021 to 26 July 2021. The renovation and maintenance works were for the purpose of repairing the ceiling and wall panelling in the production compartment due to corrosions and other signs of deteriorations, which our Directors considered as a risk to occupational safety. Our Director therefore believed it was necessary to commence a comprehensive renovation and maintenance of the production compartment at the earliest convenience. Although the temporary suspension in July 2021 resulted in a slight decrease in treatment volume in July 2021, our Group’s total revenue for the eight months ended 31 August 2021 has increased as compared to the corresponding period in 2020, mainly attributable to the increase in average treatment fee of gold mine hazardous waste and increase in average selling price of our pyrite concentrate for over 30% due to the continuous recovery of the sulphuric acid industry as the COVID-19 impact wears off according to the F&S Report. Our Directors believe that the temporary suspension of one of our production facilities would not have a material adverse impact on our Group’s financial performance and we have fully resumed our production operation in both of our production facilities, with sufficient demand from our upstream customers for our gold mine hazardous waste treatment services.

SUMMARY

Subsequent to the Track Record Period and as at the Latest Practicable Date, our Group had to reduce our energy consumption in our production facilities in Laizhou city, to comply with the power restriction policy imposed by the PRC government across China, including Shandong province and other north-eastern provinces in September 2021. Such power restriction did not lead to any temporary suspension of our production facilities in Laizhou city, and our Directors confirmed that there was no material adverse impact to our business operation and financial results brought by such power restriction policy.

Save as disclosed above, our Directors confirmed that, up to the date of this document, there has been no material adverse change in our financial or trading position or prospect 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. Save as disclosed in “Regulatory Overview” in this document, our Directors confirmed, and our PRC Legal Advisers are of the view that, up to the date of this document, there has been no regulatory or policy changes in the PRC which would have a material adverse impact on our Group’s business and operation.

DEFINITIONS

In this document, the following words and expressions shall have the meanings set out below unless the context otherwise requires. Certain other terms are explained in the section headed “Glossary of Technical Terms” in this document.

| | |
|---|--|
| “Ace Quality” | Ace Quality Development Limited, a company incorporated in the BVI with limited liability on 8 October 2020, which is wholly owned by Mr. Chi and is a [REDACTED] |
| “affiliate” | with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person |
| “Articles of Association” or “Articles” | the amended and restated articles of association of our Company, conditionally adopted by the then Shareholders on 23 October 2021 which will become effective on the [REDACTED] Date, as amended, supplemented or otherwise modified from time to time, a summary of which is set out in Appendix IV to this document |
| “Azure Astro” | Azure Astro Group Limited, a company incorporated in the BVI with limited liability on 29 September 2020, which is wholly owned by Mr. Cai QZ and is a [REDACTED] |
| “Beijing Yutaida” | Beijing Yutaida Technology Limited (北京鈺泰達科技有限公司), a liability company established under the laws of the PRC on 4 January 2011 and was owned as to 95% by Mr. Liu and two independent third parties each holding 2.5% as at the Latest Practicable Date |
| “Board” | the board of Directors |
| “business day” | any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which licensed banks in Hong Kong are generally open for business |
| “BVI” | the British Virgin Islands |
| “CAGR” | compounded annual growth rate |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |

DEFINITIONS

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|------------------|--|
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |
| “China” or “PRC” | the People’s Republic of China and, except where the context otherwise requires and only for the purpose of this document, references in this document to China or the PRC exclude Hong Kong, the Macao Special Administrative Region of the People’s Republic of China and Taiwan |
| “CSRC” | China Securities Regulatory Commission (中國證券監督管理委員會) |
| “Circular 37” | Circular of the SAFE on Issues Concerning Foreign Exchange Administration of Overseas Investments and Financing and Round-Trip Investments by Domestic Residents via Special Purpose Vehicles (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) promulgated by the SAFE on 4 July 2014 |

DEFINITIONS

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| “Companies Act” | the Companies Act (As Revised) of the Cayman Islands |
| “Companies Ordinance” | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented and otherwise modified from time to time |
| “Companies (WUMP) Ordinance” or “Companies (Winding Up and Miscellaneous Provisions) Ordinance” | the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| “Company” or “our Company” | HONGCHENG ENVIRONMENTAL TECHNOLOGY COMPANY LIMITED (鴻承環保科技有限公司), an exempted company limited by shares incorporated in the Cayman Islands on 12 January 2021 under the Companies Act |
| “Controlling Shareholder(s)” | has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise, refers to Mr. Liu and Zeming International |
| “Corporate Governance Code” | the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules |
| “COVID-19” | the coronavirus disease |
| “Deed of Indemnity” | a deed of indemnity dated 23 October 2021 entered into by our Controlling Shareholders in favour of our Company (for ourselves and as trustee for each of our subsidiaries), particulars of which are set out in “Other Information — 15. Tax and other indemnity” in Appendix V to this document |
| “Deed of Non-competition” | a deed of non-competition dated 23 October 2021 entered into by our Controlling Shareholders in favour of our Company (for ourselves and as trustee for each of our subsidiaries), particulars of which are set out in “Relationship with our Controlling Shareholders — Deed of Non-competition” in this document |
| “Director(s)” | the director(s) of our Company |
| “EIT Law” | the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) issued by the NPC on 16 March 2007, and subsequently amended on 24 February 2017 and 29 December 2018 |

DEFINITIONS

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|------------------------------------|---|
| “EIT Regulation” | the Regulation on the Implementation of the EIT Law (《中華人民共和國企業所得稅法實施條例》) issued by the State Council on 6 December 2007, last revised on 23 April 2019 and became effective on the same day |
| “F&S” | Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent industry consultant commissioned by us to prepare the F&S Report |
| “F&S Report” | an independent market research report, commissioned by our Company and prepared by F&S |
| “GDP” | gross domestic product |
| [REDACTED] | [REDACTED] |
| “Golden Clover” | Golden Clover Holdings Limited, a company incorporated in the BVI with limited liability on 29 September 2020, which is wholly owned by Mr. Cai YL and is a [REDACTED] |
| [REDACTED] | [REDACTED] |
| “Hazardous Waste Business License” | the permit for operation of hazardous wastes within the territory of the PRC under the Measures for the Administration of Permit for Operation of Hazardous Wastes (《危險廢物經營許可證管理辦法》) |
| “HC Environmental” | Laizhou Hongcheng Mining Environmental Protection Development Co., Ltd. (萊州市鴻鉞礦業環保開發有限公司), a limited liability company established under the laws of the PRC on 12 February 2014 and an indirect wholly owned subsidiary of our Company |
| “HC Hong Kong” | Hong Kong Hong Cheng Environmental Protection Development Group Limited (香港鴻承環保開發集團有限公司), a company incorporated in Hong Kong with limited liability on 16 April 2020 and an indirect wholly owned subsidiary of our Company |
| “HC International” | Hong Cheng International Investments Limited (鴻承國際投資有限公司), a company incorporated in the BVI with limited liability on 30 March 2020 and a direct wholly owned subsidiary of our Company |

DEFINITIONS

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| “HC Mining” | Shandong Hongcheng Mining (Group) Co., Ltd. (山東鴻承礦業(集團)有限公司) (formerly known as Shandong Hongcheng Mining Co., Ltd. (山東鴻鉞礦業有限公司) and Shandong Hongcheng Mining Co., Ltd. (山東鴻承礦業有限公司)), a limited liability company established under the laws of the PRC on 28 April 2011 and an indirect wholly owned subsidiary of our Company |
| “HC Resources” | Shandong Hongcheng Resources Comprehensive Utilisation Co., Ltd. (山東鴻承資源綜合利用有限公司), a limited liability company established under the laws of the PRC on 10 January 2019 and an indirect wholly owned subsidiary of our Company |
| “HC R&D” | Laizhou Hongcheng Gold Tailings and Cyanidation Comprehensive Utilisation Research and Development Centre (萊州鴻承黃金尾礦及氰化渣綜合利用技術研究中心), a private non-enterprise entity established under the laws of the PRC on 11 June 2020 by HC Mining and HC Environmental |
| “HC Smelting” | Shandong Hongcheng Smelting Co., Ltd. (山東鴻承冶煉有限公司), a limited liability company established on 27 June 2019 under the laws of the PRC and does not form part of our Group after Reorganisation |
| “Hexingten Banner Gold Mining” | Hexingten Banner Gold Mining Limited (克什克騰旗山金礦業有限公司), a limited liability company established on 29 July 2010 under the laws of the PRC and does not form part of our Group after Reorganisation |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |
| “HK\$” or “Hong Kong dollars” or “HK dollars” | Hong Kong dollars and cents respectively, the lawful currency of Hong Kong |

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

DEFINITIONS

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|--------------------------------|---|
| “Hong Kong” | the Hong Kong Special Administrative Region of the People’s Republic of China |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |
| “Independent Third Party(ies)” | an individual(s) or a company(ies) who or which, as far as our Directors are aware after having made all reasonable enquiries, is/are independent and not a connected person of our Company |
| “IFRSs” | International Financial Reporting Standards |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |

DEFINITIONS

| | |
|---------------------------|---|
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |
| “Keen Day” | Keen Day Investments Limited, a company incorporated in the BVI with limited liability on 6 February 2008, which is wholly owned by Mr. Sze and is a [REDACTED] |
| “Latest Practicable Date” | 20 October 2021, being the latest practicable date prior to the printing of this document for ascertaining certain information in this document |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |
| “Listing Rules” | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time |
| “M&A Rules” | the Rules on Merger and Acquisition of Domestic Enterprise by Foreign Investors (《關於外國投資者併購境內企業的規定》) jointly issued by the State-owned Assets Supervision and Administration Commission (國務院國有資產監督管理委員會), MOFCOM, SAT, SAIC, CSRC and SAFE on 8 August 2006 and amended by MOFCOM on 22 June 2009 |

DEFINITIONS

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| “Main Board” | the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with GEM of the Stock Exchange |
| “Memorandum” or “Memorandum of Association” | the amended and restated memorandum of association of our Company adopted on 23 October 2021, as amended, supplemented or otherwise modified from time to time, a summary of which is set out in Appendix IV to this document |
| “MIIT” | the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) |
| “MOF” | the Ministry of Finance of the PRC (中華人民共和國財政部) |
| “MOFCOM” | the Ministry of Commerce of the PRC (中華人民共和國商務部) |
| “MOHURD” | the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部) |
| “MOST” | the Ministry of Science and Technology of the PRC (中華人民共和國科學技術部) |
| “Mr. Cai QZ” | Mr. Cai Qingze (蔡清澤), an Independent Third Party and one of our [REDACTED] |
| “Mr. Cai YL” | Mr. Cai Youli (蔡友利), an Independent Third Party and one of our [REDACTED] |
| “Mr. Chi” | Mr. Chi Songlin (遲松林), an Independent Third Party and one of our [REDACTED] |
| “Mr. Liu” | Mr. Liu Zeming (劉澤銘) (formerly known as Mr. Liu Zeming (劉澤明)), our founder, chairman of our Board, an executive Director and a Controlling Shareholder |
| “Mr. Liu YS” | Mr. Liu Yuansheng (劉遠升), father of Mr. Liu |
| “Mr. Sheng” | Mr. Sheng Haiyan (盛海燕), chief technical officer of our Group and an executive Director |
| “Mr. Sze” | Mr. Sze Wai Wai (施維維), an Independent Third Party and one of our [REDACTED] |
| “Mr. Zhan” | Mr. Zhan Yirong (戰乙榮) (formerly known as Mr. Zhan Dongtang (戰冬棠)), chief executive officer of our Group and an executive Director |
| “Ms. Lv” | Ms. Lv Huamin (呂花敏), mother of Mr. Liu |

DEFINITIONS

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|---------------------------------------|---|
| “NDRC” | the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) |
| “Nomination Committee” | the nomination committee of our Board |
| “NPC” or “National People’s Congress” | the National People’s Congress of the PRC (中華人民共和國全國人民代表大會) |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |
| “PBOC” | the People’s Bank of China (中國人民銀行), the central bank of the PRC |
| “PRC Company Law” | the Company Law of the PRC (《中華人民共和國公司法》), as enacted by the SCNPC on 29 December 1993 and effective on 1 July 1994, as amended, supplemented or otherwise modified from time to time, and last amended and became effective on 26 October 2018 |
| “PRC GAAP” | generally accepted accounting principles in the PRC |
| “PRC government” or “State” | the government of the PRC including all political subdivisions (including provincial, municipal and other regional or local government entities) and their instrumentalities thereof or where the context requires, any of them |

DEFINITIONS

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| “PRC Legal Advisers” | Jingtian & Gongcheng, the legal advisers to our Company as to PRC law |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |
| “Relevant Persons” | the Sole Sponsor, the [REDACTED], the [REDACTED], any of their or our Company’s respective directors, advisers, officers, employees, agents or representatives or any other person or party involved in the [REDACTED] |
| “Reorganisation” | the reorganisation arrangements we have undergone in preparation for the [REDACTED] which are more particularly described in “History, Reorganisation and Corporate Structure — Reorganisation” in this document |
| “RMB” or “Renminbi” | Renminbi, the lawful currency of the PRC |
| “SAFE” | the State Administration of Foreign Exchange of the PRC (中華人民共和國外匯管理局) |
| “SAIC” | the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局) |
| “SAT” | the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局) |
| “SCNPC” | the Standing Committee of National People’s Congress (全國人民代表大會常務委員會) |
| “SFC” | the Securities and Futures Commission of Hong Kong |

DEFINITIONS

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|-----------------------|---|
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented and modified from time to time |
| “Shandong Jinjia” | Shandong Jinjia Environment Co., Ltd (山東金嘉環保有限公司), a liability company established under the laws of the PRC on 8 June 2020 and an indirect wholly owned subsidiary of our Company |
| “Share(s)” | ordinary share(s) in the share capital of our Company with a nominal value of HK\$0.01 each |
| “Share Option Scheme” | the share option scheme of our Company conditionally adopted by our Company on 23 October 2021, the principal terms of which are summarised in “Other Information — 14. Share Option Scheme” in Appendix V to this document |
| “Shareholder(s)” | holder(s) of the Share(s) |
| [REDACTED] | [REDACTED] |
| “Sole Sponsor” | First Shanghai Capital Limited, a licensed corporation under the SFO to carry out type 6 (advising on corporate finance) regulated activities, being the sole sponsor to the [REDACTED] |
| [REDACTED] | [REDACTED] |
| “State Council” | the State Council of the PRC (中華人民共和國國務院) |
| [REDACTED] | [REDACTED] |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Takeovers Code” | The Codes on Takeovers and Mergers issued by the SFC, as amended, supplemented or otherwise modified from time to time |
| “Track Record Period” | for the three years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021 |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |

DEFINITIONS

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|--|---|
| “United States” or “U.S.” | the United States of America |
| “US dollars” or “US\$” or “USD” | United States dollars, the lawful currency of the United States |
| “U.S. Securities Act” | the United States Securities Act of 1933, as amended, supplemented or otherwise modified from time to time, and the rules and regulations promulgated thereunder |
| “VAT” | value-added tax |
| “we”, “us”, “our”, “Group” and “our Group” | our Company and our subsidiaries, or where the context refers to any time prior to the incorporation of our Company, the business in which the predecessors of its present subsidiaries were engaged and which were subsequently assumed by such subsidiaries pursuant to the Reorganisation |
| “Zeming International” | Zeming International Investment Co., Ltd., a company incorporated in the BVI with limited liability on 30 November 2020, which is wholly owned by Mr. Liu and is a Controlling Shareholder |
| “Zhonglian Cement” | Yantai Zhonghong Cement Co., Ltd (煙臺中鴻水泥有限公司) (formerly known as Yantai Zhonglian Cement Co., Ltd (煙臺中聯水泥有限公司)), a limited liability company established under the laws of the PRC on 17 May 2012 indirectly controlled by Mr. Liu, our Controlling Shareholder, and does not form part of our Group after Reorganisation |
| “sq.m.” | square metre(s) |
| “%” | per cent |

DEFINITIONS

Unless otherwise expressly stated or the content otherwise requires, in this document:

- *all times refer to Hong Kong time and references to years in this document are to calendar years;*
- *the term “associate(s)”, “close associate(s)”, “connected person(s)”, “core connected person(s)”, “connected transaction(s)”, “subsidiary(ies)” and “substantial shareholder(s)” shall have the meanings ascribed to such terms in the Listing Rules;*
- *certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of figures preceding them;*
- *unless otherwise specified, all relevant information in this document assumes no exercise of any of the [REDACTED]; and*
- *the English names of the PRC laws, rules, regulations, nationals, entities, governmental authorities, institutions, facilities, certificates and titles etc. mentioned in this document, are translations from their Chinese names and are for identification purpose only. If there is any inconsistency between the Chinese names and their English translations, the Chinese names shall prevail.*

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms, definitions and abbreviations used in this document in connection with our Group and our business. The terms and their meanings may not correspond to standard industry meaning or usage of those terms.

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| “desulphurisation gypsum” | is the desulphurisation product of wet flue-gas desulfurisation process in coal-fired power plants |
| “Directory of National Hazardous Wastes” | the Directory of National Hazardous Wastes (國家危廢名錄) issued by Ministry of Ecology and Environment in 2016 |
| “flotation” | a process by which some mineral particles are induced to become attached to bubbles of froth and float, and other to sink, so that the valuable minerals are concentrated and separated from the remaining mineral materials |
| “gold concentrates cyaniding tailings or gold concentrates cyanide tailings” | the mineral residue produced by the processing plant after extraction of gold, which is in granular form |
| “grade” | the relative amount of valuable elements or minerals contained in a parcel of gold mine hazardous wastes. For pyrite concentrate, grade commonly refers to the percentage of sulphur and iron therein; for cyanide tailings, grade commonly refers to the percentage of sulphur i.e. sulphur content therein |
| “hazardous waste” | a waste with properties that make it hazardous or capable of having a harmful effect on human health or the environment |
| “gold-bearing pyrite concentrate” | pyrite concentrate containing gold, which is in powder form |
| “ISO” | an acronym for a series of quality management and quality assurance standards published by International Organisation for Standardisation, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations |
| “ISO 14001” | an internationally recognised standard for the environmental management of businesses. It aims at recognising the desirable behaviour of businesses concerning the environment. It prescribes controls for an encompassing range of corporate activities which include the use of natural resources, handling and treatment of waste and energy consumption |

GLOSSARY OF TECHNICAL TERMS

| | |
|-----------------------|---|
| “ISO 9001” | an internationally recognised standard for a quality management system. It aims at the effectiveness of the quality management system in meeting customer requirements. It prescribes requirements for ongoing improvement of quality assurance |
| “leach” | to dissolve minerals or metals out of the gold concentrates cyaniding tailings with chemicals |
| “OHSMS 18001” | an internationally recognised specification for occupational health and safety management systems. It specifies requirements for an occupational health and safety management system to enable an organisation to develop and implement a policy and objectives which take into account legal requirements and information about occupational risks and to improve their occupational safety and health performance |
| “processing” | the process which in general refers to the extraction of usable portions of gold mine hazardous wastes by using physical and chemical methods |
| “pyrite concentrate” | a mineral containing sulphur and iron resulting from the processing of gold concentrates cyaniding tailings, which is in powder form |
| “smelting flue smoke” | dust, fume and gas which are natural by-products generated from our production process |
| “tailings” | ores with low content of useful components that cannot be used for production |
| “tonne” or “t” | metric ton, a metric unit of weight |
| “xanthate” | a chemical compound derived from xanthic acid and is a common agent used in the flotation process |

FORWARD-LOOKING STATEMENTS

This document contains certain statements that are, or may be deemed to be, “forward-looking statements”. These forward-looking statements may be identified by the use of forward-looking terminology, including the terms “believe(s)”, “aim(s)”, “estimate(s)”, “plan(s)”, “project(s)”, “anticipate(s)”, “expect(s)”, “going forward”, “intend(s)”, “may”, “might”, “seek(s)”, “can”, “could”, “ought to”, “potential”, “will” or “should” or similar expressions, or, in each case, their negative or other variations, or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. In particular, references to “estimate(s)” only refer to situations where best estimates have been adopted by the management. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include, but are not limited to, statements regarding our intentions, beliefs or current expectations concerning, among other things, our business, results of operations, financial position, liquidity, prospects, growth, strategies and the industries and markets in which we operate or may operate in the future.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance or the actual results of our operations, financial position and liquidity. The development of the markets and the industries in which we operate may differ materially from the description or implication suggested by the forward-looking statements contained in this document. In addition, even if our results of operations, financial position and liquidity as well as the development of the markets and the industries in which we operate are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. A number of risks, uncertainties and other factors could cause results and developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation:

- our operations and business prospects;
- our ability to maintain and enhance our market position;
- the effects of competition in the industries or markets we operate and its potential impact on our business;
- developments in, or changes to, laws, regulations, governmental policies, taxation or accounting standards or practices affecting our operations, especially those related to the operation of our business;
- general political and global economic conditions, especially those related to the PRC, and macro-economic measures taken by the PRC government to manage economic growth;
- our ability to successfully implement any of our business strategies, plans, objectives and goals;
- our ability to expand and manage our business operations;

FORWARD-LOOKING STATEMENTS

- our ability to obtain or extend the terms of the licences and leases necessary for the operation of our business;
- changes to our expansion plans and estimated capital expenditures;
- adverse changes or developments in the industries in which we operate;
- fluctuations in inflation, interest rates and exchange rates;
- changes in the availability of, or new requirements, for financing; and
- our success in accurately identifying future risks to our business and managing the risks of the aforementioned factors.

Forward-looking statements may and often do differ materially from actual results. Any forward-looking statements in this document reflect our management’s current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions. [REDACTED] should specifically consider the factors identified in this document, which could cause actual results to differ, before making any [REDACTED] decision. Subject to the requirements of the Listing Rules and except as may be required by applicable law, we undertake no obligation to revise any forward-looking statements that appear in this document to reflect any change in our expectations, or any events or circumstances, that may occur or arise after the date of this document. All forward-looking statements in this document are qualified by reference to this cautionary statement.

RISK FACTORS

You should carefully consider all of the information in this document, including the following risk factors before making any [REDACTED] decision in relation to the [REDACTED]. Our business, financial condition or results of operations could be materially and adversely affected by any of these risks. The market price of the [REDACTED] could fall significantly due to any of these risks, and you may lose all or part of your [REDACTED]. This document also contains forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated in these forward looking statements as a result of many factors, including the risks described below.

Our business and operations involve certain risks and uncertainties, many of which are beyond our control. These risks can be broadly categorised as (i) risks relating to our business and industry; (ii) risks relating to conducting our business in the PRC; and (iii) risks relating to the [REDACTED].

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

The development of the industry we operate in is highly dependent on the PRC government’s environmental protection policies, relevant laws and regulations, which may change from time to time.

The PRC government has promulgated and issued a series of laws and regulations and adopted preferential policies to support the development of the gold mine hazardous waste treatment industry in the PRC. We benefit directly and indirectly from such laws, regulations and policies. Favourable government policies, such as issuing guiding policies and subsidies, providing tax incentives, setting access and technical specifications, and strengthening supervision, are one of the key market drivers for the gold mine hazardous waste treatment industry in the PRC which we operate. In particular, our Group was able to generate operating profit from 2018 and onwards, primarily attributable to the increasingly stricter environmental protection policies imposed by the PRC government, 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.

RISK FACTORS

For example, the Law of the People’s Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》) issued by the Ministry of Ecology and Environment in April 2020 clarified reduction, resource utilisation, and harmlessness as the principles for the prevention and control of solid waste pollution. The Environmental Protection Tax Law of the PRC (《中華人民共和國環境保護稅法》) also encouraged taxpayers to comply with the national and local protection standards. Further, the Recommendations of the Central Committee of the Communist Party of China on Formulating the Fourteenth Five-Year Plan for National Economic and Social Development and Long-Term Goals for 2035 (《中共中央關於制定國民經濟和社會發展第十四個五年規劃和二零三五年遠景目標的建議》) underlined the importance of improving the collection and treatment of hazardous waste and improving the utilisation efficiency of mineral resources, guiding the development of the gold mine hazardous waste treatment industry in the long run. For details, see “Industry Overview” in this document. However, we cannot predict how and to what extent the government policies will affect the gold mine hazardous waste treatment industry as a whole or any sub-segments. Therefore, you should not regard the PRC government’s intentions or announcements as an indication of the future prospect of our industry or our future performance as we may not directly or indirectly benefit from any future amendments to the relevant laws or regulations, or changes to governmental policies. In the event of any changes to laws, regulations or government policies, if we cannot respond effectively and in a timely manner, our business, financial conditions, results of operations and prospects may be materially and adversely affected.

We are exposed to environmental compliance risks due to the nature of our operations.

We are exposed to environmental compliance risks due to the nature of our operations of gold mine hazardous waste treatment services and production and sale of recycled products business. Despite our pollutant control efforts, our production facilities generate gas and water pollutants. We have to closely monitor the pollutants to ensure our compliance with the applicable environmental laws and regulations. In addition, we may need to modify or upgrade our production facilities or equipment if the applicable environmental laws and regulations become tightened. The types and amounts of pollutants from our production facilities may increase unexpectedly due to a number of factors, including (i) increase in the volume of the gold mine hazardous wastes that we are required to treat; (ii) poor quality or mix of the gold mine hazardous wastes that we are required to treat; and (iii) downtime or occurrence of accidents at our production facilities or natural disasters. If we are unable to adequately and effectively operate our facilities in compliance with the relevant environmental laws and regulations, we may be subject to penalties or liabilities, and our reputation may be negatively affected. If we cannot manage our environmental compliance risks efficiently, or at all, our business, financial conditions, results of operations and prospects may be materially and adversely affected.

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Further, in response to the global trend of low-carbon transition and awareness on environmental, social and governance (“ESG”) matters, we need to integrate sustainability risk factors, including climate change, health and safety, business ethics and regulatory compliance, into our risk matrix to mitigate associated impacts and explore the best practices in environmental risk management to achieve long-term growth and sustainability of our business. We cannot assure that we can effectively implement the ESG governance protocols, including identify and mitigate our ESG-related risk effectively. If we fail to address the ESG compliance promptly, our business, operating results and financial condition could be materially and adversely affected.

For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, our costs of compliance with applicable environmental laws and regulations was approximately RMB0.4 million, RMB0.7 million, RMB0.9 million and RMB0.5 million, respectively, which mainly represented salaries and wages for our staff of the environmental protection and safety department, testing fees and consultancy fee in relation to environmental compliance. We will continue to incur costs to comply with the relevant environmental laws and regulations. In addition, new environmental issues could arise and lead to unanticipated investigations, assessments or costs. There can also be no assurance that the PRC government will not change existing laws or regulations or impose additional or stricter laws or regulations, compliance with which may require us to incur significant costs and capital expenditures. We may not be able to pass on to our customers by increasing the treatment fees and selling prices, and hence resulting in a material adverse effect on our financial performance.

We have a concentration of customers during the Track Record Period, which may cause our business to be materially and adversely affected.

We have a concentration of customers during the Track Record Period. For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, our five largest customers accounted for approximately 69.8%, 67.3%, 71.8% and 82.1% of our total revenue, respectively, and our largest customer accounted for 22.6%, 21.4%, 27.3% and 24.1% of our total revenue for the respective years. In addition, we had a concentration of credit risk as at 31 December 2018 and 2020 and 30 April 2021 as approximately 62.7%, 72.5% and 99.9% of the total gross trade receivables were due from our five largest customers as at 31 December 2018 and 2020 and 30 April 2021, respectively. There is no assurance that these major customers will continue to enter into contracts with us at fees acceptable to our Group or they will remain as financially sound in the future. In the event that these customers encounter financial difficulties and our Group is not able to recover any amount due from these customers or diversify our customer base, our business, results of operations, profitability and liquidity may be materially and adversely affected.

RISK FACTORS

We engaged transportation companies which did not fully comply with the applicable PRC laws and regulations during the Track Record Period and may face investigation, prosecution, administrative penalties and other administrative measures by the relevant authorities.

During the Track Record Period, we had engaged transportation companies which did not possess permits in accordance to the Safety Management of Dangerous Goods in Road Transport (《危險貨物道路運輸安全管理辦法》) for the operation of road transportation of dangerous goods for transporting gold mine hazardous waste in Laizhou city. For further details, see “Business — Regulatory Compliance — (ii) Transportation of Cyanide Tailings” in this document. We cannot assure you that there will not be any future investigation, prosecution, administrative penalties and other administrative measures against us in respect of this non-compliance incident, and any actions against us could have a material adverse effect on our business, financial conditions, cash flow and results of operations.

We cannot assure you that we can secure our existing hazardous waste storage rental agreements. Early termination of the two hazardous waste storage rental agreements with our customer may lead to a material adverse effect on our business operation, financial position and results of operations.

Since November 2018, our Group entered into two hazardous waste storage rental agreements with Laizhou City State-owned Assets Management Company Limited (萊州市國有資產經營有限公司) (“LZ Assets”), a state-owned enterprise which is an Independent Third Party, pursuant to which we leased certain hazardous waste storage facilities, inclusive of two warehouses and ancillary facilities, for storage of hazardous wastes. In return, LZ Assets agreed to pay for an annual rental fee of RMB8.0 million and advanced RMB160.0 million in total to us. The rental agreements which became effective in November 2018 and January 2019, had a minimum fixed lease period of five years and up to 20 years. It is also stipulated in the rental agreements that from the sixth year since the respective signing date of such rental agreements, either parties has the right to terminate the rental agreements by paying an amount equivalent to one year rental fee as compensation to other parties, and we are required to repay the remaining balance of 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 rental agreements. See “Business — Our Business Model — Our Services — Our Rental Services for Storage of Hazardous Waste” in this document for details of our hazardous waste storage rental agreements.

With the right to terminate the hazardous waste storage rental agreements after the minimum five-year fixed lease term by either parties, there is no guarantee that LZ Assets will fulfill the 20-year full lease term with us. In the event that LZ Assets early terminates the rental agreements, our Group would be required to return the remaining sum of the advances to LZ Assets within three years from the receipt of the notice of termination of the rental agreements, and the constructed warehouses that were used for storage of hazardous waste may become idle. Thus, early termination of the two hazardous waste storage rental agreements with LZ Assets may lead to a material adverse effect on our business operation, financial position and results of operations.

RISK FACTORS

We are subject to credit risk of our customers.

We are subject to credit risk of our customers and our liquidity is dependent on the prompt payments from our customers. Our trade receivables mainly refer to outstanding amounts due from our customers for gold mine hazardous waste treatment services and sales of recycled products. The credit terms we grant to our customers generally ranged from 30 to 60 days. 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, while our average trade receivables turnover days were approximately 75.4 days, 26.3 days, 20.6 days and 33.2 days, respectively. See “Financial Information — Description of Certain Items of Consolidated Statements of Financial Position — Trade Receivables” in this document for further details of our trade receivables. Please also refer to Note 3.1(b) to the historical financial information in the Accountant’s Report set out in Appendix I to this document for further details of our credit risks. There is no assurance that all such trade receivables due to us will be settled on time. Accordingly, we face credit risk in collecting trade receivables due from our customers. Our performance, liquidity and profitability will be adversely affected if significant amounts due to our Group are not settled on time. The deterioration of the credit condition of any of our major customers could also materially and adversely affect our business.

We generally do not enter into long term contracts with commitment on minimum transaction amount with our customers.

We generally do not enter into long-term contracts with commitment on minimum transaction amount with our customers. Our contracts regarding gold mine hazardous waste treatment services are geographically concentrated in Shandong province and may be affected by local policies, events and economic conditions, especially in Shandong province. Our contracts regarding the sale of recycled products are affected by the demands of recycled products from time to time. Our customers may reduce or cease to engage us for providing services or purchase recycled products from us at any time in the future.

There is no guarantee that our existing or future contracts with customers can be negotiated on terms and prices equivalent to or better than the current terms and prices. If any of our customers substantially reduce their business engagements or terminate their business relationship with us and we are unable to develop new customers on a timely basis and with similar terms, if at all, our business and results of operations would be materially and adversely affected. Moreover, the number and value of contracts that we are able to obtain may fluctuate from year to year and we cannot assure you that we will be able to continue to obtain new contracts on terms commercially acceptable to us or that the new contracts will be profitable at current levels, or at all. If we are unable to obtain new contracts for our business expansion, our financial conditions, and results of operations could be materially and adversely affected.

RISK FACTORS

Ongoing pandemic of COVID-19 could significantly affect our production, demand for our services and products and our business.

The ongoing pandemic of COVID-19 since early 2020 has caused significant disruption to the PRC and world-wide economic activities. The PRC government has urged the public to avoid crowds and gatherings to facilitate better anti-pandemic prevention and control, which could affect consumer activities in the affected areas. The outbreak was also declared a public health emergency of international concern and a global pandemic by the World Health Organisation, which is expected to result in a high number of fatalities and is likely to have an adverse impact on the livelihood of people and the global economy. Meanwhile, the nature and origins of COVID-19, ways of transmission and methods of preventing and controlling the COVID-19 have not been fully discovered. As at the Latest Practicable Date, there remained substantial uncertainties as to how this pandemic would develop and our Company cannot yet fully ascertain the expected impact. We are uncertain as to when the outbreak of COVID-19 will be constrained. A continuing spread or future recurrence of COVID-19 in the PRC or any other parts of the world may cause disruption to regional or national economic activity, including temporary suspension of gold mines and production facilities, restriction of province-to-province transportation and quarantine measure across different provinces in the PRC as anti-pandemic measures to ensure the health and safety of their residents, which may affect business activities in the affected areas and, therefore, reduce demand for our gold mine hazardous waste treatment services and our recycled products. Given the uncertainties in the development of COVID-19 and its effects on the global economy, we cannot assure you that COVID-19 will not materially and adversely affect our business, financial conditions and operations. COVID-19 may also result in limitations on and potential delays in transportation of gold mine hazardous waste and our recycled products as well as disruption of raw material and consumables supplies, affecting our Group’s inability to fulfil its customers’ requirements. Frequent or prolonged occurrences of any of these events could have a material adverse effect on our business, financial conditions, results of operations and prospects. The time required to rectify such problems may be lengthy, and may result in significant increases in costs or reduction in revenue.

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Changes in tax incentives may materially and adversely affect our business, financial position and results of operations.

For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, our effective tax rate (equals income tax expenses divided by profit before income tax) were approximately 23.7%, 23.6%, 24.5% and 30.3%, respectively, whilst the statutory corporate income tax is at the rate of 25% during the Track Record Period. We enjoyed tax reduction as certain subsidiaries of our Group, engaging in comprehensive utilisation of resources, were entitled to a reduction in the profit before income tax by an amount equivalent to 10% of the revenue from sales of recycled products in the calculation of corporate income tax payable in accordance with the relevant tax rules and regulations of the PRC during the Track Record Period. We cannot assure you that we will continue to qualify for such preferential tax treatment in the future. If we fail to maintain the preferential tax treatment, our applicable enterprise income tax rates would be increased to 25%, which could have a material adverse effect on our financial position and results of operations. Elimination of, or other adverse changes to, any tax incentives could adversely affect our financial position and results of operations. In addition, the PRC government, from time to time, adjusts or changes its policies on value-added tax, business tax and other taxes. Such adjustments or changes, together with any uncertainty resulting therefrom, could have an adverse effect on our business, financial position and results of operations.

Our business solely operates in Shandong province in the PRC and any adverse economic, social and/or political development affecting the market in Shandong province may have a material adverse impact on our operations.

During the Track Record Period and up to the Latest Practicable Date, our business operation was solely based in Shandong province in the PRC, and we are exposed to geographical concentration risks in terms of our operations. Our business is therefore susceptible to any incidents or factors which may affect the stability of the economy, social and political conditions in Shandong province. Any adverse incidents, such as economic recession, extensive social unrest, strike, riot, civil disturbance or disobedience, may cast uncertainty over the suitability of the business environment in Shandong province. Given the relatively small geographical size of Shandong province, any of such incidents may have a widespread effect on our business operations. As a result, our business, results of operations and financial conditions may be materially and adversely affected.

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Due to the relatively high overall gross profit margin during the Track Record Period, our business may attract potential competition and we therefore may not be able to sustain our gross profit margins and our gross profit margins may decrease due to the increased potential competition.

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. Due to the relatively high overall gross profit margin during the Track Record Period, our business may attract potential competition. The major factors affecting our financial conditions and results of operations include, among other things, industry competition and our ability to remain competitive. For details of our profit margins and factors affecting our financial conditions and results of operations, please see “Financial Information — Description of Selected Items of the Consolidated Statements of Comprehensive Income — Gross profit and gross profit margin” and “Financial Information — Key Factors Affecting Our Results of Operations” in this document. Due to the increased potential competition, we cannot guarantee that we can sustain our gross profit margins in the future. Should our gross profit margins decrease in the future, our business, financial condition and results of operation may be adversely affected.

We do not enter into long-term agreements with our suppliers of goods and services. Any changes in the supply and costs of consumables and transportation costs may materially and adversely affect our operations and profitability.

We believe that our continuing success depends on our ability to obtain adequate supplies of goods and services, including consumables and transportation services, on commercially acceptable terms and in a timely manner to support our operations and future plan. During the Track Record Period, suppliers of goods and services to our Group mainly included (i) transportation companies; (ii) suppliers of consumables such as xanthate and sodium sulphide; (iii) supplier of electricity; and (iv) suppliers for other services such as laboratory testing. For details, see “Business — Purchase of Services and Goods” in this document. For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, consumables used accounted for approximately 6.9%, 6.8%, 6.8% and 8.6% of our total cost of sales, respectively, while our total transportation costs incurred in our operation accounted for approximately 54.3%, 49.5%, 46.3% and 46.5% of our total cost of sales, respectively.

We do not enter into long-term agreements with our suppliers of goods and services, and we currently source our suppliers locally. If any of our key suppliers is unable to continue providing us with goods and services at reasonable prices and at quality and quantity we required, or that they relocate to a new region, we may need to find new reliable local suppliers. If we are unable to find alternative suppliers of goods and services on similar terms and conditions in a timely manner, our business may be interrupted and/or our cost of sales may increase, which could materially and adversely affect our business operations and results of operations.

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Further, the prices and availability of our goods and services depend on a variety of factors beyond our control, for example, the price of xanthate was impacted by the price of butanol, being its main raw material, and transportation costs is mainly affected by gasoline and diesel prices in the PRC. We therefore cannot guarantee that our cost of sales will remain stable at current levels or that we will not experience difficulties in obtaining supplies of goods and services in the future. Should there be any significant increases in the relevant costs, and our Group is unable to pass on such increased costs to our customers, our business and profitability may be materially and adversely affected. If we pass on increased costs to our customers, our pricing may become less competitive and may lead to loss of orders or customers.

The power supply company based in Laizhou city, Laizhou Electricity Generating Company of State Grid Shandong Electric Power Company (國網山東省電力公司萊州市供電公司) (“Laizhou Electricity Generating Company”), was one of our five largest suppliers during the Track Record Period, and our business operation is exposed to operational risks brought by the energy consumption policies of the PRC government from time to time.

The power supply company based in Laizhou city, namely Laizhou Electricity Generating Company, was one of our five largest suppliers during the Track Record Period. Subsequent to the Track Record Period and as at the Latest Practicable Date, our Group had to reduce our energy consumption in our production facilities in Laizhou city, to comply with the power restriction policy imposed by the PRC government across China, and in Shandong province and other north-eastern provinces in the PRC in September 2021. Such power restriction did not lead to any temporary suspension of our production facilities in Laizhou city. Since our electricity supplier is one of our five largest suppliers, any possible changes in the power consumption policies adopted by the PRC government could adversely affect our business, prospects, financial conditions and results of operations.

If we fail to estimate accurately the demand for our products and effectively manage our inventories, we may face the risk of inventory obsolescence which could have a material adverse effect on our business, financial condition and results of operations.

Our Group’s inventories consist of raw materials, work-in-progress and finished goods. Our raw materials mainly include (i) cyanide tailings we collected from upstream 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/period end. Finished goods represent our recycled products which are ready to be sold. 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. During the Track Record Period, our average inventory turnover days was approximately 36.7 days, 77.3 days, 92.4 days and 112.9 days, respectively. We cannot assure you that we will not experience any slow movement of inventories, which may result from our reduced revenue due to increase in adverse weather conditions throughout the year, economic downturn, or incorrect estimation of the market demand for our products. As such, if we fail to manage our inventories effectively or are unable to dispose of excess inventories, we may face a risk of

RISK FACTORS

inventory obsolescence and/or significant inventory write-downs, which may impose pressure on our operating cash flow, and materially and adversely affect our business, financial condition and results of operation.

We are dependent on the demand of gold mine hazardous wastes treatment services from our upstream customers, any instability or shortages of gold mine hazardous wastes to be treated by us caused by reasons beyond our control may adversely affect our business.

During the Track Record Period, we collected cyanide tailings, which is a kind of gold mine hazardous waste resulted from smelting of gold, from our upstream customers mainly comprising of gold smelting companies of gold mining companies, which we in turn detoxify the cyanide tailings and recover therefrom resources with economic value such as pyrite concentrate and gold-bearing pyrite concentrate for sale of recycled products to our downstream customers. As such, our business partly relies on the business operation of our upstream customers which need our treatment service of gold mine hazardous waste. We may encounter shortage of gold mine hazardous wastes to be treated by us due to reasons beyond our control, including but not limited to changes of PRC environmental protection policies, or any other changes in PRC laws and regulations applicable to the industry that our upstream customers operate in, which may lead to the reduction of supply of gold mine hazardous wastes from our upstream customers. For example, any regulatory development of the Directory of National Hazardous Wastes (2021 version), and the List of Hazardous Wastes Exempted from Management attached thereto, may affect the level of supply of gold mine hazardous wastes to be treated by us. According to the F&S Report, rising gold price is one of the main drivers for the growth of gold production from gold mines in Shandong province and China. The decrease in gold price may result in the decline of gold production of gold mining companies. Hence, the demand from upstream customers for our gold mine hazardous waste treatment services may be affected, which may in turn may adversely affect the business operation, financial condition and operating results of our Group.

If we fail to fulfill our obligations under our contracts with customers, our results of operations and financial condition may be adversely affected.

Our contract liabilities represent advance payments received from our customers for gold mine hazardous waste treatment services and sales of recycled products before the completion of services or delivery of goods. As at 31 December 2018, 2019 and 2020 and 30 April 2021, our contract liabilities amounted to approximately RMB12.5 million, RMB15.2 million, RMB10.8 million and RMB23.1 million, respectively. Our contract liabilities will subsequently be recognised as revenue when the relevant services/products are rendered/delivered to customers. See “Financial Information — Description of Certain Items of Consolidated Statements of Financial Position — Contract Liabilities” in this document.

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If we fail to fulfill our obligations under our contracts with customers, we may not be able to convert such contract liabilities into revenue, and our customers may also require us to refund the service fees or payments for the products we have received, which may adversely affect our cash flow and liquidity condition, our ability to meet our working capital requirements and our results of operations and financial condition. In addition, if we fail to fulfill our obligations under our contracts with customers, our relationship with such customers may worsen, which may also affect our reputation and results of operations in the future.

There is no assurance that changes in policies, initiatives or directions of the PRC government relating to gold production in the PRC and Shandong province may have favourable impact on our business operations.

The PRC government promotes the replacement of gold extraction by cyanidation with more environmental methods that are of lower toxicity and there is a policy to establish “green” mines pursuant to the Work Plan for the Establishment of Green Mines in Shandong Province (山東省綠色礦山建設工作方案) issued by relevant governmental departments of the Shandong Provincial People’s Government in 2017, which aims to improve the environmental protection level of mining industries such as gold mining, and establish a more sustainable development model. For details, see “Industry Overview — Analysis of Gold Mine Hazardous Waste Treatment Market in China and Shandong Province” in this document. We cannot guarantee that the regulatory environment over the industries in which our upstream customers operate will remain favourable in the future. The PRC government may also introduce laws, regulations and policies that could have an adverse impact on further development and expansion of certain areas of the upstream industries so that the demand of our products or services may be adversely affected. Our results of operations and financial condition could in turn be materially and adversely affected.

We recorded net current liabilities as at 31 December 2018 and 2019. We cannot assure you that we will not experience net current liabilities in the future, which could expose us to liquidity risks.

We recorded net current liabilities of approximately RMB89.0 million and RMB88.2 million as at 31 December 2018 and 2019, respectively, which was primarily due to a large amount of payables for construction costs and purchases of property, plant and equipment for our second production facility in Shahe town, Laizhou city, during the year, while the corresponding capital expenditure was recorded under our non-current assets. We recorded net current assets of approximately RMB9.8 million and RMB24.3 million as at 31 December 2020 and 30 April 2021, respectively. See “Financial Information — Liquidity and Capital Resources — Net Current Liabilities/Assets” in this document for further discussion.

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We cannot assure you that we will not record net current liabilities again in the future. A net current liabilities position exposes us to liquidity risks. Our future liquidity, the payment of trade and other payables and the repayment of debt financing will primarily depend on our ability to generate adequate cash inflows from our operating activities. If we experience a shortage in cash flow generated from operations, our liquidity position may be materially and adversely affected, which, in turn, may impact our ability to execute our business strategies. If such event occurs, our results of operations and financial position will be materially and adversely affected.

Our business operations and financial performance could be materially and adversely affected by our indebtedness and high gearing ratio.

During the Track Record Period, we, to a certain extent, relied on bank borrowings and other liabilities to finance our business operations and capital expenditures. Our indebtedness of approximately RMB122.2 million, RMB145.2 million, RMB144.3 million and RMB136.3 million as at 31 December 2018, 2019 and 2020 and 30 April 2021, respectively, comprised of interest-bearing bank borrowings, lease liabilities, amount due to our Controlling Shareholder and other liabilities in relation to our rental arrangement. Our gearing ratio (being total indebtedness divided by total equity as at the end of the respective year/period and multiplied by 100%) was approximately 683.0%, 218.7%, 136.0% and 110.6%, respectively, as at 31 December 2018, 2019 and 2020 and 30 April 2021. See “Financial Information — Indebtedness” and “Financial Information — Key Financial Ratios — Gearing Ratio” in this document for details of our indebtedness and gearing ratio.

Our high gearing ratio could adversely affect our liquidity, business operations and financial performance, including but not limited to (i) increase our vulnerability to adverse overall industry environment or any increase in interest rates; (ii) limit our flexibility in planning for, or reacting to, changes in our business or in the industry in which we operate; (iii) potentially restrict us from pursuing strategic business opportunities; (iv) restrict our flexibility to manage our cash flow, because a substantial percentage of our cash will have to be allocated to the repayment of indebtedness; and (v) reduce our ability to obtain further external financing.

RISK FACTORS

We are exposed to fair value changes for our financial assets at fair value through other comprehensive income.

As at 31 December 2018, 2019 and 2020, and 30 April 2021, our financial assets at fair value through other comprehensive income, which mainly represented bank acceptance notes, were approximately RMB10.2 million, RMB2.9 million, RMB2.0 million and RMB1.3 million, respectively, representing approximately 3.3%, 0.6%, 0.5% and 0.3% of our total assets, respectively. Our bank acceptance notes are principally held for collection of contractual cash flows and for selling financial assets. During the Track Record Period, the carrying values of our financial assets at fair value through other comprehensive income are a reasonable approximate of their fair values. Our Group did not recognise any fair value loss/gain for these financial assets at fair value through other comprehensive income during the Track Record Period. For details, see Notes 2.11 and 22 to the historical financial information in the Accountant’s Report set out in Appendix I to this document. If there are any significant negative fair value changes for financial assets at fair value through other comprehensive income, our results of operations and financial performance would be adversely affected.

We may incur increasing compliance costs to comply with applicable laws, regulations or standards relating to our operations.

The nature of our business requires us to comply with applicable government policies, laws, regulations and industry standards relating to our operations. Such regulations cover a wide variety of matters, including but not limited to labour regulations, social insurance and occupational safety. In addition, the PRC government may impose stricter standards and regulations in the future, which may require replacement or upgrade of our current system or operations. Any increase in compliance or other operating costs resulting from the implementation of additional measures and/or failure to comply with new laws or regulations may increase our compliance costs and could have an adverse effect on our business, financial conditions, results of operations and prospects.

RISK FACTORS

Failure to maintain an effective quality control system may have a material adverse impact on our business.

We believe that the capability to provide high-quality recycled products is one of our key competitive advantages. Thus, the effectiveness of our quality control system is of utmost importance to our customers. This requires us to adopt a stringent quality control system and to invest capital and human resources to ensure that every step in implementing the quality control system is being strictly monitored. If we are unable to maintain or implement our quality control system effectively, we may suffer a decrease in demand for our recycled products and become less competitive in our market. Our subsidiary has been granted the certificate of conformance for our quality management system, environmental management system, and occupational health and safety management systems, which conform to the standards of ISO 9001, ISO 14001 and OHSMS 18001, respectively, for our operations. These certifications signify that our operations meet the benchmark quality standards and we believe they are critical to our hazardous waste treatment services and sale of recycled products. These certifications will be expired every three years and we will need to apply for renewal. There is no assurance that renewal for such certifications would be successful. In the event that we do not obtain or renew any of such certifications, our ability to market our business activities may be impaired. As a result, our business, financial conditions and results of operations may be adversely affected.

We may incur significant costs associated with the construction of New Production Facility which may result in a substantial increase in our depreciation expenses and other operating costs.

We will need to construct new production facilities to capture the business opportunities arising from the growing demand of the gold mine hazardous waste treatment services in the coming years and solidify our leading market position in Shandong province. For details, see “Business — Business Strategies — 1. Increase Our Production Capacity and Capabilities to Solidify Our Market Position” in this document. We may incur significant costs including land acquisition cost, construction cost, purchase costs of machinery and equipment, and other operating costs for the new production facilities. Our construction cost and acquisition of land and machinery and equipment is likely to increase our depreciation expenses. Any substantial increase in our capital expenditure may increase our depreciation expenses and other operating expenses, reduce our profitability and have a material and adverse impact on our results of operations, financial condition and prospects.

RISK FACTORS

Our business may be adversely affected if there is any significant downtime at our production facilities for repair and maintenance, or if we fail to achieve sufficient utilisation of our production facilities.

We anticipate downtime for routine repairs and maintenance at our production facilities. During the Track Record Period, we temporarily suspended our production operation of our production facility in Jincheng town, Laizhou city, from 13 November 2019 to 19 January 2020, and from 1 July 2021 to 26 July 2021. For details, see “Business — Our Production Facilities — Repair and Maintenance” in this document. The time and cost required for the repair and maintenance may exceed our expectations, depending on various factors, including (i) whether the required repair can be conducted on-site; (ii) the extent of damage; and (iii) the availability of replacement components. In addition to routine repair and maintenance, extraordinary or extensive repair and maintenance may be required as a result of certain unexpected events, such as catastrophes, which may lead to substantial damages. If our production facilities experience prolonged downtime, our operations could be materially disrupted. Any significant downtime at our production facilities may reduce our utilisation of such production facilities, lead to breach of agreements with our customers, and materially and adversely affect our business, financial conditions and results of operations.

Further, each of our production facilities has been constructed with a specific designed treatment capacity. For details, see “Business — Our Production Facilities — Production Capacity and Utilisation Rate” in this document. A number of factors may affect the utilisation of our production facilities, including operating hours and efficiency of our machinery and availability of gold mine hazardous wastes to be treated. For example, if there is a decreasing demand for gold mine hazardous waste treatment services from our upstream customers due to their reduced gold production as a result of economic downturns, our utilisation of our production facilities will be adversely affected. As such, we cannot assure you that our production facilities can achieve their respective designed capacity. Failure to achieve sufficient utilisation of our production facilities may materially and adversely affect our business, financial conditions and results of operations.

We may fail to obtain or maintain the approvals, permits, licences and certificates required for our operations.

We are required to obtain various approvals, permits, licences and certificates from various governmental authorities for our operations. For details, see “Business — Licences and Permits” in this document. These approvals, permits, licences and certificates are subject to periodic review and renewal by governmental authorities, and the standards of compliance may be changed from time to time without notice in advance. For example, the Hazardous Waste Business Licence is generally valid for five years and should be renewed upon expiration by the holder in order to continue to conduct its gold mine hazardous waste treatment business. Any changes in the existing policies in relation to the renewal criteria or standards of compliance may result in our failure to renew or maintain such approvals, permits, licences and certificates.

RISK FACTORS

We may be subject to additional social insurance fund and housing provident fund contributions and late payments or fines imposed by relevant regulatory authorities.

Under the relevant PRC laws and regulations, we are required to make social insurance fund and housing provident fund contributions for our employees. During the Track Record Period, we did not make full social insurance fund and housing provident fund contributions for some of our employees. As at 31 December 2018, 2019, 2020 and 30 April 2021, the carrying amounts of our provisions for the underpaid amount of our social insurance fund and housing provident fund contributions amounted to approximately RMB1.1 million, RMB1.7 million, RMB2.0 million and RMB2.0 million, respectively. As advised by our PRC Legal Advisers, in respect of outstanding social insurance contributions, the relevant PRC authorities may demand that we pay the outstanding social insurance funds within a stipulated deadline and a late payment fee equal to 0.05% of the outstanding amount for each day of delay. If we fail to make such payments, we may be liable to a fine of one to three times of the overdue amount. In respect of the outstanding housing provident fund contributions, we may be required by the relevant PRC authorities to pay the outstanding amount to the housing provident funds within a prescribed time frame. If we fail to pay housing provident fund contributions within the prescribed deadlines, an application may be made to the relevant people’s court for compulsory. As at the Latest Practicable Date, we had not received any notification from the relevant authorities demanding payment of the outstanding social insurance funds and housing provident funds. However, we cannot assure you that we will not be subject to any order in the future to rectify such non-compliance, nor can we assure you that there are no, or will not be any, employee complaints regarding payment of the social insurance funds and housing provident funds under the relevant laws and regulations implemented at the national, provincial or local level. We may also incur additional expenses to comply with the relevant laws and regulations implemented by the national, provincial or local authorities.

We were previously involved in bill financing transactions that did not fully complied with the relevant PRC laws.

We were previously involved in bill financing transactions. See “Business — Regulatory Compliance — (iii) Bill Financing” for further details. As advised by our PRC Legal Advisers, these bill financing transactions were not in compliance with Article 10 of the Negotiable Instruments Law of the PRC (《中華人民共和國票據法》), which provides that bank acceptance bills must be issued on the basis of actual underlying transactions and debt relationship. Although we have ceased the bill financing transactions, there is no assurance that the relevant regulatory authorities will not penalise us for these past bill financing arrangements in the future. Any such penalties may materially and adversely affect our business, financial conditions and operations.

RISK FACTORS

We may be subject to potential adverse consequences due to our lack of relevant construction procedures and valid title certificates in respect of certain properties that we occupied in the PRC.

As at the Latest Practicable Date, we had not obtained title certificates for four buildings with a total gross floor area of approximately 1,986 sq.m. located on land parcel owned by us in the PRC. These properties are mainly non-production facilities and are not used for our operation or offices. As advised by our PRC Legal Advisers, we could be ordered by the relevant PRC authorities to demolish these properties within a time limit. If the properties cannot be demolished, the properties or the unlawful income would be confiscated and we could be liable to a fine of up to a maximum of 10% of the construction costs in respect of the properties. There is also no assurance that the relevant government authorities will not impose administrative penalty on us, or demolish or suspend the usage of such properties in the future. In the event that we are required to demolish or suspend the usage of such properties, we may have to divert resources to relocate, and relocation cost and time will be involved, which may adversely affect our operations, business and profitability. For details of our property defects, relevant laws and regulations, remedial actions taken and the views of our PRC Legal Advisers, see “Business — Our Properties” in this document.

We may be subject to administrative penalties as we have not registered all of our leased agreements with competent construction or real estate administration authorities.

Pursuant to applicable PRC laws and regulations, lease agreements must be registered with competent construction or real estate administration authorities. As at the Latest Practicable Date, we failed to register four lease agreements, either as the lessor or lessee. Under PRC laws and regulations, the parties concerned with these properties lease may be subject to administrative fines for failing to register the lease agreement within a prescribed period as required by the competent authorities. Our PRC Legal Advisers advised that we may be ordered to rectify our failures to register and, if we fail to do so within a prescribed period, a penalty of between RMB1,000 and RMB10,000 per agreement may be imposed on us as a result. The estimated total amount of penalty for our failure to file our lease agreements is RMB4,000 to RMB40,000. In the event that our leases are deemed by the relevant authorities to be invalid, we intend to find alternative locations nearby and relocate relevant offices. We may incur additional relocation costs and cannot assure you that we will be able to find alternative locations in a timely or effective manner.

RISK FACTORS

We may be subject to penalties from the PBOC or adverse judicial rulings as a result of the provision of an interest-bearing loan to Zhonglian Cement, a company controlled by our Controlling Shareholder, during the year ended 31 December 2019 and 2020.

During the year ended 31 December 2019 and 2020, we have provided an interest-bearing loan to Zhonglian Cement and recognised interest income of approximately RMB6.5 million and RMB5.1 million, respectively. Loan provided to Zhonglian Cement are non-interest bearing for the year ended 31 December 2018 and the four months ended 30 April 2021. In July 2021, balances with Zhonglian Cement have been fully settled and we do not plan to engage in such practice in the future. As advised by our PRC Legal Advisers, the provision of loan to Zhonglian Cement may not be in compliance with the General Lending Provisions (貸款通則) issued by 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 in the PRC, and the interpretation and implementation thereof, our PRC Legal Advisers are of the view that (i) such loan is legally binding on the parties; (ii) the provisions of such loan are not in violation of PRC mandatory laws and administrative regulations; and (iii) the risk of us being penalised by the PBOC is remote. See “Financial Information — Related Parties Transactions — Interest Income” of this document for further details.

Nevertheless, we cannot assure you that we may not be subject to a fine from the PBOC or adverse judicial rulings as a result of our provision of loan to related parties during the Track Record Period. In the event that we are ordered by the PBOC to pay the penalties or adverse judicial rulings, our business, results of operation and financial position could be adversely affected.

Our operations are subject to inherent operational and safety risks.

Due to the nature of our business, the treatment of gold mine hazardous wastes and the production of recycled products involves safety risks and hazards, such as equipment failure, weather interferences, natural disasters and industrial accidents. These hazards can cause personal injury and loss of life, damage to or destruction of property and equipment, and environmental damage and pollution, any of which could result in suspension of our services, payment of compensation or even imposition of administrative or criminal penalties which could in turn cause us to incur costs for compensation that exceed our insurance coverage, if any, as well as damage to our reputation. We will be responsible if we fail to comply with any applicable laws and regulations or to perform specific contractual obligations. We cannot assure you that we will be able to prevent the occurrence of environmental or safety incidents at our production facilities or to remain in compliance with all applicable safety requirements and standards. Any material safety incidents or non-compliances, including but not limited to the above events, may have a material adverse effect on our business, financial conditions, results of operations and prospects.

RISK FACTORS

We may be unable to successfully and/or effectively implement partially or in full our future business plans and business strategies.

Our success is dependent on, among other things, our proper and timely execution of our future business plans. It is our aim to increase our production capacity and capabilities to solidify our market position and strengthen our research and development capabilities. We expect to continue increasing penetration in existing markets. Our expansion plans may expose us to various risks. Thus, we depend on our ability to effectively manage our growth or implement our business strategies. As our operations grow in size, scope and complexity, we will incur significant costs and allocate additional resources to strengthen and develop relationships with our existing and potential customers, expand our sales and marketing efforts, hire and retain experienced employees, enhance our technological infrastructure, explore strategies for our services, stabilise our operational efficiency and improve our financial systems and internal control. However, the likelihood of returns on such investments may not be achieved for a few years, or possibly at all. Our current and future expansion plans will also require significant managerial attention and resources in order for us to flourish.

Moreover, our future business plans may be hindered by factors beyond our control, such as relevant regulatory and licensing approval requirements and any subsequent changes thereof, competition within the industry we operate, our ability to cope with financial risk, operational risk and market risk as our business and customer base expands, and our ability to provide, maintain and improve the level of human and other resources in serving our customers. As a result, we cannot assure that our future business plans will materialise in accordance with the timetable, or at all, or that our objectives will be accomplished fully or partially, or that our business strategies will generate the intended benefits to us as initially contemplated. If we fail to implement our expansion plans and business development strategies successfully, our business performance, financial conditions and future prospects and growth could be materially and adversely affected.

For details of our future business plans and business strategies, see “Future Plans and Use of [REDACTED]” and “Business — Business Strategies” in this document.

RISK FACTORS

If we cannot be properly insulated from the rising staff costs, or if we cannot protect our employees from work injury or occupational diseases, our results of operations may be adversely affected.

With the rapid growth of the PRC’s economy and the mining industry, the average wage of workers in the mining industry has risen continuously in recent years, increasing from RMB59,404 per year in 2015 to RMB93,020 per year in 2020. Similarly, due to the increasing public awareness of environmental issues, the growing government investment in environmental protection, the protection for employees enhanced and employers’ liability increased pursuant to the PRC Labour Contract Law (《中華人民共和國勞動合同法》), the average wage of employees in the environmental protection industry in China has risen from RMB43,528 per year in 2015 to RMB65,860 per year in 2020. If we are unable to pass on any increase in the staff costs to our customers, our results of operations may be adversely affected.

Our employees are exposed to certain safety risks as our employees have to engage in certain inherently hazardous activities, including the use of heavy machinery and working with hazardous waste. If we cannot protect our employees from work injury, loss of life or occupational diseases, any of which could result in suspension of our business operations, payment of compensation or claims from our employees or even imposition of administrative or criminal penalties, which could in turn cause us to incur costs for compensation that exceed our insurance coverage, if any, as well as damage to our reputation. We cannot assure you that we will be able to prevent the occurrence of safety incidents at our production facilities or to remain in compliance with all applicable safety requirements and standards. Any material safety incidents or non-compliances, including but not limited to the above events, may have a material adverse effect on our business, financial conditions, results of operations, reputation and prospects.

We may not be able to successfully achieve or manage the growth of our business and our historical expansion and results of operation may not be indicative of our future performance.

We have experienced overall growth in revenue and profit during the Track Record Period, particularly in late 2019 and 2020, which was principally due to the commencement of operation of our production facility in Shahe town, Laizhou city. Therefore, our results of operations during the Track Record Period differed substantially from, and may not be comparable with, previous respective years. We provide no assurance that we will be able to sustain similar financial growth in the future. Therefore, our historical financial results may not be indicative in assessing our performance, and year-to-year comparisons of our results of operations should not be relied upon as an indication of our performance for any future period.

RISK FACTORS

Our success depends upon our ability to retain key members of our management team and other qualified personnel.

We attribute our success to the leadership and contributions of our management team. Our continued success is largely dependent on our ability to retain the services of these key management personnel. The loss of their services without timely and suitable replacement may materially and adversely affect our business, financial conditions and results of operations.

Our continued success and the implementation of our expansion plans also depend to a large extent upon our ability to attract and retain other qualified personnel, including but not limited to technicals, machinery operators, and chemists who have the necessary experience and expertise to conduct our business. According to the F&S Report, mine solid waste treatment business requires experts in chemistry, mechanics, environmental, engineering design and other industries. More specifically, for hazardous mine solid waste treatment companies, in order to obtain the licence, it is required to retain technicians majoring in environmental engineering or relevant fields with professional titles at intermediate levels or above, and with sufficient years of solid waste pollution treatment experience. There may be a limited local supply of adequately skilled engineers and technicians to conduct our hazardous waste treatment business. If we are unable to attract and retain a sufficient number of such qualified personnel, our business, financial conditions and results of operations may be materially and adversely affected.

Our managerial, operational and financial resources may be strained due to our rapid growth and business expansion.

Our sales of recycled products extracted from the gold mine hazardous wastes collected from our upstream customers may fluctuate from period to period, and there is no guarantee that we will be able to effectively manage our growth. The differences in operating cash costs may have an adverse effect on our profit margins, financial conditions and results of operations.

Our future expansion may place a significant strain on our managerial, operational and financial resources. In order to better allocate our resources to manage our growth, we must hire, recruit, manage our workforce effectively and implement adequate internal controls in a timely manner. Our risk management and internal control system may not be effective or adequate. If we fail to maintain sufficient internal sources of liquidity and secure external sources of funding for future growth, we may encounter, among other things, significant delays in production and operational difficulties. If we are unable to attract and retain a sufficient number of such qualified personnel, our business, financial conditions and results of operations may be materially and adversely affected.

RISK FACTORS

Our insurance coverage may not adequately cover the risks related to our business and operations.

We maintain insurance in accordance with good and prudent industry practice. Our main assets include, among others, our production facilities, which are exposed to risks of equipment failure, natural disasters, environmental hazards and industrial accidents, which may cause significant personal injury or death, severe damage to, and destruction of, property, plant and equipment, contamination of, or damage to, the environment and suspension of our business operations. In addition, the operation of our production facilities may be interrupted upon occurrence of many factors beyond our control, including supply interruptions, the breakdown or failure of equipment, difficulty or inability to find suitable replacement parts for equipment, extreme weather conditions, workplace accidents involving personal injuries or deaths and unforeseen engineering and environmental problems.

Based on the level of our operational risks, we have entered into insurance policies to cover certain risks associated with our business. For details, see “Business — Insurance” in this document. However, such insurance policies may have qualifications or limitations, and we cannot assure you that our current insurance policies will insure us fully against all risks and losses that may arise. We cannot assure you that we will be able to renew these insurance policies on similar, or otherwise acceptable, terms, if at all. In addition, we cannot assure you that we have maintained adequate insurance. For example, certain types of insurance, such as insurance covering losses from acts of war or terrorism, are not available in the PRC at a reasonable cost or at all. If we were to incur significant uninsured losses, our business, financial conditions, results of operations and prospects may be materially and adversely affected.

We may be subject to litigations, claims or other disputes for our operations.

We may from time to time encounter disputes arising from contracts with customers, suppliers or other third parties, which may involve claims against them or us. Claims against us by our customers may involve substandard recycled products, which may result in us incurring liquidated damages under the terms of our contracts with our customers. On the other hand, claims may arise after disputes with suppliers due to any delay of payment to suppliers. We may also be liable for injuries sustained by our employees during their course of work. Should any claims against us fall outside the scope and/or limit of our insurance coverage, our financial condition may be adversely affected. Claims involving us could result in time-consuming and costly litigations, arbitration, administrative proceedings or other legal procedures. Expenses we incur in legal proceedings or arising from claims brought by or against us could have a material and adverse effect on our business, financial condition, results of operations and business prospects. Moreover, legal proceedings resulting in unfavourable judgment or findings may harm our reputation and damage our prospects of securing future contracts, thereby materially and adversely affecting our results of operations and business prospects.

RISK FACTORS

We cannot assure you that our anti-corruption and anti-bribery related internal control measures will be effective in preventing the occurrence of corruption, bribery or other illegal activities.

We are committed to compliance with the anti-corruption and anti-bribery laws of the PRC and other countries, and have adopted relevant internal control measures. See “Business — Risk Management and Internal Control” of this document for further details. We are unable to guarantee that our internal control system will be effective in preventing the occurrence of corruption, bribery or other illegal activities. Our failure to comply with the applicable laws, or effectively manage our employees and subsidiaries in this regard, could have a material and adverse impact on our reputation, business, results of operations and prospects.

We may not be able to adequately protect our intellectual property rights in relation to our research and development technology, which could result in losses to our revenue and profit and could, in turn, materially and adversely affect our business, financial position and results of operations.

We own intellectual property, such as two trademarks, six patents and a domain name, that are material to our business and are in the process of applying for registration of patents that are material to our business. For further details, see “Further Information About the Business of Our Group — 9. Intellectual Property Rights of Our Group” in Appendix V to this document. Intellectual property laws in the PRC are still evolving, and the level of protection and means of enforcement of intellectual property rights in the PRC differ from those in other jurisdictions. Enforcement of our intellectual property rights could be costly, and we may not be able to immediately identify unauthorised use of our intellectual properties and take the necessary steps to enforce our rights over such properties. In the event that the steps that we have taken and the protection afforded by law do not adequately safeguard our intellectual property rights, or we are not able to register or defend our intellectual property rights, our business, financial position and results of operations would be materially and adversely affected.

We could also face claims or allegations by others that we are improperly using intellectual property owned by them or otherwise infringing their rights in intellectual property. Irrespective of the validity or merit of such claims or allegations, we could incur costs in either defending or settling any alleged intellectual property infringement. Adverse rulings in any litigation or proceedings could result in the loss of our intellectual property rights and we may as a result be subject to significant liabilities or even business disruption. Any potential intellectual property litigation against us could also force us to cease selling or using the disputed products, to commence the development of non-infringing alternatives, or to obtain licences from owner of the infringed intellectual property. We may not be successful in developing such alternatives or obtaining such licences on reasonable terms or at all, which could damage our reputation, and materially and adversely affect our business, financial position and results of operations.

RISK FACTORS

Our continued growth depends on our research and development capabilities, which may not yield expected results, and we may not be able to adapt to rapidly changing technologies in a timely manner, or at all.

Our continued growth depends on our ability to continue to innovate, research and develop our abilities to meet evolving market needs for gold mine hazardous waste treatment services and recycled products. During our operations, other than the extraction of pyrite concentrate and gold-bearing pyrite concentrate, we also extract high silicon tailings from the gold mine hazardous waste collected from our upstream customers. High silicon tailings can be further processed to construction aggregates for construction companies and some other recycled products as by-products for sale. We cannot assure you that we will be able to timely identify and respond to new trends in the future, nor can we assure you that we can accurately predict future industry trends and market demand. The new recycled products we introduce may not achieve widespread market acceptance, and our investment in the production of such recycled products may not achieve the level of returns that we anticipated.

We are a holding company and rely primarily on dividends paid by our subsidiaries to fund any cash and financing requirements we have, and our ability to pay dividends depend on the earnings and distributions of our subsidiaries.

We are a holding company and we conduct our business operations primarily through our subsidiaries in the PRC. Our ability to make dividend payments and other distributions in cash, pay expenses, service indebtedness incurred and finance the needs of other subsidiaries depends upon the receipt of dividends, distributions or advances from our subsidiaries. The ability of our subsidiaries to pay dividends or other distributions may be subject to their earnings, financial position, cash requirements and restrictive covenants on making payments to us contained in the financing or other agreements. If any of our subsidiaries incurs indebtedness in its own name, the instruments governing the indebtedness may restrict dividends or other distributions on its equity interest to us. These restrictions could reduce the amount of dividends or other distributions that we receive from our subsidiaries, which could in turn restrict our ability to fund our business operations and to pay dividends to our Shareholders. In addition, the declaration of dividends will be at the absolute discretion of the boards of our subsidiaries. Furthermore, payments of dividends by our subsidiaries are subject to restrictions under the applicable laws and regulations in the PRC. Any of the above factors may affect our ability to pay dividends to our Shareholders and to service our indebtedness.

RISK FACTORS

Our Controlling Shareholders have the ability to exercise substantial control over us and can influence our business in ways which may not be in the best interests of our other Shareholders.

Our Controlling Shareholders will control [REDACTED]% of the issued share capital of our Company upon completion of the [REDACTED] and the [REDACTED] assuming no exercise of the [REDACTED] and Share Option Scheme (or approximately [REDACTED]% assuming the [REDACTED] is exercised in full). Accordingly, our Controlling Shareholders may (subject to the Articles of Association and the applicable laws and regulations) be able to control or otherwise influence our major policy decisions in ways that may not always be in the interests of other Shareholders, including overall strategic and investment decisions, dividend plans, issuances of securities and adjustments to the capital structure and other actions that require the approval of our Shareholders, which could result in decisions which may not be in the best interests of our other Shareholders.

RISKS RELATING TO CONDUCTING OUR BUSINESS IN THE PRC

Possible changes in the economic, political and social conditions in the PRC and policies adopted by the PRC government could adversely affect our business, prospects, financial conditions and results of operations.

We conduct our business operations within the PRC. Accordingly, our financial condition and results of operations are influenced by the economic, political and social conditions, legal development, and government policies of the PRC. Although the PRC’s economy has been transitioning from planned economy to a more market-oriented economy for over four decades, China’s economy differs from the economies of most development countries in many aspects, including with respect to the portion of state-owned productive assets, the amount of government involvement, level of development, growth rate, governmental control of foreign exchange and allocation of resources. In recent years, the PRC government has implemented economic reform measures emphasising the use of market forces to drive economic development. However, any economic reform policies or measures in the PRC may from time to time be modified, revised, or applied inconsistently from industry to industry or across different regions of the country. As a result, some of these measures may benefit the overall PRC economy but have a negative effect on the industries in which we operate and subsequently our business.

The PRC has been one of the world’s fastest growing economies as measured by GDP in recent years. However, there can be no assurance that the PRC economy will be able to sustain such a growth rate, and the PRC GDP growth has experienced a slowdown since 2012, and growth has been uneven across different regions and among various economic sectors. All of our revenue during the Track Record Period were generated within the PRC. As such, our future success is substantially dependent on economic, political and social conditions in the PRC. Any adverse changes in the PRC’s political and social conditions or any slowdown or recession of the PRC’s economy could have a material and adverse effect on our business, financial, results of operations and prospects.

RISK FACTORS

The inherent uncertainties as to the interpretation and implementation of laws of the PRC could limit the protection available to us and to our Shareholders.

Our business and operations are conducted in the PRC and are governed by PRC laws, regulations and rules. The PRC legal system is a civil law system based on written statutes. Prior court decisions may be cited for reference, but have limited precedential value. Since the late 1970s, the PRC government has significantly enhanced PRC legislation and regulations to provide protections to various forms of foreign investments in the PRC. However, the PRC has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in the PRC. As many of these laws, regulations and rules are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws, regulations and rules may involve uncertainties and may not be as consistent or predictable as in other more developed jurisdictions. Furthermore, the legal protections available to us under these laws, regulations and rules may be protracted and could result in substantial costs and diversion of resources and management attention.

In addition, there can be no assurance that the PRC government will not amend or revise existing laws, regulations or rules to require additional approvals, licenses or permits, or to impose stricter requirements or conditions for the approvals, licenses or permits required for our business and operations. Any loss of or failure to obtain or renew our approvals, licenses or permits could disrupt our operations and subject us to fines or penalties imposed by the PRC government. There can also be no assurance that the PRC government will not amend or revise existing laws, regulations or rules, or promulgate new laws, regulations or rules that have a material and adverse effect on our business, operations, growths or prospects.

You may experience difficulty in effecting service of legal process, enforcing foreign judgments or bringing original actions in the PRC based on foreign laws against us and our Directors and senior management.

All of our assets are located in the PRC. In addition, almost all of our Directors and executive officers reside in the PRC and their personal assets may also be in the PRC. Therefore, [REDACTED] may encounter difficulties in effecting service of process from outside the PRC upon us or most of our Directors and executive officers.

Furthermore, the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgements awarded by courts in the BVI, the Cayman Islands and most other western countries. Hence, the recognition and enforcement in the PRC of judgements of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

RISK FACTORS

We may be considered a “resident enterprise” under the EIT Law and income tax on the dividends that we receive from our PRC operating subsidiaries may increase.

Our Company was incorporated in the Cayman Islands. We conduct our business through operating subsidiaries in the PRC. Under the EIT Law, enterprises established under the laws of foreign countries or regions and whose “de facto management bodies” are located within the PRC are considered “resident enterprises” and thus will generally be subject to enterprise income tax at the rate of 25% on their global income. On 6 December 2007, the State Council adopted the Regulation on the Implementation of EIT Law, effective as at 1 January 2008, which defines the term “de facto management bodies” as “bodies that substantially carry out comprehensive management and control on the business operation, employees, accounts and assets of enterprises”. Currently, our management is primarily based in the PRC, and may continue to be based in the PRC in the future. In April 2009, the PRC State Administration of Taxation promulgated a circular to clarify the definition of “de facto management bodies” for enterprises incorporated overseas with controlling shareholders being onshore enterprises or enterprise groups in China. However, it remains unclear how the tax authorities will treat an overseas enterprise invested or controlled by another overseas enterprise and ultimately controlled by PRC individual resident(s), as in our case.

If we were considered a PRC resident enterprise, we would be subject to enterprise income tax at the rate of 25% on our global income, and any dividend or gain on the sale of our Shares received by our non-resident enterprise shareholders may be subject to a withholding tax at a rate of up to 10%. In addition, although the EIT Law provides that dividend payments between qualified PRC resident enterprises are exempted from enterprise income tax, it remains unclear as to the detailed qualification requirements for this exemption and whether dividend payments by our PRC operating subsidiaries to us would meet such qualification requirements if we were considered a PRC resident enterprise for this purpose. If our global income were to be taxed under the EIT Law, our financial position and results of operations would be materially and adversely affected.

Under the EIT Law and its implementing rules, dividend payments from PRC subsidiaries to their foreign shareholders, if the foreign shareholder is not deemed as a PRC tax resident enterprise under the EIT Law, are subject to a withholding tax at the rate of 10%, unless the jurisdiction of such foreign shareholders has a tax treaty or similar arrangement with China and the foreign shareholder obtains approval from competent local tax authorities for application of such tax treaty or similar arrangement.

RISK FACTORS

We invest in our PRC operating subsidiaries through our Hong Kong subsidiaries. Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (the “**Double Tax Avoidance Arrangement**”) and other applicable PRC laws, our Hong Kong subsidiaries will be subject to a withholding tax at a rate of 5% on dividends received from our PRC operating subsidiaries. However, the SAT promulgated the Announcement on Certain Issues Concerning the Beneficial Owner in a Tax Agreement (《國家稅務總局關於稅收協定中「受益所有人」有關問題的公告》) (“**Circular 9**”) on 3 February 2018, effective as 1 April 2018, which provides guidance for determining whether a resident of a contracting state is the “beneficial owner” of an item of income under China’s tax treaties and similar arrangements. According to Circular 9, a beneficial owner generally must be engaged in substantive business activities and an agent will not be regarded as a beneficial owner and, therefore, will not qualify for these benefits. It is possible, however, that under Circular 9 our Hong Kong subsidiaries would not be considered the “beneficial owner” of any such dividends, and that such dividends would as a result be subject to income tax withholding at the rate of 10% rather than the favourable 5% rate applicable under the Double Tax Avoidance Arrangement and other applicable PRC laws. In that case, our financial position and results of operations would be materially and adversely affected.

You may be subject to PRC income tax on dividends from us or on any gain realised on the sale or other disposition of our Shares under PRC law.

Under the EIT Law and EIT Law Implementation Rules, subject to any applicable tax treaty or similar arrangement between the PRC and your jurisdiction of residence that provides for a different income tax arrangement, PRC withholding tax at the rate of 10% is normally applicable to dividends from sources within the PRC payable to investors that are non-PRC resident enterprises, which do not have an establishment or place of business in China, or which have such establishment if the relevant income is not effectively connected with the establishment. Any gain realised on the transfer of shares by such investors is subject to 10% PRC income tax if such gain is regarded as income derived from sources within China unless a treaty or similar arrangement otherwise provides. Under the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》) and its implementation rules, dividends from sources within China paid to foreign individual investors who are not PRC residents are generally subject to a PRC withholding tax at a rate of 20%, and gains from PRC sources realised by such investors on the transfer of shares are generally subject to 20% PRC income tax, in each case, subject to any reduction or exemption set forth in applicable tax treaties and PRC laws.

RISK FACTORS

Although all of our business operations are in China, it is unclear whether dividends we pay with respect to our Shares, or the gain realised from the transfer of our Shares, would be treated as income derived from sources within China and as a result be subject to PRC income tax if we are considered a PRC resident enterprise. If PRC income tax is imposed on gains realised from the transfer of our Shares or on dividends paid to our non-PRC resident investors, the value of our [REDACTED] in our Shares may be materially and adversely affected. Furthermore, our Shareholders whose jurisdictions of residence have tax treaties or arrangements with China may not qualify for benefits under such tax treaties or arrangements.

The PRC government’s control over currency conversion may limit our foreign exchange transactions, including dividend payments on our Shares.

Renminbi is not presently a freely convertible currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. There is no assurance that, under a certain exchange rate, we will have sufficient foreign currencies to meet our foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends following completion of the [REDACTED], do not require prior approval from SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within China that have the requisite licenses to carry out foreign exchange business. Foreign exchange transactions under the capital account conducted by us, however, must be approved in advance by SAFE. There is no assurance that we will be able to receive these approvals in time, or at all. This could restrict the ability of our PRC subsidiaries to obtain debt or equity financing in foreign currencies.

The existing foreign regulations allow us, following completion of the [REDACTED], to pay dividends in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, there is no assurance that the PRC government will continue to adopt this policy going forward. The PRC government may also restrict our access to foreign currencies for current account transactions at its discretion. Any insufficiency of foreign currencies may impair our ability to obtain sufficient foreign currencies for dividend payments to our Shareholders or to satisfy any other foreign exchange requirements.

RISK FACTORS

Fluctuations in the value of Renminbi and other currencies could have an adverse effect on our business, financial condition and results of operations.

The fluctuations in the value of Renminbi against the Hong Kong dollar, the US dollar and other currencies is subject to changes resulting from the PRC government’s policies and depends to a large extent on domestic and international economic and political developments as well as supply and demand in the local market. It is difficult to predict how market forces and the PRC government’s policies will continue to impact Renminbi exchange rates going forward. Renminbi may appreciate or depreciate significantly in value against the Hong Kong dollar, the US dollar or other foreign currencies in the long term, depending on the fluctuation of the basket of currencies against which it is currently valued, or it may be permitted to enter into a full float, which may also result in significant appreciation or depreciation of the Renminbi against the US dollar or other foreign currencies.

Even though substantially all of our revenue and expenses are denominated in Renminbi, fluctuations in exchange rates may nonetheless in the future adversely affect the value of our net assets and earnings. In particular, [REDACTED] from the [REDACTED] are made in Hong Kong dollars. Any unfavourable movement in the exchange rate of the Renminbi against the Hong Kong dollar may adversely affect the value of our [REDACTED] from the [REDACTED]. In addition, any unfavourable movement in the exchange rate of the Renminbi against other foreign currencies may also lead to an increase in our costs, which could adversely affect our business, financial conditions and results of operations.

RISKS RELATING TO THE [REDACTED]

There has been no prior [REDACTED] for our Shares.

Prior to the [REDACTED], there has been no [REDACTED] for our Shares. The initial issue price range for our Shares was the result of negotiations among our Company and the [REDACTED] (for itself and on behalf of the [REDACTED]) and the [REDACTED] may differ significantly from the market price for our Shares following the [REDACTED]. We have applied for [REDACTED] of and [REDACTED] Shares on the Stock Exchange. A [REDACTED] on the Stock Exchange, however, does not guarantee that an active and liquid trading market for our [REDACTED] will develop, or if it does develop, will be sustained following the [REDACTED].

RISK FACTORS

The trading volume and market price of our Shares may be volatile, which could result in substantial losses for [REDACTED] purchasing Shares in the [REDACTED].

The trading volume and market price of our Shares following this [REDACTED] may be volatile. The following factors may affect the trading volume and market price of our Shares:

- actual or anticipated fluctuations in our revenue and results of operations;
- news regarding recruitment or departure of key personnel by us or our competitors;
- changes in earnings estimates or recommendations by financial analysts;
- the history of, and the prospects for, us and the industry in which we compete;
- potential litigation or regulatory investigations;
- announcements of new investments, strategic alliances and/or acquisitions in our industry; and
- the valuation of publicly traded companies that are engaged in business activities similar to ours.

Any such developments may result in large and sudden changes in the volume and price at which our Shares will trade. We can give no assurance that these developments will not occur in the future.

In addition, in recent years, stock markets in general, and particularly the shares of companies with substantial operations in the PRC, have experienced increasing price and volume fluctuations, some of which have been unrelated or disproportionate to the operating performance of such companies. As a result, [REDACTED] in our Shares may experience volatility in the market price of their Shares and a decrease in the value of Shares regardless of our operating performance or prospects.

RISK FACTORS

Future sales or perceived sales of substantial amounts of our Shares in the [REDACTED] market could have a material adverse effect on the prevailing market price of our Shares and our ability to raise capital in the future, or may result in dilution of your shareholding.

The market price of our Shares could decline as a result of future sales of substantial amounts of our Shares or other securities relating to our Shares in the [REDACTED] market or the issuance of new Shares, or the perception that such sales or issuances may occur. Future sales, or perceived sales, of substantial amounts of our Shares could also materially and adversely affect our ability to raise capital in the future at a time and at a price we deem appropriate. In addition, our Shareholders may experience dilution in their holdings to the extent we issue additional Shares in future [REDACTED].

A certain number of our [REDACTED] held by existing Shareholders are or will be subject to contractual and/or legal restrictions on resale for a period of time after completion of the [REDACTED]. See [REDACTED] in this document. After the lapse of the above mentioned restrictions, future sales or perceived sales of substantial amounts of our [REDACTED], or the possibility of such sales by us, could negatively impact the market price of our [REDACTED] and our ability to raise equity capital in the future.

Since there will be a gap of several days between pricing and trading of our Shares, holders of our Shares are subject to the risk that the price of our Shares could fall during the period before trading of our Shares begins.

The [REDACTED] is expected to be determined on the [REDACTED]. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be six business days after the pricing date. As a result, [REDACTED] may not be able to sell or deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of our Shares could fall before trading begins as a result of adverse market conditions or other adverse developments, that could occur between the time of sale and the time trading begins.

RISK FACTORS

We have significant discretion as to how we will use the net [REDACTED] of the [REDACTED], and you may not necessarily agree with how we use them.

Our management may spend the net [REDACTED] from the [REDACTED] in ways you may not agree with or that do not yield a favourable return. For details of our intended use of [REDACTED], see “Future Plans and Use of [REDACTED]” in this document. However, our management will have discretion as to the actual application of our net [REDACTED]. You are entrusting your funds to our management, upon whose judgment you must depend, for the specific uses we will make of the net [REDACTED] from this [REDACTED].

Purchasers of Shares will experience immediate dilution as a result of the [REDACTED] and may experience further dilution if we issue additional Shares in the future.

As the [REDACTED] is higher than the net tangible book value per Share of our Shares immediately prior to the [REDACTED], purchasers of our Shares in the [REDACTED] will experience an immediate dilution in pro forma adjusted net tangible assets of (i) [REDACTED]; and (ii) [REDACTED] per [REDACTED], assuming an [REDACTED] of (i) [REDACTED]; and (ii) [REDACTED] per [REDACTED], that being the approximate mid-point of the stated [REDACTED] Range, respectively (taking no account of any options which may be granted under the share option scheme or any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED]).

We may need to raise additional funds in the future to finance further expansion or new developments relating to our existing or new contracts. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro-rata basis to existing Shareholders, the percentage ownership of such Shareholders in our Company may be reduced and such new securities may confer rights and privileges that take priority over those conferred by the [REDACTED].

RISK FACTORS

We may not be able to pay any dividends or make other distributions on our Shares.

Saved for the dividend of RMB58.0 million declared by HC Environmental to its then shareholders in January 2020, among which, RMB11.6 million was paid to its then shareholders in February and April 2021 and the remaining balance was fully settled as at the Latest Practicable Date, we did not declare or pay any dividend during the Track Record Period. Our Board has discretion in determining the frequency and amount of dividend distributions, which will be subject to the approval of our Shareholders at a general meeting. A decision to declare or to pay any dividends and the amount of any dividends will depend on various factors, including but not limited to our cash flows, financial condition and results of operations, capital adequacy ratios, operating and capital expenditure requirements, distributable profits of our PRC subsidiaries as determined under PRC GAAP or IFRS (whichever is lower), our Articles of Association, statutory and regulatory restrictions on the payment of dividends and other factors that our Board deems relevant. Although the PRC GAAP are in all material aspects identical with IFRS and the differences between our distributable profits recorded under the PRC GAAP and IFRS are immaterial, the calculation of distributable profits under the PRC GAAP may be different from the calculation under IFRS in certain respects, and our operating subsidiaries may not have distributable profits as determined under the PRC GAAP even if they have profits for that year as determined under IFRS, or vice versa. Accordingly, we may not receive sufficient distributions from our PRC subsidiaries. See “Financial Information — Dividends” in this document for further details. There is no assurance that we will be able to pay any dividends or make other distributions on our Shares. Our future declarations of dividends will be at the absolute discretion of our Board.

You may face difficulties in protecting your interests under the laws of the Cayman Islands.

We are a Cayman Islands company and our corporate affairs are governed by, among other things, our Memorandum of Association, Articles of Association, the Companies Act and common law of the Cayman Islands. The rights of Shareholders to take action against our Directors, actions by minority shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in other jurisdictions. Such differences may mean that the remedies available to the minority shareholders may be different from those they would have under the laws of other jurisdictions.

RISK FACTORS

We cannot assure you the accuracy of facts, forecasts and other statistics with respect to the PRC, the PRC economy and the industry in which we operate contained in this document.

We have derived certain facts, forecasts and other statistics in this document, particularly those relating to the PRC, the PRC economy and the industry in which we operate, from information provided by the PRC and other government agencies, industry associations, independent research institutes or other third-party sources. While we have taken reasonable care in the reproduction of the information, it has not been prepared or independently verified by us, the Sole Sponsor, the [REDACTED], the [REDACTED], the [REDACTED] or any of our or their respective affiliates or advisers, and, therefore, we cannot assure you as to the accuracy and reliability of such facts, forecasts and statistics, which may not be consistent with other information compiled inside or outside the PRC. Such facts, forecasts and statistics include the facts, forecasts and statistics used in “Risk Factors,” “Industry Overview” and “Business.” Because of possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies, and you should not place undue reliance on them. Furthermore, we cannot assure you that they are stated or compiled on the same basis, or with the same degree of accuracy, as similar statistics presented elsewhere. In all cases, you should consider carefully how much weight or importance you should attach to or place on such facts, forecasts or statistics.

We strongly caution you not to place any reliance on any information contained in press articles or other media regarding us and the [REDACTED].

Before the publication of this document, there may be press and media coverage which contains certain information regarding the [REDACTED] and us that is not set out in this document. We have not authorised the disclosure of such information in any press or media. We do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no presentation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information appearing in publications other than this document is inconsistent or conflicts with the information contained in this document, we disclaim it. Accordingly, prospective [REDACTED] should not rely on any such information.

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INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

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[REDACTED]

WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

WAIVER FROM STRICT COMPLIANCE WITH RULE 8.12 OF THE LISTING RULES

Rule 8.12 of the Listing Rules provides that a new applicant applying for a primary [REDACTED] on the Stock Exchange must have sufficient management presence in Hong Kong, which normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. The core business and operations of our Group are principally located, managed and conducted in the PRC and substantially all of our Group’s assets are based in the PRC. All of our executive Directors and most of the members of our senior management are currently ordinarily based in the PRC and after the [REDACTED] of our Company. Our Directors consider that the appointment of two additional executive Directors who are ordinarily residents in Hong Kong would be burdensome and costly for our Company, and it may not be in the best interests of our Company and our Shareholders as a whole to appoint additional executive Directors who are ordinarily resident in Hong Kong. As such, our Group does not and, in the foreseeable future, will not have sufficient management presence in Hong Kong for the purpose of satisfying the requirements under Rule 8.12 of the Listing Rules.

In view of that, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from the compliance with Rule 8.12 of the Listing Rules.

In order to ensure that regular communication is effectively maintained between the Stock Exchange and our Company, we will put in place the following measures:

- a) we have appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our Company’s principal channel of communication with the Stock Exchange and ensure that our Company complies with the Listing Rules at all times. The two authorised representatives are Mr. Zhan, an executive Director, and Mr. Wong Yun Fai, the company secretary of our Company. Mr. Zhan holds valid travel documents to visit Hong Kong and Mr. Wong Yun Fai is a holder of a Hong Kong permanent identity card and ordinarily resident in Hong Kong. In addition, Ms. Bao Guanyun (鮑冠雲), our finance director, who also holds valid travel documents to visit Hong Kong, is appointed as the alternate to the two authorised representatives. Each of the authorised representatives will therefore be available to meet with the Stock Exchange within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, e-mail and facsimile (where applicable). Each of the two authorised representatives is authorised to communicate on behalf of our Company with the Stock Exchange;
- b) each of the authorised representatives will have means to contact all members of the Board promptly at all times as and when the Stock Exchange wishes to contact our Directors for any matters. In order to further enhance the communication between the Stock Exchange, our authorised representatives and our Directors, our Company will implement policies to ensure that:
 - (i) each Director will provide his/her office phone number, mobile phone number, fax number and e-mail address to the authorised representatives and his/her respective alternate; and

WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (ii) in the event that a Director expects to travel and be out of office, he/she will provide the phone number of the place of his/her accommodation to the authorised representatives and his/her respective alternate;
- c) all our Directors not ordinarily residing in Hong Kong have confirmed that they possess valid travel documents to visit Hong Kong for business purposes and would be able to come to Hong Kong and meet with the Stock Exchange upon reasonable notice;
- d) we have appointed First Shanghai Capital Limited as our compliance adviser upon [REDACTED] pursuant to Rule 3A.19 of the Listing Rules. The compliance adviser will act as the additional channel of communication with the Stock Exchange when our authorised representatives are not available. The compliance adviser will have access at all times to the authorised representatives (including the alternate authorised representative), our Directors and members of senior management of our Group to ensure that it is in a position to provide prompt responses to any queries or request from the Stock Exchange in respect of our Company; and
- e) in addition, all Directors will provide their office phone numbers, mobile phone numbers, fax numbers and e-mail addresses to the Stock Exchange to ensure that they will be readily contactable when necessary to deal promptly with enquiries from the Stock Exchange.

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

DIRECTORS

| Name | Residential address | Nationality |
|-------------|----------------------------|--------------------|
|-------------|----------------------------|--------------------|

Executive Directors:

| | | |
|----------------------|--|---------|
| Mr. Liu Zeming (劉澤銘) | West House, 2/F Unit 2, Building 8, District A Huiquan Community Laizhou City Shandong Province PRC | Chinese |
|----------------------|--|---------|

| | | |
|-----------------------|--|---------|
| Mr. Zhan Yirong (戰乙榮) | West House, 3/F Unit 3, Building 1 Jingyiyuan Community No. 1383 Xilangzibu Village Laizhou City Shandong Province PRC | Chinese |
|-----------------------|--|---------|

| | | |
|------------------------|--|---------|
| Mr. Sheng Haiyan (盛海燕) | Room 201, Unit 1 Building 10, District B Huiquan Community Laizhou City Shandong Province PRC | Chinese |
|------------------------|--|---------|

Independent non-executive Directors:

| | | |
|------------------------|--|---------|
| Mr. Zhang Shijun (張式軍) | Room A, Unit 2, Building 211 Millennium International Village Phase II, Xifu Town Chengyang District, Qingdao Shandong Province PRC | Chinese |
|------------------------|--|---------|

| | | |
|-----------------|---|---------|
| Ms. Liu Ye (劉曄) | Room 902, Unit 2, Building 2 Wenbo Community No. 189 Yingxiongshan Road Jinan City Shandong Province PRC | Chinese |
|-----------------|---|---------|

| | | |
|-------------------------|---|---------|
| Mr. Lau Chung Wai (劉仲緯) | Flat B, 17/F, Block 2 Harmony Garden Siu Sai Wan Chai Wan Hong Kong | Chinese |
|-------------------------|---|---------|

See “Directors and Senior Management” in this document for further information on our Directors.

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DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

PARTIES INVOLVED

| | |
|---------------------|--|
| Sole Sponsor | First Shanghai Capital Limited 19/F., Wing On House 71 Des Voeux Road Central Hong Kong <i>(A licensed corporation carrying on type 6 (advising on corporate finance) regulated activities under the SFO)</i> |
|---------------------|--|

| | |
|------------|------------|
| [REDACTED] | [REDACTED] |
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| [REDACTED] | [REDACTED] |
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DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

[REDACTED]

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

| | |
|--|---|
| Legal Advisers to our Company | <p><i>As to Hong Kong law</i> Howse Williams 27/F, Alexandra House 18 Chater Road Central, Hong Kong</p> <p><i>As to Cayman Islands law</i> Conyers Dill & Pearman 29/F, One Exchange Square 8 Connaught Place Central, Hong Kong</p> <p><i>As to the PRC law</i> Jingtian & Gongcheng 34/F, Tower 3, China Central Place 77 Jianguo Road Chaoyang District, Beijing PRC</p> |
| Legal Advisers to the Sole Sponsor and [REDACTED] | <p><i>As to Hong Kong law</i> Fangda Partners 26/F, One Exchange Square 8 Connaught Place Central Hong Kong</p> <p><i>As to the PRC law</i> Global Law Office 36th Floor, Shanghai One ICC No.999 Middle Huai Hai Road Xuhui District, Shanghai PRC</p> |
| Auditor and Reporting Accountant | <p>PricewaterhouseCoopers <i>Certified Public Accountants</i> <i>Registered Public Interest Entity Auditor</i> 22/F, Prince’s Building Central Hong Kong</p> |
| Independent Industry Consultant | <p>Frost & Sullivan Room 1018, Tower B, No. 500 Yunjin Road Xuhui District, Shanghai PRC</p> |

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DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

Independent Property Valuer

Cushman & Wakefield Limited
27/F, One Island East
Taikoo Place
18 Westlands Road
Quarry Bay
Hong Kong

Internal Control Consultant

RSM Consulting (Hong Kong) Limited
29/F, Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong

[REDACTED]

[REDACTED]

CORPORATE INFORMATION

| | |
|---|--|
| Registered Office in the Cayman Islands | Cricket Square, Hutchins Drive PO Box 2681, Grand Cayman KY1-1111, Cayman Islands |
| Principal Place of Business in Hong Kong registered under Part 16 of the Companies Ordinance | 27/F, Alexandra House, 18 Chater Road, Central, Hong Kong |
| Principal Place of Business in the PRC | Yeyan Road North Dadongzhuang Village North Shahe Town, Laizhou Yantai, Shandong Province PRC |
| Company’s Website | <u>www.sdhcgroup.cn</u> <i>(The information on the website does not form part of this document)</i> |
| Company Secretary | Mr. Wong Yun Fai (王潤輝) (HKICPA) Room 611, 6/F Kui Wo House Tai Wo Estate Tai Po, New Territories Hong Kong |
| Authorised Representatives | Mr. Wong Yun Fai (王潤輝) Room 611, 6/F Kui Wo House Tai Wo Estate Tai Po, New Territories Hong Kong Mr. Zhan Yirong (戰乙榮) West House, 3/F Unit 3, Building 1 Jingyiyuan Community No. 1383 Xilanzibu Village Laizhou City Shandong Province PRC |
| Audit Committee | Mr. Lau Chung Wai (劉仲緯) (<i>chairman</i>) Mr. Zhang Shijun (張式軍) Ms. Liu Ye (劉曄) |

CORPORATE INFORMATION

| | |
|-------------------------------|---|
| Remuneration Committee | Ms. Liu Ye (劉曄) (<i>chairlady</i>) Mr. Lau Chung Wai (劉仲緯) Mr. Liu Zeming (劉澤銘) |
| Nomination Committee | Mr. Liu Zeming (劉澤銘) (<i>chairman</i>) Ms. Liu Ye (劉曄) Mr. Zhang Shijun (張式軍) |
| Compliance Adviser | First Shanghai Capital Limited 19/F., Wing On House 71 Des Voeux Road Central Hong Kong |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |
| Principal Banks | China Construction Bank (Laizhou Branch) No. 566 Guangzhou East Road Laizhou City Shandong Province PRC Shandong Laizhou Rural Commercial Bank (Jincheng Branch) No. 9 Fuqian Street Jincheng Town Laizhou City Shandong Province PRC |

INDUSTRY OVERVIEW

The information and statistics set forth in this section and elsewhere in this document have been derived from the F&S Report, commissioned by us and independently prepared by F&S, in connection with the [REDACTED]. In addition, certain information is based on, or derived or extracted from, among other sources, publications of government authorities and internal organisations, market data providers, communications with various PRC government agencies or other independent third-party sources unless otherwise indicated. We believe that the sources of such information and statistics are appropriate and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information and statistics are false or misleading in any material respect or that any fact has been omitted that would render such information and statistics false or misleading. Our Directors confirm that, after taking reasonable care, they are not aware of any adverse change in market information since the date of the F&S report which may qualify, contradict or adversely impact the quality of the information in this section. None of our Company, or the Sole Sponsor, [REDACTED], [REDACTED], excluding F&S, has independently verified such information and statistics and no representation has been given as to their accuracy. Accordingly, such information should not be unduly relied upon.

SOURCE OF INFORMATION

We commissioned F&S, an independent market research and consulting firm, to conduct an analysis of, and to prepare a report on gold mine hazardous waste and mine solid waste treatment markets in China and other economic data for the period from 2015 to 2025. We have agreed to pay a fee of RMB400,000 for the F&S Report, which we believe reflects market rates for reports of this type. F&S is an independent global market research and consulting firm founded in 1961 and based in the United States. It offers industry research and market strategies and provides growth consulting and corporate training.

The F&S Report includes both historical and forecast information on the gold mine hazardous waste and mine solid waste treatment markets in China and other economic data. To prepare the F&S Report, F&S undertook both primary and secondary independent research through various resources within gold mine hazardous waste and mine solid waste treatment markets in China. Primary research includes interviewing industry insiders, competitors, downstream customers and recognised third-party industry associations. Secondary research includes reviewing corporate annual reports, databases of relevant official authorities, independent research reports and publications, as well as the exclusive database established by F&S over the past decades. F&S has adopted the following primary assumptions while compiling and preparing the F&S Report (i) the social, economic and political conditions in China will remain stable during the forecast period; (ii) government policies on gold mine hazardous waste and solid waste treatment markets in China will remain unchanged during the forecast period; and (iii) relevant key drivers are likely to drive the continued growth of China’s gold mine hazardous waste industry throughout the forecast period. F&S has also obtained the figures for the estimated total market size from historical data analysis plotted against the macroeconomic data as well as the industry key drivers. Our Directors confirm that, after making reasonable enquiries, there have not been

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any material adverse changes to the market information set out in the F&S Report since the date of such report which may qualify, contradict or have an impact on the information contained in this section.





OVERVIEW OF MINE SOLID WASTE TREATMENT MARKET IN CHINA

China is the largest producer and consumer of mineral resources, such as coal, gold and various non-ferrous metals. Mining industry is crucial for the development of China’s economy. The investment in mining industry remains at a relatively high level. More importantly, China is actively promoting the development of green mining. The government keeps introducing relevant policies to encourage and guide social capital to invest in ecological restoration of mining areas and actively promoting the revision and improvement of green exploration standards.

Definition, Classification and Treatment Methods Analysis of Mine Solid Waste

Mine solid waste refers to the waste rock, tailings, waste residue and hazardous waste which are originated from the process of mining and washing ore. A large amount of accumulated mining solid wastes will pollute the land and cause disasters such as landslides and mudslides. Hazardous wastes, containing harmful elements such as arsenic and cadmium, will cause direct harm to human health if being disposed to the environmental system. In order to eliminate the pollution caused by mine solid waste, the government is promoting the comprehensive utilisation of mine solid waste.

Classification of Mine Solid Waste

| | | |
|------------------------|---|---|
| Tailings |  | <ul style="list-style-type: none"> • In the process of mining and washing ore, those ores with low content of useful components that cannot be used for production are called tailings. • At present, the primary task of China’s mining recycling economy is to develop and utilise the existing large number of tailings which have been accumulated for a long time. |
| Waste Rock |  | <ul style="list-style-type: none"> • Waste rock refers to the surrounding rock and stone that have been mined without ores. • In open-pit mining, the stripped overburden, surrounding rock and gangue without industrial value are generally called waste rocks. These waste rocks must be discharged to a certain place in time which is called waste rock yard. |
| Waste Residue |  | <ul style="list-style-type: none"> • Mining waste residue is the high-volume material that originates from the processes of excavation, dressing and further physical and chemical processing of wide range of metalliferous and non-metalliferous minerals by opencast and deep shaft methods. |
| Hazardous Waste |  | <ul style="list-style-type: none"> • Hazardous waste is a waste with properties that make it hazardous or capable of having a harmful effect on human health or the environment |

Source: China Circular Economy Association, F&S

There are usually three methods of mine solid waste treatment, namely resource utilisation, incineration disposal and landfill disposal.

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Treatment Methods of Mine Solid Waste

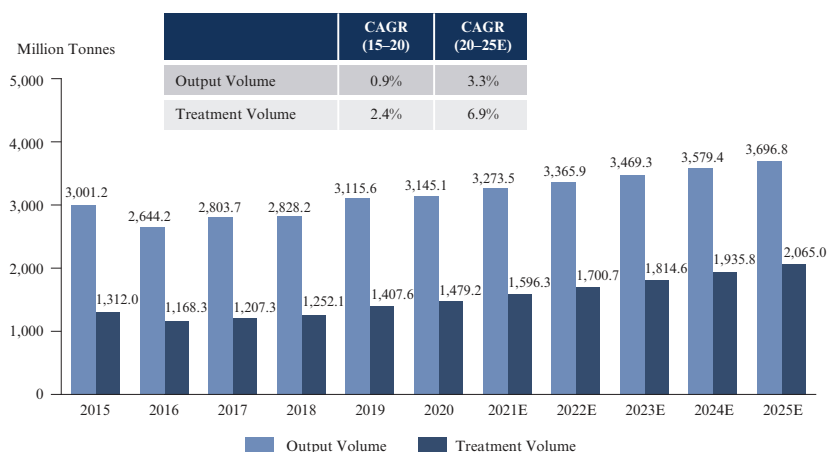
| | Resource Utilisation | Incineration Disposal | Landfill Disposal |
|---------------|---|---|---|
| Application | Mine solid waste which still containing accessible and valuable element | Coal gangue, some hazardous waste and other mine solid waste with high caloric value | Harmless waste rock, tailings and residue, waste without caloric value |
| Advantages | <ul style="list-style-type: none"> > Raising utilisation value of hazardous waste after harmless treatment > Supply metal, building materials to the market > Maximising the value of waste | <ul style="list-style-type: none"> > Reduce waste volume largely and efficiently > Eliminate disease agents and pathogens and reduce toxicity efficiently > Save land resources | <ul style="list-style-type: none"> > Lower cost > Mature technology > Suitable for wide range of waste types |
| Disadvantages | <ul style="list-style-type: none"> > Need for pretreatment or sorting > Need for further treatment on by-products and residual > High cost for maintenance monitoring > High tech requirement | <ul style="list-style-type: none"> > Production of undesirable by-products, becoming an environment pollution > Endangering the health of surrounding resident > High initial investment on equipment | <ul style="list-style-type: none"> > Need for pretreatment on waste before landfilling > Need for large space > Possible risk of pollution > Need for long-time maintenance > Long-lasting effect on land resources |

Source: F&S

Output and Treatment Volume of Mine Solid Waste

The total output volume of mine solid waste in China increased from 3,001.2 million tonnes in 2015 to 3,145.1 million tonnes in 2020, representing a CAGR of 0.9% from 2015 to 2020. With the further development and industrial upgrading of mining industry, it is expected to reach 3,696.8 million tonnes in 2025, representing a CAGR of 3.3% from 2020 to 2025. The treatment volume of mine solid waste in China increased from 1,312.0 million tonnes in 2015 to 1,479.2 million tonnes in 2020 with a CAGR of 2.4% from 2015 to 2020. Driven by the strengthening policies, enforcement of environment protection regulations and the efficient utilisation of solid waste resources, the treatment volume of mine solid waste is expected to reach 2,065.0 million tonnes, representing a CAGR of 6.9% from 2020 to 2025, growing faster than the total output volume.

Output and Treatment Volume of Mine Solid Waste, China, 2015–2025E



Source: China Circular Economy Association, F&S

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ANALYSIS OF GOLD MINE HAZARDOUS WASTE TREATMENT MARKET IN CHINA AND SHANDONG PROVINCE

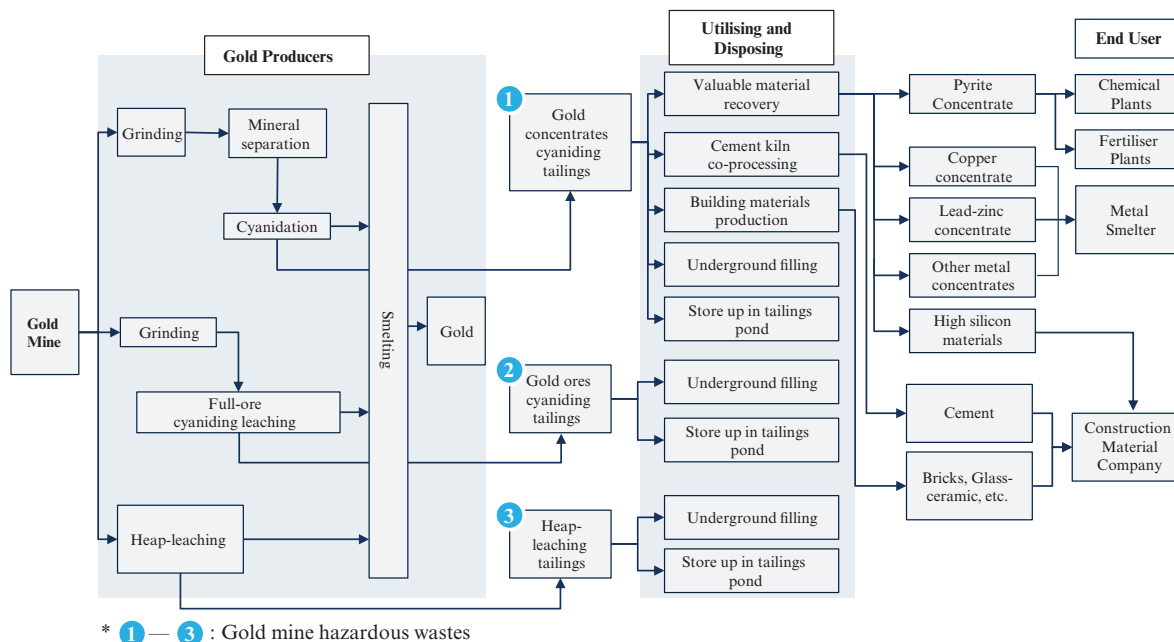
Definition, Value Chain and Business Model Analysis of Gold Mine Hazardous Waste

Gold mine solid waste can be mainly categorised into two types, namely gold mine hazardous waste and gold mine general solid waste. Gold mine hazardous waste includes the wastes that have one or more hazardous characteristics like corrosivity, toxicity, ignitability, reactivity and infectivity and those that are likely to be harmful to the environment or human body and need to be treated as hazardous wastes.

According to Directory of National Hazardous Wastes (國家危廢名錄) issued by the Ministry of Ecology and Environment (“MEE”) on 1 August 2016, cyanide leaching residue, including gold concentrates cyanide tailings, gold ores cyanide tailings and heap-leaching tailings, was listed as hazardous waste. As one of the main hazardous wastes in gold production, the treatment of cyanide leaching residue has been paid attention to and the gold mine hazardous waste treatment market has grown significantly in the past few years. The upstream of the value chain are gold producers, which produce gold mine hazardous waste during gold production through different kinds of methods, either dispose the hazardous waste by themselves or pay a certain amount of disposal fee and outsource the disposal to hazardous waste treatment companies. The midstream of the value chain are hazardous waste treatment companies, after receiving the hazardous waste from gold producers, such companies dispose and utilise the hazardous waste and produce different kinds of recycled products including pyrite concentrate, copper concentrate, lead-zinc concentrate, ceramsite, bricks, high silicon materials and sell products to downstream users. Downstream users purchase recycled products from the hazardous waste treatment companies. The downstream users mainly include chemical plants, metal smelters, construction material companies and fertiliser plants.

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Value Chain of Gold Mine Hazardous Waste Treatment



Source: F&S

There are mainly three types of gold mine hazardous waste, namely gold concentrates cyanide tailings, gold ores cyanide tailings and heap-leaching tailings. According to the Technical Specification for Pollution Control of Cyanide Leaching Residue in Gold Industry (黄金行业氰渣污染控制技术规范) issued by MEE on 1 March 2018, the gold concentrates cyanide tailings, the main gold mine hazardous waste in Shandong province, is suggested to be prioritised for valuable material recovery. The gold producers in Shandong province usually pay treatment fee and outsource the disposal of the hazardous waste to hazardous waste treatment companies with qualification. While outside Shandong province, except the business model demonstrated above, a large proportion of the hazardous waste includes gold ores cyanide tailings and heap-leaching tailings, which were mainly stored up in the tailings pond of gold producers and usually will not be further treated afterwards due to the large production volume and relatively low economic value.

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Before the cyanide leaching residue was listed in Directory of National Hazardous Wastes (國家危廢名錄) issued by MEE in 2016, the gold mine hazardous waste treatment market in China was not highly regulated and adopted a laissez-faire approach. The PRC government gradually regulate the gold mine hazardous waste treatment market in China and further issued other regulations and specifications such as the issue of the Technical Specification for Pollution Control of Cyanide Leaching Residue in Gold Industry in 2018. With a relatively short history of development, the gold mine hazardous waste treatment market in China remains at the development stage and the gold mine hazardous waste treatment fee are not subject to any price control or guidance price for the applicable category of waste set by the PRC government authorities. The treatment fee is mainly determined by negotiation between the upstream customer and the gold mine hazardous waste treatment company based on the grade and volume of gold mine hazardous waste to be treated. The grade of cyanide tailings commonly refers to the sulphur content in the cyanide tailings. Waste treatment fees may also vary across different regions and enterprises according to the grade of gold mine hazardous waste based on the various valuable and recyclable elements contained in the cyanide tailings, which mainly include sulphur concentration and varies according to the gold mine ores in China. There is no clear evaluation standard for the grading. In general, waste treatment company charges a relatively lower treatment fee for relatively higher grade of gold mine hazardous waste as more valuable and recyclable elements could be extracted and hence, more recycled products could be produced and sold, and vice versa.

Apart from the grade of cyanide tailings which is the main contributing factor of gold mine hazardous waste treatment fees, the fees would also be affected by the volume of the cyanide tailings provided by upstream customers for treatment, subject to the level of stability and scale of the demand for gold mine hazardous waste treatment services depending on (i) the scale of operation of upstream customers which would in turn determine how much cyanide tailings are produced from their gold productions; (ii) the annual permitted treatment capacities of gold mine hazardous waste treatment companies, which would determine how much cyanide tailings treatment companies would be able to treat during the year; and (iii) the mutual reliance between the upstream customers and gold mine hazardous waste treatment companies.

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Given that (i) each batch of gold mine hazardous waste has different grade and composition, therefore, waste treatment fee varies; and (ii) the willingness of upstream customers to pay for the waste treatment fee which varies regionally and was affected by their own treatment capabilities and the enforcement of relevant environmental protection policies and plans formulated by the local provincial governments in accordance with the industry layout and situation of hazardous waste in the provincial level. For example, being the largest gold production area in China, Shandong provincial 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)》) in 2018 and 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》) in 2019 to further strengthen the treatment of hazardous wastes, including gold mine hazardous wastes in Shandong province. There is a mutual reliance between the upstream customers and waste treatment companies. Due to the limitations of treatment capacities and transportation, treatment of gold mine hazardous waste has certain regional restrictions and is usually supplied by waste treatment companies within the certain area where upstream customers are located. Since there are high entry barriers of waste treatment companies, there is only one or a few qualified waste treatment companies within the region. At the same time, the customer base of waste treatment companies is limited to the gold smelting companies within the region. Upstream customers and waste treatment companies are complementary to each other and depending on the bargaining powers of the parties, they negotiate the treatment fees accordingly. Based on the foregoing, it is a characteristic of the industry to have a wide range of treatment fees.

After the cyanide leaching residue was listed as hazardous waste in 2016, the treatment fee was approximately RMB50 per tonne, which varies regionally. Due to strict environmental regulation and high treatment demand, the gold mine hazardous waste treatment fee increased to approximately RMB40 to RMB180 per tonne in 2020. This price range was based on the price offered by different waste treatment companies to different customers for gold mine hazardous waste with the consideration of various factors. Treatment companies do not have a fixed gold mine hazardous waste treatment fee and the price range did not refer to average treatment fees of specific companies. The major influential factors include the unit value of recyclable elements, i.e. the grade of gold mine hazardous waste and the client’s willingness to pay which mainly represents the upstream of the value chain and is related to the profit margin of the gold production business. In general, cyanide tailings can be categorised into two types by sulphur content; high grade cyanide tailings with sulphur content of or above 30% and low grade cyanide tailings with sulphur content of or below 30%. The treatment fee of high grade cyanide tailings ranged from RMB40 to RMB60 per tonne. The treatment fee of low grade cyanide tailings ranged from RMB95 to RMB180 per tonne. It is expected that the gold hazardous waste treatment fee will increase at a moderate growth rate with a range from 3% to 5% in the foreseeable future, due to the slight increasing gold mine hazardous waste production, decreasing recovery value of the hazardous waste and relatively stable treatment capacity.

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Gold Production in China and Shandong Province

The gold produced from gold mines in Shandong province and China declined from 62.2 tonnes and 379.4 tonnes in 2015 to 57.6 tonnes and 303.7 tonnes in 2020, representing a CAGR of –1.5% and –4.5%, respectively, mainly due to the strict safety and environmental policies and the COVID-19 impact. In 2015, the people’s government of Shandong province issued Notice on the Action of Carrying out Large-Scale Investigation, Rapid Rectification and Strict Law Enforcement on Hidden Production Dangers in the Whole Province 《關於在全省開展安全生產隱患大排查快整治嚴執法集中行動的通知》, calling for the rectification of hidden danger such as hazardous waste pollution and explosion in non-coal mines, which caused the closure of some gold mines. The related environmental regulations including the Directory of National Hazardous Wastes (國家危廢名錄) issued by MEE in 2016 and the Work Plan for the Clean-up of Mining Rights in Natural Reserves 《自然保護區內礦業權清理工作方案》 issued by MNR in 2017 also resulted in the shutdown of some gold mines. The total gold produces from gold mines in Shandong province was in decline until 2019. Impacted by COVID-19 outbreak, gold production in 2020 decreased slightly due to the quarantine policy in the first quarter of 2020. Gold consumption regained increasing momentum in 2020 due to the increasing demand of gold investment as a haven when the worldwide economy was impacted negatively. The increasing demand of gold investment is expected to drive the increase in gold production during the forecast period.

The gold produced from gold mines in Shandong province and China is expected to increase gradually and reach 62.1 tonnes and 339.0 tonnes in 2025, representing a CAGR of 1.5% and 2.4% from 2020 to 2025, respectively. The main growth drivers are increasing gold demand, rising gold price, technology advances and the completion of safety and environmental protection rectification. In general, the increase in gold price may cast certain positive impact on the gold production, which will then cast positive impact on our Company’s business. The decrease in gold price may cast certain negative impact on the gold production, which will then cast negative impact on our Company’s business. It is estimated that gold mine production would not be depleted entirely in the coming 50 years in the PRC and Shandong province, mainly because (i) the proven gold reserves in the PRC and Shandong province amounted to approximately 14.7 thousand tonnes and 4.2 thousand tonnes, respectively, at the end of 2020; and (ii) the current level of gold mine production in the PRC and Shandong province is approximately 300 tonnes and 60 tonnes per year, respectively. By the end of 2020, the number of gold mines in Laizhou city, Yantai city and Shandong province was around 30, 70 and 100, respectively; and the proven gold reserves in Laizhou city and Yantai city were approximately 2.7 thousand tonnes and 3.9 thousand tonnes, respectively. Yantai city accounted for approximately 93% of proven gold reserves of Shandong province in 2020, ranking first in the proven gold reserves among prefecture-level cities in the PRC. Yantai city is, and is expected to continue to be, the prefecture-level city with the largest gold production volume in the PRC with gold production volume of approximately 50 tonnes in 2020, accounting for approximately 17% and 83% of the gold production volume in the PRC and Shandong province, respectively, together with continuous development of new gold mines. Specifically, two major gold mines in Haiyu town and Shaling town in the Yantai prefecture-level city area, with proven mineral reserves of approximately 562 tonnes and 309 tonnes, respectively, had been explored in 2020 by Customer Z, a state-owned gold mining company with its headquarter

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in Shandong province, whose shares are listed on the Main Board, and Shandong Gold Mining Co., Ltd, the parent company of Shandong Gold Smelting, respectively. Both newly explored gold mines in Yantai city are estimated to commence mass production after 2024 and 2027, respectively, which is expected to bring incremental demand for our Group’s gold mine hazardous waste treatment services.

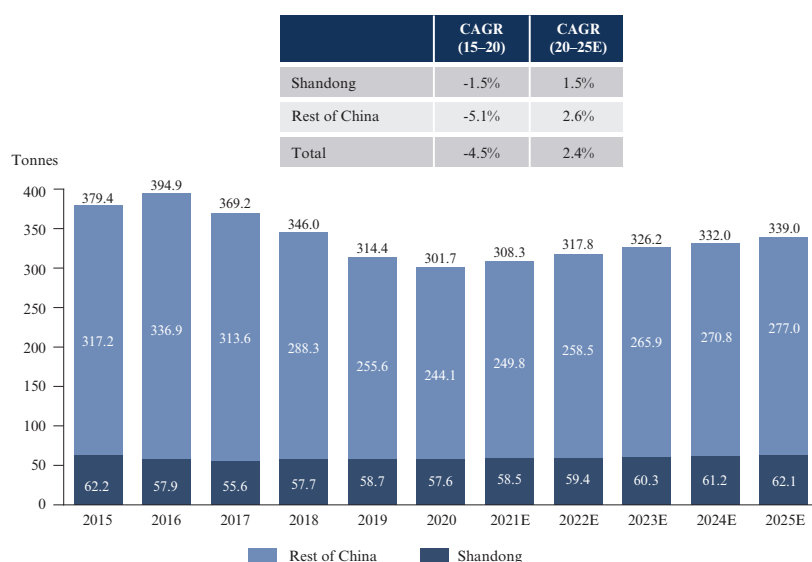
Subject to increasingly stricter environmental policies and initiatives in the PRC, including gold extraction with more environmentally-friendly methods, it is considered that the gold extraction by cyanidation is a mature, low-cost, high-recovery gold extraction process, and it is the most widely used process in gold production in the PRC and worldwide. The environmental-friendly gold extraction method generally does not change the process of gold extraction by cyanidation, but uses low-toxic beneficiation agents to replace traditional sodium cyanate. These beneficiation agents generally still contain sodium cyanate. The penetration rate of these low-toxic beneficiation agents is lower than 5%. The gold production industry is very cautious in the selection and use of beneficiation agents. It needs to go through long-term rigorous tests to determine that the gold can be efficiently and stably extracted before bulk purchases. The application of these products is not mature yet, and they are still at the stage of market introduction and customer cultivation. Being a widely adopted gold extraction method with high efficiency and economy, the gold extraction by cyanidation will not be eliminated in at least 10 years, which is estimated mainly based on the development history and current status of gold extraction by cyanidation and its major alternatives. The treatment method of cyanide tailings is well developed, and the key issue is to strictly enforce the relevant environmental laws and regulations to eliminate the potential hazards to environment brought by cyanide tailings.

The Green Mine Policies, which are for mining industries and introduced by central government and governments of all levels, aim to improve the environmental protection level of mining industries, such as gold mining, and establish a sustainable development model. A large number of mining companies that did not meet safety and environmental protection requirements were shut down. These policies have also regulated the gold production in the PRC and Shandong province, improved the environmental protection level of gold production companies, and accelerated the integration and acquisition of small gold mines by large gold production companies. These policies did not have a materially negative impact on the gold production volume in the PRC and Shandong province, and improved the quality and environmental protection level of the gold production industry.

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The drop of mining corporations in Shandong province was mainly guided by the initiatives by Shandong provincial government such as the Work Plan for the Establishment of Green Mines in Shandong Province (山東省綠色礦山建設工作方案), with an aim to improving the integration and efficiency of mining industry, cultivating competitive mining corporations, and eliminating outdated capacities. The policies cover various segments of mining industry in Shandong province, including coal, gold, iron, gypsum, rock salt, limestone, building stone, underground brine, geothermal and mineral water. After the elimination of mining corporations with outdated capacities and those with insufficient investment for compliance of environmental protection regulations, existing mining companies in Shandong province would be more likely to increase the overall investments in environmental protection of mining industry, bringing increasing demand for environmental protection related services, such as hazardous waste treatment services. The Green Mine Policies would not have a potential material adverse impact on the gold production volume in the PRC and Shandong province.

Production Volume of Gold from Gold Mines, China and Shandong Province, 2015–2025E



Source: China Gold Association, F&S

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Market Size of Gold Mine Hazardous Waste Market in China and Shandong Province

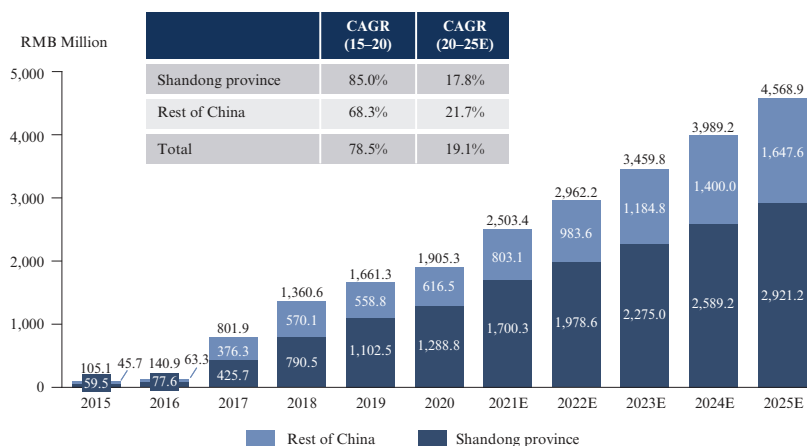
A large number of gold mines in China were cyanided directly, instead of mineral separation, which cause large output of gold ores cyanide tailings and heap-leaching tailings.

Considering that cyanide leaching residue was listed in Directory of National Hazardous Wastes on 1 August 2016, the gold mine hazardous waste treatment market was relatively small due to the lack of attention before 2017. The increasingly strict requirements on environmental protection drove the growth of the market after the implementation of policies, the gold mine hazardous waste treatment market increased from RMB59.5 million and RMB105.1 million in 2015 to RMB1,288.8 million and RMB1,905.4 million in 2020 in Shandong province and China, representing a CAGR of 85.0% and 78.5% from 2015 to 2020, respectively. The gold mine hazardous waste treatment market also increased from RMB50.9 million in 2015 to RMB1,118.2 million in 2020 in Yantai city, representing a CAGR of 85.5% from 2015 to 2020. In 2020, the revenue of gold mine hazardous waste treatment market in Yantai city contributed approximately 87% of total revenue in Shandong province.

While in areas except Shandong province, the majority of gold mine hazardous wastes are gold ores cyanide-tailings and heap-leaching tailings due to different processing techniques. These kinds of hazardous wastes were mainly stored in the tailings pond and the proportion of them being treated is very low due to relative low recycle value, resulting that the total revenue of gold mine hazardous waste treatment in Shandong province accounts for a large proportion of whole market in China. Even though driven by the stricter environmental requirement, a certain amount of such hazardous wastes is expected to be disposed through underground filling by the gold production company themselves. In combination with the high utilisation rate of the hazardous waste in Shandong province, the gold mine hazardous waste treatment market in Shandong province accounts for large proportion of the market in China. The increasing hazardous waste output volume and stricter environmental requirements is expected to drive the gold mine hazardous waste treatment market further increase to RMB2,921.2 million and RMB4,568.9 million in Shandong province and China in 2025, representing a CAGR of 17.8% and 19.1% from 2020 to 2025, respectively. The gold mine hazardous waste treatment market in Yantai city is also expected to increase to RMB2,755.0 million in 2025, representing a CAGR of 19.8% from 2020 to 2025.

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Total Revenue of Gold Mine Hazardous Waste Treatment Market*, China and Shandong Province, 2015–2025E



* Total revenue includes revenue of hazardous waste treatment and sales revenue of recycled products.

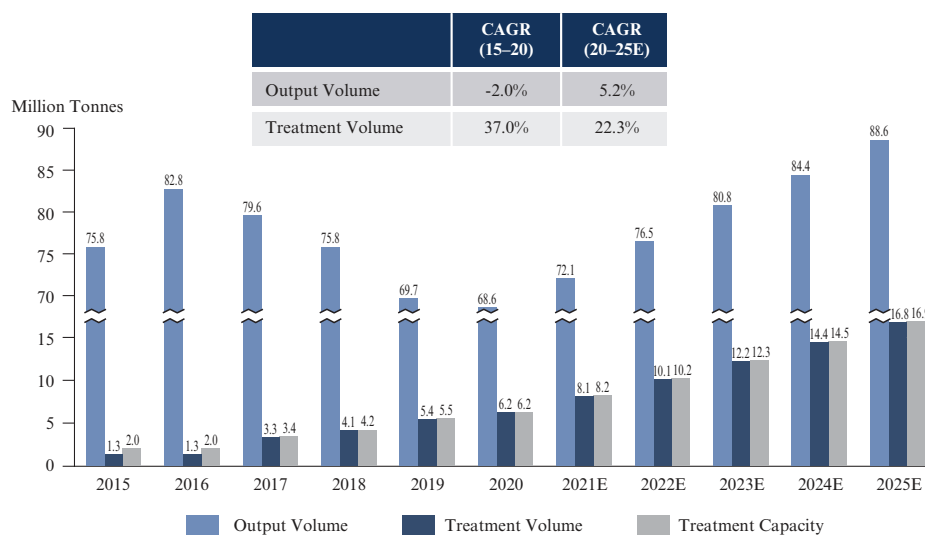
Source: F&S

The overall output of gold mine hazardous waste in China fluctuated in line with gold production, which increased from 75.8 million tonnes in 2015 to 82.8 million tonnes in 2016 and decreased thereafter to 68.6 million tonnes in 2020, representing an overall CAGR of –2.0% from 2015 to 2020. Due to the expected steady gold production caused by strong gold demand and the increasing hazardous waste output rate caused by decreasing grade of gold ores, the output of the gold mine hazardous waste in China is expected to increase to 88.6 million tonnes in 2025, representing a CAGR of 5.2% from 2020 to 2025.

Considering cyanide leaching residue was listed in Directory of National Hazardous Wastes (國家危廢名錄) issued by MEE on 1 August 2016, the treatment volume of gold mine hazardous waste in China increased significantly in 2017. The total treatment volume in overall China increased from 1.3 million tonnes in 2015 to 6.2 million tonnes in 2020, representing a CAGR of 37.0%. Driven by the stricter environmental requirement, increasing percentage of the gold mine hazardous waste are expected to be treated, especially through underground filling, in the forecast period, the treatment volume in China is expected to increase continuously to 16.8 million tonnes in 2025, representing a CAGR of 22.3% from 2020 to 2025.

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Output and Treatment Volume of Gold Mine Hazardous Waste, China, 2015–2025E



Source: Ecology and Environment Bureaus of Municipal Governments, F&S

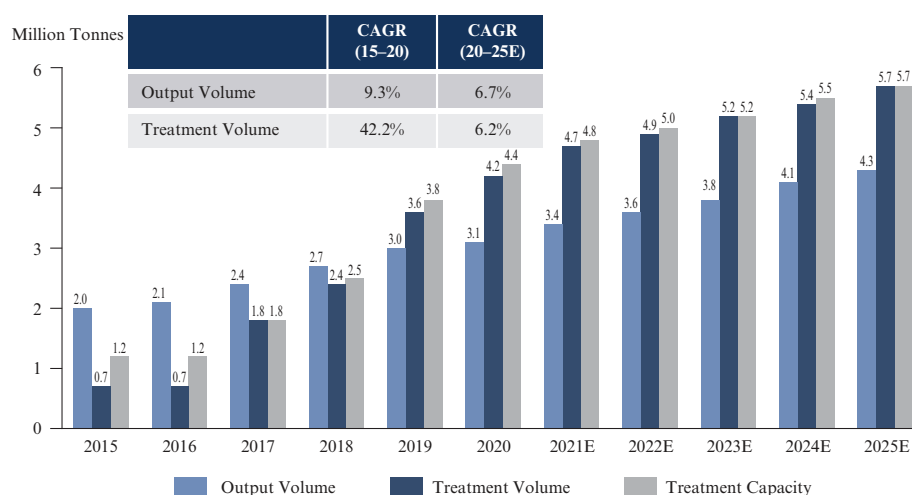
Considering the high grade and the nature of gold ores in Shandong province, majority of gold mines are enriched by mineral separation previously before cyanidation in smelting, which resulted in the output rate of hazardous wastes in Shandong province being lower than that in China. The output volume of gold mine hazardous wastes in Shandong province increased from 2.0 million tonnes in 2015 to 3.1 million tonnes in 2020, representing a CAGR of 9.3% from 2015 to 2020. Due to the naturally declining gold grade in the gold ores being continuously mined, and the expected relatively stable gold production, the hazardous waste output rate is expected to increase continuously, which is expected to drive the hazardous waste output volume in Shandong province to continue to increase to 4.3 million tonnes in 2025, representing a CAGR of 6.7% from 2020 to 2025. The output volume of gold mine hazardous wastes outgrew the gold mine production volume, mainly due to the overall decreasing grading of gold mines, which requires increasing volume of ores to be processed per unit of gold. The treatment volume of gold mine hazardous waste in Shandong province increased significantly in 2017. The total treatment volume in Shandong increased from 0.7 million tonnes in 2015 to 4.2 million tonnes in 2020, representing a CAGR of 42.2%.

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Under the increasingly stricter environmental requirement, 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 province to increase continuously to 5.7 million tonnes in 2025, representing a CAGR of 6.2% from 2020 to 2025. The environmental regulations have already been strictly implemented in Shandong province for the past few years, the treatment volume is expected to increase moderately in the forecast period due to the expected relatively stable gold mine and gold mine hazardous waste production in Shandong province. In Yantai city, the CAGR of expected treatment volume of gold mine hazardous waste is 7.0% from 2020 to 2025.

The trend of treatment volume exceeding incremental output volume each year in Shandong province is mainly because of the treatment of accumulated gold mine hazardous wastes, which are estimated to be more than 10 million tonnes and 12 million tonnes in Yantai city and Shandong province, respectively, as at the end of 2020. As the central government and governments at all levels in Shandong province continue to carry out inspection work of environmental protection, of which treatment of stored hazardous wastes is a key area, the treatment of stored gold mine hazardous wastes will continue to be a important driver for the market, along with the treatment of incremental output. The accumulated gold mine hazardous waste in Yantai city and Shandong province is estimated to be exhausted in at least approximately 20 years, based on the current level of treatment volume of historically accumulated gold mine hazardous waste, which is approximately 0.3 million tonnes to 0.5 million tonnes per annum.

Output and Treatment Volume of Gold Mine Hazardous Waste, Shandong Province, 2015–2025E



Source: Ecology and Environment Bureaus of Municipal Governments, F&S

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Drivers of Gold Mine Hazardous Waste Market in China

Stricter Requirements and Enforcement of Environmental Policies. To improve the level of environmental protection in the gold industry, both the requirements and enforcement of environmental policies in the gold industry are being strengthened since 2018. For example, the Law of the PRC on the Prevention and Control of Environment Pollution Caused by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》), the Administrative Measures for Pollutant Discharge Licensing (for Trial Implementation) (《排污許可管理辦法(試行)》) and the Regulations on the Administration of Pollutant Discharge Permits (《排污許可管理條例》) are strengthened with regards to requirements such as establishment of hazardous waste management account, increase in amount of fines and penalties, and legal responsibility of relevant authorities and enterprises. For example, the penalties for unauthorised transfer of hazardous wastes increased from the range of RMB0.02 million to RMB0.2 million to the range of RMB0.1 million to RMB1 million as regulated in the latest versions of Law of the PRC on the Prevention and Control of Environment Pollution Caused by Solid Wastes. On the other hand, environmental protection inspectorates from central government and government at all levels have increased the frequency of environmental inspections in recent years. Under the increasingly stricter environmental protection policies and encouragement of circular economy, an increasing number of companies are expected to improve their hazardous waste utilisation, which enable them to further expand their profitability and maximise the value of the gold mine while meeting the stricter environmental protection requirements. It will increase the overall utilisation rate of hazardous waste in gold industry and drive the growth of hazardous waste treatment market. Meanwhile, the treatment demand from accumulated hazardous waste that has not been treated from historical period is also expected to drive the growth of treatment volume driven by stricter environmental requirements.

Increasing Utilisation Value through Technology Improvement. Encouraged by national circular economy, the utilisation value of hazardous waste has been emphasised. An increasing number of gold companies and hazardous waste treatment companies are expected to enhance their technology research and development ability on hazardous waste resource utilisation. Such effect is expected to further enhanced the utilisation value of unit hazardous waste, driving the development of the industry.

More Utilisation Channels. The encouraging attitude on circular economy has promoted the development of more utilisation channels, including point-to-point hazardous waste utilisation policies, cement kiln co-processing and construction materials. It will reduce restrictions on hazardous waste treatment caused by treatment capacity limitation, which will promote the growth of gold mine hazardous waste treatment industry from supply side.

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Increasing Hazardous Waste Output Rate. With the continuous mining of the gold mines in China, the grade of the gold ore is decreasing year by year, which is expected to increase the hazardous waste output rate and bring more amount of hazardous waste and solid waste with the same gold production volume. In the context of expected stable gold production caused by relatively strong gold demand, the increase in the hazardous waste output rate will lead to an increase in the total hazardous waste output volume, which will drive a huge demand on hazardous waste treatment in gold mines in China.

Entry Barriers of Gold Mine Hazardous Waste Treatment Market in China

Qualification Barrier. According to Measures for Management of Hazardous Waste Business License (《危險廢物經營許可證管理辦法》), companies engaged in hazardous waste collection, storage and treatment in China shall obtain hazardous waste business licenses. In order to get the license, a company must own qualified transportation, packaging, storage, and treatment facilities and equipment, as well as establish qualified rules and regulations, pollution prevention and control measures, and accident emergency rescue measures. For new entrants of the hazardous mine solid waste treatment industry, it takes time and efforts to get familiar with the requirements and eventually meet all the required standards.

Technology Barrier. Mine solid waste industry is a highly specialised industry, which has a high requirement on the technology capability of companies in the industry. More specifically, since hazardous waste is generally corrosive and toxic, hazardous mine solid waste treatment will cause serious secondary pollution to the environment if the risk control technology and experience of the company is insufficient. For new entrants of the market, it requires years of technology accumulation to formulate a whole set of efficient, energy-saving and environmentally-friendly mine solid waste treatment technology system. Before this process is completed, the technology barrier would be one of the major challenges for them.

Expert Barrier. Mine solid waste treatment business requires experts in chemistry, mechanics, environment, engineering design and other industries. More specifically, for hazardous mine solid waste treatment companies, in order to obtain the license, they should have more than three technicians majoring in environmental engineering or relevant fields with professional titles at intermediate levels or above, and with more than three years of solid waste pollution treatment experience. However, high-quality professionals in this field are relatively insufficient in China. Therefore, for new entrants of the market, the lack of professional expertise would be a great challenge in the early stages.

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Capital Barrier. Solid waste treatment industry requires high equipment and land expenditure. Daily maintenance by technical personnel is also required to ensure the production and environmental protection requirements are met, which also requires a large capital investment. Furthermore, as more companies in the industry have been putting focus on technology and equipment upgrade in recent years, it requires more capital investment from new entrants if they want to keep pace with such trends.

Trends in Gold Mine Hazardous Waste Treatment Market in China

Matthew Effect Appears. Except the consolidation of the gold production industry, the smelting process of the gold tends to be centralised as encouraged by the Technical Policy of Pollution Control and In Gold Industry (《黄金工业污染防治技术政策》). The consolidation of the gold mine hazardous waste production is expected to drive the centralisation of the hazardous waste treatment demand correspondingly, which is expected to increase their reliance on hazardous waste treatment companies. Therefore, the leading hazardous waste treatment companies with large treatment capacity are expected to gain more market share.

Preference on Professional Hazardous Waste Treatment Companies. The PRC government’s encouragement of 100% utilisation of the hazardous waste is expected to stimulate the hazardous waste treatment companies to expand their product portfolio to maximise resource utilisation, which is expected to raise the barriers of hazardous waste treatment industry. Under the dual pressures of policy and profitability, the advantages of professional third-party hazardous waste treatment companies that can maximise resource utilisation have gradually become prominent.

Competitive Landscape of Gold Mine Hazardous Waste Market in China and Shandong Province

China’s gold mine hazardous waste treatment companies can be categorised into three types, namely independent hazardous waste treatment company, leading gold producers affiliated hazardous waste treatment company and hazardous waste co-processing companies. At present, the former two types of the companies are dominating the market. Our Company is an independent hazardous waste treatment company. The distribution of hazardous waste treatment company follows the gold producers and has a strong regional characteristic. The gold mine hazardous waste treatment market is concentrated. The leading players obtained large treatment volume from large gold producers, while there are still a large number of small companies in the market. There are approximately 50 gold producer-affiliated hazardous waste treatment companies and independent hazardous waste treatment companies participating in the market, and also hundreds of co-processing companies in China and over 30 co-processing companies in Shandong province with small amount of treatment volume participating in the market. Co-processing companies, such as cement kiln collaborative processing companies, provide treatment service for their clients after the gold hazardous waste is pre-treated to a lower level of hazard.

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As at the end of 2020, there are around five gold producer-affiliated hazardous waste treatment companies with total market share of around 40% in Shandong province, 33 independent hazardous waste treatment companies with total market share of around 35% in Shandong province and over 30 co-processing companies participating in the market with total market share of around 25% in Shandong province. Among these qualified market players which had obtained relevant hazardous waste business licence, around 12 gold producer-affiliated hazardous waste treatment companies and independent hazardous waste treatment companies, and less than five hazardous waste co-processing companies in Shandong province were market players with actual treatment volume for gold mine hazardous waste treatment service during 2020, and ten qualified gold producer-affiliated hazardous waste treatment companies and independent hazardous waste treatment companies, and less than five hazardous waste co-processing companies in Yantai city were market players with actual treatment volume for gold mine hazardous waste treatment service during 2020. Gold producer-affiliated hazardous waste treatment companies mainly provide treatment service for their parent companies. Independent hazardous waste treatment companies provide treatment services for variety of clients. Hazardous waste co-processing companies provide treatment service for their clients after the gold hazardous waste is pre-treated to a lower level of hazard.

In total, there are approximately 100 gold mining companies in Shandong province. There are around five gold producers owning affiliated hazardous waste treatment service providers in Shandong province, among which two hazardous waste treatment service providers affiliated gold mining companies are our Group’s upstream customers during the Track Record Period. Since not all of their production facilities are close to their affiliated hazardous waste treatment facilities, gold mine companies with affiliated treatment service providers will comprehensively evaluate the cost and benefit when selecting treatment service by evaluating various factors, such as the initial investment costs, operating costs, benefits and risks of selecting certain treatment services. These gold mine companies usually do not only engage their affiliated treatment service providers, but engage in third-party treatment service providers such as our Group, since the treatment capacity of their relevant affiliates is usually not sufficient for all of their demand.

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Moreover, given the higher investment costs of establishing a new hazardous waste treatment facility closer to their gold production plants, it is common industry practice for gold mine companies to engage independent treatment companies like our Group, mainly considering the entry barriers of entering into the gold mine hazardous waste treatment market and is not therefore considered as commercially desirable. For example, for new entrants of the hazardous mine solid waste treatment industry, it takes time, investment costs and efforts to (i) familiarise with the requirements and eventually meet all the required standards and to obtain the Hazardous Waste Business Licence; (ii) formulate efficient, energy-saving and environmentally-friendly mine solid waste treatment technology system to meet the technology capability in treating gold mine hazardous waste; and (iii) formulate and implement stringent repair and maintenance measures with high capital expenditure, as well as qualified technological experts to ensure the production and environmental protection requirements are met. By engaging independent treatment companies, these gold mine companies with affiliated treatment service providers can also better control their costs by engaging independent treatment companies which are located closer to their gold production plants and shift their risks of transportation and delivery of gold mine hazardous waste to third-party treatment service providers. In the future, the market concentration is expected to increase.

The top five players accounted for approximately 67% of the total revenue in China in 2020. While there is a great amount of local small companies in the market. Our Company was ranked as the third large hazardous waste treatment company by revenue in China, with revenue of RMB190.5 million, accounting for 10% of the total revenue in China in 2020. Hazardous waste treatment market is relatively concentrated in Shandong province. The top five players accounted for approximately 65% of the total revenue in Shandong province in 2020. Our Company was the second largest hazardous waste treatment company by revenue in Shandong province, with revenue of RMB190.5 million, accounting for 15% of the total revenue in Shandong province in 2020. While Yantai city ranked first among all prefecture-level cities in terms of proven gold reserves in the PRC, our Company accounted for market share of approximately 31% of treatment volume of gold mine hazardous waste in Yantai city in 2020.

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Top 5 Gold Mine Hazardous Waste Treatment Companies by Revenue, China, 2020

| Rank | Company | Revenue* (RMB Million) | Market Share (approximately) |
|------|------------------------------|---------------------------|---------------------------------|
| 1 | Shandong Guoda (山東國大) | 422.6 | 22% |
| 2 | Chenzhou Xiongfeng (郴州雄風) | 333.0 | 18% |
| 3 | Our Company | 190.5 | 10% |
| 4 | Jiangxi Yiyuan (江西一元) | 169.1 | 9% |
| 5 | Zhaojin Jinhe (招金金合) | 165.7 | 9% |
| | Others | 624.4 | 32% |
| | Total | 1,905.3 | 100% |

* Revenue includes revenue of hazardous waste treatment service and sales of recycled products. Among the top five players in terms of revenue in China in 2020, Shandong Guoda and Chenzhou Xiongfeng, were able to generate higher revenue with a lower treatment volume of gold mine hazardous waste as compared to our Group, as set out in the table below. This is mainly attributable to the fact that Shandong Guoda and Chenzhou Xiongfeng generally treat gold mine hazardous waste containing more recyclable elements from their affiliated gold mine companies, and with their capabilities to extract various elements, more of such elements could be extracted from the hazardous waste, thereby thus generating higher revenue from the sales of recycled products.

Source: F&S

Top 5 Gold Mine Hazardous Waste Treatment Companies by Treatment Volume, China, 2020

| Rank | Company | Treatment Volume (k tonne) | Market Share (approximately) |
|------|------------------------------|-------------------------------|---------------------------------|
| 1 | Our Company | 1,083 | 18% |
| 2 | Shandong Guoda (山東國大) | 850 | 14% |
| 3 | Zhaojin Jinhe (招金金合) | 600 | 10% |
| 4 | Jiangxi Yiyuan (江西一元) | 340 | 6% |
| 5 | Chenzhou Xiongfeng (郴州雄風) | 204 | 3% |
| | Others | 3,078 | 49% |
| | Total | 6,165 | 100% |

Our Company was ranked the largest hazardous waste treatment company by volume in China, with treatment volume of 1.08 million tonnes, accounting for approximately 18% of the total treatment volume in China in 2020.

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Top 5 Gold Mine Hazardous Waste Treatment Companies by Revenue, Shandong Province, 2020

| Rank | Company | Revenue (RMB Million) | Market Share (approximately) |
|------|---|-----------------------|------------------------------|
| 1 | Shandong Guoda (山東國大) | 422.6 | 33% |
| 2 | The Company | 190.5 | 15% |
| 3 | Zhaojin Jinhe (招金金合) | 165.7 | 13% |
| 4 | Qingdao Gold Lead-Zinc Development (青島黃金鉛鋅開發) | 40.1 | 3% |
| 5 | Zhaoyuan Zhonghuan (招遠中環) | 11.6 | 1% |
| | Others | 458.3 | 36% |
| | Total | 1,288.8 | 100% |

Source: F&S

Top 5 Gold Mine Hazardous Waste Treatment Companies by Treatment Volume, Shandong Province, 2020

| Rank | Company | Treatment Volume (k tonne) | Market Share (approximately) |
|------|---|----------------------------|------------------------------|
| 1 | Our Company | 1,083 | 26% |
| 2 | Shandong Guoda (山東國大) | 850 | 20% |
| 3 | Zhaojin Jinhe (招金金合) | 600 | 14% |
| 4 | Zhaoyuan Zhonghuan (招遠中環) | 100 | 2% |
| 5 | Qingdao Gold Lead-Zinc Development (青島黃金鉛鋅開發) | 50 | 1% |
| | Others | 1,513 | 36% |
| | Total | 4,196 | 100% |

Source: F&S

Shandong Guoda (山東國大) is a professional state-owned gold smelting company with hazardous waste treatment business based in Shandong province, which provides a wide range of products including gold, silver and sulphuric acid.

Chenzhou Xiongfeng (郴州雄風) is a subsidiary of the Chifeng Gold, which is a non-state-owned company. The company is committed to recycling, disposal and utilisation of industrial and hazardous solid waste and other renewable resources.

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Jiangxi Yiyuan (江西一元) is a non-state-owned company, which is focusing on the comprehensive recovery of nonferrous metals, rare metals and non-metal, as well as utilisation of industrial solid waste and hazardous waste.

Zhaojin Jinhe (招金金合) is a subsidiary of Shandong Zhaojin Group Co., Ltd. (山東招金集團有限公司), which is a state-owned leading gold producer in China. The company is dedicated in gold mine hazardous waste treatment and utilisation, and sulphuric acid production.

Qingdao Gold Lead-Zinc Development (青島黃金鉛鋅開發) is a subsidiary of Shandong Gold, which is a state-owned leading gold producer in China. The company is committed in recovery of nonferrous metals from industrial waste residue.

Zhaoyuan Zhonghuan (招遠中環) is a non-state-owned company based in Zhaoyuan, Shandong province, mainly engaged in hazardous waste treatment, metal concentrates sales and technology consulting.

Price Analysis of Pyrite Concentrate and Gold-bearing Pyrite Concentrate in China

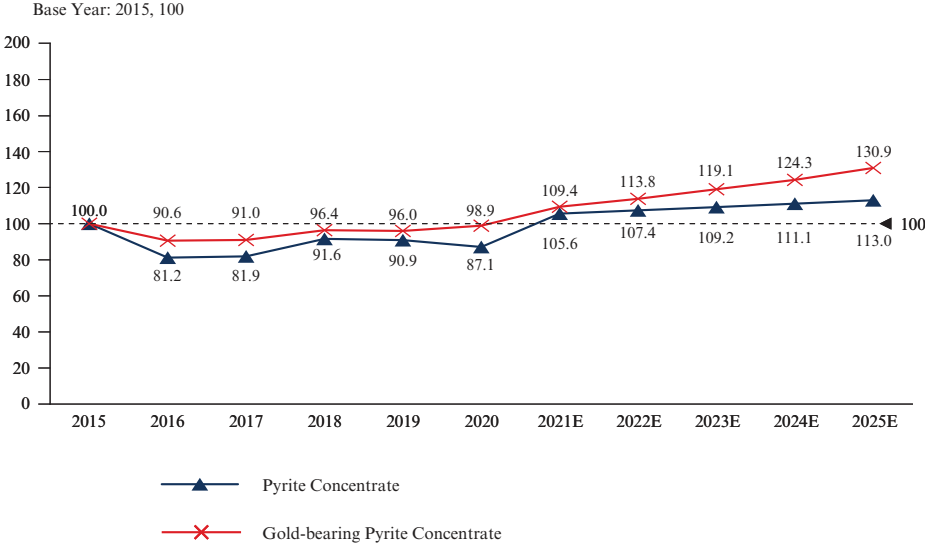
Pyrite concentrate, smelting residue, and sulphur are the three main raw materials for producing sulphuric acid in China. The price of sulphuric acid in China is influenced by various factors, mainly including the price of raw materials, demand from downstream industries and the import from overseas market.

Due to the slowdown in the demand for sulphuric acid in China since 2015, which was mainly caused by decreasing consumption of downstream industries, mainly including chemical fertiliser industry and overcapacity and oversupply in the industry, the price of sulphuric acid dropped from RMB367.7 per tonne in 2015 to RMB265.0 per tonne in 2019. As raw material to produce sulphuric acid, the price of pyrite concentrate has also fallen slightly. Moreover, it was negatively impacted by COVID-19 in 2020. During the period from 2015 to 2020, the price of pyrite concentrate fluctuated with the upward and downward changes of sulfuric acid market in the PRC with the highest reaching RMB510.0 per tonne and lowest reaching RMB105.0 per tonne. As the impact wears off, it is expected that the price of pyrite concentrate will increase by 21% in 2021 year over year and grow at a CAGR of 5.3% during the period from 2020 to 2025.

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Using pyrite concentrate for sulphuric acid production can generate high value by-products, such as iron and niacin, which could have a lot of synergy with steel, chemical and other downstream industries to achieve cleaner production and circular economy of mining resources, which is in line with China’s current policy situation and industry development. 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 fertiliser industry and export demand for sulphuric acid, and increase in price of raw material. Therefore, it is expected that the price of pyrite concentrate will restore to pre-COVID-19 price level with stable growth in the coming years, considering the continuous recovery of sulphuric acid industry and the increasing usage of pyrite concentrate for sulphuric acid production as mentioned above.

Price Index of Pyrite Concentrate and Gold-bearing Pyrite Concentrate, China, 2015–2025E



* The price index of pyrite concentrate and gold-bearing pyrite concentrate sets 2015 as a base year to show the trend of pyrite concentrated in the past five years, respectively.

Source: F&S

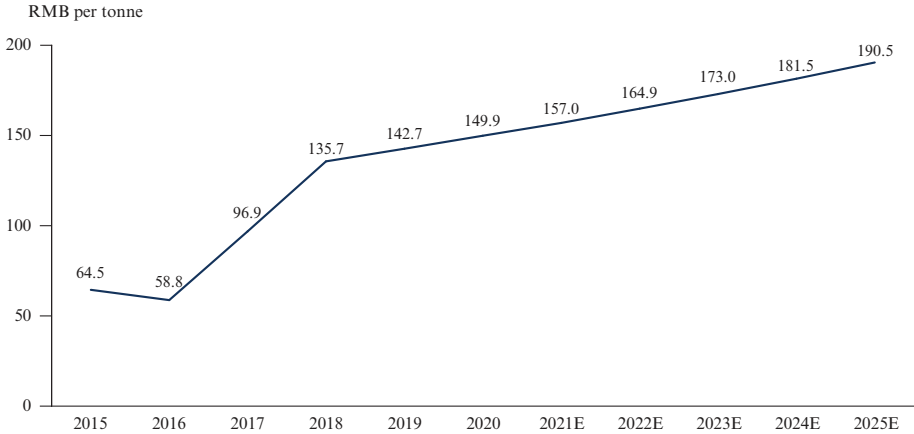
INDUSTRY OVERVIEW

Price Analysis of Construction Aggregates in China

Construction aggregates are inert granular materials, such as sand, gravel, or crushed stone, that are an essential ingredient in concrete. The demand for construction aggregates in China is enormous, which amounts to approximately 20 billion tonnes per year. The demand for construction aggregates in Shandong province is approximately 1.1 billion tonnes per year. The application of lightweight construction aggregates has become increasingly wide in downstream construction industries due to various physical properties and advantages of lightweight construction aggregates, such as low density and relatively high strength. For example, lightweight aggregate concrete is widely applied in the production of pre-cast concrete unit used in prefabricated buildings, which is an emerging market in the value chain of PRC’s construction industry in recent years. In the future, with continuous development of construction industry, the demand for construction aggregates is expected to grow at a CAGR of 6% from 2020 to 2025. The average price of construction aggregates in China increased from RMB64.5 per tonne in 2015 to RMB149.9 per tonne in 2020 with the decrease in supply caused by increasingly stricter environmental policies of construction aggregates production.

With the gradual recovery of production, the price of construction aggregates is expected to continue to increase at a CAGR of approximately 4.9% from 2020 to 2025.

Average Price of Construction Aggregates, China, 2015–2025E



Source: F&S

INDUSTRY OVERVIEW

Major Cost Analysis of Gold Mine Hazardous Waste Market

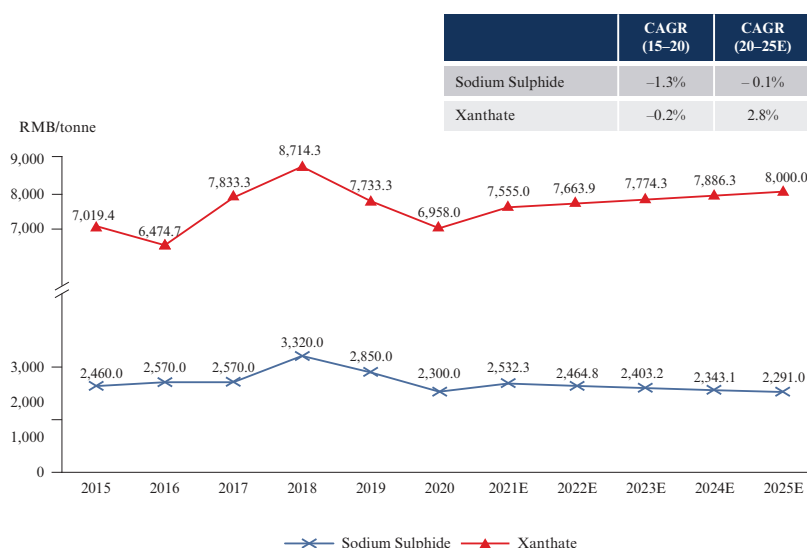
Chemical

Sodium sulphide and xanthate are the two major chemicals used in gold mine hazardous waste treatment business.

The average price of sodium sulphide in China experienced an increase from RMB2,460.0 per tonne in 2015 to RMB3,320.0 per tonne in 2018 and then a decrease to RMB2,300.0 per tonne in 2020. Considering that the downstream demand is expected to gradually recover in 2020, there will be a moderate increase in the price of sodium sulphide. In the long term, the price is expected to be at a stable and slightly declining level, reaching RMB2,291.0 per tonne in 2025.

Affected by the fluctuation of price of butanol, the main raw material of xanthate, the average price of xanthate in China experienced an increase from RMB7,019.4 per tonne in 2015 to RMB7,733.3 per tonne in 2019. However, impacted by the COVID-19 outbreak in 2020, downstream demand for xanthate decreased in early 2020, thus the average price of xanthate in China decreased to RMB6,958.0 per tonne in 2020. While the downstream demand is expected to recover as the influence of the COVID-19 outbreak wears off, which is expected to drive the price recovery in 2021. Moreover, the expected slight increase of gold production is expected to drive the demand of xanthate increase slightly, the average price of xanthate in China is expected to reach RMB8,000 per tonne in 2025.

Price of Sodium Sulphide and Xanthate, China, 2015–2025E



Source: General Administration of Customs, F&S

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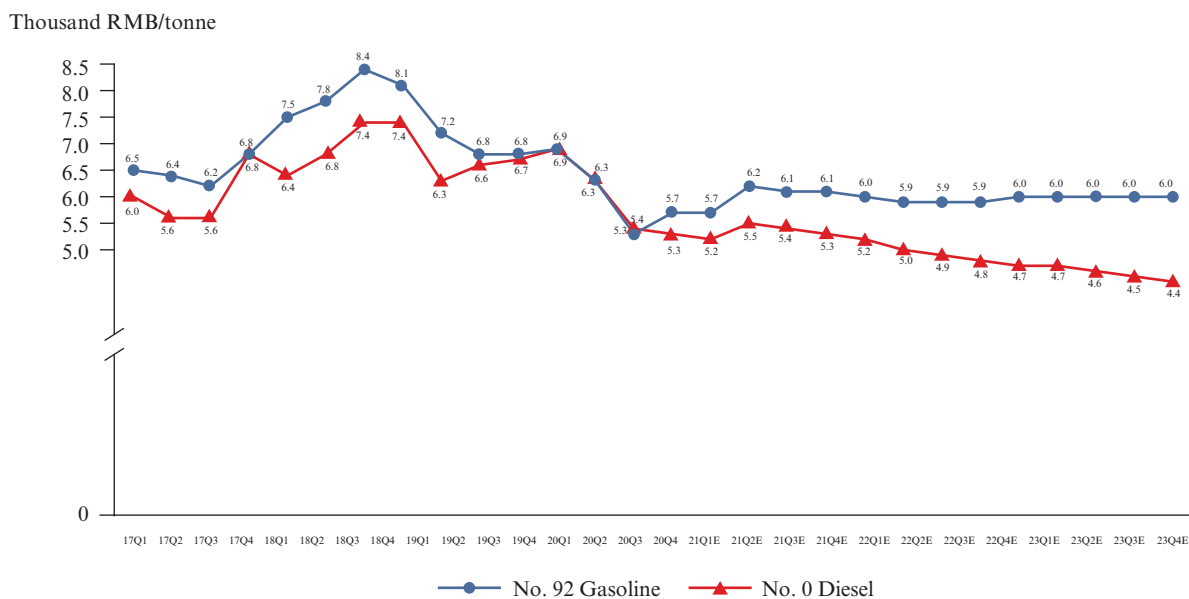
Transportation Cost

The transportation cost 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 global oil supply and demand volume, price of alternative energy, international economy and international political relations.

In the past four years, the price of gasoline and diesel in China experienced a process of rise and fall. The price of No. 92 gasoline in China increased from RMB6.5 thousand per tonne in the first quarter of 2017 to RMB8.4 thousand per tonne in the third quarter of 2018, and then decreased to RMB5.7 thousand per tonne in the fourth quarter of 2020. The price of No. 0 diesel in China increased from RMB6.0 thousand per tonne in the first quarter of 2017 to RMB7.4 thousand per tonne in the third quarter of 2018, and then decreased to RMB5.2 thousand per tonne in the fourth quarter of 2020.

The price of gasoline increased in 2020 and is expected to remain at a level of RMB6.0 thousand per tonne in coming years in China. The price of diesel is expected to encounter a decreasing trend in the coming years.

Price of Gasoline and Diesel (Quarterly Average), China, 2017–2023E



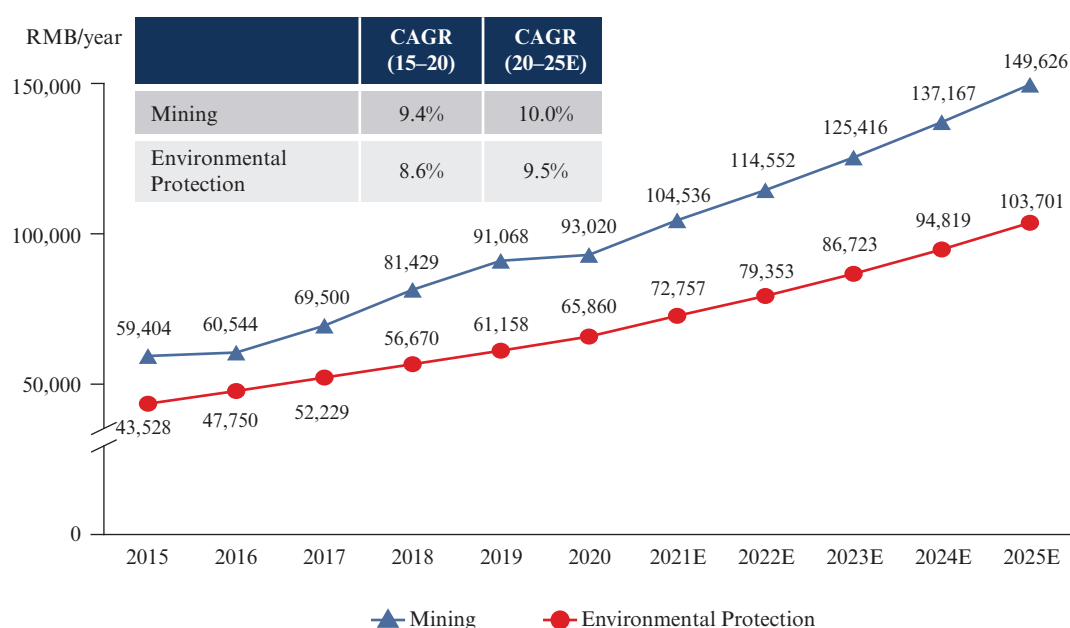
Source: Shanghai Petroleum and Natural Gas Trading Centre, F&S

INDUSTRY OVERVIEW

Wages

With the rapid growth of China’s economy and the mining industry, the average wage of workers in the mining industry has risen continuously in recent years, increasing from RMB59,404 per year in 2015 to RMB93,020 per year in 2020, and is expected to further grow to RMB149,626 per year in 2025, mainly due to the expected economic recovery from COVID-19. Similarly, due to the increasing public awareness of environmental issues, the growing government investment in environmental protection and the protection enhancement for employees and increasing employers’ liability due to implementation of the PRC Labour Contract Law (《中華人民共和國勞動合同法》), the average wage of employees in the environmental protection industry in China has risen from RMB43,528 per year in 2015 to RMB65,860 per year in 2020, and is expected to further increase to RMB103,701 per year in 2025.

Average Wages of Employees in Mining and Environmental Protection Industries, China, 2015–2025E



Source: National Bureau of Statistics, F&S

REGULATORY OVERVIEW

PRC REGULATORY OVERVIEW

Our business and operations in the PRC are subject to laws and regulations issued by various PRC government authorities. Set forth below are the principal laws and regulations applicable to our current business and operations in the PRC.

PRC LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

Environmental Protection Law

Pursuant to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) issued by the SCNPC on 26 December 1989, effective on the same day and last amended on 24 April 2014 and became effective on 1 January 2015, the construction of projects that cause environmental pollution shall comply with the requirements of the Ministry of Environmental Protection (環境保護部) (the “MEP”) (the predecessor of the Ministry of Ecology and Environment (生態環境部) (the “MEE”)) and local environmental protection authorities for the respective construction projects. Installations for the prevention and control of pollution at a construction project must be designed, built and commissioned simultaneously with the principal project. The PRC government implements the pollution discharge license management system in accordance with the law. Enterprises, public institutions and other producers and operators that implement the pollution discharge license management shall discharge pollutants in accordance with the requirements of the pollution discharge license, those that fail to obtain the pollution discharge license shall not discharge pollutants.

Prevention and Control of Environment Pollution Caused by Wastes

Pursuant to the Law of the PRC on the Prevention and Control of Environment Pollution Caused by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》), which was issued by the SCNPC on 30 October 1995, last revised on 29 April 2020 and became effective on 1 September 2020, construction projects where solid waste will be generated or projects for the storage, utilisation or treatment of solid waste shall be subject to environmental impact assessment according to law. The necessary supporting facilities for the prevention and control of environmental pollution by solid wastes as specified in the statement of the environmental effect of the construction project shall be designed, constructed and put into use in production simultaneously with the body of the project.

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Pursuant to the Law of the PRC on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》) promulgated by the SCNPC on 5 September 1987 and last amended on 26 October 2018, enterprises and institutions and other manufacturers and business operators undertaking development projects which have an impact on atmospheric environment shall conduct environmental impact assessment, and announce the environmental impact assessment documents pursuant to the law. Emission of atmospheric pollutants shall comply with the atmospheric pollutants’ emission standards, and comply with the total quantity control requirements for emission of key atmospheric pollutants. The production and business operation entities that discharge pollutants into the atmosphere shall set up outlets for the discharge of atmospheric pollutants in accordance with laws and regulations and the provisions of the competent department.

Pursuant to the Law of the PRC on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》) promulgated by the SCNPC on 11 May 1984 and last amended on 27 June 2017 and became effective on 1 January 2018, new construction, reconstruction or expansion of all projects and other installations on water that directly or indirectly discharge pollutants to water bodies shall be subject to environmental impact assessment in accordance with the law. The facilities for prevention and control of water pollution must be designed, constructed and put into use or into operation simultaneously with the main part of a construction project. Enterprises that directly or indirectly discharge industrial waste water into water bodies shall discharge waste water or sewage only after obtaining a pollutant discharge permit according to the relevant provisions. Discharged water pollutants shall not exceed the national or local standards for discharge of water pollutants and the indices for control of the total discharge of major water pollutants.

Administrative Measures for Pollutant Discharge Licensing

Pursuant to the Administrative Measures for Pollutant Discharge Licensing (for Trial Implementation)(《排污許可管理辦法(試行)》) promulgated by the MEP on 10 January 2018 and last revised on 22 August 2019 and became effective on the same day and the Regulations on the Administration of Pollutant Discharge Permits (《排污許可管理條例》) promulgated by the State Council on 24 January 2021, and became effective on 1 March 2021, a pollutant discharging entity shall legally hold a pollutant discharge license in accordance, and discharge pollutants in compliance with the pollutant discharge license. Any entity that fails to obtain a pollutant discharge license as required shall not discharge pollutants. A pollutant discharge license shall be valid from the date on which the decision on the granting of the license is made. A discharge license issued for the first time shall be valid for three years and a renewed license for five years.

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Environmental Impact Assessment

Pursuant to the Law of the PRC on Environmental Impact Assessment (《中華人民共和國環境影響評價法》) issued by the SCNPC on 29 December 2018 and became effective on the same day, a construction entity shall, based on the Classified Administration Catalogue for Environmental Impact Assessment of Construction Projects (2021 Version) (《建設項目環境影響評價分類管理名錄》(2021年版)) issued by the MEE on 30 November 2020 and became effective on 1 January 2021, carry out procedures for its construction project in accordance with the following stipulations: (i) if the environmental impact is potentially significant, it shall produce a report with an all-round assessment of the environmental impacts; (ii) if the environment impact is expected to be slight, it shall produce a report to include an analysis or special assessment of the environmental impacts; and (iii) if the environment impact is expected to be minor it should submit a registration form on the environmental impacts, and it is not necessary to conduct an assessment. Where the environmental impact assessment document of a construction project fails to undergo the examination of the approval department in accordance with the law or is disapproved after examination, the construction entity shall not commence construction.

Pursuant to the Regulations on the Administration of Construction Project Environmental Protection (《建設項目環境保護管理條例》) issued by the State Council on 29 November 1998, last revised on 16 July 2017 and became effective on 1 October 2017, the evaluation of environmental effects of construction projects shall be conducted prior to the construction. Based on the extent of effects to the environment, the construction unit shall submit to the relevant administrative departments of construction protection the report on the environmental effects or the report form for the environmental effects, or the registration form for the environmental effects as stipulated and obtain approvals or record-filing from such administrative departments. Environmental protection facilities shall be designed, built and put into operation together with the main body of the construction project. Upon completion of the construction projects, the construction units shall apply to the administrative departments of environmental protection for acceptance check of the environmental protection facilities before the construction projects can be put into operation.

REGULATORY OVERVIEW

PRC Laws Relating to Circular Economy Promotion

Pursuant to the Circular Economy Promotion Law of the PRC (《中華人民共和國循環經濟促進法》) promulgated by SCNPC on 29 August 2008, last amended on 26 October 2018 and became effective on the same day, the term “circular economy” as mentioned hereof is a generic term for the reducing, reusing and recycling activities conducted in the process of production, circulation and consumption. Enterprises shall take measures to reduce the consumption of resources and the discharge of wastes and improve the reutilisation and recycling level of wastes. In accordance with the relevant state provisions, enterprises shall make comprehensive utilisation of the tailings, mullock, waste materials and other industrial wastes generated in the production process. Enterprises using or producing the technologies, techniques or products listed in the catalogue of clean production, the catalogue of comprehensive utilisation of resources or any other encouraged catalogue shall enjoy tax preferences in accordance with the relevant state provisions.

The institutional environment for the development of circular economy in China is improving, pursuant to the Notice of the State Council on Issuing the Circular Economy Development Strategy and Near-Term Action Plan (《國務院關於印發循環經濟發展戰略及近期行動計畫的通知》) promulgated by the State Council on 23 January 2013 and became effective on the same day, China promotes the recycling of offscum, exhaust gas, liquid waste and heat waste by the following means: (i) constructing 30 projects for extracting and comprehensively utilising valuable components of ferrous and non-ferrous associated ores and tailings; (ii) constructing demonstration projects of collaborative recycling and disposal of wastes in the production process; and (iii) promoting the establishment of relevant technical standards and regulations by cultivating about 60 demonstration enterprises to explore the establishment of a cooperation mechanism of collaborative recycling and disposal of wastes between enterprises and governments.

PRC LAWS AND REGULATIONS RELATING TO HAZARDOUS WASTES

Pursuant to the Law of the PRC on the Prevention and Control of Environment Pollution Caused by Solid Wastes, the competent department of ecology and environment under the State Council shall, in conjunction with other relevant departments under the State Council, formulate the national hazardous waste catalogue and specify unified hazardous waste identification standards, identification methods, identification marks and requirements for the administration of identification entities. The national hazardous waste catalogue shall be subject to dynamic adjustment. Each entity engaged in operating activities of collection, storage, utilisation or treatment of hazardous waste shall, in accordance with pertinent state regulations, apply for a permit. Specific administrative measures for the permit shall be formulated by the State Council. Each entity that generates, collects, stores, transports, utilises or treats hazardous waste shall legally formulate precautions and develop contingency plans against accidents, and submit them to the local competent department of ecology and environment and other departments in charge of the supervision and administration of the prevention and control of environmental pollution caused by solid waste for filing, which shall then carry out an inspection.

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On 14 June 2016, the National Catalogue of Hazardous Wastes (Order of the MEP No. 39) (《國家危險廢物名錄(環境保護部令第39號)》, “**2016 Catalogue**”) was promulgated by the former MEP, the NDRC, and the Ministry of Public Security and came into force on 1 August 2016. Under the 2016 Catalogue, solid waste or liquid waste with one or more hazardous characteristics, that is, corrosivity, toxicity, ignitability, reactivity or infectivity, shall be included in this 2016 Catalogue. Cyanide tailings was listed as toxic waste in the 2016 Catalogue and was not included in the List of Hazardous Wastes Exempted from Management attached to the 2016 Catalogue.

Pursuant to the National Catalogue of Hazardous Wastes (《國家危險廢物名錄》, “**2021 Catalogue**”) issued by the NDRC, the MEE, Ministry of Public Security, Ministry of Transport and National Health Commission on 25 November 2020 and became effective on 1 January 2021, the 2016 Catalogue was repealed from the date of implementation of the 2021 Catalogue. Cyanide tailings is still listed as toxic waste in the 2021 Catalogue, meanwhile, according to the List of Hazardous Wastes Exempted from Management attached to the 2021 Catalogue, in the case of meeting the requirements of the Technical Specification for Pollution Control of Cyanide Leaching Residue in Gold Industry(HJ943) (《黃金行業氰渣污染控制技術規範》(HJ943)) to enter the tailings pond for disposal or enter the cement kiln for co-disposal, cyanide tailings is not managed as hazardous waste in the process of disposal.

Pursuant to the Measures for the Administration of Permit for Operation of Hazardous Wastes (《危險廢物經營許可證管理辦法》) issued by the State Council on 30 May 2004, last revised on 6 February 2016 and became effective on the same day, any entity undertaking the business activities of collection, storage and disposal of hazardous wastes within the territory of the PRC shall obtain the permit for operation of hazardous wastes in accordance with the provisions of the Measures. The permit for operation of hazardous wastes shall be divided into the permit for comprehensive operation of the collection, storage and disposal of hazardous wastes and the permit for operation of the collection of hazardous wastes in light of the ways of business operation. Application for a new permit for the comprehensive operation of the collection, storage and disposal of hazardous wastes should meet the requirements of environmental protection technicians, transportation tools, packaging tools, storage facilities, pollution prevention facilities, and technology and techniques and the validity period for such permit is five years. The Measures also stipulate that, under any of the following circumstances, the operating entity of hazardous wastes shall reapply for the permit for operation of hazardous wastes in light of the former application procedures: changing ways of operation of hazardous wastes, adding new varieties of hazardous wastes, newly establishing or rebuilding or expanding the construction of the former operation facilities of hazardous wastes, or managing hazardous wastes exceeding the originally permitted annual treatment capacity by 20% or more. No entity without permit for operation shall undertake any business activity of

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collection, storage, and disposal of hazardous wastes or undertake such activities not in accordance with the provisions of the permit for operation. An operating entity of hazardous wastes shall set up register for the management of hazardous wastes, which shall specify such matters according to the facts as the classes and sources of the hazardous wastes having been collected, stored or disposed, the direction the hazardous wastes have gone to, and whether there is any accident. Pursuant to Decision of the State Council on Canceling and Delegating a Batch of Administrative Examination and Approval Items (《國務院關於取消和下放一批行政審批項目的決定》) issued by the State Council on 8 November 2013, the Notice of the MEP on Issues about the Effectively Delegating the Power of Examination and Approval of Permit for Operation of Hazardous Wastes (《環境保護部辦公廳關於做好下放危險廢物經營許可審批工作的通知》) issued by the MEP on 12 May 2014, and the Notice of the Department of Ecology and Environment of Shandong Province (山東省生態環境廳) (the “DEES”) on Issues about on Entrusting the Bureau of Ecology and Environment (生態環境局) (the “BEE”) of Cities with Districts with Examination and Approval of Permits for Operation of Hazardous Wastes (《山東省生態環境廳關於委託設區的市生態環境局關於開展危險廢物經營許可審批工作的通知》) issued by the DEES on 30 May 2019, the BEE of Cities with Districts shall be responsible for the examination and approval of the issuance, alteration, renewal and cancellation of the permit for operation of hazardous wastes. An operator holding a permit issued by the DEES or the former Department of Environmental Protection of Shandong Province (山東省環保廳) may, continue to engage in activities related to hazardous wastes within the validity period of the permit. In addition, the operator shall submit an application to the local BEE of the city divided into districts to renew the permit upon its expiry.

Pursuant to the Measures for the Administration of Hazardous Waste Transfer Manifests (《危險廢物轉移聯單管理辦法》) issued by the former State Environmental Protection Administration on 31 May 1999 and became effective on 1 October 1999, the units discharging hazardous waste shall submit the plan for the transfer of hazardous waste for approval in accordance with relevant provisions of the State before the transfer of hazardous waste; upon approval, the discharging units shall apply for the forms to the competent department of the environmental protection administration at the place where the hazardous waste is transferred. The unit accepting the hazardous waste shall check the forms and verify the hazardous waste according to the items in the forms before accepting the waste, accurately complete the columns for the accepting unit in the forms and affix its official seal to the form. The form shall be formulated in a unified manner by the competent department of environmental protection administration under the State Council and printed by the competent departments of environmental protection administration of the people’s governments of the provinces, autonomous regions and municipalities directly under the Central Government.

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Pursuant to the Notice of the NDRC, the MEP, Ministry of Health, the MOF and Ministry of Construction on Implementing the Charging System for Hazardous Waste Disposal to Promote the Industrialisation of Hazardous Waste Disposal (《關於實行危險廢物處置收費制度促進危險廢物處置產業化的通知》) issued on 18 November 2003 and became effective on the same day, hazardous wastes refer to the wastes which are listed in the National Catalogue of Hazardous Wastes or identified as hazardous wastes according to the national hazardous wastes identification standard and method, including industrial hazardous wastes, medical wastes and other hazardous wastes of social origin. The units producing and commissioning other entities to dispose of hazardous wastes, shall pay the disposal fee of hazardous wastes according to relevant regulation. The specific principles and measures for charging fees for the disposal of hazardous waste shall be formulated by the competent price departments of provinces, autonomous regions and municipalities directly under the Central Government of the PRC. The specific fee rates for charging fees for the disposal of hazardous wastes shall be formulated by the price departments of the people’s governments of cities divided into districts in consultation with the relevant departments, submitted to the people’s governments of cities for approval and implementation, and submitted to the price departments at the provincial level for the record.

PRC LAWS AND REGULATIONS RELATING TO PRODUCTION SAFETY

Pursuant to the Work Safety Law of the PRC (《中華人民共和國安全生產法》) issued by the SCNPC on 29 June 2002, last revised on 10 June 2021 and became effective on 1 September 2021, production and operation entities must comply with the relevant work safety laws and regulations. Enterprises should establish relevant work safety rules, perfect the conditions for safe production, push forward the development of work safety standards, and ensure safety during production. Enterprises that do not meet the requirements for safe production are prohibited from engaging in production or other business activities. An entity engaged in manufacturing, marketing, or storing hazardous substances shall establish a work safety management body or have full-time work safety management personnel. Any business entity other than those abovementioned shall establish a work safety management body or have full-time work safety management personnel if the number of its employees exceeds 100; or shall have full-time or part-time work safety management personnel if the number of its employees is 100 or less. Where an enterprise fails to comply with the relevant work safety requirements, it may be subject to fines and ordered to discontinue production. Where a crime is constituted, the person in charge of the enterprise may be subject to criminal liabilities.

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Pursuant to the Measures for the Administration of Contingency Plans for Work Safety Accidents (《生產安全事故應急預案管理辦法》) issued by the former State Administration of Work Safety on 1 April 2009, last revised by the Ministry of Emergency Management on 11 July 2019 and became effective on 1 September 2019, the entities engaged in the production, operation, storage and transportation of hazardous materials, metal smelting, as well as those running assembly occupancies shall, within 20 working days from the date of promulgation of the contingency plans, apply to the emergency management departments under people’s governments at or above the county level and other departments in charge of work safety administration for record-keeping and make public the same in accordance with the law.

Pursuant to the Measures for the Administration of Emergency Response Plans (《突發事件應急預案管理辦法》) issued by the General Office of the State Council on 25 October, 2013 and became effective on the same day, and the Measures for the Administration of Record-filing of Environmental Emergency Response Plans for Enterprises and Public Institutions (for Trial Implementation) (《企業事業單位突發環境事件應急預案備案管理辦法(試行)》) issued by the MEP on 8 January 2015 and became effective on the same day, enterprises discharging, collecting, storing, transporting, utilising or disposing hazardous wastes shall, according to the needs to respond to environmental emergencies, carry out the formulation of environmental emergency plans. The enterprise may prepare the plan on its own, or may entrust relevant professional technical service institutions to prepare the plan with the participation of relevant personnel designated by the enterprise in the whole process. The plan shall, within 20 working days as of the signing and promulgation thereof, be submitted to the competent department of environmental protection at the county level at the place where the enterprise is located for record-filing.

PRC LAWS AND REGULATIONS RELATING TO FOREIGN INVESTMENT

Law of the PRC on Wholly Foreign-owned Enterprises

The establishment, operation and management of corporate entities in the PRC are governed by the PRC Company Law (《中華人民共和國公司法》), which was issued by the SCNPC on 29 December 1993, last amended and became effective on 26 October 2018. A foreign-invested company is also subject to the PRC Company Law unless otherwise provided by the foreign investment laws.

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On 15 March 2019, the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) was promulgated by the NPC and came into force on 1 January 2020. The Foreign Investment Law of the PRC has replaced the previous Law of the PRC on Wholly Foreign-Owned Enterprises (《中華人民共和國外資企業法》) to become the legal foundation for foreign investment in the PRC. According to the Foreign Investment Law of the PRC, foreign investment refers to any investment activity directly or indirectly carried out by foreign natural persons, enterprises or other organisations (hereinafter “**Foreign Investors**”). The State adopts the management system of pre-establishment national treatment and negative list for foreign investment. The negative list refers to special administrative measures for the access of foreign investment in specific fields as stipulated by the State. The State will give national treatment to foreign investment outside the negative list. The Implementing Regulations of the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》) (the “**Implementing Regulations of the FIL**”) was promulgated on 26 December 2019 by the State Council (國務院) and became effective on 1 January 2020. Pursuant to the Implementing Regulations of the FIL, foreign investors or foreign-invested enterprises shall submit the investment information to the competent department of commerce through the enterprise registration system and the National Enterprise Credit Information Publicity System.

M&A Rules

Under the Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors in the PRC (《關於外國投資者併購境內企業的規定》) (the “**M&A Rules**”) which was promulgated on 8 August 2006, and was amended and came into effect on 22 June 2009, a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity interests in a domestic non-foreign invested enterprise thereby converting it into a foreign-invested enterprise, or subscribes for new equity interests in a domestic enterprise via an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise by agreement and injects those assets to establish a foreign-invested enterprise. In the case where a domestic company or enterprise, or a domestic natural person, through an overseas company established or controlled by it/him, acquires a domestic company that is related to or connected with it/him, approval from the MOFCOM is required.

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Guidance of Industries for Foreign Investment

The Catalogue of Industries for Encouraging Foreign Investment (2020 Version) (《鼓勵外商投資產業目錄 (2020年版)》) (the “**Encouraging Catalogue**”) was promulgated by the NDRC and the MOFCOM on 27 December 2020 and became effective on 27 January 2021, and the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2020 Version) (《外商投資准入特別管理措施(負面清單) (2020年版)》) (the “**Negative List**”) was promulgated by the NDRC and the MOFCOM on 23 June 2020 and became effective on 23 July 2020, and pursuant to the Encouraging Catalogue and the Negative List, foreign-invested projects are categorised as encouraged, restricted and prohibited. Foreign-invested projects that are not listed in the Encouraging Catalogue and the Negative List shall be treated uniformly as domestic investment.

Records of Foreign-Owned Enterprises

The Measures for the Reporting of Foreign Investment Information (《外商投資信息報告辦法》) was issued jointly by the MOFCOM and the State Administration for Market Regulation (國家市場監督管理總局) (the “**SAMR**”) on 30 December 2019 and became effective on 1 January 2020, which replaced the Interim Measures for the Recordation Administration of the Formation and Modification of Foreign-Funded Enterprises (《外商投資企業設立及變更備案管理暫行辦法》). Pursuant to the Measures for the Reporting of Foreign Investment Information, where foreign investors carry out investment activities directly or indirectly within China, foreign investors or foreign-funded enterprises shall report investment information to commerce departments in accordance with these Measures. A foreign investor who forms a foreign-funded enterprise within China shall submit an initial report through the enterprise registration system when undergoing formation registration of the foreign-funded enterprise. In the case of any modification of the information in the initial report, which involves the enterprise’s modification registration (recordation), the foreign-funded enterprise shall submit the modification report through the enterprise registration system when undergoing the enterprise’s modification registration (recordation).

PRC LAWS AND REGULATIONS RELATING TO FIRE PROTECTION

Pursuant to the Fire Protection Law of the PRC (《中華人民共和國消防法》) promulgated by the SCNPC on 29 April 1998 and most recently amended on 29 April 2021 and became effective on the same day, the fire protection design or construction of a construction project must conform to the national fire protection technical standards for project construction. Project owners, as well as the designing, construction, project supervision and other entities, shall be responsible for the quality of fire protection design and construction according to law. Where any construction project which shall be subject to fire protection design review in accordance with the law by the competent authorities fails to undergo fire protection design review and as-built fire protection inspection, and has been put into construction or use without authorisation, competent departments of housing and urban-rural development and fire rescue agencies shall order to suspend construction, use, production or business operations and be imposed a fine of not lower than RMB30,000 and not higher than RMB300,000.

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PRC LAWS AND REGULATION RELATING TO PROPERTIES

Pursuant to the Land Administration Law of the PRC (《中華人民共和國土地管理法》) promulgated by the SCNPC on 25 June 1986, last amended on 26 August 2019 and became effective on 1 January 2020, and Regulations for the Implementation of the Land Administration Law of the PRC (《中華人民共和國土地管理法實施條例》) promulgated by the State Council on 27 December 1998, last amended on 2 July 2021 and became effective on 1 September 2021, when using state-owned land, construction entities shall do so according to the stipulations of the land use right lease contract or according to the provisions of the approval documents relevant to the allocation of land use rights.

Pursuant to the Civil Code of the PRC (《中華人民共和國民法典》) issued by the NPC on 28 May 2020 and became effective on 1 January 2021, a mortgage may be established on the construction land use rights, buildings and other objects attached to the land and other properties of which the obligor or third party has the right of disposal. When establishing a mortgage right, the parties concerned shall enter into a written mortgage contract, and if the mortgage is secured by the above-mentioned rights, the mortgage registration shall be processed, and the mortgage right shall be established as of the date of registration.

PRC LAWS AND REGULATIONS RELATING TO TAXATION

Enterprise Income Tax (“EIT”)

According to the EIT Law of the PRC (《中華人民共和國企業所得稅法》) (the “**EIT Law**”) issued by the NPC on 16 March 2007, and subsequently amended on 24 February 2017, 29 December 2018, and the Regulation on the Implementation of the EIT Law (《中華人民共和國企業所得稅法實施條例》) (the “**EIT Regulation**”) issued by the State Council on 6 December 2007, last revised on 23 April 2019 and became effective on the same day, both domestic and foreign-invested enterprises established under the laws of foreign countries or regions whose “de facto management bodies” are located in the PRC are considered resident enterprises, and will generally be subject to EIT at the rate of 25% of their global income. The EIT law defines “de facto management bodies” as “establishments that carry out substantial and overall management and control over production and operations, personnel, accounting, and properties” of the enterprise. If an enterprise is considered a PRC resident enterprise under the above definition, its global income will be subject to EIT at the rate of 25%. Non-resident enterprises are subject to (i) an EIT rate of 25% on their income generated by their establishments or places of business in the PRC and its income derived outside the PRC which are effectively connected with their establishments or places of business in the PRC; and (ii) an EIT rate of 10% on their income derived from the PRC but not connected with their establishments or places of business located in the PRC, or in the case that non-resident enterprises have no establishments or places located in the PRC. The Notice on Issues about the Determination of Chinese-Controlled Enterprises Registered Abroad as Resident Enterprises on the Basis of Their Body of Actual Management (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》) issued by the SAT on 22 April 2009, last revised on 29 December 2017 and became effective on the same day, sets up a more specific definition of actual management structure standard.

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According to Notice on Issues relating to Implementation of Catalogue of Enterprise Income Tax Preferential Incentives for Integrated Utilisation of Resources (《財政部國家稅務總局關於執行資源綜合利用企業所得稅優惠目錄有關問題的通知》) issued by the MOF and the SAT on 23 September 2008, with effect from 1 January 2008 (the “Catalogue”), for income derived by an enterprise from manufacturing of products which use the resources listed in the Catalogue as the main raw materials and comply with the relevant State or industry standards, the total income amount of the current year shall be taken at a reduced rate of 90% as the taxable income amount. To enjoy the aforesaid enterprise tax preferential incentives, the percentage of the resources listed in the Catalogue against the raw materials used for the products shall comply with the technical standards stipulated in the Catalogue.

VAT

According to the Interim Regulation on VAT of the PRC (《中華人民共和國增值稅暫行條例》) issued by the State Council on 13 December 1993, last revised on 19 November 2017 and became effective on the same day, and the Detailed Rules for the Implementation of the Interim Regulation on Value Added Tax of the PRC (《中華人民共和國增值稅暫行條例實施細則》) issued by the MOF on 25 December 1993, last revised on 28 October 2011 and became effective on 1 November 2011, entities and individuals selling goods in the PRC or providing processing services, repair services and importation services should be subject to VAT, and the payable tax amount shall be calculated by deducting input tax for the current period from output tax for the current period.

Pursuant to the Circular of the SAT on Relevant Issues Relating to the Implementation of Dividend Clauses in Tax Agreements (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) (Guo Shui Han [2009] No. 81) which was promulgated by the SAT and became effective on 20 February 2009, all of the following requirements shall be satisfied before a fiscal resident of the other party to a tax agreement can be entitled to such tax agreement treatment as being taxed at a tax rate specified in the tax agreement for the dividends paid to it by a PRC resident company: (i) such a fiscal resident who obtains dividends should be a company as provided in the tax agreement; (ii) the equity interests and voting shares of the PRC resident company directly owned by such a fiscal resident reaches a specified percentage; and (iii) the equity interests of the PRC resident company directly owned by such a fiscal resident, at any time during the twelve months prior to receipt of the dividends, reach a percentage specified in the tax agreement.

REGULATORY OVERVIEW

According to the Notice of Taxation on Implementing the Pilot Practice of Replacing Business Tax with VAT in an All-round Manner (《關於全面推開營業稅改徵增值稅試點的通知》) jointly issued by the MOF and the SAT on 23 March 2016, last revised on 20 March 2019 and became effective on 1 April 2019, the countrywide pilot practice of levying VAT in lieu of business tax has been carried out since 1 May 2016. Unless otherwise stipulated, the VAT rate is 17% for taxpayers selling goods, labour services, or tangible movable property leasing services or importing goods; 11% for taxpayers selling transportation, postal, basic telecommunications, construction, or immovable leasing services, selling immovables, transferring land use rights, or selling or importing specific goods; unless otherwise stipulated, 6% for taxpayers selling services or intangible assets; nil for domestic entities and individuals selling services or intangible assets within the scope prescribed by the State Council across national borders, and unless otherwise stipulated, nil for taxpayers exporting goods.

According to the Notice of Taxation on Adjusting VAT Rates (《關於調整增值稅稅率的通知》) issued jointly by the MOF and the SAT on 4 April 2018 and became effective on 1 May 2018, the VAT rates on sales or imported goods are adjusted from 17% and 11% to 16% and 10%, respectively.

In addition, the MOF, the SAT and the General Administration of Customs of the PRC (中華人民共和國海關總署) issued the Announcement on Relevant Policies for Deepening the VAT Reform (《關於深化增值稅改革有關政策的公告》) on 20 March 2019, according to which the VAT rates on sales, imported goods that were previously subject to 16% and 10% are adjusted to 13% and 9%, respectively.

Withholding Income Tax

According to the EIT Law, the EIT Regulation and the Circular of the SAT on Releasing the Schedule of Negotiated Tax Rates for Dividends (《國家稅務總局關於下發協定股息稅率情況一覽表的通知》), which was promulgated by SAT on 29 January 2008 and became effective on the same day, dividends generated after 1 January 2008 and dividends payable by foreign enterprises in the PRC to foreign investors shall be subject to a 10% withholding tax unless a tax treaty with different withholding tax arrangements has been made between the PRC and the jurisdiction where any of those foreign investors are registered. According to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) issued by the SAT on 21 August 2006 and became effective on 8 December 2006, if the shareholders are Hong Kong residents holding at least 25% of the registered capital of the PRC company, a withholding tax rate of 5% applies to any dividends declared by the PRC company, or if the shareholders are Hong Kong residents holding less than 25% of registered capital, a withholding income tax rate of 10% applies.

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According to the Measures for Non-resident Taxpayers’ Enjoyment of Treaty Benefits (《非居民納稅人享受協定待遇管理辦法》) promulgated by the SAT on 14 October 2019 and became effective on 1 January 2020, non-resident taxpayers’ enjoyment of treaty benefits shall be handled in the manner of “self-assessment, claim for and enjoyment of treaty benefits, and retention of relevant materials for review.” If a non-resident taxpayer is eligible for treaty benefits, when filing tax returns, or when a withholding agent files withholding returns, enjoy tax treaty benefits, and collect and retain relevant materials for review in accordance with these Measures and accept the follow-up administration of tax authorities.

Environmental Protection Tax

According to the Environmental Protection Tax Law of the PRC (《中華人民共和國環境保護稅法》) promulgated by the SCNPC on 25 December 2016 and newly amended on 26 October 2018, and the Regulation on the Implementation of the Environmental Protection Tax Law of the PRC (《中華人民共和國環境保護稅法實施條例》) promulgated by the State Council on 25 December 2017 and effective as of 1 January 2018, within the territory of the PRC and other sea areas under the jurisdiction of the PRC, the enterprises, public institutions and other producers and operators that directly discharge pollutants to the environment are taxpayers of environmental pollution tax, and shall pay environmental pollution tax in accordance with the provisions of this Law. A taxpayer shall declare and pay the environmental protection tax to the tax authority at the place where the taxable pollutants are discharged. Taxpayers shall be exempted from environmental protection tax under the circumstance where the solid wastes comprehensively utilised by taxpayers comply with the national and local environmental protection standards.

PRC LAWS AND REGULATIONS RELATING TO FOREIGN EXCHANGE

According to the Regulation of the PRC on Foreign Exchange Administration (《中華人民共和國外匯管理條例》) issued by the State Council on 29 January 1996, last revised on 5 August 2008 and became effective on the same day, the foreign exchange income and expenditure and foreign exchange business operations of Chinese institutions and individuals, as well as the foreign exchange income and expenditure and foreign exchange business operations conducted within the territory of the PRC by overseas institutions and individuals, shall be subject to Foreign Exchange Administration. The Renminbi is freely convertible for payments of current account items such as trade and service-related foreign exchange transactions and dividend payments, but is not freely convertible for capital expenditure items such as direct investments, loans or investments in securities outside of the PRC unless approval from the SAFE or its local counterpart is obtained in advance.

According to the Regulations on the Administration of the Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》) promulgated by the PBOC on 20 June 1996 and became effective on 1 July 1996, foreign exchange receipts under the current account of foreign-invested enterprises may be retained to the fullest extent specified by the foreign exchange bureau. Any portion in excess of such amount shall be sold to a designated foreign exchange bank or through a foreign exchange swap centre.

REGULATORY OVERVIEW

According to the Circular of the SAFE on Further Simplifying and Improving Policies for Foreign Exchange Administration for Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) (the “**Circular 13**”), which was promulgated by the SAFE on 13 February 2015, became effective on 1 June 2015 and was last revised on 30 December 2019, the administrative examination and approval procedures relating to the foreign exchange registration approval under domestic direct investment were cancelled, which shall be directly reviewed and handled by banks in accordance with the Circular 13 and the Operating Guidelines for Foreign Exchange Transactions for Direct Investment (《直接投資外匯業務操作指引》) attached thereto. A related market entity may choose at its own will any bank at its place of incorporation to handle the direct investment-related foreign exchange registration, and may handle the follow-up business including opening of direct investment-related account and funds transfer (including the outward or inward remittance of profits and dividends) only upon the completion of the direct investment-related foreign exchange registration. In addition, the annual inspection of the direct investment-related foreign exchange was canceled, which was changed to stock equity registration.

According to the Circular of the SAFE Concerning Reform of the Administrative Approaches to Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》), which was issued on 30 March 2015 and was last revised on 30 December 2019, for actual needs of business operation, foreign invested enterprises may convert their foreign currency capital into Renminbi at their own discretion.

On 4 July 2014, SAFE promulgated the Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Roundtrip Investments Conducted by Domestic Residents through Overseas Special Purpose Vehicle (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “**Circular 37**”), which became effective as of 4 July 2014. Under the Circular 37, (i) a domestic resident must register with the local SAFE branch before contributing domestic or overseas lawful assets or equity interests to an overseas special purpose vehicle (an “**Overseas SPV**”), that is directly established or indirectly controlled by the domestic resident for the purpose of overseas investment or financing; and (ii) following the initial registration, the domestic resident is also required to complete the change formalities with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change in the Overseas SPV’s domestic individual resident shareholder, name of the Overseas SPV, term of operation, or any increase or reduction of the contributions by the share transfer or swap, and merger or division. Additionally, pursuant to the Circular 13, the aforesaid registration shall be directly reviewed and handled by qualified banks in accordance with the Circular 13, and the SAFE and its branches shall perform indirect regulation over the foreign exchange registration via qualified banks.

REGULATORY OVERVIEW

PRC LAWS AND REGULATIONS RELATING TO LABOUR

Labour Law

According to the Labour Law of the PRC (《中華人民共和國勞動法》) issued by the SCNPC on 5 July 1994, amended on 29 December 2018 and became effective on the same day, every employer must ensure workplace safety and sanitation in accordance with national regulations, provide relevant training to its employees, prevent accidents in the process of work, and reduce occupational hazards.

The Labour Contract Law of the PRC (《中華人民共和國勞動合同法》) issued by the SCNPC on 29 June 2007, amended on 28 December 2012 and became effective on 1 July 2013, requires every employer to enter into a written contract of employment with each of its employees. No employer may force its employees to work beyond the time limit and each employer must pay overtime compensation to its employees. The wage of each employee is to be no less than the local standard on minimum wages.

Social Insurance and Housing Provident Funds

In accordance with the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) issued by the SCNPC on 28 October 2010, last amended on 29 December 2018 and became effective on the same day, the Interim Regulations on Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》), which was promulgated and came into effect on 22 January 1999, and was amended on 24 March 2019, the Regulations on Work-Related Injury Insurance (《工傷保險條例》), which was promulgated on 27 April 2003, came into effect on 1 January 2004 and was amended on 20 December 2010, the Regulations on Unemployment Insurance (《失業保險條例》), which was promulgated and came into effect on 22 January 1999, and the Trial Measures on Employee Maternity Insurance of Enterprises (《企業職工生育保險試行辦法》), which was promulgated on 14 December 1994 and came into effect on 1 January 1995, an employee shall participate in five types of social insurance funds, including pension, medical, unemployment, maternity and occupational injury insurance. The premiums for maternity insurance and occupational injury insurance are paid by the employer, while the premiums for pension insurance, medical insurance and unemployment insurance are paid by both the employer and the employee. If the employer fails to fully contribute to social insurance funds on time, the collection agency for such social insurance may demand the employer to make full payment or to pay the shortfall within a set period and collect a late charge. If the employer fails to pay after the due date, the relevant government administrative body may impose a fine on the employer.

REGULATORY OVERVIEW

In accordance with the Regulation on the Administration of Housing Provident Funds (《住房公積金管理條例》) issued by the State Council on 3 April 1999, last revised on 24 March 2019 and became effective on the same day, an employer must register with the competent managing centre for housing funds and shall contribute to the Housing Provident Fund for any employee on its payroll. Where an employer fails to pay up housing provident funds within the prescribed time limit, the employer may be ordered to make payment within a certain period, where the payment has not been made after the expiration of the time limit, an application may be made to the court for compulsory enforcement.

Prevention and Control of Occupational Diseases

According to the Law on the Prevention and Treatment of Occupational Diseases of the PRC (《中華人民共和國職業病防治法》), which was promulgated by the SCNPC on 27 October 2001 and was most recently amended and became effective on 29 December 2018, employers must provide workplaces and conditions which conform with the State occupational-health standards and requirements. Also, an employer shall establish and improve the accountability system for prevention and treatment of occupational diseases, enhance management of, and raise the level in this field, and bear responsibility for the occupational disease hazards produced in the unit. Furthermore, the employer must, as required by law, undertake industrial injury insurance.

PRC LAWS AND REGULATION RELATING TO INTELLECTUAL PROPERTY

Patent Law

According to the Patent Law of the PRC (《中華人民共和國專利法》) (the “**Patent Law**”) which was promulgated by the SCNPC on 12 March 1984, became effective on 1 April 1985, last amended on 17 October 2020 and came into effect on 1 June 2021, and the Implementation Rules for the Patent Law (《中華人民共和國專利法實施細則》), which was issued by the State Council on 15 June 2001 and last amended on 9 January 2010, a patentable invention or utility model must meet three conditions: novelty, creativity and practicality. The State Intellectual Property Office is responsible for receiving, examining and approving patent applications. A patent is valid for a term of 20 years in the case of an invention and a term of 10 years in the case of a utility model and a term of 15 years in the case of a design, starting from the application date. A third-party user must obtain consent or a proper license from the patent owner to use the patent except certain specific circumstances provided by law.

REGULATORY OVERVIEW

Trademark Law

Pursuant to the Trademark Law of the PRC (《中華人民共和國商標法》) (the “**Trademark Law**”), which was promulgated by the SCNPC on 23 August 1982, last amended on 23 April 2019 and became effective on 1 November 2019, and the Implementation Rules for the Trademark Law (《中華人民共和國商標法實施條例》), the validity period of a registered trademark in the PRC is 10 years, counted from the date of registration, and in the event of change of name or address of the registrant or change in any other registration matters of a registered trademark, an application for change shall be submitted.

Domain Names

The Administrative Measures for Internet Domain Names (《互聯網域名管理辦法》) promulgated by the MIIT on 24 August 2017 and became effective on 1 November 2017 stipulates that “.CN” and “.中国” are China’s national top-level domain names.

According to the Implementation Rules for the Registration of National Top-level Domain Names (《國家頂級域名註冊實施細則》), unless otherwise specified in these rules, any natural persons, legal persons and unincorporated organisations may apply for the registration of domain names under the top-level domain names as provided in these rules.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

HISTORY AND DEVELOPMENT

Our Group was established in April 2011 in Laizhou city, Shandong province, the PRC by Mr. Liu, the founder of our Group. Mr. Liu is the chairman of our Board, an executive Director and a Controlling Shareholder. See “Directors and Senior Management — Board of Directors — Executive Directors” in this document for details on the background of Mr. Liu.

In 2011, Mr. Liu founded HC Mining with a vision for environmental protection in the area of providing gold mine hazardous waste treatment services in the PRC and extracting resources with economic value for sale from gold mine hazardous waste. With much preparation and planning, in 2014, HC Environmental was established for obtaining regulatory approval to carry out the plan to build the production facility in Jincheng town, Laizhou city. Our management team has reached out to potential local customers in the mining industry to advertise our waste recycling solutions. As confirmed by our Directors, we have visited potential customers, introducing our management team, our production facility, our technologies and our vision in environmental protection. We commenced our business relationship with Zhongkuang Gold Industry Company Limited (中礦金業股份有限公司), one of our major customers, in 2014 and have developed a strong and stable relationship with Shandong Gold Smelting Co., Ltd. (山東黃金冶煉有限公司) (a subsidiary of Shandong Gold Mining Co., Ltd. (山東黃金礦業股份有限公司), whose shares are listed on the Main Board (stock code: 1787) and Shanghai Stock Exchange (stock code: 600547)) since 2017. The production facility was completed in June 2014. Our business further expanded when HC Mining completed the production facility in Shahe town, Laizhou city, in July 2019. As at the Latest Practicable Date, the aggregate permitted annual treatment capacity of these two production facilities was 1.16 million tonnes. See “Business” in this document for further details of our business operations.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Milestones

The key business and corporate milestones of our Group since our establishment are as follows:

| Year | Business development |
|----------------|--|
| April 2011 | Our Group was founded by Mr. Liu with HC Mining in the PRC with the intention to carry out hazardous waste treatment and recycling business |
| June 2014 | We completed the construction of our production facility in Jincheng town, Laizhou city |
| February 2019 | HC Environmental was awarded with the Enterprise Progress Award (企業進步獎) by Laizhou City Municipal Government (萊州市人民政府) |
| July 2019 | We completed the construction of our production facility in Shahe town, Laizhou city |
| July 2020 | We collaborated with Chaoyang NEU Minerals and Metallurgy Institute (朝陽東大礦冶研究院) to carry out a furnace smelting study for gold tailings processing technology |
| September 2020 | We were approved as a standing member by the All-China Environment Federation (中華環保聯合會) |
| December 2020 | HC Mining was awarded 2020 Shandong Top Ten Innovation Achievements Award of Circular Economy (2020年度山東省循環經濟十大創新成果獎) by Shandong Provincial Circular Economy Association (山東省循環經濟協會) |
| August 2021 | HC Mining and HC Environmental were each awarded 2021 Shandong Province “Specialised and Innovative” Small and Medium-sized Enterprises (2021年度山東省“專精特新”中小企業) by the Department of Industry and Information Technology of Shandong Province (山東省工業和信息化廳) |

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

ESTABLISHMENT AND MAJOR CHANGES CONCERNING MAIN OPERATING SUBSIDIARIES OF OUR GROUP

HC Mining

HC Mining is one of our main operating subsidiaries which principally engages in the provision of gold mine hazardous waste treatment services and the recycling and extraction of resources with economic value for sale from gold mine hazardous waste. It was established in the PRC as a limited liability company on 28 April 2011. At the time of its establishment, HC Mining had a registered capital of RMB10 million, which was fully paid-up on 14 June 2012, and was owned as to 95% by Mr. Liu and 5% by Ms. Yu Hangcheng (“**Ms. Yu**”), an Independent Third Party.

On 8 July 2014, Ms. Yu transferred all her 5% interests in HC Mining to Mr. Liu YS, the father of Mr. Liu, at a consideration of RMB500,000, being the value of 5% of the registered capital of HC Mining, pursuant to an equity transfer agreement dated 7 July 2014. Upon completion of such transfer, the registered capital of HC Mining was owned as to 95% by Mr. Liu and 5% by Mr. Liu YS.

As a result of the Reorganisation, HC Mining became an indirect wholly-owned subsidiary of our Company. For further details, see “History, Reorganisation and Corporate Structure — Reorganisation” in this document.

HC Environmental

HC Environmental is one of our main operating subsidiaries which principally engages in the provision of gold mine hazardous waste treatment services and the recycling and extraction of resources with economic value for sale from gold mine hazardous waste. It was established in the PRC as a limited liability company on 12 February 2014. At the time of its establishment, HC Environmental had a registered capital of RMB1 million, which was fully paid-up on its establishment, and was owned as to 51% by Mr. Liu and 49% by Ms. Li Liyan (“**Ms. Li**”), the spouse of Mr. Liu.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The historical changes in equity interest of HC Environmental prior to the Reorganisation were set out below:

| Date of transfer | Seller | Buyer | Equity interest involved | Consideration | Valuation basis | Ownership after the transfer |
|------------------|------------|------------|--------------------------|---------------------------|--|------------------------------------|
| 24 June 2014 | Mr. Liu | Mr. Liu YS | 51% | RMB510,000 | Value of 51% of the registered capital of HC Environmental | Mr. Liu YS (51%) Mr. Zhan (49%) |
| 24 June 2014 | Ms. Li | Mr. Zhan | 49% | RMB490,000 ⁽¹⁾ | Value of 49% of the registered capital of HC Environmental | Mr. Liu YS (51%) Mr. Zhan (49%) |
| 31 March 2015 | Mr. Liu YS | Mr. Zhan | 51% | RMB510,000 ⁽²⁾ | Value of 51% of the registered capital of HC Environmental | Mr. Zhan (100%) |

Notes:

- (1) There was no actual payment of consideration. Mr. Zhan is a trusted employee who has worked for the Liu’s family since he had completed his bachelor degree in 2011. As confirmed by our Directors, since HC Environmental was at the early stage of operation at the material time, such transfer to Mr. Zhan was mutually understood to facilitate Mr. Zhan to manage HC Environmental efficiently and to handle the administrative materials relating to HC Environmental.
- (2) There was no actual payment of consideration. The transfer was to further facilitate Mr. Zhan’s management of HC Environmental.

Shortly afterwards in May 2015, Mr. Liu decided to inject capital to HC Environmental as he believed HC Environmental has strong potential for growth and he requested Mr. Zhan to transfer all his equity interest in HC Environmental to the Liu’s family ahead of the capital injection. On 22 May 2015, Mr. Zhan transferred all of his interests in HC Environmental to Ms. Lv, the mother of Mr. Liu, at a nominal consideration of RMB1.0 million, being the value of the entire registered capital of HC Environmental. Upon such transfer, the beneficial and legal interest of the entire registered capital of HC Environmental was owned by Ms. Lv.

On 30 October 2015, the registered capital of HC Environmental was increased by RMB19.0 million (which was fully paid-up by Mr. Liu on 27 November 2015). Upon such increase, the registered capital of HC Environmental has become RMB20 million and was owned as to 95% by Mr. Liu and 5% by Ms. Lv.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

After the capital injection, further changes of equity interest of HC Environmental prior to the Reorganisation were set out below:

| Date of transfer | Seller | Buyer | Equity interest involved | Consideration | Valuation basis | Ownership after the transfer |
|------------------|---------|------------|--------------------------|-----------------|--|-----------------------------------|
| 16 November 2016 | Mr. Liu | Ms. Lv | 95% | RMB19.0 million | Value of 95% of the registered capital of HC Environmental | Ms. Lv (100%) |
| 20 October 2017 | Ms. Lv | Mr. Liu | 90% | RMB18.0 million | Value of 90% of the registered capital of HC Environmental | Mr. Liu (90%) Ms. Lv (10%) |
| 3 April 2020 | Ms. Lv | Mr. Liu YS | 10% | RMB2.0 million | Value of 10% of the registered capital of HC Environmental | Mr. Liu (90%) Mr. Liu YS (10%) |

Subsequently as a result of the Reorganisation, HC Environmental became an indirect wholly-owned subsidiary of our Company. For further details, see “History, Reorganisation and Corporate Structure — Reorganisation” in this document.

HC Resources

HC Resources is one of our subsidiaries with the business scope of metal waste processing services; processing and sales of iron powder, building materials, metal products; mine engineering construction; technology research and technology promotion services of mine engineering. It was established in the PRC as a limited liability company on 10 January 2019. At the time of its establishment, HC Resources had a registered capital of RMB50.0 million which was not yet fully-paid as at the Latest Practicable Date and the entire registered capital of which was owned by HC Mining.

On 22 May 2019, the registered capital of HC Resources was increased by RMB100.0 million to RMB150.0 million and such registered capital was not yet fully-paid as at the Latest Practicable Date. Upon such increase, the registered capital of HC Resources was owned as to approximately 33.3% by HC Mining, 33.3% by HC Environmental and 33.3% by Beijing Yutaida. Beijing Yutaida was owned as to 95% by Mr. Liu as at the Latest Practicable Date and will not become part of our Group upon [REDACTED].

On 18 December 2019, Beijing Yutaida transferred its 33.3% equity interest in HC Resources to HC Mining as to 17.67% and HC Environmental as to 15.67% respectively, at nil consideration. As confirmed by our Directors, at the time of such transfers, HC Resources’ registered capital had not been paid at all and HC Resources had no material business operation. Upon completion of such transfers, the registered capital of HC Resources was owned as to 51% by HC Mining and 49% by HC Environmental.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

As advised by our PRC Legal Advisers, although the registered capital of HC Resources has not been fully paid up as at the Latest Practicable Date, it was in compliance with the PRC Company Law and the articles of association of HC Resources.

As at the Latest Practicable Date, approximately RMB4 million out of RMB150 million of the registered capital of HC Resources has been paid up and the remaining portion of RMB146 million was not required to be paid up until 1 December 2023 according to the articles of association of HC Resources.

Shandong Jinjia

Shandong Jinjia is one of our subsidiaries with the business scope of manufacturing of special equipment for environmental protection, manufacturing of special instruments for environmental monitoring, sales of special equipment for environmental protection, technical services, technology development, technical consultation, technical exchanges, technology transfer, technology promotion. It was established in the PRC as a limited liability company on 8 June 2020. Since its establishment and up to the Latest Practicable Date, Shandong Jinjia had a registered capital of USD10.0 million which approximately USD4.5 million has been paid as at the Latest Practicable Date, and the entire registered capital of which was owned by HC Hong Kong. According to the articles of association of Shandong Jinjia, the registered capital shall be payable by 1 January 2025.

As advised by our PRC Legal Advisers, although the registered capital of Shandong Jinjia has not been fully paid up as at the Latest Practicable Date, it was in compliance with the PRC Company Law and Shandong Jinjia’s articles of association.

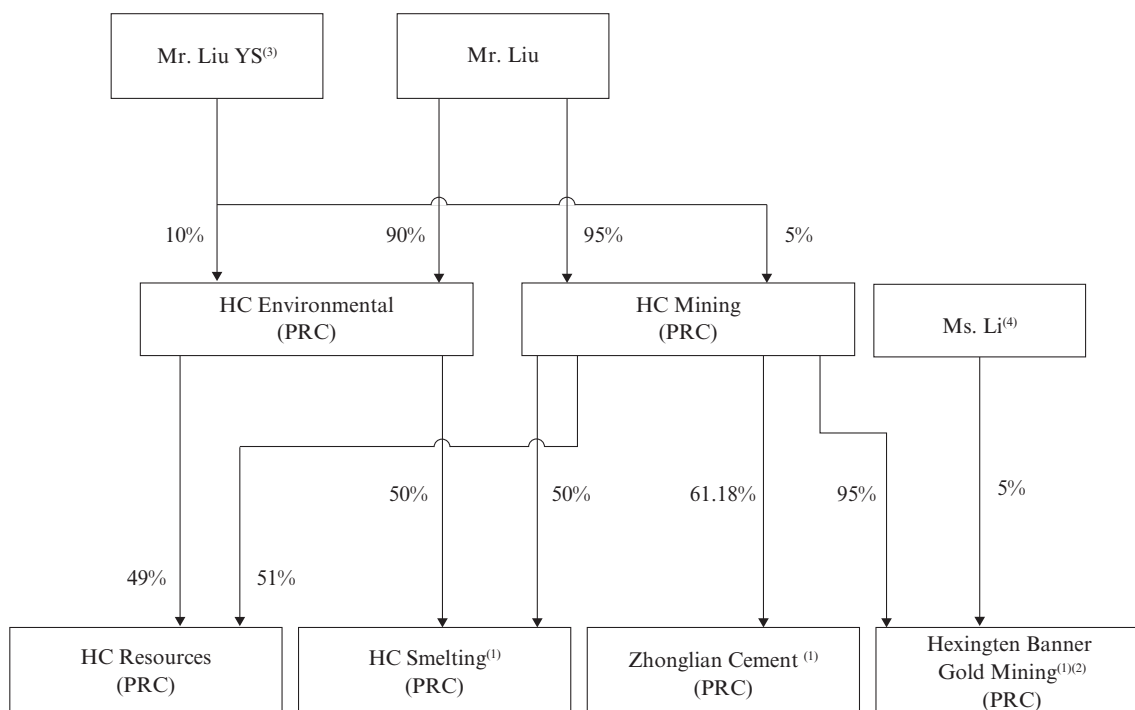
HC R&D

HC R&D is a private non-enterprise entity (民辦非企業單位) established for the purpose of carrying out research and development for our Group. It was established by HC Mining and HC Environmental on 11 June 2020 with the initial set up capital of RMB200,000, which was fully paid up.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

REORGANISATION

The shareholding and corporate structure of our Group immediately prior to the Reorganisation is set out below:



Notes:

1. HC Smelting, Hexingten Banner Gold Mining and Zhonglian Cement would not become our Group’s subsidiaries upon completion of the Reorganisation. The entire registered capital of such companies were disposed of during the Reorganisation. For further details regarding the disposed companies, see “— Reorganisation — Corporate reorganisation — (5) Disposal of various non-group entities and establishment of HC R&D” in this section.
2. Hexingten Banner Gold Mining directly held 100% equity interest of another inactive company Yantai City Jingwei Elderly Care Services Limited (煙臺市璟煒養老服務有限公司), which has been deregistered on 4 December 2020.
3. Mr. Liu YS is the father of Mr. Liu.
4. Ms. Li is the spouse of Mr. Liu.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Corporate reorganisation

In preparation for the [REDACTED], our Group underwent a group reorganisation involving the following steps, which our Directors consider to have been properly and legally completed and settled:

(1) Incorporation of HC International and HC Hong Kong

HC International was incorporated in the BVI with limited liability on 30 March 2020, which acts as the intermediate holding company of HC Hong Kong. On the date of its incorporation, HC International was authorised to issue a maximum of 50,000 ordinary shares of a single class each with a par value of US\$1.00. On the same day, 1 ordinary share in HC International was allotted and issued, credited as fully-paid, to Mr. Liu at par value. On 16 December 2020, Mr. Liu further applied for 999 ordinary shares in HC International at par value. Upon completion of such allotment and issuance, the entire issued share capital of HC International, which was divided into 1,000 ordinary shares of US\$1.00 each, was owned by Mr. Liu.

HC Hong Kong was incorporated in Hong Kong with limited liability on 16 April 2020, which acts as the intermediate holding company of the main operating subsidiaries of our Group. On the date of its incorporation, the share capital of HC Hong Kong was HK\$1.0 million, comprising 1,000,000 ordinary shares which were allotted and issued to HC International. Upon completion of such allotment and issuance, the entire issued share capital of HC Hong Kong was owned by HC International.

(2) Mr. Sze acquired 2% equity interest in each of HC Mining and HC Environmental

HC Mining

On 30 March 2020, Mr. Liu YS entered into an equity transfer agreement with Mr. Liu and Mr. Sze, respectively, to transfer 3% equity interest in HC Mining at a consideration of RMB300,000 to Mr. Liu and 2% equity interest in HC Mining to Mr. Sze at a consideration of HK\$220,000 (equivalent to RMB200,000). The consideration was mainly determined with reference to the valuation appraised by an independent valuer with respect to the net asset value of HC Mining as at 31 December 2019.

On 10 April 2020, HC Mining completed the registration of changes in shareholders, shareholding structure, and business type for the aforementioned equity transfers. HC Mining became a “Limited Liability Company (with Hong Kong, Macau, Taiwan investment, non-wholly owned)” (有限責任公司(港澳台投資、非獨資)). Mr. Sze has paid such consideration in full on 13 August 2020.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

HC Environmental

On 19 June 2020, Mr. Liu YS entered into an equity transfer agreement with Mr. Liu and Mr. Sze, respectively, to transfer 8% equity interest in HC Environmental at a consideration of RMB1.6 million to Mr. Liu and 2% equity interest in HC Environmental to Mr. Sze at a consideration of HK\$666,700 (equivalent to RMB600,000). The consideration was determined with reference to factors including but not limited to the valuation report prepared by an independent valuer for the net asset value of HC Environmental as at 31 January 2020 and the net asset value of HC Environmental as at 31 May 2020.

On 16 July 2020, HC Environmental completed the registration of changes in shareholders, shareholding structure, and business type for the aforementioned equity transfers. HC Environmental became a “Limited Liability Company (with Hong Kong, Macau, Taiwan investment, non-wholly owned)” (有限責任公司(港澳台投資、非獨資)). Mr. Sze has paid such consideration in full on 25 August 2020.

(3) Establishment of Shandong Jinjia

Shandong Jinjia was established in the PRC as a limited liability company on 8 June 2020 by HC Hong Kong. Shandong Jinjia had a registered capital of USD10.0 million which approximately USD4.5 million has been paid as at the Latest Practicable Date and the entire registered capital of which was owned by HC Hong Kong.

(4) Transfer of 98% equity interest in each of HC Mining and HC Environmental to Shandong Jinjia

HC Mining

Pursuant to an equity transfer agreement dated 11 June 2020 entered into between Mr. Liu and Shandong Jinjia, Mr. Liu transferred all his 98% interests in the registered capital of HC Mining, to Shandong Jinjia at a consideration of RMB9.8 million, with reference to the registered capital of HC Mining. Upon completion of such transfer on 19 June 2020, the registered capital of HC Mining was owned as to 98% by Shandong Jinjia and 2% by Mr. Sze.

HC Environmental

Pursuant to an equity transfer agreement dated 17 July 2020 entered into between Mr. Liu and Shandong Jinjia, Mr. Liu transferred all his interests in the registered capital of HC Environmental, being 98% of its registered capital to Shandong Jinjia at a consideration of RMB19.6 million, with reference to the registered capital of HC Environmental. Upon such transfer on 29 July 2020, the registered capital of HC Environmental was owned as to 98% by Shandong Jinjia and 2% by Mr. Sze.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

(5) Disposal of various non-group entities and establishment of HC R&D

(i) Disposal of Zhonglian Cement

Zhonglian Cement is engaged in cement manufacturing business which is not related to our Group’s business prior to the disposal. On 1 April 2020, HC Mining entered into an equity transfer agreement with Beijing Yutaida, pursuant to which HC Mining transferred its entire equity interest of 61.68% of the registered capital of Zhonglian Cement to Beijing Yutaida at a consideration of RMB24.7 million, which was based on the total registered capital of Zhonglian Cement of RMB40 million. Upon completion of the transfer on 1 April 2020, HC Mining no longer held any equity interest in Zhonglian Cement. Our Directors confirmed that Zhonglian Cement did not have any material non-compliance and was not subject to any legal proceedings before the disposal.

As confirmed by our PRC Legal Advisers, the alteration registration with the relevant company registration authority of Zhonglian Cement’s shareholder related to the aforementioned equity transfer was completed on 1 April 2020.

(ii) Disposal of Hexingten Banner Gold Mining

As confirmed by our Directors, Hexingten Banner Gold Mining was established on 29 July 2010 and acquired by HC Mining and Ms. Li as to 95% and 5% in September 2012 for a potential project on gold prospecting in Inner Mongolia which ceased prematurely due to the fact that the relevant prospecting site was classified as an environmental protection zone by the relevant local authority and has been inactive since then. Hexingten Banner Gold Mining directly held 100% equity interest of another inactive company Yantai City Jingwei Elderly Care Services Limited (煙臺市璟煒養老服務有限公司), which has been deregistered on 4 December 2020. On 20 April 2020, HC Mining entered into an agreement for the disposal of its interests of 95% of the registered capital of Hexingten Banner Gold Mining to Mr. Liu at a consideration of RMB2.85 million, with reference to the registered capital of Hexingten Banner Gold Mining. Upon completion of the transfer on 21 April 2020, HC Mining no longer held any equity interest in Hexingten Banner Gold Mining.

Our Directors confirmed that Hexingten Banner Gold Mining was solvent prior to its disposal, and it did not have any material non-compliance and was not involved in any material litigation prior to its disposal during the relevant Track Record Period. As confirmed by our PRC Legal Advisers, the alteration registration with the relevant company registration authority of Hexingten Banner Gold Mining’s shareholder related to the aforementioned equity transfer was completed on 21 April 2020.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

(iii) Disposal and deregistration of HC Smelting

As confirmed by our Directors, HC Smelting has been inactive since its establishment in June 2019. On 15 July 2020, HC Mining and HC Environmental completed the disposal of their respective interests of 50% of the registered capital of HC Smelting (which in aggregate represented the entire registered capital of HC Smelting) to Beijing Yutaida at nil consideration. Our Directors confirm that the consideration was nil due to it being inactive and the registered capital of HC Smelting had not been paid at all. Upon completion of the transfer on 15 July 2020, HC Smelting was no longer owned by HC Mining and HC Environmental. Subsequent to the disposal, HC Smelting has applied for a simplified deregistration procedure on 22 October 2020 and was deregistered on 23 February 2021.

Our Directors confirmed that HC Smelting was solvent, and it did not have any material non-compliance and was not involved in any material litigation during the relevant Track Record Period prior to its disposal on 15 July 2020 and its deregistration on 23 February 2021. As confirmed by our PRC Legal Advisers, the alteration registration with the relevant company registration authority of HC Smelting’s shareholder related to the aforementioned equity transfer was completed on 15 July 2020.

(iv) Establishment of HC R&D

HC R&D was established under the laws of the PRC as a private non-enterprise entity (民辦非企業單位) on 11 June 2020 by HC Mining and HC Environmental. After its establishment, HC R&D, as a private non-enterprise entity, has separate legal identity but it does not possess any shareholding. As at the Latest Practicable Date, the legal representative of HC R&D is Mr. Sheng, our executive Director. Pursuant to the Interim Regulations on Registration Administration of Private Non-enterprise Entity (民辦非企業單位登記管理暫行條例) promulgated by the State Council in 1998, private non-enterprise entities are private organisations engaged in non-profit social service activities.

As advised by our Directors, when HC R&D was established, after the relevant registration authority has learnt of HC R&D’s business scope, it was suggested that HC R&D could take the form of a private non-enterprise entity. Following the authority’s suggestions and for our corporate social responsibilities, taking into account that (i) the value of a research project should not be measured solely by its profitability; (ii) our ultimate objective is to advance the PRC’s resources in its recycling technology to improve environmental protection; and (iii) we should encourage education and support academic efforts, our Group decided that HC R&D would operate with a non-profit maximisation objective and be dedicated for research and development purposes.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

(6) Incorporation of our Company

Our Company was incorporated in the Cayman Islands under the Companies Act as an exempted company with limited liability on 12 January 2021, which acts as the ultimate holding company of our Group upon completion of the Reorganisation. On the date of incorporation, the authorised share capital of our Company was HK\$380,000 divided into 38,000,000 Shares with a par value of HK\$0.01 each. Upon incorporation, one nil-paid Share was allotted and issued to the initial subscriber of our Company which was transferred on the same date to Zeming International. Upon completion of such transfer, the entire issued share capital of our Company was owned by Zeming International.

(7) Transfer of 2% of the registered capital of each of HC Mining and HC Environmental to HC Hong Kong

On 8 January 2021, Mr. Liu transferred 20 shares of HC International, which represented 2% of the issued share capital of HC International in aggregate, to Mr. Sze and on 25 January 2021, Mr. Sze, as vendor, and HC Hong Kong, as purchaser, entered into two equity transfer agreements pursuant to which Mr. Sze transferred his interests held in each of HC Mining and HC Environmental, representing 2% of the registered capital of each of HC Mining and HC Environmental, respectively, to HC Hong Kong. The basis of the transfers were determined based on the 2% equity interest in HC Mining and HC Environmental held by Mr. Sze. Upon completion of such transfers, HC Mining and HC Environmental became indirect wholly owned subsidiaries of HC International, which were both held as to 98% by Shandong Jinjia and 2% by HC Hong Kong, and other subsidiaries now comprising the [REDACTED] Group were all wholly owned subsidiaries of HC International.

(8) Mr. Liu transfers his shares in HC International to the [REDACTED]

On 25 February 2021, Mr. Liu, (as the seller), and each of Mr. Sze, Ace Quality, Golden Clover and Azure Astro, (as the buyers), (collectively referred to as “[REDACTED]”) entered into a sale and purchase agreement for the transfer of certain shares in HC International. Mr. Liu agreed to transfer 13 shares, 64 shares, 60 shares and 57 shares of HC International, (which represented 1.3%, 6.4%, 6.0% and 5.7% of the issued share capital of HC International respectively) to Mr. Sze, Ace Quality, Golden Clover and Azure Astro respectively at a consideration of approximately HK\$4.5 million, HK\$22.3 million, HK\$20.9 million and HK\$19.8 million, respectively. The consideration for such transfers was determined based on commercial negotiations with reference to the net profit for the year ended 31 December 2019 and 2020 of the proposed [REDACTED] group and the corresponding price earning (“P/E”) ratio as well as other factors such as client network and management operation experience. For further details of the [REDACTED], see “[REDACTED]” in this section.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

(9) Transfer of the entire issued share capital of HC International to our Group

On 15 April 2021, Mr. Liu, Mr. Sze, Ace Quality, Golden Clover, and Azure Astro, as the sellers, entered into a sale and purchase agreement with our Company, as the buyer, to transfer all their shares in HC International, representing the entire issued share capital of HC International, to our Company. In consideration of which, our Company credited one nil-paid Share as fully paid and further allotted and issued, credited as fully-paid, 785 Shares to Zeming International, 33 shares to Keen Day, 64 Shares to Ace Quality, 60 Shares to Golden Clover and 57 Shares to Azure Astro. Upon completion of such transfer, HC International became a direct wholly-owned subsidiary of our Company and the issued share capital of our Company became owned as to 78.6% by Zeming International, 3.3% by Keen Day, 6.4% by Ace Quality, 6.0% by Golden Clover and 5.7% by Azure Astro.

Our Directors have consulted with our PRC Legal Advisers in relation to the legal compliance of our Reorganisation in the context of PRC laws and regulations and our Directors confirmed that our Reorganisation is in compliance with the applicable PRC laws and regulations and has been legally properly and completed and settled in such context.

PRC REGULATORY REQUIREMENTS

Circular 37

According to Circular 37 and the Circular 13, domestic residents, including domestic individual residents, are required to file foreign exchange registration with qualified banks before contributing domestic or overseas lawful assets or equity interests in an offshore special purpose vehicle which is directly established or indirectly controlled by the domestic residents for the purpose of overseas investment and financing. In addition, in the event that any change of basic information (including domestic individual resident shareholder, name and operation term) or any change involving material events (including increase or decrease in investment amount, share transfer or exchange, or merger or division) arises in respect of the registered offshore special purpose vehicle, the foreign exchange registration shall be updated. Each of Mr. Liu and other relevant domestic individual residents involved in the [REDACTED] has completed registration as required under Circular 37.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

M&A Rules

According to the Provisions on Merger and Acquisition of Domestic Enterprises by Foreign Investor (關於外國投資者併購境內企業的規定) (the “**M&A Rules**”), which was jointly promulgated by MOFCOM, the State Assets Supervision and Administration Commission, the SAT, the SAIC, the CSRC, and the SAFE on 8 August 2006, and amended and came into effect by MOFCOM on 22 June 2009, “merger and acquisition of domestic enterprises by foreign investors” referred to in the M&A Rules shall mean any of the following where a foreign investor: (i) purchases the equity interest of a shareholder in a domestic non-foreign-invested enterprise (the “**domestic enterprise**”); (ii) subscribes for increased capital of a domestic enterprise so as to convert such domestic enterprise into a foreign-invested enterprise; (iii) establishes a foreign-invested enterprise through which it purchases and operates the assets of a domestic enterprise by agreement; or (iv) purchases the assets of a domestic enterprise by agreement and then invests such assets to establish a foreign-invested enterprise and operates the assets.

According to Article 11 of the M&A Rules, the merger and acquisition of a domestic company with or by a domestic company, enterprise or individual, that has related party relationship with the target company, in the name of an overseas company legitimately incorporated or controlled by the domestic company, enterprise or individual, shall be subject to examination and approval by MOFCOM. According to Article 39 and Article 40 of the M&A Rules, the overseas listing and transaction of a special purpose company as specified in Article 39.

As advised by our PRC Legal Advisers, in view of the fact that HC Mining and HC Environmental were foreign-invested enterprises when Shandong Jinjia acquired the shares of HC Mining and HC Environmental, the acquisition of HC Mining and HC Environmental by Shandong Jinjia did not apply to Article 11 of the M&A Rules and no approval from MOFCOM is required. At the same time, as our Company is not a special purpose company as specified in Article 39 of the M&A Rules, our PRC Legal Advisers are of the view that the [REDACTED] is not subject to approval by the CSRC.

[REDACTED]

Prior to the [REDACTED] of our Group, Mr. Liu YS (the father of Mr. Liu) transferred certain of his equity interest in certain members of our Group to Mr. Sze in April 2020 and July 2020 (the “[REDACTED]”). Subsequently on 25 February 2021, Mr. Liu entered into agreements with the [REDACTED] to dispose certain of his shareholdings in our Group (the “[REDACTED]”).

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

[REDACTED]

On 10 April 2020 and 16 July 2020, Mr. Sze acquired interest of 2% of the registered capital in each of HC Mining and HC Environmental from Mr. Liu YS pursuant to two equity transfer agreements. For further details regarding these two equity transfer agreements, see “— Corporate Reorganisation — (2) Mr. Sze Acquired 2% Equity Interest in each of HC Mining and HC Environmental” above. The consideration of the [REDACTED] was duly transferred to Mr. Liu YS by Mr. Sze in full on 25 August 2020. As the [REDACTED] were transfers of existing equity interest between equity holders, our Group did not benefit from any new [REDACTED].

[REDACTED]

In August 2020, Mr. Liu and each of the [REDACTED] reached a preliminary understanding of the [REDACTED], in which the [REDACTED] intention to [REDACTED] has been confirmed. Due to Reorganisation, the [REDACTED] under the [REDACTED] was confirmed and documented by agreements dated 25 February 2021, pursuant to which Mr. Liu agreed to transfer 13 shares, 64 shares, 60 shares and 57 shares of HC International, which represented 1.3%, 6.4%, 6.0% and 5.7% of its issued share capital, respectively, to Mr. Sze, Ace Quality, Golden Clover and Azure Astro, respectively, at a consideration of approximately HK\$4.5 million, HK\$22.3 million, HK\$20.9 million and HK\$19.8 million, respectively. Such consideration was determined with reference to the net profit of our Group for the years ended 31 December 2019 and 2020 and the corresponding P/E ratio as well as other factors such as client network and management operation experience. As the [REDACTED] were transfers of existing equity interest between Mr. Liu and the [REDACTED], our Group did not benefit from any new [REDACTED].

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

A summary of the salient terms of the [REDACTED] and the [REDACTED] made by each of the [REDACTED] are set out below:

| | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
|---|--|---|---------------------------------|---------------------------------|---------------------------------|
| Name of [REDACTED] | Mr. Sze and Keen Day | Mr. Sze and Keen Day | Mr. Cai QZ and Azure Astro | Mr. Cai YL and Golden Clover | Mr. Chi and Ace Quality |
| Date of the agreement | 30 March 2020 and 19 June 2020 | 25 February 2021 | 25 February 2021 | 25 February 2021 | 25 February 2021 |
| Consideration paid | HK\$0.9 million | HK\$4.5 million | HK\$19.8 million | HK\$20.9 million | HK\$22.3 million |
| Basis of consideration | (i) The valuation reports prepared by an independent valuer for the net asset value of HC Mining as at 31 December 2019 and HC Environmental as at 31 January 2020; and (ii) the net asset value of HC Environmental as at 31 May 2020 | Commercial negotiations with reference to the net profit for the years ended 31 December 2019 and 2020 of the proposed [REDACTED] group and the corresponding P/E ratio as well as other factors such as client network and management operation experience | | | |
| Date on which the consideration was confirmed fully and irrevocably settled | 25 August 2020 | 25 February 2021 | 25 February 2021 | 25 February 2021 | 25 February 2021 |
| Number of Shares subscribed (and approximate percentage of shareholding) in our Company immediately before the [REDACTED] and [REDACTED] | 20 Shares (2.0%) | 13 Shares (1.3%) | 57 Shares (5.7%) | 60 Shares (6.0%) | 64 Shares (6.4%) |
| Number of Shares (and approximate percentage of shareholding) in our Company immediately upon [REDACTED] ⁽¹⁾ | [REDACTED] Shares ([REDACTED])% | [REDACTED] Shares ([REDACTED])% | [REDACTED] Shares ([REDACTED])% | [REDACTED] Shares ([REDACTED])% | [REDACTED] Shares ([REDACTED])% |
| [REDACTED] cost per Share | HK\$[REDACTED] | HK\$[REDACTED] | HK\$[REDACTED] | HK\$[REDACTED] | HK\$[REDACTED] |
| Discount to the mid-point of the indicative [REDACTED] range ⁽²⁾ | [REDACTED]% | [REDACTED]% | [REDACTED]% | [REDACTED]% | [REDACTED]% |
| Lock-up period | Will not be subject to lock-up | Will not be subject to lock-up | Will not be subject to lock-up | Will not be subject to lock-up | Will not be subject to lock-up |

Notes:

- (1) Based on the number of Shares held by each of the [REDACTED] and the total number of Shares in issue upon completion of the [REDACTED] and the [REDACTED], without taking into account any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] (if any) and any options which may be granted under the Share Option Scheme.
- (2) Based on the [REDACTED] of HK\$[REDACTED] per Share (being the mid-point of the indicative [REDACTED] range).

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Special rights granted to the [REDACTED]

No special rights were granted to any of the [REDACTED].

Guarantee

No performance guarantee of our Group was granted by Mr. Liu or Mr. Liu YS to any of the [REDACTED].

[REDACTED]

In view of (i) each of the [REDACTED] is an Independent Third Party and independent among one another; and (ii) none of them will become a substantial Shareholder upon [REDACTED], the Shares held by each of the [REDACTED] immediately after the [REDACTED] will be considered as part of the [REDACTED] for the purpose of Rule 8.08 of the Listing Rules.

Valuation regarding the [REDACTED]

The [REDACTED] were transfer of equity interest between equity holders which our Group did not take part in the commercial negotiation. Details of the valuations conducted at the time of the [REDACTED] were set out as follow:

[REDACTED]

The transaction parties have mainly taken into account the net asset value of HC Environmental and HC Mining to determine the [REDACTED] price. Accordingly, Yantai Huaxin Asset Appraisal Firm (煙臺華信資產評估事務所), an independent valuer, was engaged to prepare the valuation reports based on the net asset value by asset-based approach. The valuation of the entire equity interest of HC Mining was RMB10.0 million as at 31 December 2019 and HC Environmental was RMB29.6 million as at 31 January 2020.

[REDACTED]

The valuation of the [REDACTED] was commercially negotiated between Mr. Liu and the [REDACTED] without referencing to valuation reports. In August 2020, Mr. Liu and each of the [REDACTED] reached an understanding to transfer shares of our Group at a basic valuation of RMB3 million per each one percentage shareholding of our Group prior to the [REDACTED]. Such valuation was mainly determined with reference to the net profit of our Group for the year ended 31 December 2019, which was approximately RMB48.5 million. Along with the basic valuation, while waiting for certain procedures of the Reorganisation, the transactions parties further reviewed the prospects of our Group including the unaudited net profit of our Group for the year ended 31 December 2020, client network and management operation experience, before the [REDACTED] was concluded on 25 February 2021.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Information about the [REDACTED]

Ace Quality mainly engages in investment activities and is wholly, ultimately and beneficially owned by Mr. Chi. Mr. Chi is a local resident in Laizhou city in Shandong province, where our Group is headquartered. He has experience in investment involved in the trading of agricultural fertilisers and the beverage business. Mr. Chi graduated from Jinan Army Academy (濟南陸軍學院) with a degree in law in 2004. He is a personal friend of Mr. Liu who has known each other for over 20 years. Mr. Chi is currently the general manager of a beverage business in Laizhou city. Being a local resident and businessman in Laizhou city, Mr. Chi has local connections and he occasionally recommends potential customers to our Group.

Keen Day mainly engages in investment activities and is wholly, ultimately and beneficially owned by Mr. Sze. Mr. Sze is a Hong Kong permanent resident with over 20 years of investment experience. He has experience in investment mainly involved in logistics, trading and real estate businesses. Mr. Sze graduated from Fujian Radio and Television University (福建廣播電視大學) with a degree in finance in 1986. Mr. Sze was introduced to Mr. Liu and Mr. Liu YS through a mutual friend in 2019. As confirmed by Mr. Sze, he is interested in investing in waste management and recycling business as he considered the industry is in line with PRC national policy and will receive strong support. After knowing Mr. Liu’s business, in March 2020, Mr. Sze approached Mr. Liu YS, who was thinking of retirement at the time, and Mr. Sze and Mr. Liu YS eventually reached an agreement that Mr. Sze would purchase from Mr. Liu YS 2% of the registered capital in each of the operating subsidiaries of our Group and Mr. Liu would take up the remaining part of Mr. Liu YS’s equity interest. Subsequently in the [REDACTED], Mr. Sze reached an agreement with Mr. Liu to acquire further 1.3% shareholding in our Group. Mr. Sze is a Hong Kong businessman who has contacts in Hong Kong and China. Mr. Liu believes Mr. Sze can introduce PRC and foreign investors and strategic partners to our Group.

Azure Astro mainly engages in investment activities and is wholly, ultimately and beneficially owned by Mr. Cai QZ. Mr. Cai QZ is a PRC citizen with over 30 years of business and investment experience. As confirmed by Mr. Cai QZ, he got acquainted with Mr. Liu around the end of 2018 through the introduction of a friend from the Overseas Chinese Chamber of Commerce in Shandong Province (山東省僑商協會). Mr. Cai QZ is a businessman who commenced operating businesses over 30 years ago and has engaged in a wide range of industries and has good social network resources. Mr. Cai QZ founded various companies with business areas in food products and trading, production of building materials and automobile exhibitions, services and sales. With Mr. Cai QZ’s wealth of business experience and connection, Mr. Liu believes his [REDACTED] in our Group can bring along valuable development and business opportunities.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Golden Clover mainly engages in investment activities and is wholly, ultimately and beneficially owned by Mr. Cai YL. Mr. Cai YL is a Hong Kong permanent resident residing in Hong Kong with over 10 years of investment experience. Mr. Cai YL has previously engaged in various investments including solar panels equipment trading, real estates and mining and energy related areas. As confirmed by Mr. Cai YL, he got acquainted with Mr. Liu around the end of 2019 through the introduction of a mutual friend. Mr. Cai YL foresaw our Group’s business prospects and future development and he decided to invest in our Group. Mr. Cai YL often travels between Hong Kong and the mainland to search for different investment opportunities, and his investments are distributed in China and Hong Kong. As confirmed by our Directors, Mr. Cai YL and Mr. Cai QZ know of each other but there are no family, business or employment relationship between them. Mr. Cai YL and Mr. Cai QZ also confirmed that the investment in the [REDACTED] were funded by themselves, and other than the [REDACTED], they do not have any other common investment for non-listed securities.

Strategic strengths and benefits to our Group

Our Group became acquainted with the [REDACTED] through the introduction by Mr. Liu, who was acquainted with the [REDACTED] through his own personal network. Our Directors are of the view that the [REDACTED] are beneficial to our Group mainly by assisting in broadening our shareholder base prior to the [REDACTED] and that our Company could benefit from the [REDACTED] commitment to our Company as the [REDACTED] demonstrate their confidence in the operations of our Group and serves as an endorsement of our performance, strength and prospects. In particular, with Keen Day and Mr. Sze and Golden Clover and Mr. Cai YL as our Shareholders, it will allow us to benefit from the experience and business networks of Mr. Sze and Mr. Cai YL in the capital market in Hong Kong through their extensive investment experience and knowledge in the capital market of Hong Kong. By leveraging on Mr. Chi and Mr. Cai QZ’s local business connections and network and relevant industry experience in the PRC, our Directors believe that Mr. Chi and Mr. Cai QZ will (i) provide market insights and valuable recommendations to our Group on our operations and strategic development suggestions and opportunities; and (ii) recommend potential customers to our Group which shall further improve our position in the market.

Compliance with Interim Guidance and Guidance Letters on [REDACTED]

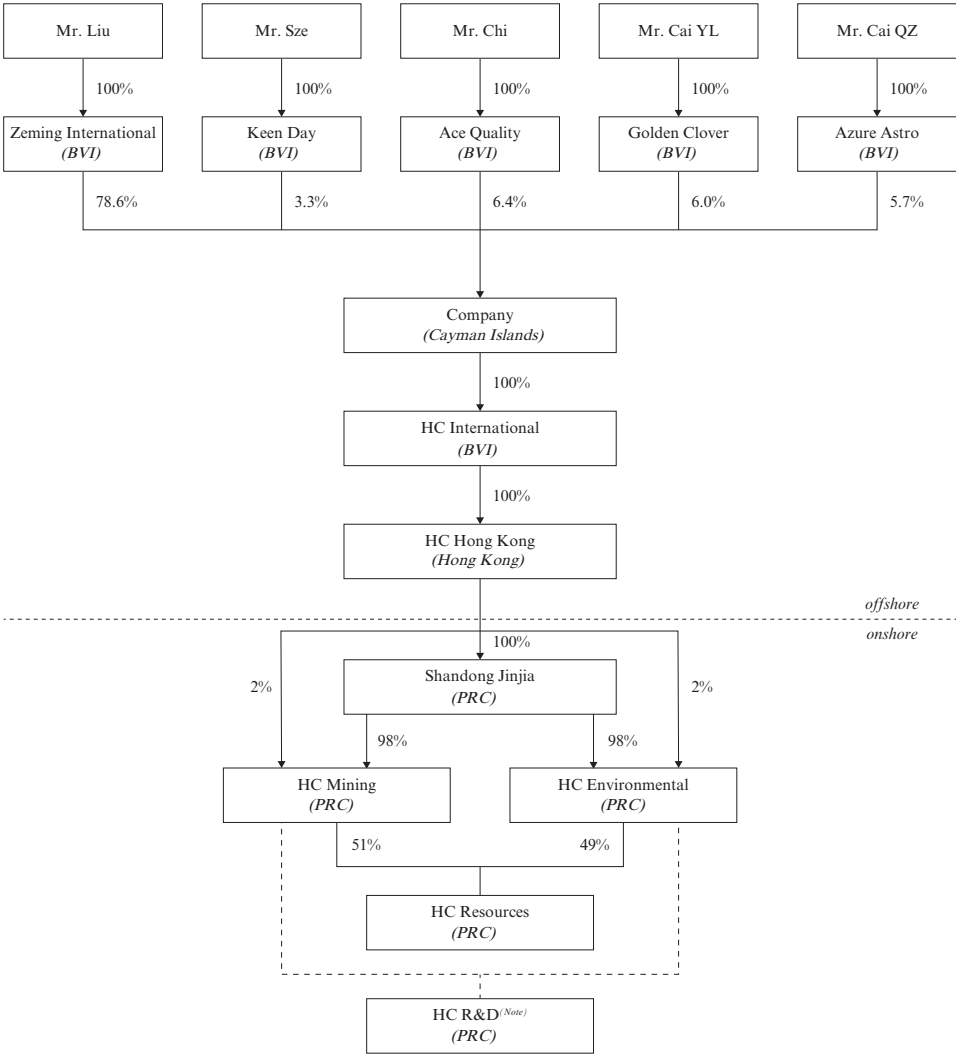
After reviewing the terms of the [REDACTED], and given that (i) no special rights granted to the [REDACTED] will survive after the [REDACTED] in respect of the [REDACTED]; and (ii) the [REDACTED] were completed more than 28 clear days before the date of submission of the application for the [REDACTED], the Sole Sponsor confirms that the [REDACTED] are in compliance with the Guidance Letters HKEx-GL29-12 (January 2012) (updated in March 2017) and HKEx-GL43-12 (October 2012) (updated in July 2013 and March 2017).

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HISTORY, REORGANISATION AND CORPORATE STRUCTURE

CORPORATE STRUCTURE

The shareholding and corporate structure of our Group immediately following completion of the Reorganisation and prior to the [REDACTED] and the [REDACTED] is set out below:

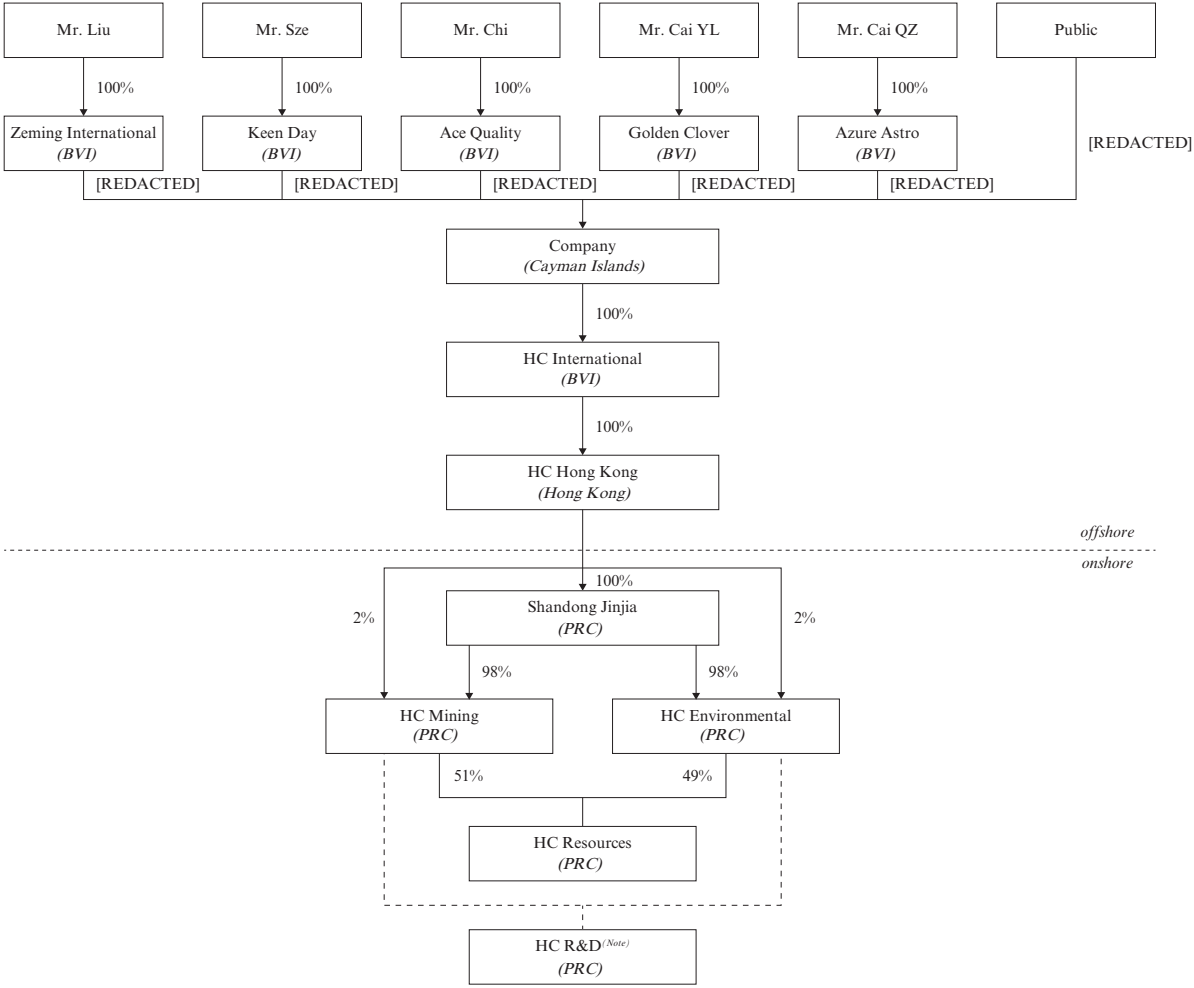


Note: HC R&D is a private non-enterprise entity (民辦非企業單位) established by HC Mining and HC Environmental.

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HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The shareholding and corporate structure of our Group immediately following completion of the [REDACTED] and the [REDACTED] (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] (if any) and any options which may be granted under the Share Option Scheme) is set out below:



Note: HC R&D is a private non-enterprise entity (民辦非企業單位) established by HC Mining and HC Environmental.

BUSINESS

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 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 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 and 3.9 thousand tonnes. Yantai city accounted for approximately 93% of proven gold reserves of Shandong province in 2020, ranking first among prefecture-level cities 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 Licence issued by Yantai Municipal Ecology and Environment Bureau (煙臺市生態環境局), which we are licensed to treat up to 1.16 million tonnes per year, and our business operation was not restricted from serving upstream customers in cities outside Laizhou city but within Shandong province.

BUSINESS

During the Track Record Period, our upstream customers for gold mine hazardous waste treatment services mainly comprised of gold smelting companies under gold mining companies with mine operations in Shandong province, in particular, in Yantai city, whilst our downstream customers for the sale of recycled products mainly comprised of chemical manufacturing companies and trading companies of chemicals in the PRC. We have developed and maintained strong and stable relationships with industry-renowned customers, such as Shandong Gold Smelting Co., Ltd. (山東黃金冶煉有限公司) (a subsidiary of Shandong Gold Mining Co., Ltd. (山東黃金礦業股份有限公司), whose shares are listed on the Main Board (stock code: 1787) and Shanghai Stock Exchange (stock code: 600547)) (“**Shandong Gold Smelting**”) and Zhongkuang Gold Industry Company Limited (中礦金業股份有限公司) (“**Zhongkuang Gold**”), in the PRC.

We believe that we possess experience and knowledge, research and development capabilities and hazardous waste treatment technologies. Our research and development team is led by Mr. Sheng, our executive Director and chief technical officer, who has more than 29 years of experience in chemical related industry and the qualification of intermediate engineer from Yantai Chemical Engineering and Technical Evaluation Committee (煙臺市化工工程技術職務中級評審委員會). As at the Latest Practicable Date, we had obtained governmental approvals or applied various patents in the PRC, both invention and utility model, for the technologies or devices for expanding our product offerings, upgrading our technologies on comprehensive utilisation and harmless treatment of gold mine hazardous wastes and developing new processing methods.

According to the F&S Report, the gold mine hazardous waste treatment market in the PRC, particularly in Shandong province and in Yantai city, is expected to grow due to increasing output rate of gold mine hazardous waste, increasing utilisation value through technology improvement, more utilise channels and stricter environmental requirements. We believe that by leveraging on the industry expertise and technical know-how that we possess, together with the growth of the gold mining industry and support of favourable government policies, we are well-positioned to capture more business opportunities from gold mining companies, chemical manufacturing companies and trading companies of chemicals in the PRC. For more details on the market drivers relating to our businesses, see “Industry Overview — Drivers of Gold Mine Hazardous Waste Market in China” in this document.

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BUSINESS

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:

| | 2018 | | Year ended 31 December | | | | Four months ended 30 April | | | |
|--|----------------|--------------|------------------------|--------------|----------------|--------------|----------------------------|--------------|---------------|--------------|
| | RMB'000 | % | 2019 | | 2020 | | 2020 | | 2021 | |
| | | | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| Gold mine hazardous waste treatment services | 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. However, our Directors confirm that we are not actively pursuing and do not intend to pursue business opportunities in trading of recycled products actively, as these trading activities were conducted only for maintaining good business relationship with our customers and suppliers. See “— Our Business Model — Our Products” below 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.

BUSINESS

COMPETITIVE STRENGTHS

We believe that our success can be attributed to the following competitive strengths:

1. We are one of the leading gold mine hazardous waste treatment companies in Shandong province, the PRC

We are one of the leading gold mine hazardous waste treatment companies 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 second and third largest gold mine hazardous waste treatment company in Shandong province and 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 treatment volume of approximately 1.08 million tonnes, accounting for approximately 26% and 18% of the total treatment volume in Shandong province and the PRC, respectively, in 2020.

Strategically located in Laizhou city, a county-level city in Yantai prefecture-level city in Shandong province, we ranked first and second in terms of treatment volume and revenue in Yantai city, respectively, in 2020, according to the F&S Report. Moreover, we are the only company in Laizhou city, Shandong province which has obtained the Hazardous Waste Business Licence issued by Yantai Municipal Ecology and Environment Bureau. In the PRC, there are two companies which ranked higher than our Group in terms of revenue in 2020 but with lower gold mine hazardous waste treatment volume and was mainly attributable to a relatively larger product offerings with higher value and selling price of their products as compared to ours in 2020. Nevertheless, we believe that our proven track record in the PRC is mainly attributable to our Group’s management, experience and capabilities, and has helped differentiate us from our existing competitors and other new market entrants.

Our position in the industry has been enhanced and supported by national and local policies in the PRC in promoting hazardous waste treatment. Pursuant to the “Industrial Structure Adjustment Guidance Catalogue (2019 version)” (《產業結構調整指導目錄(2019年本)》), the PRC government has continued to promote harmless treatment of cyanide tailings and our comprehensive utilisation of gold mine hazardous wastes, such as cyanide tailings, is categorised as the encouraged industry under the category of Environmental Protection and Resource Conservation Comprehensive Utilisation Project (環境保護與資源節約綜合利用項目).

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According to the F&S Report, the increasingly strict requirements on environmental protection drive the growth of the gold mine hazardous waste treatment market, the total revenue of the market in Shandong province increased from RMB59.5 million in 2015 to RMB1,288.8 million in 2020, representing a CAGR of 85.0% from 2015 to 2020. The gold mine hazardous waste treatment market also increased from RMB50.9 million in 2015 to RMB1,118.2 million in 2020 in Yantai city, representing a CAGR of 85.5% from 2015 to 2020. In 2020, the revenue of gold mine hazardous waste treatment market in Yantai city contributed approximately 87% of total revenue in Shandong province. It is also expected that the increasing gold mine hazardous waste output volume and stricter environmental requirements will drive the gold mine hazardous waste treatment market in Shandong province to further increase to RMB2,921.2 million in 2025, representing a CAGR of 17.8% from 2020 to 2025, according to the F&S Report. The gold mine hazardous waste treatment market is also expected to increase from RMB1,118.2 million to RMB2,755.0 million in 2025 in Yantai city, representing a CAGR of 19.8% from 2020 to 2025.

We believe that our Group is able to maintain the leading position in the gold mine hazardous waste treatment market riding on the support from local government and favourable policies in the PRC.

2. We are situated in Yantai city, one of the areas with the largest production of gold in the PRC and in Shandong province with the largest gold reserves among prefecture-level cities in the PRC.

We are strategically located in Laizhou city, a county-level city in Yantai prefecture-level city in Shandong province, to provide us with the proximity to the largest gold production area in the PRC. According to the F&S Report, Laizhou city and Yantai city are also rich in natural resources, among which their gold reserves are ranked first in terms of proven gold reserves among the county-level cities and prefecture-level cities in the PRC, respectively. Such strategic location gives us a geographical advantage for our operations in the highest gold-producing province in the PRC. The gold mine production in Shandong province ranked first in the PRC in 2020 according to the F&S Report. Shandong province is the area with the largest output volume of gold mine hazardous wastes in the PRC which houses the three major gold mining companies that are customers of our Group during the Track Record Period, namely Shandong Gold Smelting, Zhongkuang Gold and a state-owned gold mining company with its headquarter in Shandong province whose shares are listed on the Main Board (“**Customer Z**”). The aggregate annual gold mine production volume of these three major gold mining companies amounted to approximately 66 tonnes, which accounted for approximately 21.8% of total gold mine production in the PRC in 2020.

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In accordance with the “Reply on the Transfer and Disposal of Hazardous Wastes” (《關於危險廢物轉移和處置問題的覆函》) issued by the State Environmental Protection Agency (國家環境保護總局) (the predecessor of the Ministry of Ecology and Environment (生態環境部)), which replaced the “Notice on Strengthening the Management and Supervision of Hazardous Wastes” (《關於加強危險廢物經營監管的通知》) issued by the Department of Environmental Protection of Shandong Province (山東省環保廳), the principle of “close-by disposal”, that is, the principle of gold mines which produce hazardous waste being close to the hazardous waste treatment plants, is adopted. As such, our Group has geographical advantages. We are also the only licensed company in the Laizhou city, Shandong province providing gold mine hazardous waste treatment services during the Track Record Period and up to the Latest Practicable Date. Our Group also accounted for approximately 31% of market share in Yantai city in terms of treatment volume of gold mine hazardous waste in 2020. This allows us to provide close-by upstream services to the gold mining companies around the region. Under the principle of “close-by disposal”, the Department of Environmental Protection of Shandong Province did not specify the level of proximity between gold mines and hazardous waste treatment plants, thereby provides flexibilities to our Group to not only serve our upstream customers within Laizhou city or Yantai city, but to also capture upstream demands outside Laizhou city and in other nearby cities within Shandong province for our gold mine hazardous waste treatment services.

Our Directors believe that by establishing local presence in Yantai city, it gives us a competitive geographical advantage to capture upstream customer demands by being in close proximity to cities nearby. Yantai city had proven gold reserves of approximately 3.9 thousand tonnes, which accounted for approximately 93% of proven gold reserves of Shandong province in 2020, ranking first among prefecture-level cities in the proven gold reserves, and our Group accounted for approximately 31% of market share in Yantai city in terms of treatment volume of gold mine hazardous waste in 2020. Our leading position in the gold mine hazardous waste treatment market in Yantai city signifies our strong competitiveness and our ability to capture upstream demands for our gold mine hazardous waste treatment services not only in Laizhou city, but also in other county-level cities within Yantai city and Shandong province as a whole. During the Track Record Period, we have established stable customer base within Shandong province, and was able to generate significant revenue during the Track Record Period.

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To the best knowledge of our Directors after making reasonable enquiries and based on independent due diligence interviews conducted by the Sole Sponsor, most of our upstream customers during the Track Record Period do not have waste treatment companies affiliated to them located in Yantai city, which, our Directors are of the view that we had a competitive advantage by being in close proximity to the upstream customers situated in Yantai city. Based on the same independent due diligence interviews, these upstream customers had indicated that they also required treatment services provided by us, as the cyanide tailings that they provided to us for treatment did not meet the pre-requisite technical requirements under applicable laws and regulations, including but not limited to, The Technical Specification for Pollution Control of Cyanide Leaching Residue in Gold Industry (HJ943) (《黃金行業氰渣污染控制技術規範》(HJ943)), Environmental Protection Technical Specification for co-processing of Solid Wastes in Cement Kiln (《水泥窯協同處置固體廢物環境保護技術規範》(HJ662)) (if applicable) and Standard for Pollution Control on Co-processing of Solid Wastes in Cement Kiln (《水泥窯協同處置固體廢物污染控制標準》(GB 30485)) (if applicable) which stated that, amongst other things, cyanide tailings would need to demonstrate a relatively low cyanide and/or sulphur contents before being treated under the two specified methods pursuant to the List of Hazardous Wastes Exempted from Management attached to the 2021 Catalogue. Further, these upstream customers confirmed that our treatment service is required as we are the only company in Laizhou city, Shandong province that has obtained the Hazardous Waste Business Licence issued by Yantai Municipal Ecology and Environment Bureau and has the technological and available capacities in treating the cyanide tailings collected from our major upstream customers during the Track Record Period.

The revenue generated from our gold mine hazardous waste treatment services during the Track Record Period were all derived from customers located in Shandong province and in particular, in Yantai city. During the Track Record Period and up to the Latest Practicable Date, none of our upstream customers ceased to send or reduce the amount of cyanide tailings for our treatment since the promulgation of the 2021 Catalogue in November 2020. Based on independent due diligence interviews conducted by the Sole Sponsor, most of our upstream customers only engaged our Group for gold mine hazardous waste treatment service during the Track Record Period. To the best knowledge of our Directors after making reasonable enquiries, these upstream customers also indicated that they would continue engaging our Group for treatment service going forward. Our Directors are of the view that the 2021 Catalogue will not adversely affect our operations going forward. For more details of the breakdown of our revenue from gold mine hazardous waste treatment services by cities in Shandong province during the Track Record Period, see “— Our Business Model — Our Services” below.

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3. We have proven track record with stable relationship and maintain a strong customer base

We have developed and maintained strong and stable relationships with industry-renowned customers in the PRC. We commenced business relationship with Shandong Gold Smelting, Zhongkuang Gold and Customer Z in 2017, 2014 and 2019, respectively. According to the F&S Report, these three customers were the three largest hazardous waste producers in Shandong province, with an aggregate output volume of approximately 1.3 million tonnes in 2020. The actual volume of gold mine hazardous wastes that we treated for these three customers amounted to approximately 1.0 million tonnes for the year ended 31 December 2020.

We believe we have advantages over our existing competitors and new entrants in the industry to obtain new engagements from customers because we are able to capitalise on our accumulated industry reputation, our close proximity to our customers, and stable cooperative relationship with leading industry participants to secure more contracts and expand business opportunities in the future.

4. We possess technical capabilities in the gold mine hazardous waste treatment process and production of recycled products

We believe that we possess experience and knowledge, research and development capabilities and hazardous waste treatment technologies. We have technical capabilities and our technical personnel conducting research and development activities possess the professional expertise and extensive experience in the gold mine hazardous waste treatment and recycling industry and environmental protection in the PRC.

We developed collaborations with renowned universities, such as Shandong University (山東大學), and scientific research institutes, such as Regional Resources and Environmental Development Research Institute of Shandong Province (山東省區域資源與環境發展研究院), in the PRC on research and development of technology for comprehensive utilisation of gold mine hazardous wastes. We have set up HC R&D with the intention to further enhance our technologies in producing high-quality recycled products in 2020. We have also engaged third-party organisations to develop new technologies on gold mine hazardous waste treatment and recycled products development since January 2021. Our Group intends to penetrate the production chain and promote comprehensive utilisation of gold mine hazardous wastes, which we believe could increase our Group’s competitiveness by enhancing the value of our high-quality recycled products. As at the Latest Practicable Date, we had registered or obtained governmental approvals of six patents in the PRC in relation to the invention of a device for dust isolation and recovery in the conveyor belt of gold tailings, a pump-mixing pipeline dosing device for the integrated utilisation of gold cyanide tailings and a side device installed at flotation machine for dust removal, and we are in the progress of applying for various patents in the PRC.

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5. We have an experienced and professional management team

Our executive Directors have extensive in-depth industry experience, namely, Mr. Liu, our founder and executive Director, has over ten years of experience in operation and management business of metal ore waste processing, Mr. Zhan, our executive Director and chief executive officer of our Company, has more than eight years of experience in corporate management in the gold mine hazardous waste treatment industry, and Mr. Sheng, our executive Director and chief technical officer of our Company, has more than 29 years of experience in chemical related industry.

Our senior management team consists of professionals with substantial industry, management and operational experience. A majority of our senior management team have been working in the relevant industries, such as metal processing industry, for more than 20 years.

Their extensive industry knowledge and in-depth understanding of the regulatory environment have enabled them to foresee the development trend of the industry we operate in and the governmental regulations and policies. We believe that our Directors and our senior management team possess the insight, vision and knowledge required to effectively execute our growth strategy in the face of challenging economic conditions.

BUSINESS STRATEGIES

In order to leverage on our aforementioned competitive strengths to capture the growing market demand, we plan to have a series of incremental capacity expansions of our production facilities and enhancement of production capabilities to diversify product offerings to capitalise on the growing demand of gold mine hazardous waste treatment services and recycled products.

We intend to fund our business strategies by utilising net [REDACTED] from the [REDACTED] with details set out below. Any shortfall in relation to our expansion of production capacity and capabilities is intended to be financed by internal resources and/or external borrowings of our Group.

1. Increase our production capacity and capabilities to solidify our market position

According to the F&S Report, 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 are expected to drive the continuous increase in the treatment volume of gold mine hazardous waste in Shandong province from 4.2 million tonnes in 2020 to 5.7 million tonnes in 2025, representing a CAGR of 6.2% from 2020 to 2025. Despite the environmental regulations having already been strictly implemented in Shandong province for the past few years, the treatment volume is expected to increase moderately up to 2025 due to the expected relatively stable gold mine production and gold mine hazardous waste production in Shandong province.

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According to the F&S Report, there has been a large amount of gold mine hazardous waste accumulated in Yantai city and other areas in Shandong province in the past years, which is ready to be provided to us for treatment. Such accumulation of gold mine hazardous waste was mainly because a large amount of cyanide tailings was produced and stored in the area before such wastes were listed as hazardous waste under the Directory of National Hazardous Wastes (國家危廢名錄) in August 2016. The total volume of accumulated gold mine hazardous waste in Yantai city and Shandong province are estimated to be more than 10 million tonnes and 12 million tonnes, respectively, as at the end of 2020. According to the F&S Report, the accumulated gold mine hazardous waste in Yantai city is estimated to be mainly stored in the storage and/or production facilities within the gold mining companies with business operations located in Yantai city. The accumulated gold mine hazardous waste in Yantai city and Shandong province is estimated to be exhausted in at least approximately 20 years, based on the current level of treatment volume of historically accumulated gold mine hazardous waste, which is approximately 0.3 million tonnes to 0.5 million tonnes per annum, according to the F&S Report.

Further, the proven gold reserves in Yantai city amounted to approximately 3.9 thousand tonnes, which accounted for approximately 93% of proven gold reserves in Shandong province, situating our Group in Yantai city, therefore provides us with sufficient and sustainable market demand in expanding our production capacity and in providing gold mine hazardous waste treatment services to upstream customers in the market. In 2020, the output volume of gold mine hazardous waste in Yantai city accounted for approximately 78% of total output volume in Shandong province, representing the significance of market size of Yantai city in Shandong province. As at end of 2020, there were around 100 gold mine companies; and around ten and 12 gold producer-affiliated hazardous waste treatment companies and independent hazardous waste treatment companies among the qualified market players which had obtained hazardous waste business licence, were market players with actual treatment volume for gold mine hazardous waste treatment service during the year in 2020 in Yantai city and Shandong province, respectively, according to the F&S Report.

The treatment volume of gold mine hazardous waste in Shandong province and in Yantai city amounted to approximately 4.2 million tonnes and 3.5 million tonnes, respectively in 2020, of which our Group accounted for approximately 31% of the market shares in Yantai prefecture-level city. Yantai city is, and is expected to continue to be the prefecture-level city with the largest gold production volume in the PRC, with continuous development of new gold mines. Specifically, two major gold mines in Haiyu town and Shaling town within the Yantai prefecture-level city area, with proven mineral reserves of approximately 562 tonnes and 309 tonnes, respectively, had been explored in 2020 by Shandong Gold Smelting, one of our major upstream customers during the Track Record Period. Both newly explored gold mines in Yantai city are estimated to commence mass production after 2024 and 2027, respectively, which is expected to bring incremental demand to our Group for gold mine hazardous waste treatment services.

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With the abundance of gold mines in the cities within Shandong province and in particular, Yantai city which are in close proximity to our operation, recently explored gold mines in Shandong province, as well as the availability of accumulated gold mine hazardous waste yet to be treated in the market, our Directors believe that we would be able to capture future development opportunities in Laizhou city and in Yantai city and expand to other nearby cities within Shandong province as a whole by leveraging our proven track record and production capabilities as one of the leading gold mine hazardous waste treatment companies in the PRC. According to the F&S Report, it is an industry practice for gold mine hazardous waste treatment companies to serve their upstream customers in local cities and prefecture-level cities nearby in the province in which they are located.

As at the Latest Practicable Date, our Group possessed the Hazardous Waste Business Licences which allowed our Group to conduct the gold mine hazardous waste treatment business with the permitted annual treatment capacity up to 1.16 million tonnes. For the year ended 31 December 2020, the utilisation rates (representing the percentage of actual annual treatment volume over the permitted annual treatment volume pursuant to the Hazardous Waste Business Licence) of each of our production facility in Jincheng town and Shahe town, Laizhou city was approximately 95% and 92%, respectively. We consider that it is not feasible for us to further capture the market growth of gold mine hazardous waste treatment services by utilising our existing production facilities and existing Hazardous Waste Business Licences as the utilisation rate of our two existing production facilities had reached such a high level.

As such, our Directors consider that we can only capture the business opportunities arising from the growing demand of the gold mine hazardous waste treatment services in the coming years and solidify our leading market position in Shandong province by increasing the annual treatment volume of our Group. Our Group plans to construct a new production facility (the “**New Production Facility**”) and obtain another new Hazardous Waste Business Licence with an additional permitted annual treatment capacity of 600,000 tonnes. For the New Production Facility, it is planned that the acquisition of the land use rights will be done by the first quarter of 2022 and the construction will be completed in two phases, with the first phase (construction of the production compartment for gold mine hazardous waste treatment and the new research and development laboratory) (the “**Phase One Production Compartment**”) and second phase (construction of the production compartment for production of recycled products) planned to be completed within the fourth quarter of 2022 and by the end of the first quarter of 2023 (the “**Phase Two Production Compartment**”), respectively.

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For obtaining the new Hazardous Waste Business Licence, based on our historical experience, we expect that we would commence the trial operation of the production compartment for gold mine hazardous waste treatment within three months after the completion and obtain the new Hazardous Waste Business Licence by the mid 2023 upon the completion of the trial operation of the New Production Facility. Based on our historical experience in obtaining the Hazardous Waste Business Licence, to commence our trial operation of Phase One Production Compartment, we would be granted a temporary permit from Yantai Municipal Ecology and Environment Bureau, stating the Bureau’s permission and approval to commence trial operation. Such approval contains, amongst other things, requirements of environmental protections as required under relevant PRC laws and regulations, as well as the designated business activities of hazardous waste treatment granted under the approval. It is estimated that we would receive the approval to commence trial operation by the end of 2022. According to the F&S Report, the expected timeline in obtaining temporary permit to comment trial operation, and obtaining the new Hazardous Waste Business Licence is reasonable from the industry’s perspective. According to the Measures for the Administration of Permit for Operation of Hazardous Wastes (《危險廢物經營許可證管理辦法》), application for a new Hazardous Waste Business Licence should meet the requirements of environmental protection technicians, transportation tools, packaging tools, storage facilities, pollution prevention facilities, and technology and techniques.

During the design stage of the New Production Facility, we will ensure that the design and construction of the New Production Facility meet the above conditions and legal requirements. It is estimated that once the land use right has been acquired, we will complete the preliminary work of the construction project within three months, including the completion of the report on the construction feasibility studies with respect to the commissioned design works, and the coordination with and grant of approvals from the relevant government authorities with respect to the assessment reports on the environment impact and social stability risks.

The construction works would be expected to be completed within the fourth quarter of 2022. We will then lodge the application to the relevant government authority for inspection and acceptance of construction projects. We estimate that it will take approximately a month for the government authority to grant the acceptance and then we could commence the trial operation for obtaining the new Hazardous Waste Business Licence. With the recent experience of constructing a production facility in Shahe town, Laizhou city of permitted annual treatment capacity of 600,000 tonnes, we are confident that we can establish qualified rules and regulations, pollution prevention and control measures, and accident emergency rescue measures before mid 2023 in order to obtain the licence. Our PRC Legal Advisers advised that as long as we comply with the above conditions and relevant legal requirements, and provided that we take all necessary steps and submit the relevant applications in accordance with the requirements and schedule prescribed by the applicable PRC laws and regulations, there are no substantial legal impediment for our Group to obtain the new Hazardous Waste Business Licence. As such, our Directors consider that the new Hazardous Waste Business Licence will be obtained after completion of all necessary and compulsory regulatory procedures, which is currently estimated to be by mid 2023.

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Our expansion plan will be implemented across two to three years. Our Directors take the view that there will be sufficient market demand to support our expansion plan due to the favourable industry outlook of the gold mine hazardous waste treatment market. According to the F&S Report, the raising of awareness of environmental protection in the gold mining industry, strengthened enforcement under the stringent environmental protection policies, increasing utilisation value through technological improvement, more channels for utilisation of hazardous waste and increasing hazardous waste output rate are key market drivers to the gold mine hazardous waste market in the PRC. For details, see “Industry Overview — Analysis of Gold Mine Hazardous Waste Treatment Market in China and Shandong Province — Drivers of Gold Mine Hazardous Waste Market in China”. Notwithstanding the growth of the gold mine hazardous waste treatment market is slowing down with its CAGR dropping from 85% in Shandong province and 79% in overall China from 2015 to 2020 to 18% in Shandong province and 19% in overall China from 2020 to 2025, according to the F&S Report, the high CAGR of the gold mine hazardous waste treatment market from 2015 to 2020, with the revenue increasing from RMB59.5 million in 2015 to RMB1,288.8 million in Shandong province, and RMB105.1 million in 2015 to RMB1,905.4 million in 2020 in overall China, was mainly because the market was at a relatively primary stage. Especially after the cyanide leaching residue was listed in Directory of National Hazardous Wastes (國家危廢名錄) issued by MEE on 1 August 2016, the market size multiplied afterwards. With the increasing maturity of the market, the market will keep growing at a significant CAGR with a healthy note of growth in market demand. The total revenue of the gold mine hazardous waste treatment market are still expected to grow continuously, from RMB1,288.8 million in 2020 to RMB2,921.2 million in 2025 in Shandong province, and RMB1,905.4 million in 2020 to RMB4,568.9 million in 2025 in overall China. The gold mine hazardous waste treatment market of Yantai city also increased from RMB50.9 million in 2015 to RMB1,118.2 million in 2020, representing a CAGR of 85.5% from 2015 to 2020. The gold mine hazardous waste treatment market is also expected to increase from RMB1,118.2 million to RMB2,755.0 million in 2025 in Yantai city, representing a CAGR of 19.8% from 2020 to 2025. Further, Shandong province, as the largest gold production province in the PRC, has implemented strict environmental regulations earlier, which led to a relatively higher historical growth rate and expected a relatively lower future growth rate of hazardous waste treatment revenue than the rest of the PRC. However, it is expected that there will be a higher growth rate of treatment revenue over volume in Shandong province, which is mainly due to the expected increasing utilisation rate of valuable materials in 2020 to 2025.

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Our Directors also believe, and the Sole Sponsor concurs, that our Group’s business is sustainable based on the following factors:

- (i) ***continuous growth of market size.*** According to the F&S Report, the gold mineral resources reserve in the PRC and Shandong province was 14.7 thousand tonnes and 4.2 thousand tonnes by the end of 2020, respectively. Based on the current level of gold mine production in the PRC, it would not be depleted entirely in the coming 50 years let alone there are continuous discovery of new reserves. It is expected that both the output volume and treatment volume of the gold mine hazardous waste in Shandong province and the PRC, and the total revenue of gold mine hazardous waste treatment market in Shandong province and the PRC will grow continuously from 2021 to 2025. For further detailed analysis of the gold mine hazardous waste treatment market in Shandong province and the PRC, see “Industry Overview — Analysis of Gold Mine Hazardous Waste Treatment Market in China and Shandong Province”;

- (ii) ***future trends in the market.*** Our Directors consider that the future trends in the gold mine hazardous waste treatment market are positive to the sustainable development of our Group’s business. According to the F&S Report, the consolidation of the gold mine hazardous waste production is expected to drive the centralisation of the hazardous waste treatment demand correspondingly, which is expected to increase reliance on hazardous waste treatment companies. Therefore, the leading hazardous waste treatment companies with large treatment capacity are expected to gain more market share. By implementing our business strategies of building a new production facility to increase our production capacity and solidify our market position in the gold mine hazardous waste treatment market in Shandong province, we expect to expand and grow our business. Together, leveraging on the combined effect of the market trend of centralisation of gold mine hazardous waste treatment demand from upstream customers, our Directors believe that this would increase the reliance of our upstream customers for our gold mine hazardous waste treatment services. As such, our revenue and gross profit margin could be maintained. Further, under the dual pressures of government’s encouragement of full utilisation of hazardous waste and profitability, the advantages of professional third-party hazardous waste treatment companies that can maximise resource utilisation have gradually become prominent. Based on the above, we would signify our ability to maintain our profitability and competitiveness for future growth of our business which in turn would attract upstream customers to rely more on our Group for gold mine hazardous waste treatment services, and we could maintain our high gross profit margins going forward. For details, see “Industry Overview — Trends in Gold Mine Hazardous Waste Treatment Market in China”; and

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- (iii) ***our ability to grow.*** Our Directors consider that we are in a good position to capture the rising demand in the gold mine hazardous waste market to facilitate the sustainable development of our business as we are the only company in Laizhou city, Shandong province which had obtained the Hazardous Waste Business Licence, and there are fairly high entry barriers for gold mine hazardous waste market in the PRC such as qualification barrier, a high requirement on the technology capability, and need of capital investment. Further, our Directors consider, and F&S concurs, that the outlook of the average treatment fee is positive with the average treatment fee charged to our upstream customers is expected to increase at a moderate growth rate with a range from 3% to 5% in the foreseeable future. While the selling price of our recycled products charged to our downstream customers is significantly influenced by the composition of recycled products. It is expected that the selling price of pyrite concentrate of similar composition will grow at a CAGR of around 5% from 2020 to 2025.

In addition, our ability to grow was also proven by our historical financial performance. Our Group’s total revenue increased 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 to approximately RMB205.4 million for the year ended 31 December 2020. Total revenue of our Group has increased from approximately RMB49.0 million for the four months ended 30 April 2020 to approximately RMB67.9 million for the corresponding period in 2021. Our Directors are also confident that we are capable to secure more contracts for the additional permitted annual treatment capacity after taking into account (i) our Group had been successful in diversifying our customer base by entering into contracts with new customers during the Track Record Period, including Customer Z which was one of the leading gold mining companies with its headquarter in Shandong province and commenced business relationship with us in 2019; (ii) our established operating history and proven track record in the industry also enhance our reputation and assist us in securing contracts from both our existing customers and new customers; and (iii) the strong demand of the gold mine hazardous waste services in the Shandong province which we had also experienced a strong demand during the Track Record Period as evinced by our growth in revenue from gold mine hazardous waste treatment services of approximately RMB41.0 million in 2018 to RMB108.0 million in 2020. Further, there has also been an increase in revenue from gold mine hazardous waste treatment services from approximately RMB30.2 million for the four months ended 30 April 2020 to approximately RMB34.3 million for the corresponding period in 2021.

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As one of the leading gold mine hazardous waste treatment companies in the PRC, our Group will continue to develop our focus on gold mine hazardous waste treatment services and the recovery and sale of recycled products upon [REDACTED]. Apart from the plan for increasing the aggregate treatment capacity of gold mine hazardous wastes, leveraged from our expertise and experience in comprehensive utilisation of gold mine hazardous waste and recovery of recycled products, we also intend to further diversify our product offerings in our sale of recycled products business as our goal has always been to continuously improve our research and development capabilities and technical skills and achieve a high utilisation rate of gold mine hazardous wastes. As a result, more resources with economic value can be extracted therefrom. Our Directors consider that it is beneficial to our Group to diversify our product offerings in our sale of recycled products business.

During our operation process, other than the extraction of pyrite concentrate and gold-bearing pyrite concentrate, we also extract high silicon tailings from the gold mine hazardous waste collected from our upstream customers. High silicon tailings can be further processed to construction aggregates for construction works and some other recycled products as by-products for sale. For more details, see “— Operation Process” below.

According to the F&S Report, construction aggregate is a very important construction material, and is widely used in building construction, high-speed railway construction, highway construction and interior decoration. With the further acceleration of the PRC’s urbanisation process, the demand for construction aggregate is expected to continuously increase, leading to a growing market. Construction aggregate can be recovered during gold mine hazardous waste treatment process. Therefore, the construction aggregate market is a major downstream market of gold mine solid waste treatment market, and an important part of circular economy in the mining industry. The average price of construction aggregates in the PRC increased from RMB64.5 per tonne in 2015 to RMB149.9 per tonne in 2020, with the decrease in supply caused by increasingly strict environmental policies of construction aggregates production. The price of construction aggregates is expected to continue to increase to RMB190.5 per tonne in 2025 at a CAGR of 4.9%. As such, our Directors are of the view that the expansion of our recycled product offerings to construction aggregates is a logical organic growth of our business.

During the Track Record Period and up to the Latest Practicable Date, our Group has not produced construction aggregates for sale since we did not have the necessary machinery and equipment for the production. Before deciding to diversify our products offering to construction aggregates extracted from high silicon tailings, we have engaged China Non-ferrous Metals Industry Xian Investigation and Design Research Institute Co., Ltd. (中國有色金屬工業西安勘察設計研究有限公司), an Independent Third Party consultant, to prepare a feasibility report (the “**Feasibility Report**”) on the proposed construction of production compartment for the recovery of recycled products, mainly construction aggregates, from high silicon tailings to evaluate, among others, the market and prospect of sale of construction aggregates recovered from high silicon tailings, analysis on the production technology and method, costs and environmental impact for the construction of such production compartment.

BUSINESS

The Feasibility Report was prepared in accordance with the “Regulations on the Principles for the Preparation of Feasibility Studies for Non-ferrous Metals Industry Projects” (《有色金屬工業項目可行性研究報告編製原則規定》) issued by the China Non-ferrous Metals Industry Association (中國有色金屬工業協會). The Feasibility Report consists of study in various aspect, including but not limited to, (i) the market of cement production in the PRC as construction aggregates are principally used for cement production; (ii) the processing process of silicon tailings to recycled products including construction aggregates; (iii) the layout of the proposed compartment to be constructed; (iv) the ancillary facility and civil works; (v) energy consumption; (vi) environmental protection; (vii) labour safety; (viii) fire safety; and (ix) financial analysis. In particular, the Independent Third Party consultant evaluated the viability of the processing process of high silicon materials proposed by our Group, including the tests of the optimal temperature for processing the high silicon materials, the review of specifications of the major machinery proposed by our Group to ensure they are suitable for the processing process, and the investigation on the components of products after the processing process to verify whether the outputs are suitable for use as construction aggregates. Based on the Feasibility Report and as assessed by the Independent Third Party consultant, it is feasible to construct the Phase Two Production Compartment for the production of construction aggregates. As a result, our Directors believe that we possess the requisite technological capability and expertise for the recovery of construction aggregates for sale from high silicon tailings.

Based on the recommendation of the Feasibility Report in terms of the feasibility on the construction of the production compartment for the recovery of recycled products from high silicon tailings and the customers’ feedback on the potential market, we plan to construct a production compartment in the New Production Facility which will be devoted to the process of recovery of recycled products, mainly construction aggregates, from high silicon tailings.

It is planned that the construction of Phase Two Production Compartment will be completed by the end of the first quarter of 2023. We expect that our annual production capacity of construction aggregates will be approximately 185,000 tonnes upon the commencement of the operation of the production compartment in the New Production Facility. As at the Latest Practicable Date, two new downstream customers (the “**Potential Customers**”) have entered into non-legally binding indicative agreements with us to express their interest in purchasing construction aggregates, with a total volume of 190,000 tonnes per year, should we have the production capabilities to produce construction aggregates. The Potential Customers are based in Laizhou city and are both primarily engaged in the manufacturing and sale of various kinds of construction materials such as concrete related products and fill materials used in constructions. Under the indicative agreements entered into with the Potential Customers, the total aggregate estimated sum is approximately RMB38 million per year.

BUSINESS

The salient terms of our indicative agreements entered into between us and the Potential Customers are as follow:

| | |
|-------------------------------------|---|
| Indicative purchase quantity | We generally agreed with the Potential Customers and stipulated a fixed indicative purchase quantity on an annual basis when production of construction aggregates commences and supply becomes available. |
| Price | Our fees are calculated based on construction aggregates per tonne and the indicative amount to be purchased from the Potential Customer, depending on negotiations between the Potential Customers and us. |
| Logistic arrangement | The Potential Customers generally collect the products at our production facilities. |
| Payment terms | Full payment generally shall be made by the Potential Customers before the delivery of products. |
| Dispute resolution | The contract shall be governed by the PRC laws. Any disputes between our Group and the customer shall firstly be resolved through negotiations, failure of which, the parties may resort to litigation proceedings. |

Our Directors confirmed that the non-legally binding indicative agreements were entered into based on arm’s length negotiation between parties, with reference to the customer demands for our products, our reputation in the market and our proven track record of our sale of recycled products which has proven our Group’s sustainability in offerings recycled products to downstream customers. Our Directors are of the view that the indicative agreements would likely be realised upon the commencement of the operation of Phase Two Production Compartment in the New Production Facility. As confirmed by the Potential Customers, they are based in Laizhou city and are both primarily engaged in the manufacturing and sale of various kinds of construction materials, such as concrete related products and fill materials used in constructions. Therefore, their demands for construction aggregates are steady and the construction aggregates is one of the key supplies to the Potential Customers’ business operations.

BUSINESS

As confirmed by the Potential Customers, our Group has a competitive advantage amongst their existing suppliers due to the close proximity between us and them. The Potential Customers currently obtain their supplies of construction aggregates delivered from Hebei province, which takes a relatively longer delivery time, and gives rise to significantly higher delivery and transportation costs. The Potential Customers expect that the construction aggregates supplied by us would account for approximately over 30% of their demand per annum, and are confident that they would require the supply of construction aggregates produced by our Group.

The construction aggregates produced from high silicon tailings are categorised as by-product lightweight aggregate. According to the F&S Report, by-product lightweight aggregate, being one of the three kinds of lightweight aggregates, results from by-products produced in other industrial processes which are generally collected and processed by gold mine solid waste treatment enterprises. Lightweight aggregate market is a major downstream market of gold mine solid waste treatment market, and an important part of circular economy in mining industry in the PRC. According to the F&S Report, there is a shortage of natural lightweight aggregate supply in the PRC after decades of extensive mining, by-product lightweight aggregate is expected to continue to expand its market share, leading to growing market demand of the PRC’s gold mine solid waste treatment market. The demand for construction aggregates in the PRC is enormous, which amounts to approximately 20 billion tonnes per year.

Moreover, the application of lightweight construction aggregate has become increasingly popular in downstream construction industries due to its various physical properties and advantages, such as low density and relatively high strength. For example, lightweight aggregate concrete is widely applied in the production of pre-cast concrete unit used in prefabricated buildings, which is an emerging market in the value chain of PRC’s construction industry in recent years. The average price of construction aggregates in China increased from RMB64.5 per tonne in 2015 to RMB149.9 per tonne in 2020, and the price of construction aggregates is expected to continue to increase at a CAGR of 4.9% from 2020 to 2025. Our Group considers that some of our existing downstream customers are also potential customers for the construction aggregates and we have started and will continue to approach them for promoting our plan to diversify our product offerings to construction aggregates and entering into non-legally binding indicative agreements on sale and purchase of construction aggregates as and when appropriate. Further with our continuous efforts in sales and market as detailed in “— Sales and Marketing” below, our Directors consider that we would be able to capture the market opportunities for the supply of construction aggregates. We believe that there will be sufficient demand for construction aggregates.

BUSINESS

The estimated capital expenditure for constructing the New Production Facility

As at the Latest Practicable Date, our Directors intend to participate in the Yinhai Chemical Industrial Park (銀海化工產業園) project, a property development project in Laizhou city, which was the Laizhou government’s plan in integrating various companies engaging in chemical manufacturing, new energy and other related industrial businesses. While target location has been identified, exact pieces of land parcel and details have not been announced by the Laizhou government as at the Latest Practicable Date, and that we had not definitively identified any land parcel for the purpose of constructing the New Production Facility. Given the target location of the New Production Facility would be located in Laizhou city, Shandong province, our Group would be able to enjoy the geographical advantages. In selecting the appropriate geographical location for the New Production Facility, our Directors take into account factors, including but not limited to, environmental preservation concerns, as well as the availability of a reliable electricity, water supply and sewage system. We have ongoing consultations with the local government authorities in Shandong province to discuss the selection of land for constructing the New Production Facility. As at the Latest Practicable Date, we have been invited to tender for such property development project in the Yinhai Chemical Industrial Park, for the construction of the New Production Facility in the land parcels yet to be identified within the said industrial park. To the best knowledge of our Directors after verbal communication with the Laizhou Government, the tendering process for constructing the New Production Facility in Yinhai Chemical Industrial Park had not yet commenced as at the Latest Practicable Date, and is expected to commence in or around the end of November 2021. Result of such is expected to be announced by the end of 2021 and our Directors expect to obtain the land use rights and commence construction of the New Production Facility in the first quarter of 2022.

Our Directors consider that the parcel of land on which the New Production Facility will be constructed is expected to have a site area up to 166,500 sq.m. with an estimated building area of approximately 87,300 sq.m. (being approximately 52.4% of the site area). The estimated building area of approximately 87,300 sq.m. is intended to house the following facilities:

- approximately 23,000 sq.m. will be used for production compartments to place the machinery and equipment that are intended to be used for the gold mine hazardous wastes treatment and production of recycled products;
- approximately 57,000 sq.m. will be used as warehouse to store the gold mine hazardous waste collected from our upstream customers, high silicon tailings and recycled products including pyrite concentrate, gold-bearing pyrite concentrate, and construction aggregates;
- approximately 5,000 sq.m. will be used as the new research and development laboratory; and
- approximately 2,300 sq.m. will be used as office for our administrative staff and dormitory.

BUSINESS

It is expected that major capital expenditure required for constructing the New Production Facility includes (i) the land acquisition cost; (ii) the construction cost; and (iii) the purchase costs of machinery and equipment. The following table sets forth the net [REDACTED] from the [REDACTED] we intend to apply on the major capital expenditure for setting up the New Production Facility:

| | Net [REDACTED] from the [REDACTED] | | % of the net [REDACTED] from the [REDACTED] |
|---|---------------------------------------|----------------------|--|
| | <i>RMB (million)</i> | <i>HKD (million)</i> | |
| Land acquisition cost | [REDACTED] | [REDACTED] | [REDACTED] |
| Construction cost | [REDACTED] | [REDACTED] | [REDACTED] |
| Purchase costs of machinery and equipment ^(Note) | <u>[REDACTED]</u> | <u>[REDACTED]</u> | <u>[REDACTED]</u> |
| Total | <u>[REDACTED]</u> | <u>[REDACTED]</u> | <u>[REDACTED]</u> |

Note: We intend to partially finance the purchase costs of the machinery and equipment for the production in the New Production Facility by the net [REDACTED] from the [REDACTED] and the remaining purchase costs of approximately [REDACTED] million (equivalent to approximately [REDACTED] million will be financed by our internal resources and external financing (if necessary). For details, see “Future Plan and Use of [REDACTED]” in this document.

Investment payback period and breakeven points

For reference and illustration purpose only, set forth below is a highly hypothetical analysis on the investment payback period and breakeven points and the key assumptions used in calculating the investment payback period and breakeven points in respect of our New Production Facility to be constructed under the two production compartments.

We consider that a new production compartment achieves breakeven when the revenue it generated is able to cover its costs and expenses arising in the same year on an accounting basis. The production scale required to achieve breakeven varies depending on various factors, including but not limited to general economic and market conditions, market demands, utilisation rate of our production compartments, market competition, labour costs and price of raw materials and transportation costs. We consider that a new production compartment achieves investment payback when the total future net cash flow generated from operating activities since the commencement of business operation is able to cover the total investment amount. The time required to achieve investment payback varies depending on various factors, including those mentioned above and the capital expenditure including land acquisition and construction costs and purchase costs of relevant machinery and equipment.

BUSINESS

Our key assumptions used in calculating the investment payback period and breakeven points in respect of our New Production Facility mainly include: (i) the Phase One Production Compartment will commence operation in the first quarter of 2023 with 50% capacity during the first nine months under trial operation period and become fully operational by the end of the fourth quarter of 2023; and (ii) the Phase Two Production Compartment will commence operation by the end of the second quarter of 2023 to achieve approximately 70% of annual capacity with the first eight months under trial operation period and become fully operational by the end of the first quarter of 2024.

Upon completion of the Phase One Production Compartment, our permitted treatment capacity would be an additional 600,000 tonnes per annum. It is estimated that, based on our Directors’ knowledge and experience, the investment payback period for the Phase One Production Compartment will be approximately 3.7 years and that breakeven could be achieved upon reaching the breakeven period of approximately one month. Our existing production facility in Jincheng town, Laizhou city achieved investment payback period and breakeven point at approximately 4.8 years and 3.5 years, respectively, which is relatively longer than our current estimation for Phase One Production Compartment and it is mainly because we were operating losses in prior years and we started generating operating profit from 2018, mainly attributable to the increasingly stricter environmental protection policies imposed by the PRC government leading to a significant growth of the gold mine hazardous waste treatment market. For details, see “Financial Information — Accumulated Losses as at 1 January 2018”. We estimated to achieve the investment payback for our existing production facility in Shahe town, Laizhou city in approximately 2.8 years which is expected to be in July 2022 and that breakeven point achieved at approximately one month.

Upon completion of the Phase Two Production Compartment, we will have production capacity of construction aggregates of approximately 185,000 tonnes per annum. It is estimated that, based on our Directors’ knowledge and experience, the investment payback period will be approximately 3.2 years and that breakeven could be achieved upon reaching the breakeven period of approximately three months.

Expansion of our production team

We also need to expand our operation team for the operation of the New Production Facility. We intend to utilise approximately [REDACTED] (equivalent to approximately [REDACTED]) of the net [REDACTED] from the [REDACTED], representing [REDACTED]% of the net [REDACTED] of the [REDACTED], for the payment of wages of the production team for the operation of the New Production Facility from the commencement of trial operation of the New Production Facility up to the mid of 2023.

BUSINESS

2. Strengthen our research and development capabilities to improve our efficiency on treatment services and diversify our product offerings

We will continue to strengthen our research and development capabilities, commit to the quality assurance of our services and products, and continue to increase our competitiveness as a gold mine hazardous waste treatment company with a dominant position in the PRC. With the aim of improving our treatment and recycling techniques, reducing production cost, and diversifying our product offerings, we will devote more resources to enhance our research and development capabilities by establishing a new research and development laboratory in the New Production Facility as well as expanding our research and development team.

Establish a new research and development laboratory

To solidify our market position by strengthening our technical expertise on hazardous waste treatment and resource utilisation and further expand our product offerings, our Directors consider that we need a new research and development laboratory. As such, our Group intends to establish a new research and development laboratory with an estimated building area of approximately 5,000 sq.m. in the New Production Facility. The construction of the new research and development laboratory is planned to be completed by the end of the second quarter of 2022. Further, our Group intends to utilise approximately [REDACTED] (equivalent to approximately [REDACTED]), representing [REDACTED] of the net [REDACTED] from the [REDACTED], to purchase the machinery and equipment for the research and development purpose. Our Directors also consider that establishing a new research and development laboratory can facilitate our research and development activities and avoid disruption on production process of the existing production facilities as our staff can conduct trials and testing of new formula or method of gold mine hazardous waste treatment by using the machinery and equipment in the new research and development laboratory, instead of those in the production facilities.

Expand our research and development team

To cater for the increasing demand of our research and development function, we need to expand our research and development team to strengthen our research and development capabilities. We intend to utilise approximately [REDACTED] million (equivalent to approximately [REDACTED]) from the net [REDACTED] of the [REDACTED], representing approximately [REDACTED]% of the net [REDACTED] of the [REDACTED] for the hiring of nine staffs from January 2022 to June 2022.

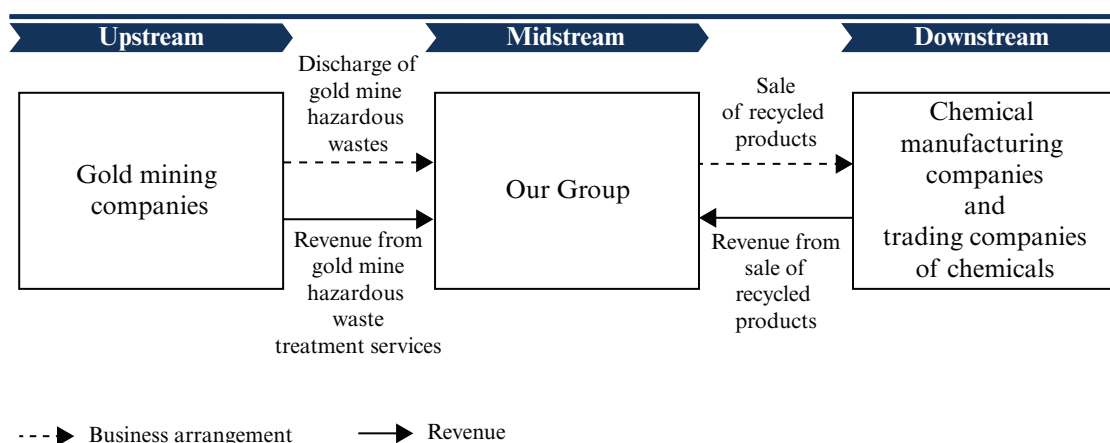
For the detailed discussion of the use of net [REDACTED] from the [REDACTED], see “Future Plans and Use of [REDACTED] — Use of [REDACTED]” in this document.

BUSINESS

OUR BUSINESS MODEL

We are one of the leading gold mine hazardous waste treatment companies in the PRC focusing on (i) gold mine hazardous waste treatment; and (ii) recycling and extracting therefrom resources with economic value for sale. We are specialised in resource recovery and comprehensive utilisation of gold mine hazardous wastes. We provide gold mine hazardous waste treatment services to our upstream customers which are mainly gold smelting companies under gold mining companies with mine operations in Shandong province, in particular, in Yantai city. 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, which are mainly chemical manufacturing companies and trading companies of chemicals, to attain comprehensive utilisation of gold mine hazardous wastes.

The following diagram shows our business activities in gold mine hazardous waste treatment services and sale of recycled products during the Track Record Period:



During the Track Record Period, our upstream customers mainly engaged us to provide treatment services for cyanide tailings, which is a kind of gold mine hazardous waste resulted from smelting of gold. These cyanide tailings consist of cyanide, which is one of only a few chemical reagents that will dissolve gold in water. For both technical and economic reasons, cyanide is the chemical of choice for the recovery of gold and silver from ores. Cyanide is a toxic substance and can be lethal if ingested or inhaled in sufficient amounts. Gold mining companies employ stringent risk managements systems to prevent injury or damage from the use of cyanide. Cyanide in mining solutions is collected, either be recycled or disposed, after gold is removed. Due to the restrictions on technical expertise and cost consideration, gold smelting companies engage gold mine hazardous waste treatment companies, like us, to collect the cyanide tailings from them and pay the corresponding treatment fees.

BUSINESS

In our operation process, we are capable of detoxifying the gold mine hazardous wastes. Further, we are able to extract resources with economic value from the gold mine hazardous wastes. Pyrite concentrate and gold-bearing pyrite concentrate are the major recycled products extracted and it can be used for the production of sulphur and sulphuric acid which can be applied in various industrial process. We usually sell them to our downstream customers which are chemical manufacturing companies and trading companies of chemicals.

According to the F&S Report, the business growth of waste treatment companies from waste treatment fee is partly influenced by the geographical constraint mainly with potential increase in the cost of collecting gold mine hazardous waste; and the business growth of our sales of recycled products is generally not negatively influenced by geographical constraints because the transportation costs for delivery are generally borne by customers purchasing recycled products, and such costs generally only make up a relatively small portion of the total contract sums for the whole purchase. Based on the business coverage of major gold mine hazardous waste treatment companies in the PRC, it is an industry practice for hazardous waste treatment companies to serve upstream customers in the province in which they are located, according to the F&S Report.

Moreover, in accordance with the “Reply on the Transfer and Disposal of Hazardous Wastes” (《關於危險廢物轉移和處置問題的覆函》) issued by the State Environmental Protection Agency (國家環境保護總局) (the predecessor of the Ministry of Ecology and Environment (生態環境部)), the principle of “close-by disposal” has been adopted by our Group in its operation. Such policy emphasises the principle of gold mines which produce hazardous waste being close to the hazardous waste treatment plants to avoid the risk of pollution during the transfer of hazardous waste, and such principle is without statutory specification of the level of proximity between gold mines and hazardous waste treatment plants. Therefore, based on commercial considerations and arm’s length negotiations between upstream gold mining companies and hazardous waste treatment companies, the market operating under the “close-by disposal” principle allowed flexibilities for hazardous waste treatment companies to not only serve their upstream customers within their locality in the same city, but to capture upstream demands outside their locality while bearing the principal in mind. According to the F&S Report, a majority of gold mining companies are located in Yantai prefecture-level city within Shandong province. Yantai city accounted for approximately 93% of proven gold reserves of Shandong province in 2020, ranking first among prefecture-level cities in the proven gold reserves in the PRC, and our Group in turn accounted for market shares of approximately 31% in Yantai city in terms of treatment volume of gold mine hazardous waste in 2020. Our high market share in Yantai city signifies our strong competitiveness, demonstrating our abilities to capture upstream demands for gold mine hazardous waste treatment services not only in Yantai city, but also in other cities within Shandong province such as Qingdao city, where some of our upstream customers are located during the Track Record Period.

BUSINESS

According to the F&S Report, the total output volume of mine solid waste in the PRC increased from 3,001.2 million tonnes in 2015 to 3,145.1 million tonnes in 2020, representing a CAGR of 0.9% from 2015 to 2020. With further development and industrial upgrading of mining industry, total output volume of mine solid waste in the PRC is expected to reach 3,696.8 million tonnes in 2025 with a CAGR of 3.3% from 2020 to 2025, with the total output volume expected to be greater than the total treatment volume for each year from 2020 to 2025. For gold mine hazardous waste, there has been a large amount of cyanide tailings stored in Yantai city and in Shandong province before such waste was listed as hazardous waste in August 2016 under the Directory of National Hazardous Wastes. The total volume of accumulated gold mine hazardous waste in Yantai city and Shandong province are estimated to be more than 10 million tonnes and 12 million tonnes, respectively, as at the end of 2020.

With this abundance of gold mines in the cities within Shandong province which are in close proximity to our operations, the availability of accumulated gold mine hazardous waste yet to be treated in the market, and the continuous growth of gold mine waste output volume in the market, F&S is of the view, and our Directors concur, that we would be able to capture future development opportunities brought about by the new gold mines in nearby areas within Yantai prefecture-level city.

Our recycled products, mainly namely pyrite concentrates is one of the three main raw materials for producing sulphuric acid in China. As more and more companies prefer to use pyrite concentrate for sulphuric acid production, the demand for pyrite concentrate in the PRC has remained steady and is expected to grow steadily from 2020 to 2025, according to the F&S Report. The business operation and downstream demand for our sale of recycled products is generally not negatively influenced by geographical constraints.

Pursuant to the increase in demand for gold mine hazardous waste treatment services from our new and existing customers and the increase in the permitted annual treatment capacity of our Group, the revenue from gold mine hazardous waste treatment services increased from approximately RMB41.0 million in 2018 to approximately RMB108.0 million in 2020 and we also recorded an increase of upstream customers from three to eight during the same period. For our sale of recycled products, the increase in revenue was contributed by both new and existing customers.

While gold mine hazardous waste treatment services and sale of recycled products were our major business activities for revenue generation during the Track Record Period, we also derived revenue from the hazardous waste storage rental services since November 2018. For further details of our hazardous waste storage rental service, see “— Our Production Facilities — Our Warehouses” below.

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BUSINESS

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

| | 2018 | | Year ended 31 December | | | | Four months ended 30 April | | | |
|--|----------------|--------------|------------------------|--------------|----------------|--------------|----------------------------|--------------|---------------|--------------|
| | RMB'000 | % | 2019 | | 2020 | | 2020 | | 2021 | |
| | | | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| Gold mine hazardous waste treatment services | 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 “— Our Products” below for further details.

Our services

During the Track Record Period, we are engaged by gold smelting companies under gold mining companies with mine operations in Shandong province, in particular, in Yantai city, to provide gold mine hazardous waste treatment services. For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, revenue generated from the gold mine hazardous waste treatment services was approximately RMB41.0 million, RMB61.6 million, RMB108.0 million and RMB34.3 million, respectively, representing approximately 40.1%, 46.1%, 52.6% and 50.5% of our total revenue for the same periods, respectively.

BUSINESS

The following table sets out the number of customers and breakdown of our revenue from gold mine hazardous waste treatment services by cities in Shandong province, in which our customers are located, during the Track Record Period:

| | Year ended 31 December | | | | | | Four months ended 30 April | | | |
|---------------------|-------------------------|----------------|-------------------------|----------------|-------------------------|----------------|----------------------------|----------------|-------------------------|----------------|
| | 2018 | | 2019 | | 2020 | | 2020 | | 2021 | |
| | <i>No. of customers</i> | <i>RMB'000</i> | <i>No. of customers</i> | <i>RMB'000</i> | <i>No. of customers</i> | <i>RMB'000</i> | <i>No. of customers</i> | <i>RMB'000</i> | <i>No. of customers</i> | <i>RMB'000</i> |
| | | | | | | | | | | |
| Yantai city | | | | | | | | | | |
| Laizhou | 1 | 15,048 | 1 | 28,569 | 1 | 56,074 | 1 | 18,857 | 1 | 16,392 |
| Zhaoyuan | 2 | 25,966 | 3 | 32,725 | 3 | 46,514 | 3 | 11,287 | 1 | 14,900 |
| Fushan | — | — | — | — | 1 | 1,744 | 1 | 21 | 1 | 2,216 |
| Penglai | — | — | — | — | 1 | 1,436 | — | — | — | — |
| Qingdao city | | | | | | | | | | |
| Pingdu | — | — | 1 | 273 | 2 | 2,190 | 1 | 47 | 1 | 769 |
| Total | 3 | 41,014 | 5 | 61,567 | 8 | 107,958 | 6 | 30,212 | 4 | 34,277 |

During the Track Record Period, we mainly transacted with upstream customers with mining operations located in Yantai city, Shandong province. Our Group transacted with three, five, eight and four upstream customers for our gold mine hazardous waste treatment services for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, respectively. For the year ended 31 December 2018, we had three recurring customers who had transacted with us prior to the year with revenue generated of approximately RMB41.0 million or 40.1% of the total revenue for the year, respectively. For the year ended 31 December 2019, we had three recurring customers and two new customers with revenue generated of approximately RMB58.5 million or 43.8% and approximately RMB3.1 million or 2.3% of our total revenue for the year, respectively. For the year ended 31 December 2020, we had five recurring customers and three new customers with revenue generated of approximately RMB104.7 million or 51.0% and approximately RMB3.2 million or 1.6% of our total revenue for the year, respectively. For the four months ended 30 April 2021, we had four recurring customers with revenue generated of approximately RMB34.3 million or 50.5% of our total revenue for the period, respectively.

BUSINESS

The table below sets out the treatment volumes in tonnes, the treatment fee ranges and average treatment fee per tonne of our gold mine hazardous wastes treatment services during the Track Record Period:

| | Year ended 31 December | | Four months ended 30 April | |
|---|------------------------|------------|----------------------------|------------|
| | 2018 | 2019 | 2020 | 2021 |
| Total treatment volume in tonnes | 560,067 ⁽¹⁾ | 805,811 | 1,082,913 | 354,774 |
| <i>High grade cyanide tailings</i> ⁽³⁾ | 293,241 | 512,551 | 254,530 | 102,310 |
| <i>Low grade cyanide tailings</i> ⁽⁴⁾ | 266,827 | 293,260 | 797,578 | 220,208 |
| <i>Gold-bearing cyanide tailings</i> | — | — | 30,805 | 32,256 |
| Average treatment fee (<i>per tonne</i>) ⁽²⁾ | | | | |
| — exclusive of VAT | | | | |
| <i>High grade cyanide tailings</i> ⁽³⁾ | RMB38 | RMB53 | RMB39 | RMB38 |
| <i>Low grade cyanide tailings</i> ⁽⁴⁾ | RMB110 | RMB117 | RMB120 | RMB129 |
| <i>Gold-bearing cyanide tailings</i> | N/A | N/A | RMB57 | RMB65 |
| Overall average treatment fee (<i>per tonne</i>) | RMB73 | RMB76 | RMB100 | RMB97 |
| Treatment fee range (<i>per tonne</i>) ⁽²⁾ | | | | |
| — exclusive of VAT | | | | |
| <i>High grade cyanide tailings</i> ⁽³⁾ | RMB0–57 | RMB38–61 | RMB38–47 | RMB38 |
| <i>Low grade cyanide tailings</i> ⁽⁴⁾ | RMB46–168 | RMB104–165 | RMB104–165 | RMB104–160 |
| <i>Gold-bearing cyanide tailings</i> | N/A | N/A | RMB57 | RMB65 |

Notes:

- (1) The treatment volume includes gold mine hazardous wastes of approximately 54,587 tonnes which our Group did not charge any treatment fee to our upstream customers pursuant to service agreements entered into before the first quarter of 2018.
- (2) The fluctuation of treatment fee per tonne was mainly attributable to the composition of gold mine hazardous wastes. In general, treatment fee of gold mine hazardous wastes with higher sulphur content will be lower.
- (3) High grade cyanide tailings refer to cyanide tailings containing higher sulphur content. During the Track Record Period, the high grade cyanide tailings treated by us had a sulphur content at a range of approximately 33%–45%.
- (4) Low grade cyanide tailings refer to cyanide tailings containing lower sulphur content. During the Track Record Period, the low grade cyanide tailings treated by us had a sulphur content at a range of approximately 23%–27%.

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According to the F&S Report, gold mine hazardous waste treatment fees are mainly determined by the grade of cyanide tailings, which commonly refers to the sulphur content in the cyanide tailings, and the fees would also be adjusted based on the volume of cyanide tailings which is subject to the level of stability and scale of the demand for gold mine hazardous waste treatment services during the negotiation between an upstream customer and a gold mine hazardous waste treatment company. In general, the cyanide tailings can be categorised into two types by sulphur content, high grade cyanide tailings with sulphur content of or above 30% and low grade cyanide tailings with sulphur content of or below 30%. The treatment fee of high grade cyanide tailings ranged from RMB40 to RMB60 per tonne; and the treatment fee of low grade cyanide tailings ranged from RMB95 to RMB180 per tonne, according to the F&S Report. Gold mine hazardous waste treatment companies generally charge a relatively lower treatment fee for relatively higher grade of gold mine hazardous waste, as more valuable and recyclable elements could be extracted and hence, more recycled products could be produced and sold, and vice versa.

Apart from the grade of cyanide tailings which is the main contributing factor of gold mine hazardous waste treatment fees, the fees would also be affected by the volume of the cyanide tailings provided by upstream customers for treatment, subject to the level of stability and scale of the demand for gold mine hazardous waste treatment services depending on (i) the scale of operation of our upstream customers which would in turn determine the volume of gold mine hazardous waste produced from their gold productions; (ii) our annual permitted treatment capacity which may determine the volume of gold mine hazardous waste we are able to treat during the year; and (iii) the business relationship and mutual reliance between our upstream customers and us. Based on the F&S Report, our Group’s treatment fees for gold mine hazardous waste services were negotiated with consideration of same basis with other major gold mine hazardous waste treatment companies which treated gold mine hazardous waste of similar grade in Shandong province during the Track Record Period, and our Directors are therefore of the view that the treatment fees charged by our Group during the Track Record Period were in line with industry practice and were comparable with other major market players in Shandong province.

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During the year ended 31 December 2018, our Group has provided gold mine hazardous waste treatment services of approximately 54,587 tonnes free of charge to Shandong Gold Smelting and Zhongkuang Gold pursuant to service agreements entered into before the first quarter of 2018. According to the F&S Report, the gold mine hazardous waste treatment market in prior years was relatively small due to the lack of attention before the implementation of environmental protection policies by the PRC government, therefore there were less incentives for the gold mining companies to pay for the gold mine hazardous waste treatment services. See “Industry Overview — Market Size of Gold Mine Hazardous Waste Market in China and Shandong Province” in this document for further details. Hence, our Group negotiated with our upstream customers on case-by-case basis to collect gold mine hazardous wastes free of charge or at a low fee and we extracted therefrom resources with economic value for sale as recycled products. In the event if our Group did charge the respective customers treatment fee for these gold mine hazardous wastes, our Directors believe that we could have a relatively higher revenue and gross profit for the year ended 31 December 2018. With the raising awareness of environmental protection in the gold mining industry and strengthened enforcement under the stringent environmental protection policies which gave rise to significant demand of our gold mine hazardous waste treatment services, we charged all of our upstream customers treatment fee for our gold mine hazardous wastes treatment services for the years ended 31 December 2019 and 2020 and the four months ended 30 April 2021.

We recorded an increase of treatment volume from approximately 560,067 tonnes for the year ended 31 December 2018 to approximately 1,082,913 tonnes for the year ended 31 December 2020, which was mainly due to the increasing demand of our gold mine hazardous waste treatment services and the increase of our production capacity upon the commencement of operation of our second production facility in Shahe town, Laizhou city in October 2019. The treatment fee range was relatively stable during the Track Record Period. Our Group’s pricing during the Track Record Period is in line with major market players of gold mine hazardous waste treatment industry in Shandong province and the PRC, according to the F&S Report. In general, treatment fee of gold mine hazardous wastes with higher sulphur content will generally be lower, and vice versa. The treatment fee for cyanide tailings generally remained stable for treating cyanide tailings of same grades and contracted treatment volume.

As such, the fluctuation of our overall average treatment fee per tonne was mainly attributable to the changes in the proportions of high and low grade cyanide tailings provided by upstream customers for treatment during the corresponding years/period, as the treatment fees vary between high and low grade cyanide tailings. Our overall average treatment fee per tonne increased slightly from approximately RMB73 for the year ended 31 December 2018 to approximately RMB76 for the year ended 31 December 2019, and was mainly because our Group has provided gold mine hazardous waste treatment services of approximately 54,587 tonnes free of charge as abovementioned for the year ended 31 December 2018 and no such free-of-charge treatment services were provided for the year ended 31 December 2019. The overall average treatment fee per tonne further increased to approximately RMB100 for the year ended 31 December 2020, which was mainly attributable to the change of proportion of high and low grade cyanide tailings we treated during the year. During the year ended 31 December 2020, approximately 74% of

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the gold mine hazardous waste received and treated by us were low grade cyanide tailings which contained lower sulphur content and charged at higher treatment fee, as compare to approximately 36% in the corresponding period in 2019, which give rise to a relatively higher overall average treatment fee in 2020.

For the four months ended 30 April 2021, the treatment volume remained relatively stable at approximately 354,774 tonnes, as compared to approximately 357,705 tonnes for the same period in 2020. The treatment fee range remained relatively stable for the four months ended 30 April 2021 as compared to that for the year ended 31 December 2020. For the four months ended 30 April 2021, the overall average treatment fee per tonne decreased slightly to approximately RMB97, mainly because more high grade cyanide tailings were collected from our upstream customers and treated during the period. The treatment fee for high grade cyanide tailings is generally lower than that of low grade.

For further details, see “Financial Information — Description of Selected Items in the Consolidated Statements of Comprehensive Income — Revenue — Gold mine hazardous waste treatment services” in this document.

Our rental services for storage of hazardous wastes

Since November 2018, we also derived revenue from the hazardous waste storage rental services. Certain hazardous wastes were abandoned by a chemical company in Laizhou city, Shandong province, and the storage and treatment of these hazardous wastes was not able to be arranged. Laizhou City Municipal Government then become responsible for the safe transfer and treatment of these hazardous wastes. In October 2018, Laizhou City Municipal Government resolved the situation by arranging a state-owned company to lease the storage facilities of HC Environmental to store these abandoned hazardous wastes to address the imminent environmental issue. Given HC Environmental was the only company in Laizhou city, Shandong province, at that time which had obtained the Hazardous Waste Business Licence issued by Yantai Municipal Ecology and Environment Bureau (煙臺市生態環境局), the management of HC Environmental considered that it was an opportunity for HC Environmental to deliver its social responsibility and therefore decided to cooperate with the Laizhou City Municipal Government.

Subsequently in the fourth quarter of 2018, HC Environmental entered into two hazardous waste storage rental agreements (the “**Rental Agreements**”) with Laizhou City State-owned Assets Management Company Limited (萊州市國有資產經營有限公司) (“**LZ Assets**”), a state-owned enterprise which is an Independent Third Party, pursuant to which HC Environmental leased certain hazardous waste storage facilities, inclusive of two warehouses with an aggregate gross floor area of approximately 74,500 sq.m. and ancillary facilities, such as rainwater-harvesting pools, roads and passages to LZ Assets, for storage of hazardous wastes. In return, LZ Assets agreed with HC Environmental for an annual rental fee of RMB8.0 million and advanced RMB160.0 million in total to HC Environmental. The Rental Agreements, of which each became effective in November 2018 and January 2019, had a minimum term of the lease period of five years and up to 20 years. Both parties agreed that the minimum term of the Rental Agreements would be five years, with a condition that the lease term will terminate when the hazardous wastes in the

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warehouses are put for tender through public bidding for detoxing treatment during the five year term and HC Environmental wins the tender, which the treatment fee would then first be deducted from the remaining amount of the advanced payment. It is also stipulated in the Rental Agreements that from the sixth year since the respective signing date of the Rental Agreements, either LZ Assets or HC Environmental has the right to terminate the Rental Agreements by paying an amount equivalent to the annual rental fee, being RMB8 million as compensation, and HC Environmental will be required to repay the remaining balance of advances to LZ Assets, within three years from the 30th day after the receipt of the notice of termination of the Rental Agreements, being 20% for the first year, 30% for the second year and full repayment in the third year. Our Directors are of the view that it is likely for LZ Assets to exercise the right to terminate the lease agreements after the five years fixed term, mainly due to the following reasons:

- (i) based on the prior discussions with Laizhou City Municipal Government and as confirmed by LZ Assets, it is, and has been, the intention of the Laizhou City Municipal Government to authorise a qualified treatment company to treat the abandoned cyanide tailings hazardous waste to ensure adherence to the environmental policies in the PRC. Given that this was a request of the Laizhou City Municipal Government for the storage of hazardous waste to resolve the imminent environmental issues brought by the abandonment of hazardous waste in 2018 and that HC Environmental was the only company in Laizhou city which had obtained the Hazardous Waste Business Licence issued by Yantai Municipal Ecology and Environment Bureau (煙臺市生態環境局), the minimum five-year fixed lease term was considered to be mutually beneficial to LZ Assets and us based on arm’s length negotiation. Based on the discussions between LZ Assets and us, and as confirmed by our Directors, the minimum five-year fixed lease term was deemed appropriate at the time when the Rental Agreements were entered into, mainly because (a) LZ Assets expected that the Laizhou City Municipal Government would have sufficient time to select a qualified treatment company with capacity for further treatment of the abandoned cyanide tailings hazardous waste; and (b) the five-year fixed lease term would provide stability of storage of hazardous waste at all material time, so as to avoid such hazardous waste being relocated or transported to various storage facilities frequently which may potentially bring safety and operational risks when handling the cyanide tailings hazardous waste; and
- (ii) based on the arm’s length negotiation between LZ Assets and us at the time of entering into the Rental Agreements, our Directors believe it was commercially desirable to have a five-year fixed lease term, mainly because of (a) our Group’s willingness to cooperate upon the request of the Laizhou City Municipal Government, given HC Environmental was the only company in Laizhou city which had obtained the Hazardous Waste Business Licence issued by Yantai Municipal Ecology and Environment Bureau (煙臺市生態環境局); and (b) the construction of the warehouses was at our own costs, which our Directors were of the view that such five-year fixed lease term with stable rental income for our Group was reasonable while delivering social responsibility.

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Our Directors consider, and the Sole Sponsor concurs, that rental of warehouse is common in Laizhou city, Shandong province, but the circumstances leading to the rental arrangements were not common as the governmental authorities were seldom required to handle the hazardous wastes left behind by private enterprises, and the Rental Agreements were commercial arrangements after arms-length negotiation with LZ Assets, which the advances were used to finance the costs of construction of the two warehouses as required in the Rental Agreements. The following factors were taken into account:

- (i) at the material time, HC Environmental was the only company in Laizhou city, Shandong province, which had obtained the Hazardous Waste Business Licence, and Laizhou City Municipal Government had an imminent need to resolve the environmental issue of the abandoned hazardous waste, the bargaining power of Laizhou City Municipal Government was relatively low;
- (ii) HC Environmental was principally engaged in (a) gold mine hazardous waste treatment; and (b) recycling and extracting therefrom resources with economic value for sale. Provision of hazardous waste storage rental service was not part of the business plan for HC Environmental. In consideration of the fact the HC Environmental was able to generate operating profit from 2018 onwards because of the increasingly stricter environmental protection policies, it was not attractive to the management of HC Environmental to commit and construct new warehouses for developing the rental services. Given that this was a request of the Laizhou City Municipal Government for the storage of hazardous waste and the warehouses would be solely for the use of storing their hazardous wastes, and we did not have the intention to construct the new warehouses without acceptable commercial incentives, under arms-length negotiation with LZ Assets, it was decided that an advance of RMB160 million to our Group would be made to induce HC Environmental to enter into the Rental Agreements. However, as it was the Laizhou City Municipal Government’s plan to put the treatment services of hazardous wastes for public tender, the parties also agreed with a pay-back mechanism for the partial refund of the advance when the Rental Agreements were to be terminated;
- (iii) before entering into the Rental Agreements, Laizhou City Finance Bureau (萊州市財政局) commissioned an independent valuer to conduct a valuation of the present value of the construction of each of the warehouses. Pursuant to the valuation reports, the valuations were used as a basis for Laizhou City Finance Bureau to understand the costs of such construction; and
- (iv) the rental fees per sq.m. under the Rental Agreements were considered as market rent after making references to the rental fees per sq.m. of other warehouses under rental arrangement in the region.

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With the consideration of the amortisation of the balance of advances, for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, we recognised revenue of approximately RMB1.1 million, RMB14.5 million, RMB14.5 million and RMB4.8 million from the rental services, respectively, representing approximately 1.0%, 10.8%, 7.1% and 7.1% of our total revenue for the same period, respectively. For further details, see Notes 5 and 30 to the historical financial information set out in the Accountant’s Report in Appendix I to this document.

To the best knowledge of our Directors after making reasonable enquiries, the tendering process for the hazardous waste treatment services had not yet commenced as at the Latest Practicable Date. In the event HC Environmental could not win the tender or LZ Assets terminates the Rental Agreements early, our Directors consider that the constructed storage facilities can be used for our internal storage purpose for future expansion of our Group.

Our products

During our operation process, we are able to recycle and extract from gold mine hazardous wastes resources with economic value, such as pyrite concentrate and gold-bearing pyrite concentrate, for sale. For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, revenue generated from the sale of recycled products was approximately RMB57.6 million, RMB56.4 million, RMB82.5 million and RMB28.8 million, respectively, representing approximately 56.4%, 42.2%, 40.2% and 42.4% of our total revenue for the same periods, respectively.

The following sets out the sales volumes in tonnes, the selling price ranges and average selling prices per tonne of recycled products sold during the Track Record Period:

| | Year ended 31 December | | | Four months |
|--|------------------------|------------|------------|------------------------|
| | 2018 | 2019 | 2020 | ended 30 April 2021 |
| Pyrite concentrate | | | | |
| Sales volume in tonnes | 280,641 | 316,137 | 463,740 | 162,727 |
| Selling price range (per tonne) ⁽¹⁾ | | | | |
| — exclusive of VAT | RMB195–319 | RMB159–265 | RMB150–248 | RMB150–257 |
| Average selling price (per tonne) ⁽¹⁾ | | | | |
| — exclusive of VAT | RMB205 | RMB178 | RMB166 | RMB177 |
| Gold-bearing pyrite concentrate⁽²⁾ | | | | |
| Sales volume in tonnes | — | — | 16,601 | — |
| Selling price range (per tonne) ⁽¹⁾ | | | | |
| — exclusive of VAT | — | — | RMB296–363 | — |
| Average selling price (per tonne) ⁽¹⁾ | | | | |
| — exclusive of VAT | — | — | RMB331 | — |

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Notes:

- (1) The fluctuation of selling price per tonne was mainly attributable to the composition of recycled products. In general, selling price of recycled products can be higher when (i) they have higher bearing ratios of gold or sulphur content; and/or (ii) the market demand of sulphuric acid is higher.
- (2) During the year ended 31 December 2020, we commenced our business relationship with an upstream customer, which is a gold smelting company with a gold mining company with mine operations in Yantai city, who engaged us to detoxify gold mine hazardous waste with relatively higher bearing ratios of gold. Through the same production process of pyrite concentrate, we then recovered gold-bearing pyrite concentrate from the gold mine hazardous wastes collected from this upstream customer. As such, we commenced to sell gold-bearing pyrite concentrate to our downstream customers during the year ended 31 December 2020. 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 higher price and higher profit margin than pyrite concentrate. It is also confirmed by F&S that our selling price of gold-bearing pyrite concentrate is at the prevailing market price.

The following table sets out the breakdown of our revenue from sale of recycled products by provinces in the PRC 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 | % | RMB'000 | % |
| Anhui province | — | — | — | — | 885 | 1.2 | — | — | 16,618 | 57.7 |
| Hubei province | 3,730 | 6.5 | 3,607 | 6.4 | 5,554 | 6.7 | — | — | 6,614 | 23.0 |
| Shandong province | 19,381 | 33.6 | 32,154 | 57.0 | 45,166 | 54.7 | 6,853 | 50.3 | 3,703 | 12.9 |
| Henan province | 10,597 | 18.4 | 11,806 | 20.9 | 7,843 | 9.5 | 3,727 | 27.3 | 1,862 | 6.4 |
| Hebei province | 22,900 | 39.7 | 6,372 | 11.3 | 22,048 | 26.7 | 2,880 | 21.1 | — | — |
| Others ⁽¹⁾ | 1,034 | 1.8 | 2,474 | 4.4 | 1,018 | 1.2 | 176 | 1.3 | 8 | — ⁽²⁾ |
| Total | 57,642 | 100.0 | 56,413 | 100.0 | 82,514 | 100.0 | 13,636 | 100.0 | 28,805 | 100.0 |

Notes:

- (1) Others represented Inner Mongolia, Jiangsu province, Liaoning province and Jiangxi province.
- (2) The figure is less than 0.1.

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During the Track Record Period, our Group transacted with 18, 16, 20 and 12 downstream customers in total for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, respectively. For the year ended 31 December 2018, we had 12 recurring customers who had transacted with us prior to the year and six new customers with revenue generated of approximately RMB52.0 million or 50.8% and approximately RMB5.7 million or 5.6% of the total revenue for the year respectively. For the year ended 31 December 2019, we had eight recurring customers and eight new customers with revenue generated of approximately RMB39.7 million or 29.7% and approximately RMB16.7 million or 12.5% of our total revenue for the year respectively. For the year ended 31 December 2020, we had nine recurring customers and 11 new customers with revenue generated of approximately RMB66.8 million or 32.5% and approximately RMB15.7 million or 7.6% of our total revenue for the year respectively. For the four months ended 30 April 2021, we had five recurring customers and seven new customers with revenue generated of approximately RMB5.4 million or 7.9% and approximately RMB23.4 million or 34.5% of our total revenue for the period respectively.

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, the commencement of business relationship with new downstream customers, and the increase in sales to certain recurring downstream customers, 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 480,341 tonnes for the year ended 31 December 2020. Nevertheless, we recorded a decrease of selling price range and average selling price per tonne from 2018 to 2020. This was in line with the fluctuation of market price of sulphuric acid in the PRC which was influenced by various factors, mainly including the price of raw material, demand from downstream industries and the imported from oversea market, according to the F&S Report. Further impacted by the COVID-19 outbreak in 2020, downstream demand of sulphuric acid has plummeted and prices decreased significantly and so has the selling price of our pyrite concentrate. During 2018 to 2020, the price of sulphuric acid fluctuated with the highest reaching RMB510.0 per tonne and the lowest reaching RMB105.0 per tonne. Details of price analysis of pyrite concentrate in the PRC, please refer to “Industry Overview — Price Analysis of Pyrite Concentrate and Gold-bearing Pyrite Concentrate in China” to this document.

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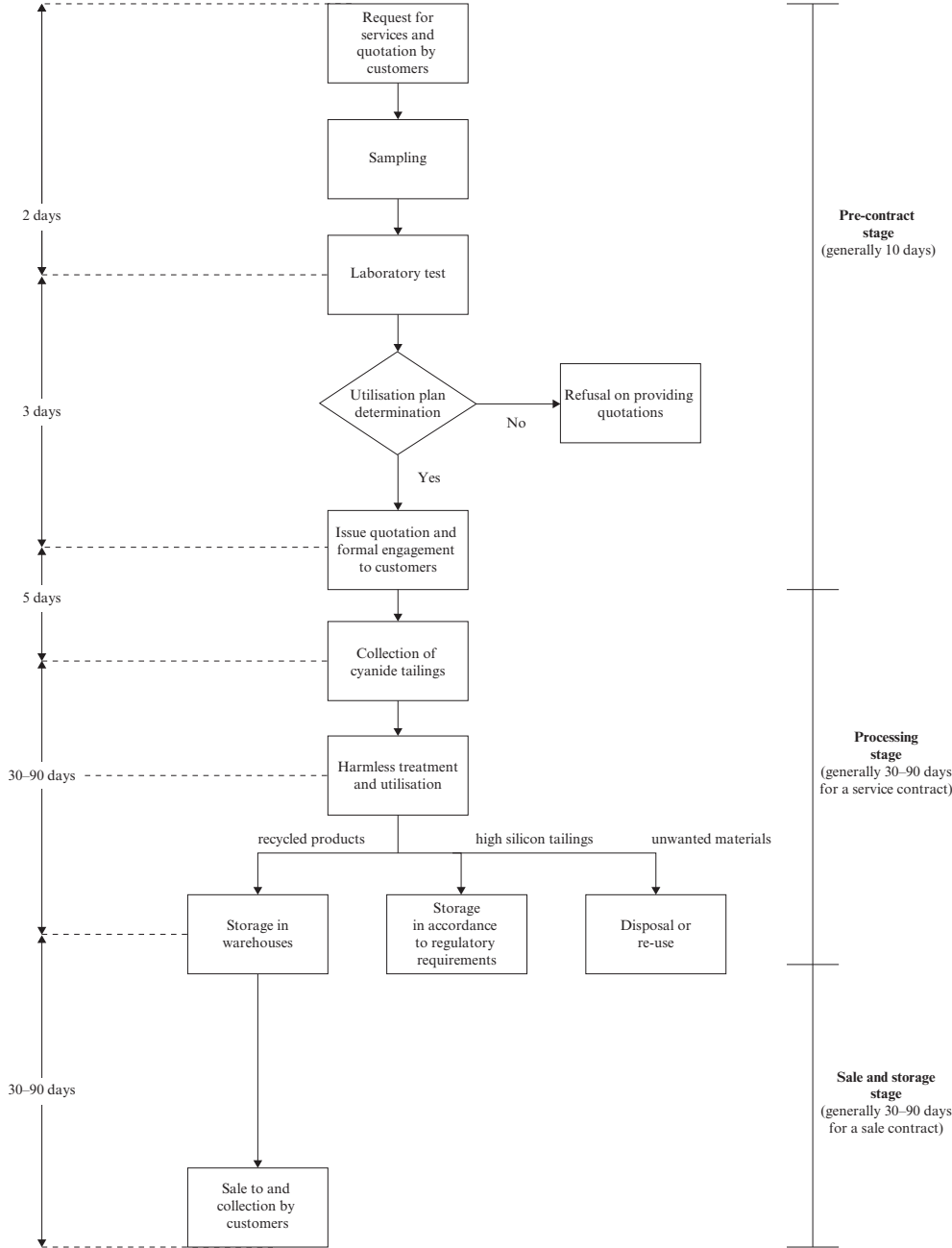
For the four months ended 30 April 2021, we recorded an increase in sale of recycled products, with sale volume of approximately 162,727 tonnes from approximately 80,385 tonnes for the four months ended 30 April 2020. Such increase was primarily driven by the increase in sale orders from our downstream customers among different provinces in the PRC and a more stabilised COVID-19 situation in 2021 in the PRC as compared to the pandemic outbreak in early 2020. Our average selling price per tonne of pyrite concentrate increased from approximately RMB166 for the year ended 31 December 2020 to approximately RMB177 for the four months ended 30 April 2021, which was mainly because the influence of COVID-19 outbreak wore off in 2021. Our average selling price in 2020 had been negatively affected by the decrease in downstream demand and market price of sulphuric acid due to the COVID-19 outbreak in early 2020. According to the F&S Report, based on the latest market situation in 2021, the price of sulphuric acid is increasingly significantly driven by the increasing domestic demand from downstream industries, mainly including chemical fertiliser industry, increasing export demand for sulphuric acid and increasing price of raw material. Therefore, it is expected that the selling price of 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 pyrite concentrate for sulphuric acid production in the PRC. For further details, see “Financial Information — Description of Selected Items in the Consolidated Statements of Comprehensive Income — Revenue — Sale of Recycled Products” in this document.

During the Track Record Period, we also generated revenue from trading of recycled products such as desulphurisation gypsum, copper concentration powders and waste rocks. Occasionally, we purchased recycled products from our suppliers and sold to our downstream customers with certain mark-up, which was mainly determined based on (i) the type of recycled products involved and the prevailing market price of that recycled product; (ii) the size of the order; and (iii) the business relationship with the customers. During the Track Record Period, we traded recycled products with mark-ups ranging from approximately 3% to 18%. However, our Directors confirm that we are not actively pursuing and do not intend to pursue business opportunities in trading of recycled products actively, as these trading activities were conducted only for maintaining good business relationship with our customers and suppliers. During the Track Record Period, the total revenue from the trading of recycled products was approximately RMB2.5 million, RMB1.2 million, RMB0.4 million and nil, respectively, representing approximately 2.5%, 0.9%, 0.1% and nil of our total revenue for the same periods, respectively. Certain downstream customers of our trading of recycled products during the Track Record Period were connected persons of Mr. Liu, for further details, see “Financial Information — Related Parties Transactions” in this document.

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OPERATION PROCESS

The following diagram sets out the key operating stages of for our gold mine hazardous waste treatment services and our sale of recycled products as:



Note: The timeframe is calculated on an approximate basis and may vary from time to time depending on various factors including the quality of the gold mine hazardous wastes and our agreement with the customer on the timeframe for the material stages.

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Generally, our gold mine hazardous waste treatment services consist of three major stages, namely (i) pre-contract stage; (ii) processing stage; and (iii) sale and storage stage. Before entering into formal engagement with our customers, we assess the quality of the gold mine hazardous wastes to be collected from the potential upstream customers to decide whether to proceed with quotation negotiation. We also conduct sampling and testing to formulate an utilisation plan. When engagement is formalised, our procurement team then engages a transportation company for the transportation of gold mine hazardous wastes to our production facilities, and we subsequently employ a series of processing procedures in our production stage, to detoxify and to extract resources with economic value from the gold mine hazardous wastes for sale. After processing, our recycled products are stored in our warehouse pending for sale and collection by our downstream customers.

Details of key operating stages as illustrated in the diagram above are set forth as the following:

Pre-contract stage

We maintain long-standing business relationships and regular contacts with our upstream customers who are mainly gold smelting companies under gold mining companies with mine operations in Shandong province, in particular, Yantai city. Our sales team also takes initiatives to approach new customers to obtain contracts for the gold mine hazardous waste treatment services. Typically, our customers do not conduct open tenders for the gold mine hazardous waste treatment services. According to the F&S Report, it is in line with the market practice.

Before the formal engagement, we need to assess the quality of the cyanide tailings such as the bearing ratio of gold and sulphur content of the batch of cyanide tailings to be collected to decide whether to proceed with quotation negotiation. We first obtain certain sampling of gold mine hazardous waste from the potential customers and conduct a series of laboratory testings to assess the composition of the batch of gold mine hazardous wastes.

Our production team is responsible for formulating an utilisation plan. We also assess our prevailing capacity to allocate sufficient labour and resources to that batch of gold mine hazardous wastes and our ability to recover resources with economic value to see if there can be an adequate profit margin for us. We then prepare budgets based on the information provided by our potential customers, such as quantity to be collected, arrangement of transportation and time constraints. We only take up the engagement when we consider that it will be profitable to process and treat the batch of gold mine hazardous waste.

If we decide that we will turn down the potential customers.

For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, we had three, five, eight and four customers who we provided gold mine hazardous wastes treatment services, respectively, which were mainly gold smelting companies under gold mining companies with mining operations in Shandong province.

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Processing stage

Upon receipt of the internal approval and communication with customers on key contract terms, we will commence preparation of the contract. Our procurement team then engage, a transportation company for the transportation of gold mine hazardous wastes from our upstream customers to our production facilities.

Once the gold mine hazardous wastes arrive at our production facilities, we place gold mine hazardous wastes to be processed at the warehouse for the first step of detoxification, namely airing. Gold mine hazardous wastes stored in the warehouse are flipped and rolled from time to time, as the process of airing of tailings, in order to speed up the volatilisation of free cyanide ion and other materials. Major steps of our processing procedures employed at our production facilities include:

Hydration – water is added to the gold mine hazardous wastes to turn them from solid status to slurry form to facilitate the forth coming processes.

Screening – the slurry then passes through the screening plant to screen out unwanted sands and rocks. Those unwanted sands and rocks will then be used for road construction within the production facilities or landfill.

Activation and flotation – keep stirring the slurry and then the slurry is shipped to the activation tank. After the process of activation, flotation method is used. We add consumables such as xanthate into the slurry for various chemical reactions to separate the pyrite concentrate from other chemicals. We generally use xanthate as the flotation agent to induce the pyrite concentrate to adhere to the froth and float while other materials, such as high silicon tailings, sink. The froth with resources with economic value for sale such as pyrite concentrate or gold-bearing pyrite concentrate, and the high silicon tailings will then be passed to different filter press plants.

Neutralisation – during the activation and flotation processes, exhaust fumes due to chemical reactions will be generated. We need to add consumables including chemical agents to absorb these unwanted by-products. Those unwanted fumes will then be neutralised and solidified as chemical wastes.

Filter and dewatering – filter press plant is used to separate solid products from the liquid and to dry them. We then collect the respective pyrite concentrate and gold-bearing pyrite concentrate for sale or high silicon tailings for storage, and the unwanted liquid can be recycled for the hydration process.

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After these processes, the gold mine hazardous wastes will be turned to (i) recycled products such as pyrite concentrate and gold-bearing pyrite concentrate; (ii) high silicon tailings for further processing to construction aggregates and some other recycled products as by-products; and (iii) unwanted materials such as sands and rocks at the screening stage and solidified chemical wastes at the neutralisation stage. For recycled products and high silicon tailings which are useful to our Group, we will continue to the sale and storage stage. For those unwanted materials, we generally re-use those sands and rocks on road construction within our production facilities. For the solidified chemical waste, we generally engage a specialised third party to dispose them. The quantity of these wastes was minimal and our cost incurred for disposing them was less than RMB25,000 per year during the Track Record Period.

The following table sets out the quantities and the respective conversion rates of gold mine hazardous wastes into (i) recycled products; (ii) high silicon tailings; and (iii) unwanted materials, during the Track Record Period:

| | Year ended 31 December | | | | Four months ended 30 April | | | |
|---|--|--|--|--|--|--|--|--|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Production volume <i>(tonne)</i> | Conversion rate ⁽¹⁾ <i>(tonne/ tonne)</i> | Production volume <i>(tonne)</i> | Conversion rate ⁽¹⁾ <i>(tonne/ tonne)</i> | Production volume <i>(tonne)</i> | Conversion rate ⁽¹⁾ <i>(tonne/ tonne)</i> | Production volume <i>(tonne)</i> | Conversion rate ⁽¹⁾ <i>(tonne/ tonne)</i> |
| Recycled products | 310,837 | 0.56 | 424,662 | 0.53 | 560,949 | 0.52 | 187,061 | 0.53 |
| High silicon tailings | 248,698 | 0.44 | 380,396 | 0.47 | 520,908 | 0.48 | 167,377 | 0.47 |
| Unwanted materials | <u>532</u> | — ⁽²⁾ | <u>753</u> | — ⁽²⁾ | <u>1,056</u> | — ⁽²⁾ | <u>336</u> | — ⁽²⁾ |
| Actual treatment volume <i>(tonne)</i> | <u><u>560,067</u></u> | | <u><u>805,811</u></u> | | <u><u>1,082,913</u></u> | | <u><u>354,774</u></u> | |

Notes:

- (1) Conversion rates are calculated by dividing the production volume for the year by the actual treatment volume of gold mine hazardous wastes for the year.
- (2) The figure is less than 0.1.

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During the Track Record Period, the high silicon tailings extracted from the gold mine hazardous waste were mainly stored at our production facility at Jincheng town, Laizhou city in accordance with the applicable PRC laws and regulations. As at 30 April 2021, we had accumulated high silicon tailings of approximately 1.3 million tonnes. Our Directors considered that the high silicon tailings are residue generated during our production process, of which the economic benefits to our Group are uncertain at this moment. Hence, such amounts were not accounted for as assets in our financial information as at the respective year/period end. We expect that the accumulated high silicon tailings would be able to fully convert into construction aggregates upon the implementation of our future plans upon [REDACTED]. During the Track Record Period, the conversion rates of gold mine hazardous wastes into recycled products slightly decreased while the conversion rates of gold mine hazardous wastes into high silicon tailings slightly increased. Our Directors considered that this decreasing trend of conversion rate of gold mine hazardous wastes into recycled products and this increasing trend of conversion rate of gold mine hazardous wastes into high silicon tailings are consistent to the industry trend as overall there are decreasing grade of gold ores in the PRC. According to the F&S Report, the decreasing grading of incoming cyanide tailings was mainly due to the naturally declining gold grade in the gold ores in Shandong province and the PRC, which lead to relatively lower unit value of recyclable elements in the gold mine hazardous wastes as could be extracted therefrom and hence less recycled products can be produced and sold and vice versa. This also in line with our increasing gold mine hazardous treatment fee during the Track Record Period. As confirmed by our Directors, we did not incur higher costs to treat the cyanide tailings of lower grade during the Track Record Period.

Sale and storage stage

Recycled products

After processing the gold mine hazardous wastes, recycled products are stored in our warehouses pending for sale and collection by customers.

For the sale of recycled products, we negotiate and enter into framework sales contracts with our customers of sale of recycled products which set out, amongst others, the approximate price range which is subject to market fluctuation, recycled products specifications and the agreed transportation arrangement which our customers. Generally, our customers would not commit a minimum purchase amount of our recycled products in the framework sales contracts. They will place purchase orders to us by batch from time to time. Our customers generally collect the recycled products from our production facilitates at their own costs.

During the Track Record Period, we had over 45 customers purchasing our pyrite concentrate and gold-bearing pyrite concentrate. These customers located at nine provinces in the PRC and are mainly chemical manufacturing companies and trading companies of chemicals.

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High silicon tailings

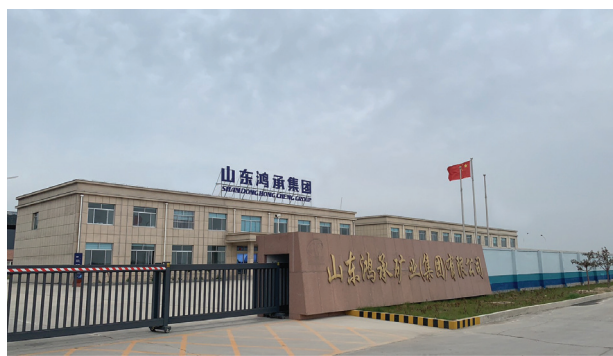
From our operation process, we also extract high silicon tailings from the gold mine hazardous wastes. High silicon tailings can be further processed for recycling to construction aggregates for concrete-mixing in construction works with relevant technological skills and machinery. According to the F&S Report, the construction aggregate market is a major downstream market of gold mine solid waste treatment market, and an important part of circular economy in the mining industry. As such, we plan to expand our recycled product offerings to construction aggregate. For details, see “— Business Strategies — 1. Increase Our Production Capacity and Capabilities to Solidify Our Market Position” above.

OUR PRODUCTION FACILITIES

Our two production facilities with a total site area of approximately 228,683 sq.m. are located in Laizhou city, Shandong province, the PRC. Our production facilities are located in Jincheng town and Shahe town in Laizhou city, with aggregate gross floor areas of approximately 15,407 sq.m. and 143,607 sq.m., respectively. For details, see “— Properties” below. Our production facilities comprised warehouses, production compartments, office buildings and dormitory. As at the Latest Practicable Date, our production facilities are equipped with our major production machinery and equipment, including but not limited to ore feeders, scrapers, rotary screening machine, activities tanks, flotation tanks and excavators.



Above is our production facility located in Jincheng town, Laizhou city, Shandong province, the PRC.



Above is our production facility located in Shahe town, Laizhou city, Shandong province, the PRC.

Production capacity and utilisation rate

According to the Measures for the Administration of Permit for Operation of Hazardous Wastes (《危險廢物經營許可證管理辦法》) issued by the State Council (the “Measures”), companies engaging in hazardous waste collection, storage and treatment in the PRC shall obtain the Hazardous Waste Business Licence while there is an permitted annual treatment volume pursuant to such licence. In order to get the license, the relevant government authorities examine and approve the treatment facilities and equipment, as well

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as establish qualified rules and regulations, pollution prevention and control measures, and accident emergency rescue measures for such companies. As such, the annual production capacity of our Group was limited by our Hazardous Waste Business Licences.

As at 1 January 2018, the commencement of the Track Record Period, we possessed a Hazardous Waste Business Licence for our production facility in Jincheng town, Laizhou city with a permitted annual treatment capacity of 560,000 tonnes. In order to expand our business operation and increase our annual treatment capacity, we constructed our second production facility in Shahe town, Laizhou city, which we obtained a temporary permit with permitted treatment capacity of 300,000 tonnes to commence trial operation in October 2019. Since July 2020, we also possessed an additional Hazardous Waste Business Licence for our production facility in Shahe town, Laizhou city with a permitted annual treatment capacity of 600,000 tonnes. As at the Latest Practicable Date, the aggregate permitted annual treatment capacity of the two Hazardous Waste Business Licences possessed by our Group was 1.16 million tonnes. Our Group intends to further increase our permitted annual treatment capacity by establishing the New Production Facility. See “— Business Strategies” above for further details.

The following table sets out the permitted annual treatment capacity of our two production facilities and the actual annual treatment volume during the years/periods indicated:

| | Year ended 31 December | | | Four months ended | Eight months ended |
|--|------------------------|------------------------|------------------------|---------------------------|---------------------------|
| | 2018 | 2019 | 2020 | 30 April 2021 | 31 August 2021 |
| Production facility in Jincheng town, Laizhou city | | | | | |
| Permitted annual treatment capacity (tonnes) ⁽¹⁾ | 560,000 | 560,000 | 560,000 | 186,667 ⁽⁵⁾ | 373,333 ⁽⁵⁾ |
| Actual annual treatment volume (tonnes) | 560,067 | 592,778 | 530,906 | 188,363 | 296,628 |
| Utilisation rate ⁽²⁾ | 100% ⁽³⁾ | 106% ⁽³⁾ | 95% | 101% | 80% ⁽⁶⁾ |
| Production facility in Shahe town, Laizhou city | | | | | |
| Permitted annual treatment capacity (tonnes) ⁽¹⁾ | — ⁽⁴⁾ | 300,000 ⁽⁴⁾ | 600,000 ⁽⁴⁾ | 200,000 ^(4, 5) | 400,000 ^(4, 5) |
| Actual annual treatment volume (tonnes) | — | 213,033 | 552,007 | 166,411 | 352,894 |
| Utilisation rate ⁽²⁾ | — | 71% | 92% | 83% | 88% |

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Notes:

- (1) The permitted annual treatment capacity refers to the permitted annual treatment capacity as stated in the respective Hazardous Waste Business Licence of the production facilities.
- (2) Utilisation rate is calculated by dividing the actual annual treatment volume by the permitted annual treatment capacity.
- (3) As advised by our PRC Legal Advisers, according to the Measures, the holder of Hazardous Waste Business Licence shall re-apply for the licence if the hazardous wastes that it manages exceed 20% of the originally permitted annual treatment capacity. Accordingly, our Group does not need to re-apply for a new Hazardous Waste Business Licence as the actual annual treatment volume in both 2018 and 2019 of production facility in Jincheng town, Laizhou city were still within the allowed range. Our Group has obtained written confirmations from Laizhou Branch of Yantai Municipal Ecology and Environment Bureau (煙臺市生態環境局萊州分局) confirming that we were in compliance with PRC laws and regulations regarding the hazardous waste treatment volume during the Track Record Period. As advised by our PRC Legal Advisers, Laizhou Branch of Yantai Municipal Ecology and Environment Bureau is the competent authority to give confirmations in this regard. For illustrative purpose only, our Group has performed an assessment on the impact of the additional treatment volume to our financial performance and operating cash flow, our Directors are of the view that the additional treatment volume of approximately 67 tonnes for the year ended 31 December 2018 did not have any significant impact on our financial performance and operating cash flow given its minimal amount; and the additional treatment volume of approximately 32,778 tonnes for the year ended 31 December 2019 would increase our gross profit and operating cash flow for the same year by approximately RMB1.9 million and RMB1.9 million, respectively.
- (4) The production facility in Shahe town, Laizhou city is operated and managed by HC Mining. HC Mining obtained a temporary permit with permitted treatment capacity of 300,000 tonnes to commence trial operation in October 2019. Subsequently in July 2020, Yantai Municipal Ecology and Environment Bureau granted HC Mining the Hazardous Waste Business Licence with the permitted annual treatment capacity of 600,000 tonnes.
- (5) For illustrative purpose, the permitted treatment capacity for the production facilities in Jincheng town and Shahe town, Laizhou city for the four months ended 30 April 2021 and the eight months ended 31 August 2021 are illustrated on pro-rata basis.
- (6) The decrease in utilisation rate for production facility in Jincheng town, Laizhou city for the eight months ended 31 August 2021 was mainly attributable to the temporary suspension of operation from 1 July 2021 to 26 July 2021. See “— Repair and Maintenance” below for details.

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Our production machinery and equipment

During the Track Record Period, our production machinery and equipment were purchased in the PRC.

The table below sets forth information on our major machinery and equipment as at 30 April 2021:

| Type of major machinery and equipment | Principal functions | Unit | Approximate average age (years) ⁽¹⁾ | Approximate average remaining useful lives (years) ⁽²⁾ |
|---------------------------------------|--|------|--|---|
| Ore feeder | Transport cyanide tailings to scrapers | 2 | 3.0 | 7.0 |
| Dissolving plant | Water is added to cyanide tailings to form a slurry | 3 | 2.9 | 7.1 |
| Rotary screening machine | Remove larger solid impurities such as sand and stones from the slurry | 2 | 4.2 | 5.8 |
| Activation tank | Provide sufficient retention time after chemical solutions and frothing agents are added to the slurry for the pyrite concentrate and gold-bearing pyrite concentrate leaching process | 14 | 5.3 | 4.7 |
| Flotation tank | Separate pyrite concentrate and gold-bearing pyrite concentrate from other materials by creating a froth which adheres to the pyrite concentrate | 78 | 3.7 | 6.3 |

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| Type of major machinery and equipment | Principal functions | Unit | Approximate average age (years) ⁽¹⁾ | Approximate average remaining useful lives (years) ⁽²⁾ |
|---------------------------------------|--|------|--|---|
| Filter press machines | Separate the solid products from liquids by drying the froth with pyrite concentrate or gold-bearing pyrite concentrate or high silicon tailings from the flotation tank | 11 | 3.2 | 6.8 |
| Excavators | Dig and move various materials at the production facilities, such as cyanide tailings, pyrite concentrates and gold-bearing pyrite concentrates | 6 | 2.5 | 7.5 |

Notes:

- (1) The average age of the machinery and equipment is calculated based on the aggregate age of the machinery divided by the number of units of the machinery.
- (2) The remaining useful life of the machinery is calculated based on the estimated useful life deducted the average age of the machinery.

We adopt the straight line method to recognise the depreciation of our machinery and equipment. For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, our capital expenditures in relation to property, plant and equipment amounted to approximately RMB16.1 million, RMB103.3 million, RMB9.3 million and RMB5.1 million, respectively.

Finance lease

As at 31 December 2020, one unit of excavator was financed by finance lease arrangements between our Group and a financial institution in the PRC whereby the ownership of the excavator remain with such financial institution until the total rental set out in the lease agreement has been paid up in full and whereupon our Group has exercised or deemed to have exercised the option to purchase the relevant excavator. For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, we have entered into finance lease of various machinery with financial institutions, and our interest expense on lease liabilities were approximately RMB0.1 million, RMB60,000, RMB70,000 and RMB17,000, respectively.

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Repair and maintenance

We have adopted a preventive maintenance system for our machinery, including standardised inspection and maintenance procedures which require our production team to schedule regular downtime for maintenance and repairs, and regular inspection of our production machinery in order to ensure our production lines run smoothly and operate at optimal levels. Our production compartments are subject to on-going maintenance checks. Regular maintenance of our production facilities is generally performed on a monthly basis and is scheduled to rotate among different machinery and equipment to avoid complete shutdown of our operation. The standardised inspections and maintenance procedures include daily physical checks and inspections of major production machinery and equipment to ensure smooth production processes for the day-to-day operation and they are scheduled to rotate to avoid a complete shutdown of production operation of our production facilities. Detailed assessments and inspections as well as cleaning of major production machinery and equipment would be conducted quarterly when needed. As part of our Group’s preventive maintenance system for machinery, comprehensive inspections and checks are conducted on an annual basis, generally closer to Chinese New Year holidays in the PRC. In-depth and comprehensive repairs and maintenance works for production machinery and equipment would be conducted when there are notable and significant wear and tear, or deteriorating in conditions are noted during the inspections and maintenance procedures.

Our Group temporarily suspended the production operation of our production facility in Jincheng town, Laizhou city from 13 November 2019 to 19 January 2020, and from 1 July 2021 to 26 July 2021. Considered that our production facility in Jincheng town, Laizhou city commenced operation in 2014, an in-depth and comprehensive repair and maintenance for the machinery and equipment and the principal processing processes, involving a temporary suspension of operation, could enhance our overall production efficiency, and our Directors believed that it was a good timing for conducting such comprehensive check and repair after the commencement of our second production facility in Shahe town, Laizhou city in late 2019. In June 2021, during the on-going daily inspection of production compartment at production facility at Jincheng town, Laizhou city, the production team has noted wear and tear of the ceiling and wall panelling in the production compartment. Our production team further performed detailed assessment and inspection, and has found corrosions and other signs of deteriorations which our Directors considered as a risk to occupational safety. Our Directors therefore believed it was necessary to commence a comprehensive renovation and maintenance of the production compartment at the earliest convenience, which involved a temporary suspension of operations.

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Our Directors consider that temporary suspension of our production facility in Jincheng town, Laizhou city in 2019 and 2020 did not have any material impact on our business operations and financial performance during the Track Record Period as (i) our production facility in Shahe town, Laizhou city was in operation at the material time; (ii) the overall utilisation rates of our production facility in Jincheng town, Laizhou city in 2019 and 2020 were maintained at a high level; and (iii) we had maintained a growth in our revenue and net profit for the years ended 31 December 2019 and 2020. As to the temporary suspension in our production facility in Jincheng town, Laizhou city in July 2021, although such suspension resulted in a slight decrease in treatment volume in July 2021, our Group’s revenue generated from gold mine hazardous wastes treatment services for the eight months ended 31 August 2021 has increased as compared to the corresponding period in 2020. Our Directors believe that the temporary suspension of one of our production facilities would not have a material adverse impact on our Group’s financial performance and we had fully resumed our production operation in both of our production facilities, with sufficient demand from our upstream customers for our gold mine hazardous waste treatment services. During the Track Record Period, we had not experienced any material or prolonged interruption of our production processes due to machinery failure, which had significant impact on our financial conditions.

For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, our total repair and maintenance costs were approximately RMB2.8 million, RMB3.4 million, RMB3.1 million and RMB0.7 million, respectively.

Our warehouses

Our business activities also require certain amount of space for storage purpose. As at the Latest Practicable Date, we had gross floor area of approximately 113,000 sq.m. for our warehouses. Our warehouses are mainly used for (i) storing cyanide tailings from our upstream customers, which we will store them at our production facilities before commencement of processing procedure; (ii) storing our recycled products from the process of gold mine hazardous waste treatment as we need time to arrange transportation of the recycled products with our downstream customers, mainly collection by them at our production facilities; (iii) storing high silicon tailings as we plan to commence the recycling of these high silicon tailings to construction aggregates and some other recycled products with economic value for sale; and (iv) certain areas within our production facilities are designated and leased to LZ Assets for the storage of cyanide tailing handled by the Laizhou City Municipal Government (萊州市人民政府). For warehouses used for storing cyanide tailings, we strictly followed the Technical Specification for Pollution Control of Cyanide Tailings in Gold Industry (《黃金行業氰渣污染控制技術規範》) issued by the Ministry of Ecology and Environmental (生態環境部) for the design and construction to prevent any seepage.

Our Directors confirm that, as advised by our PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, the warehouses of our Group complies with the relevant applicable PRC laws and regulations in all material respects.

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Inventory Management

Our inventory comprises mainly raw materials, work-in-progress and finished goods of recycled products available for sale.

Our raw materials inventories mainly include gold mine hazardous wastes collected from customers but yet to be treated and consumables to be used in our operations such as xanthate and sodium sulphide. We continuously monitor our inventory level by conducting regular checks on quality and quantity. In addition, our production team monitors closely and formulate our procurement plan and budget. As at 31 December 2018, 2019 and 2020 and 30 April 2021, our raw materials inventories amounted to approximately RMB0.9 million, RMB2.0 million, RMB2.6 million and RMB2.4 million, respectively.

We generally produce recycled products on a continuous basis as our utilisation rates on the permitted annual treatment capacity of hazardous wastes were close to fully utilised. We stored the finished goods in our warehouses pending for sales to our downstream customers. As at 31 December 2018, 2019, 2020 and 30 April 2021, our finished goods amounted to approximately RMB3.1 million, RMB13.8 million, RMB20.1 million and RMB23.3 million, respectively. This increase was in line with our revenue growth during the Track Record Period and for our anticipation of the increase in production to meet the demand for our recycled products in 2021 based on purchase orders we received from our customers and the production forecast.

There is no material obsolete stock in our Group’s inventory due to the characteristic of the raw materials and products. For further analysis of our inventories during the Track Record Period, see “Financial Information — Description of Certain Items of Consolidated Statements of Financial Position — Inventories” in this document.

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CUSTOMERS

The following table sets forth our revenue breakdown by customer types during the Track Record Period:

| | 2018 | | Year ended 31 December | | | | Four months ended 30 April | | | |
|----------------------------------|----------------|---------------|------------------------|---------------|----------------|---------------|----------------------------|---------------|---------------|---------------|
| | RMB'000 | % | 2019 | | 2020 | | 2020 | | 2021 | |
| | | | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| Gold mining companies | 41,014 | 40.1 | 61,567 | 46.1 | 107,958 | 52.6 | 30,212 | 61.6 | 34,277 | 50.5 |
| Chemical manufacturing companies | 45,466 | 44.4 | 36,428 | 27.3 | 42,463 | 20.7 | 8,470 | 17.3 | 1,221 | 1.8 |
| Trading companies | 14,718 | 14.4 | 21,177 | 15.8 | 40,459 | 19.6 | 5,507 | 11.2 | 27,584 | 40.6 |
| Others ^(Note) | 1,083 | 1.0 | 14,492 | 10.8 | 14,512 | 7.1 | 4,841 | 9.9 | 4,836 | 7.1 |
| Total | 102,281 | 100.00 | 133,664 | 100.00 | 205,392 | 100.00 | 49,030 | 100.00 | 67,918 | 100.00 |

Note: Others mainly represented the revenue from LZ Assets during the Track Record Period.

Our customers for the gold mine hazardous waste treatment services are mainly gold smelting companies under gold mining companies with mine operations in Shandong province and in particular, in Yantai city while our customers for the sale of recycled products are mainly chemical manufacturing companies and trading companies of chemicals over nine provinces in the PRC. Our trading company customers are generally engaged in the trading and sale of mining related products such as pyrite concentrates, construction materials, as well as other metals and/or chemical products in the PRC, who, to our Directors' best knowledge, on-sell our products to its customers which are chemical manufacturers in the PRC. For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, our five largest customers accounted for approximately 69.8%, 67.3%, 71.8% and 82.1% of our total revenue, respectively. During the same periods, our largest customer accounted for approximately 22.6%, 21.4%, 27.3% and 24.1% of our total revenue, respectively.

During the Track Record Period, we had eight upstream customers who have engaged our Group for the gold mine hazardous waste treatment services, and over 45 downstream customers who have purchased recycled products from our Group. According to the F&S Report, it is normal in the industry for a gold mine hazardous waste treatment service provider to transact with only a few gold smelting companies. It is also an industry practice that chemical manufacturers may choose to purchase or source recycled products from trading company customers.

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Our five largest customers

The following table sets forth the details of our five largest customers for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021:

For the year ended 31 December 2018

| Rank | Customer | Year of commencement of business relationship | Principal service provided/product sold | Approximate amount of revenue <i>RMB' 000</i> | Approximate percentage of our total revenue % | Credit term(s) | Settlement method(s) |
|------|--|---|--|--|--|----------------|---|
| 1 | Zhongkuang Gold | 2014 | Gold mine hazardous waste treatment services | 23,136 | 22.6 | Within 30 days | Bank transfer |
| 2 | Qinhuangdao Hefengxiang Chemical Co., Ltd. (秦皇島鶴鳳翔化工有限公司) (“Qinhuangdao Hefengxiang”) ⁽²⁾ | 2015 | Sale of recycled products | 18,060 | 17.7 | Within 60 days | Bank transfer/ bank acceptance notes |
| 3 | Shandong Gold Smelting ⁽³⁾ | 2017 | Gold mine hazardous waste treatment services | 15,049 | 14.7 | Within 60 days | Bank transfer |
| 4 | Shandong Lianmeng Phosphate & Compound Fertilisers Co., Ltd. (山東聯盟磷複肥有限公司) (“Shandong Lianmeng”) ⁽⁴⁾ | 2014 | Sale of recycled products | 10,245 | 10.0 | Within 60 days | Bank transfer/ bank acceptance notes |
| 5 | Customer A ⁽⁵⁾ | 2017 | Sale of recycled products | 4,903 | 4.8 | Within 60 days | Bank acceptance notes |
| | | | | 71,393 | 69.8 | | |

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For the year ended 31 December 2019

| Rank | Customer | Year of commencement of business relationship | Principal service provided/product sold | Approximate amount of revenue <i>RMB' 000</i> | Approximate percentage of our total revenue % | Credit term(s) | Settlement method(s) |
|------|---|---|--|--|--|--------------------|---|
| 1 | Shandong Gold Smelting ⁽³⁾ | 2017 | Gold mine hazardous waste treatment services | 28,569 | 21.4 | Within 60 days | Bank transfer |
| 2 | Zhongkuang Gold ⁽¹⁾ | 2014 | Gold mine hazardous waste treatment services | 20,566 | 15.4 | Within 30 days | Bank transfer |
| 3 | Shandong Lianmeng ⁽⁴⁾ | 2014 | Sale of recycled products | 17,021 | 12.7 | Within 60 days | Bank transfer |
| 4 | LZ Assets ⁽⁶⁾ | 2018 | Storage of hazardous waste rental services | 14,490 | 10.8 | Payment in advance | Bank transfer |
| 5 | Zhaoyuan Hexi Gold Mine (招遠市河西金礦) ⁽⁷⁾ | 2017 | Gold mine hazardous waste treatment services | 9,369 | 7.0 | Within 30 days | Bank transfer/ bank acceptance notes |
| | | | | 90,015 | 67.3 | | |

For the year ended 31 December 2020

| Rank | Customer | Year of commencement of business relationship | Principal service provided/product sold | Approximate amount of revenue <i>RMB' 000</i> | Approximate percentage of our total revenue % | Credit term(s) | Settlement method(s) |
|------|--|---|--|--|--|----------------|---|
| 1 | Shandong Gold Smelting ⁽³⁾ | 2017 | Gold mine hazardous waste treatment services | 56,074 | 27.3 | Within 60 days | Bank transfer |
| 2 | Zhongkuang Gold ⁽¹⁾ | 2014 | Gold mine hazardous waste treatment services | 34,822 | 17.0 | Within 30 days | Bank transfer |
| 3 | Shandong Lianmeng ⁽⁴⁾ | 2014 | Sales of recycled products | 20,852 | 10.2 | Within 60 days | Bank transfer |
| 4 | Qinhuangdao Hefengxiang ⁽²⁾ | 2015 | Sales of recycled products | 20,409 | 9.9 | Within 60 days | Bank transfer |
| 5 | Customer B ⁽⁸⁾ | 2019 | Sales of recycled products | 15,314 | 7.4 | Within 60 days | Bank transfer/ bank acceptance notes |
| | | | | 147,471 | 71.8 | | |

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For the four months ended 30 April 2021

| Rank | Customer | Year of commencement of business relationship | Principal service provided/product sold | Approximate amount of revenue RMB'000 | Approximate percentage of our total revenue % | Credit term(s) | Settlement method(s) |
|------|--|---|--|--|--|--------------------|-------------------------------------|
| 1 | Shandong Gold Smelting ⁽³⁾ | 2017 | Gold mine hazardous waste treatment services | 16,392 | 24.1 | Within 60 days | Bank transfer |
| 2 | Tongling City Xingtian Huarui Industrial Co., Ltd. (銅陵市興天華瑞實業有限公司) (“Tongling Xingtian Huarui”) ⁽⁹⁾ | 2020 | Sales of recycled products | 15,822 | 23.3 | Payment in advance | Bank transfer/bank acceptance notes |
| 3 | Zhongkuang Gold ⁽¹⁾ | 2014 | Gold mine hazardous waste treatment services | 14,901 | 21.9 | Within 30 days | Bank transfer |
| 4 | LZ Assets ⁽⁶⁾ | 2018 | Storage of hazardous waste rental services | 4,836 | 7.1 | Payment in advance | Bank transfer |
| 5 | Ezhou Wendefu Trade Co., Ltd. (鄂州穩德福貿易有限公司) (“Ezhou Wendefu”) ⁽¹⁰⁾ | 2021 | Sales of recycled products | 3,858 | 5.7 | Payment in advance | Bank transfer |
| | | | | <u>55,809</u> | <u>82.1</u> | | |

Notes:

- (1) Zhongkuang Gold is a subsidiary of a Chinese state-owned enterprise, mainly engaged in gold production business in the PRC.
- (2) Qinhuangdao Hefengxiang is a privately-owned PRC company, which is located in Qinhuangdao city, Hebei province, mainly engaged in the production and sale of chemical products in the PRC with over 100 employees and with a registered capital of RMB50 million as at the Latest Practicable Date.
- (3) Shandong Gold Smelting is a subsidiary of Shandong Gold Mining Co., Ltd. whose shares are listed on the Stock Exchange (stock code: 1787) and Shanghai Stock Exchange (stock code: 600547), mainly engaged in precious metal smelting business in the PRC.
- (4) Shandong Lianmeng is a privately-owned PRC company, which is located in Shouguang city, Shandong province, mainly engaged in the production of chemical fertilisers in the PRC with over 700 employees.
- (5) Customer A is a privately-owned PRC company, which is located in Xinxiang city, Henan province, mainly engaged in the trading of chemical products in the PRC and with a registered capital of RMB0.6 million as at the Latest Practicable Date.
- (6) LZ Assets is a Chinese state-owned enterprise, which is located in Laizhou city, Shandong province, mainly engaged in the investment and operation of state-owned assets in the PRC.
- (7) Zhaoyuan Hexi Gold Mine is a collectively-owned PRC enterprise, which is located in Laizhou city, Shandong province, mainly engaged in gold mining and processing in the PRC with over 600 employees.

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- (8) Customer B is a privately-owned PRC company, which is located in Xintai city, Shandong province, mainly engaged in the trading of coal, steel pipe and pyrite concentrate in the PRC and with a registered capital of RMB30 million as at the Latest Practicable Date.
- (9) Tongling Xingtian Huarui is a privately-owned PRC company, which is located in Tongling city, Anhui province, mainly engaged in the trading and sale of mining related products, construction materials and metals, with its business coverage based in the PRC. Tongling Xingtian Huarui was established on 28 March 2017 with a registered and paid-up capital of RMB5 million and around 13 employees as at the Latest Practicable Date. To the best knowledge of our Directors after reasonable enquiries, its revenue amounted to approximately RMB57 million and RMB13 million for the years ended 31 December 2019 and 2020, respectively.
- (10) Ezhou Wendefu is a privately-owned PRC company, which is located in Ezhou city, Hubei province, mainly engaged in the trading of mining related products, with its business coverage based in the PRC. Ezhou Wendefu was established on 29 August 2019 with a registered and paid-up capital of RMB5 million and around eight employees as at the Latest Practicable Date. To the best knowledge of our Directors after reasonable enquiries, its revenue amounted to approximately RMB40 million for the year ended 31 December 2020.

Our sale transactions with Tongling Xingtian Huarui and Ezhou Wendefu

Our Group became acquainted with Tongling Xingtian Huarui and Ezhou Wendefu in late 2020 and early 2021, respectively, through the introduction of our two existing downstream customers. For the four months ended 30 April 2021, we recorded sale of pyrite concentrate to Tongling Xingtian Huarui of approximately 88,760 tonnes and recognised revenue of approximately RMB15.8 million, and sale of pyrite concentrate to Ezhou Wendefu of approximately 21,800 tonnes and recognised revenue of approximately RMB3.9 million. As at the Latest Practicable Date, all of the recycled products of Tongling Xingtian Huarui and Ezhou Wendefu purchased from us during the four months ended 30 April 2021 was subsequently sold to their customers, who are mainly manufacturers of sulfuric acid in the PRC.

To the best knowledge of our Directors, Tongling Xingtian Huarui and Ezhou Wendefu generally source pyrite concentrate from various provinces in the PRC and their demands for pyrite concentrate are steady. Since our first acquaintance, Tongling Xingtian Huarui and Ezhou Wendefu have gradually increased their purchase volume for our recycled products and they have become two of our five largest customers for the four months ended 30 April 2021, which our Directors believe was mainly attributable to (i) the increasing demand of pyrite concentrate from Tongling Xingtian Huarui and Ezhou Wendefu as they increasingly recognised our stable supply; and (ii) the decrease in the sale of recycled products to our certain existing major downstream customers, namely Shandong Lianmeng and Qinhuangdao Hefengxiang, which is because they have accumulated adequate inventories which were yet to be fully utilised during the four months ended 30 April 2021.

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To the best knowledge of our Directors, and as confirmed by Tongling Xingtian Huarui and Ezhou Wendefu, save for being our customers, there are no other past or present relationships (family, business, employment, financing, trust, shareholding or otherwise) between our Group (including our Directors, Controlling Shareholders, senior management or any of their respective associates) and Tongling Xingtian Huarui and/or Ezhou Wendefu and their respective ultimate beneficial owners.

None of our Directors or their close associates, or any Shareholders, who, (to the best knowledge of our Directors) are beneficially interested in 5% or more of the issued share capital of our Company, have had any interest in any of our five largest customers during the Track Record Period. All of the five largest customers during the Track Record Period are Independent Third Parties. During the Track Record Period and up to the Latest Practicable Date, there were no litigations or arbitration or disputes between us and our major customers which have a material and adverse impact on our business operation or financial condition.

Major contract terms with our customers

The terms of each contract entered into between us and our customers may vary, but the salient terms of a typical contract for each of our business segments are as follows.

Salient terms of service contracts for gold mine hazardous waste treatment services

- ***Scope of work.*** Gold mine hazardous waste treatment services provided by us.
- ***Duration of service and treatment volume.*** The term of our service contracts varies depending on commercial negotiations with each customer, generally ranging from three to 12 months and with option of renewal, based on negotiation with our customers. Our service contracts with certain customers specify the expected volume of gold mine hazardous waste to be treated by us.
- ***Fee and payment terms.*** Our fees are determined based on the type and volume of the gold mine hazardous wastes we treat and payable by our customers upon their receipt of our invoices. In general, our fees are calculated based on a fixed fee per tonne and the actual amount of waste we receive from the customer per month pursuant to the service contracts. Depending on negotiations between our customers and us, we generally request prepayments at the commencement of service contracts and we also allow credit terms of 30 to 60 days after taking into account various factors including the years of business relationships and credit profiles of our customers.

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- **Logistic arrangement.** Generally, our customers are responsible for loading the gold mine hazardous wastes that they request us to treat. We are responsible for collecting the gold mine hazardous wastes from our customers directly upon notice from our customers. We typically engage transportation companies to collect the gold mine hazardous wastes from our customers to our production facilities. The transportation companies are liable for any leakage or pollution during the course of transportation.
- **Environmental protection.** We are responsible for overseeing the gold mine hazardous waste treatment process is in compliance with relevant environmental protection laws and regulations of the PRC.
- **Jurisdiction.** The contract shall be governed by the PRC laws. Any disputes between our Group and the customer shall firstly be resolved through negotiations, failure of which, the parties may resort to litigation proceedings.

Salient terms of sales contracts for recycled products

- **Product type.** Product type and specification are stipulated in the contracts. For example, our sales contracts generally stipulate the minimum percentage of sulphur and iron and the maximum percentage of water in the pyrite concentrate and/or gold-bearing pyrite concentrate as agreed by both parties.
- **Quantity.** We generally agreed with the customers and stipulate a fixed quantity of purchase.
- **Price.** Our fees are calculated based on recycled products per tonne and the actual amount purchased from the customer pursuant to the respective sales contracts. Depending on negotiations between our customers and us, we generally request prepayments at the commencement of sales contracts and we also allow credit terms of 30 to 60 days after taking into account various factors including the years of business relationships and credit profiles of our customers.
- **Quality and acceptance.** Our sales contracts stipulate certain recycled products standards agreed by both parties to measure the quality of the products. Both parties have the right to sample and assess the quality of the products. There is no terms for the return of recycled products. Our Directors confirmed that there was no returned products during the Track Record Period.

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- **Logistic arrangement.** Our customers generally pick up the products at our production facilities. The customers can deploy representatives to witness the loading process of the recycled products at our production facilities and they are responsible for the transportation costs.
- **Payment terms.** Payment generally shall be made before the recycled products are delivered to the customer.
- **Jurisdiction.** The sales contract shall be governed by the PRC laws. Any disputes between our Group and the customer shall firstly be resolved through negotiations, failure of which, the parties may resort to litigation proceedings.

Pricing policy

Our PRC Legal Advisers are of the view that our Group’s provision of services and sale of products are not subject to price control or regulations issued by the PRC government authorities.

For our gold mine hazardous waste treatment services, we adopt a cost-plus model where we determine the treatment fee by taking into account various factors such as the grading and type of the gold mine hazardous waste to be treated, the estimated transportation costs, customer relationships, competitive landscape, market circumstances and our business strategies adopted from time to time.

For our recycled products we generally adopt a cost-plus model where we determine the price of our recycled products by taking into account various factors such as the cost of raw materials, transportation costs, customer relationships, competitive landscape, market circumstances (including the prevailing market price of sulphur, iron and sulphuric acid) and our business strategies adopted from time to time.

Credit policy

We generally negotiate credit terms with our customers on a case-by-case basis. Depending on negotiations between our customers and us, we generally would also receive advance payment from customers for our gold mine hazardous waste treatment services and sale of recycled products. While credit payment terms are not granted to some of our customers, our Directors confirmed that our Group generally grants certain credit terms to customers after taking into account various factors including the years of business relationships and credit profiles of our customers. 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, while our average trade receivables turnover days were approximately 75.4 days, 26.3 days, 20.6 days and 33.2 days, respectively. See “Financial Information — Description of Certain Items of Consolidated Statements of Financial Position — Trade Receivables” in this document for further details of our trade receivables. Please also refer to Note 3.1(b) to the historical financial information in the Accountant’s Report set out in Appendix I to this document for further details of our credit risks.

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SALES AND MARKETING

During the Track Record Period, we have been putting effort in enhancing visibility in the industry, in order to explore new business opportunities, maintain our relationship with our customers and potential customers, and to keep up with the relevant development trends of our industry.

In regards to our gold mine hazardous waste treatment service business, as our customer base is relatively stable, we mainly focus on maintaining good customer relationship to ensure our existing customers continue to engage us for gold mine hazardous waste treatment services. In regards to our sale of recycled products business, we generally promote our products by participating in various industry marketing events of different business associations in order to further explore new business opportunities and to allow our staff to be informed of the relevant industry developments.

As at the Latest Practicable Date, we have two employees responsible for sales and marketing of our products and services. Our sales managers are primarily responsible for exploring new business opportunities, securing new contracts, maintaining customer relationships and market development.

PURCHASES OF SERVICES AND GOODS

During the Track Record Period, suppliers of goods and services to our Group mainly included: (i) transportation companies; (ii) suppliers of consumables such as xanthate and sodium sulphide; (iii) supplier of electricity and water; and (iv) suppliers for other services such as laboratory testing. For details of the breakdown of our costs of sales during the Track Record Period, see “Financial information — Description of Selected Items in the Consolidated Statements of Comprehensive Income — Costs of Sale” in this document.

All of our suppliers during the Track Record Period were located in the PRC. Our Directors believe that a stable supply of our major consumables and transportation services can be secured. Our Directors also believe that the fluctuation of the prices of transportation services and consumables during the Track Record Period was influenced by a number of factors, including regulations and policies of the PRC government, and the supply of and demand for such services and consumables in the PRC. For details relating to the impact on the price fluctuations in our cost of sales, see “Financial Information — Key Factors Affecting Our Results of Operations — Transportation Costs and Price of Consumables” in this document. To manage such price fluctuation, we would adjust the selling prices of our products and our treatment fees from time to time according to the movements in our costs of sale with a view to pass the additional costs to our customers to an extent that is commercially practicable.

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For the years ended 31 December 2018, 2019, 2020 and the four months ended 30 April 2021, three, two, two and two of our five largest suppliers had commenced business relationship with us for five years or more, respectively. Our suppliers generally grant us a credit period of 30 to 90 days. During the Track Record Period, we settled payments with our suppliers in RMB mainly by bank transfer and bank acceptance notes. We adopt strict procedures in selecting our suppliers. We review their background information, including their scale of operation, quality control system, prices, financial position and reputation in the industry. We maintain a list of approved suppliers which a supplier will become our approved supplier only after they have met our selection criteria. We also conduct evaluation of our approved suppliers from time to time, which include the stability and schedule of supply, their production facilities (if applicable) and the quality control system. During the Track Record Period, we had not experienced any material return of consumables or in dispute with our suppliers, nor any disruption, shortage or delay in the supply of consumables and services, which may materially and adversely affect our operations and financial conditions.

Our five largest suppliers

For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, our five largest suppliers accounted for approximately 50.2%, 66.2%, 54.1% and 51.5% of our total cost of sales, respectively. During the same periods, our largest supplier accounted for approximately 18.1%, 25.3%, 18.9% and 15.4% of our total cost of sales, respectively.

The tables below set forth a summary of our five largest suppliers for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021:

For the year ended 31 December 2018

| Rank | Supplier | Year of commencement of business relationship | Principal goods/services purchased | Approximate amount of purchase <i>RMB' 000</i> | Approximate percentage of our total cost of sales % | Credit term(s) | Settlement method(s) |
|------|--|---|------------------------------------|---|--|--------------------|-----------------------|
| 1 | Supplier A ⁽¹⁾ | 2016 | Transportation services | 8,049 | 18.1 | Within 90 days | Bank acceptance notes |
| 2 | Laizhou Electricity Generating Company of State Grid Shandong Electric Power Company (國網山東省電力公司萊州市供電公司) (“Laizhou Electricity Generating Company”) ⁽²⁾ | 2016 | Electricity supply | 4,837 | 10.9 | Payment in advance | Bank transfer |
| 3 | Supplier B ⁽³⁾ | 2017 | Transportation services | 3,496 | 7.8 | Within 90 days | Bank acceptance notes |
| 4 | Supplier C ⁽⁴⁾ | 2015 | Transportation services | 3,418 | 7.7 | Within 90 days | Bank acceptance notes |
| 5 | Supplier D ⁽⁵⁾ | 2018 | Transportation services | 2,542 | 5.7 | Within 90 days | Bank acceptance notes |
| | | | | 22,342 | 50.2 | | |

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For the year ended 31 December 2019

| Rank | Supplier | Year of commencement of business relationship | Principal goods/services purchased | Approximate amount of purchase <i>RMB' 000</i> | Approximate percentage of our total cost of sales % | Credit term(s) | Settlement method(s) |
|------|--|---|------------------------------------|---|--|--------------------|-----------------------|
| 1 | Supplier D ⁽⁵⁾ | 2018 | Transportation services | 13,013 | 25.3 | Within 90 days | Bank acceptance notes |
| 2 | Supplier C ⁽⁴⁾ | 2015 | Transportation services | 10,373 | 20.1 | Within 90 days | Bank acceptance notes |
| 3 | Supplier E ⁽⁶⁾ | 2019 | Transportation services | 3,868 | 7.5 | Within 90 days | Bank acceptance notes |
| 4 | Laizhou Electricity Generating Company | 2016 | Electricity supply | 3,708 | 7.2 | Payment in advance | Bank transfer |
| 5 | Supplier F ⁽⁷⁾ | 2019 | Transportation services | 3,138 | 6.1 | Within 90 days | Bank transfer |
| | | | | 34,100 | 66.2 | | |

For the year ended 31 December 2020

| Rank | Supplier | Year of commencement of business relationship | Principal goods/services purchased | Approximate amount of purchase <i>RMB' 000</i> | Approximate percentage of our total cost of sales % | Credit term(s) | Settlement method(s) |
|------|---|---|------------------------------------|---|--|--------------------|---|
| 1 | Supplier D ⁽⁵⁾ | 2018 | Transportation services | 15,436 | 18.9 | Within 90 days | Bank transfer/ bank acceptance notes |
| 2 | Supplier C ⁽⁴⁾ | 2015 | Transportation services | 12,899 | 15.8 | Within 90 days | Bank transfer |
| 3 | Supplier G ⁽⁸⁾ | 2019 | Electricity and water supply | 7,288 | 8.9 | Within 30 days | Bank transfer |
| 4 | Laizhou Electricity Generating Company ⁽²⁾ | 2016 | Electricity supply | 5,443 | 6.7 | Payment in advance | Bank transfer |
| 5 | Supplier E ⁽⁶⁾ | 2019 | Transportation services | 3,065 | 3.8 | Within 90 days | Bank transfer |
| | | | | 44,131 | 54.1 | | |

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For the four months ended 30 April 2021

| Rank | Supplier | Year of commencement of business relationship | Principal goods/services purchased | Approximate amount of purchase RMB'000 | Approximate percentage of our total cost of sales % | Credit term(s) | Settlement method(s) |
|------|--|---|------------------------------------|---|--|--------------------|---|
| 1 | Supplier C ⁽⁴⁾ | 2015 | Transportation services | 4,186 | 15.4 | Within 90 days | Bank transfer |
| 2 | Supplier D ⁽⁵⁾ | 2018 | Transportation services | 3,699 | 13.6 | Within 90 days | Bank transfer/ bank acceptance notes |
| 3 | Qingdao Yiyun Transportation Co., Ltd. (青島益運運輸有限公司) ("Qingdao Yiyun") ⁽⁹⁾ | 2021 | Transportation services | 2,653 | 9.8 | Within 30 days | Bank transfer |
| 4 | Supplier G ⁽⁸⁾ | 2019 | Electricity and water supply | 1,946 | 7.2 | Within 30 days | Bank transfer |
| 5 | Laizhou Electricity Generating Company ⁽²⁾ | 2016 | Electricity supply | 1,495 | 5.5 | Payment in advance | Bank transfer |
| | | | | 13,979 | 51.5 | | |

Notes:

- (1) Supplier A is a privately-owned PRC company, which is located in Yantai city, Shandong province, mainly engaged in road transportation services for goods in the PRC.
- (2) Laizhou Electricity Generating Company is a branch institution of a collectively-owned PRC enterprise, which is located in Laizhou city, Shandong province, mainly engaged in power supply in the PRC.
- (3) Supplier B is a privately-owned PRC company, which is located in Laiyang city, Shandong province, mainly engaged in road transportation services for goods in the PRC.
- (4) Supplier C is a privately-owned PRC company, which is located in Zhaoyuan city, Shandong province, mainly engaged in road transportation services for goods in the PRC.
- (5) Supplier D is a privately-owned PRC company, which is located in Zhaoyuan city, Shandong province, mainly engaged in road transportation services for goods in the PRC.
- (6) Supplier E is a privately-owned PRC company, which is located in Laizhou city, Shandong province, mainly engaged in road transportation services for goods in the PRC, with around ten employees as at the Latest Practicable Date. Its customer base consists of approximately over ten customers, including but not limited to, PRC-based companies which are principally engaged in trading of construction materials, mining materials and gold mining companies.

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- (7) Supplier F is a privately-owned PRC company, which was located in Laizhou city, Shandong province, mainly engaged in road transportation services for goods in the PRC. It was deregistered on 15 June 2020.
- (8) Supplier G is a privately-owned PRC company, which is located in Laizhou city, Shandong province, mainly engaged in the production of industrial salt in the PRC. It is also engaged in the supply of water and electricity.
- (9) Qingdao Yiyun is a privately-owned PRC company, which is located in Qingdao city, Shandong province, mainly engaged in road transportation for goods in the PRC as a qualified service provider.

None of our Directors or their close associates, or any, Shareholders who (to the best knowledge of our Directors are beneficially interested in 5% or more of the issued share capital of our Company) or their respective close associates had any interest in any of our five largest suppliers during the Track Record Period. All of the five largest suppliers are Independent Third Parties. During the Track Record Period and up to the Latest Practicable Date, our Group had not experienced any major disruption in business due to material delays or defaulting payments.

Major contract terms with our suppliers

During the Track Record Period and up to the Latest Practicable Date, we generally enter into framework agreements which do not have any minimum purchase or procurement commitment with a contract term ranging from five to 12 months with our suppliers for purchase of consumables and transportation companies for transportation services, whereas the terms and conditions of an individual transaction (such as quantity and delivery schedule) will be set out in the relevant purchase order of the transaction. Our Directors consider it is in line with normal practice in the industry. Set out below is a summary of typical key terms of our purchase contracts with suppliers:

Transportation services

Terms or duration. We generally enter into a one-year framework agreement with the suppliers provide transportation services.

Obligations. The suppliers provide transportation services with their own vehicles. Suppliers should follow instructions from us including the delivery date and time, delivery method and delivery route (if any), to deliver the goods or products to places designated by us. Suppliers cannot subcontract the transportation services to any third parties without our prior consent.

Price and payment terms. Parties agree to follow the prevailing market price at the time of purchase order. There is no minimum annual transaction amount required pursuant to the framework agreements. Suppliers should issue an invoice to us at the end of each month in respect of the services they rendered in that month for settlement.

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Purchase of consumables

Product type. Description and specification of the consumables are specified in the framework agreements.

Contract period. We generally enter into framework agreements which do not have any minimum purchase commitment with the suppliers of raw materials and consumables with a contract term ranging from five to 12 months or a framework agreement does not contain any standard fixed duration.

Price. In general, unit price of the consumables are not stated in the framework agreements. Instead, parties agree to follow the prevailing market price at the time of purchase order. There is no minimum annual transaction amount required pursuant to the framework agreements.

Delivery. Delivery method are specified in the contract and we generally required the suppliers to be responsible for the transportation costs.

Payment terms. Payment terms are subject to negotiation with suppliers. For some of the suppliers, the amounts payable by us shall be settled on a monthly basis while some of the suppliers require payment upon delivery or grant us a credit period of 30 days.

Logistics and Transportation

Our upstream customers are typically responsible for sorting and packaging the gold mine hazardous waste that they request us to treat. We are typically required to designate transportation companies for gold mine hazardous waste transportation to transport the gold mine hazardous waste from the location of our upstream customers to our production facilities. The transportation companies are liable for any leakage or pollution during the course of transportation. We collect gold mine hazardous waste from our upstream customers upon their notices. According to the Safety Management of Dangerous Goods in Road Transport (《危險貨物道路運輸安全管理辦法》), the carriers of dangerous goods shall carry dangerous goods within the business scope as permitted by competent departments of transport, and shall use vehicles and equipment whose safety technical conditions meet the requirements of the national standards and which match the nature and weight of the dangerous goods carried. During the Track Record Period up to April 2021, we experienced a non-compliance incident in relation to the failure to engage transportation companies with permits for transporting cyanide tailings. For further details, see “— Regulatory Compliance — (ii) Transportation of Cyanide Tailings” below.

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In general, our downstream customers do not request us to deliver our recycled products from our production facilities to their designated locations. Further, we also engage transportation companies to assist us on the transportation within our production facilities for our daily operation needs including the transition of high silicon tailings and flipping and airing of gold mine hazardous wastes in our production facilities before further processing procedures. During the Track Record Period, transportation companies engaged by us for transportation within our production facilities were principally involved in the process of airing of gold mine hazardous wastes collected from our upstream customers, which was the first step of detoxification conducted within our warehouses. We deployed those transportation companies to assist on flipping and rolling the gold mine hazardous wastes stored in the warehouses in order to speed up the volatilisation of free cyanide ion and other materials.

Our logistic arrangements with third-party transportation companies allow us to devote less capital investment than we would have to devote to developing and maintaining our own large-scale logistics system. Outsourcing the transportation services also allows us to transfer most of the risks relating to transportation of gold mine hazardous wastes to them. During the Track Record Period and as at the Latest Practicable Date, we had not experienced any significant delay in logistics that would materially and adversely affect our business operations and we did not encounter any shortage of supply of transportation services. Furthermore, the current market for provision of transportation services provides us with sufficient alternative options of transportation companies who could offer similar terms as our existing transportation companies.

OVERLAPPING OF MAJOR CUSTOMER AND SUPPLIER

Based on our experience in the gold mine solid waste and hazardous waste treatment market in the PRC and also according to the F&S Report, our Directors note that it is normal practice that gold mine hazardous waste treatment companies purchase consumables from gold mining and production companies in the PRC. However, it is not our common practice to purchase from our customers or sell to our suppliers.

During the Track Record Period, among our five largest customers, Shandong Gold Smelting is our overlapping customer and supplier. To the best knowledge and belief of our Directors, Shandong Gold Smelting and its ultimate beneficial owner are Independent Third Parties.

For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, we provided gold mine hazardous waste treatment services to Shandong Gold Smelting while we also purchased consumables, namely gold-bearing mineral powder, from Shandong Gold Smelting for the trial use as an agent during the flotation process. Our Directors confirm that all of our sales to and purchases from Shandong Gold Smelting were incidental transactions, which were not inter-conditional, inter-related or otherwise considered as one transaction.

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The table below sets out the total sales and total purchases attributable to/from Shandong Gold Smelting for the years/periods indicated:

| | Years ended 31 December | | | Four months ended 30 April |
|---|-------------------------|--------|--------|----------------------------------|
| | 2018 | 2019 | 2020 | 2021 |
| Sales | | | | |
| Revenue (<i>RMB'000</i>) | 15,049 | 28,569 | 56,074 | 16,392 |
| As a percentage of our total revenue | 14.7% | 21.4% | 27.3% | 24.1 |
| Related cost (<i>RMB'000</i>) | 7,077 | 8,838 | 20,218 | 6,522 |
| Gross profit margin | 53.0% | 69.1% | 63.9% | 60.2% |
| Purchases | | | | |
| Cost (<i>RMB'000</i>) | 571 | 28 | 180 | 267 |
| As a percentage of our total amount of purchase | 1.8% | 0.1% | 0.3% | 1.4% |

Our Directors are of the view that there are no unusual benefits to our Group or the overlapping customer and supplier other than the profit and loss derived from the arm's length transaction with the overlapping customer and supplier as disclosed above.

SEASONALITY

Our Directors consider that there is no material seasonal fluctuations of the business of our Group.

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RESEARCH AND DEVELOPMENT

Our research and development efforts primarily focus on expanding our product offerings, upgrading our technologies on comprehensive utilisation and harmless treatment of gold mine hazardous wastes processing and developing new methods. We continue and further explore our technological advantage by means of various research and development projects ourselves, invite external industry experts to review of specific issues as the case may require and technological exchange and cooperation with university research and development centre.

We developed collaborations with Shandong University (山東大學), and scientific research institutes in the PRC on research and development of technology for comprehensive utilisation of gold mine hazardous wastes. We also conducted an electric furnace smelting research with Chaoyang NEU Minerals and Metallurgy Institute (朝陽東大礦業研究院) in 2020 for gold tailings processing technology. We have also set up HC R&D with the intention to further enhance our technologies in producing high-quality recycled products. As at the Latest Practicable Date, we had registered or obtained governmental approvals of six patents in the PRC relating to our inventions, and we are in the progress of applying for three patents in the PRC. Since January 2021, we have also engaged a third-party to develop a new production line or provide consultancy services to our Group on research and development. Depending on the terms of individual agreements, the intellectual property rights of the research and development outcomes shall be owned either solely by us or jointly by us and our research partners.

Our research and development team comprises four members and three of them received tertiary education including Mr. Sheng, our executive Director and chief technical officer of our Company, who has more than 29 years of experience in chemical related industry. For details on the experience and qualifications of Mr. Sheng, see “Directors and Senior Management” in this document. Our research and development expenses incurred during the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021 were approximately RMB2,400, RMB0.2 million, RMB1.6 million and RMB0.3 million, respectively.

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QUALITY ASSURANCE

Our Directors believe that high quality and standards are crucial to our Group’s success. HC Environmental, one of our major operating subsidiary, has obtained the accreditation of ISO 9001 since October 2018. The application for ISO 9001 certification was initiated by us to maintain a well-established quality management system for our Group. The major objective for adopting ISO 9001 is to demonstrate our ability to consistently provide quality services to our customers and we aim to enhance customer satisfaction through effective application of the quality management system. We have a quality control team who directly reports to our executive Directors. For qualification and experience of our Directors, see “Directors and Senior Management” in this document. The quality control team is responsible for the quality assurance of our recycled products, including the formulation of quality standards and control. Our Group’s recycled products have undergone internal production control, quality assurance control and rigorous testing. We are dedicated to ensuring the high standard of safety and quality of (i) the recycled products extracted by us; (ii) the consumables used for our production of recycled products procured from our suppliers; and (iii) suppliers of services for our core business activities, such as transportation companies.

We have adopted a stringent quality and management control system which oversees the entire treatment and production process as in order to ensure the quality of our products is up to standard. Our quality control procedures are performed continuously at various stages of our processing and storage to ensure the quality of our products. We have internal rules governing work procedures for various stages of operations and works performed by us, such as outlining the responsibilities of personnel of different levels, setting up general procedures for planning, management, repair and maintenance, accident reporting, communications with customers, procurement of goods and service, to ensure our operations are carried out in a safe and timely manner to the satisfaction of our customers.

During the Track Record Period and up to the Latest Practicable Date, we had not received any material complaint or request for any kind of compensation from our customers due to or in relation to the quality of the recycled products sold by us and the services provided by us.

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MARKET AND COMPETITION

According to the F&S Report, the gold mine hazardous waste treatment market in the PRC and Shandong province is concentrated. In 2020, the top five market participants in the PRC took up a market share of approximately 67% in terms of revenue, and we are ranked third in terms of revenue representing a market share of approximately 10%. Due to its rich gold resources and mature gold mining industry chain, the gold mine production in Shandong province reached approximately 57.6 tonnes in 2020, ranking first in the PRC and accounting for approximately 19.1% of the total gold mine production in the PRC according to the F&S Report. Laizhou city of Shandong province is also rich in natural resources, among which its gold reserves ranked first among the county-level cities in the PRC with proven gold reserves of around 2.7 thousand tonnes by the end of 2020. Laizhou city, being a county-level city in Yantai city of Shandong province, also benefits from the high level of gold resources in Yantai city. According to the F&S Report, Yantai city had proven gold reserves of approximately 3.9 thousand tonnes, which accounted for approximately 93% of proven gold reserves of Shandong province in 2020, ranking first among prefecture-level cities in the proven gold reserves in the PRC, Yantai city is the prefecture-level city with the largest gold production in the PRC, with approximately 50 tonnes of gold production volume in 2020, accounting for approximately 17% and 83% of total gold production volume in the PRC and Shandong province, respectively.

The distribution of gold mine hazardous waste treatment company follows the gold producers and has a strong regional characteristics. As a gold mine hazardous waste treatment company located in Laizhou city, Shandong province, according to the F&S Report, we are ranked first in gold mine hazardous waste treatment volume in Shandong province and the PRC, with treatment volume of approximately 1.08 million tonnes, accounting for approximately 26% and 18% of the total treatment volume in Shandong province and the PRC, respectively, in 2020. Further, the treatment volume of gold mine hazardous waste in Yantai city amounted to approximately 3.5 million tonnes in 2020, and our Group accounted for approximately 31% of market share in Yantai city in terms of treatment volume of gold mine hazardous waste in 2020, ranking first in terms of treatment volume in Yantai city in 2020.

According to the F&S Report, considering that cyanide leaching residue was listed in Directory of National Hazardous Wastes (國家危廢名錄) issued by the Ministry of Ecology and Environment (生態環境部) on 1 August 2016, the gold mine hazardous waste treatment market was relatively small due to the lack of attention before 2017. The increasingly stricter requirements on environmental protection drive the growth of the market after the implementation of policies, with the total revenue increasing at a CAGR of 78.5% in the PRC and 85.0% in Shandong province, respectively from 2015 to 2020. The respective revenue of gold mine hazardous waste treatment market in China and in Shandong province are expected to grow at a CAGR of 19.1% and 17.8%, respectively from 2020 to 2025. In 2020, the revenue of gold mine hazardous waste treatment market in Yantai city contributed approximately 87% of total revenue in Shandong province, and we ranked second in terms of revenue in gold mine hazardous waste treatment market in Yantai city in 2020, according to the F&S Report. The gold mine hazardous waste treatment market also increased from RMB50.9 million in 2015 to RMB118.2 million in 2020 in Yantai city,

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representing a CAGR of 85.5% from 2015 to 2020; the market in Yantai city is also expected to increase to RMB2755.0 million in 2025, representing a CAGR of 19.8% from 2020 to 2025.

The gold mine hazardous waste treatment market has a high entry barrier for potential market players. According to the F&S Report, companies engaged in gold mine hazardous waste collection, storage and treatment in the PRC shall obtain hazardous waste business licences. In order to get the licence, a company must own qualified transportation, packaging, storage, and treatment facilities and equipment, as well as establish qualified rules and regulations, pollution prevention and control measures, and accident emergency rescue measures. It takes time and effort to get familiar with the requirements and eventually meet all the required standards for new entrants of the mine solid waste treatment market in the PRC. Moreover, mine solid waste treatment business in China requires experts in chemistry, mechanics, environmental engineering design and other industries. It is also a highly specialised industry, which has a high requirement on the technology capability of companies in the industry and requires years of technology accumulation to formulate a whole set of efficient, energy-saving and environmentally-friendly gold mine hazardous waste treatment technology system. High equipment and land expenditure and daily maintenance by technical personnel are also required to ensure the production and environmental protection requirements are met, are also required by this industry according to the F&S Report, which requires massive amount of capital investment and will bring heavy financial burden to start-ups, especially to small and medium ones. See “Industry Overview” in this document for an analysis of the PRC’s hazardous waste treatment market. Subject to increasingly strict environmental policies and initiatives in the PRC, including gold extraction with more environmentally-friendly methods, it is considered that gold extraction by cyanidation is a mature, low-cost, high-recovery gold extraction process, and is the most widely used process in gold production in the PRC and worldwide. More environmentally-friendly gold extraction method generally does not change the process of gold extraction by cyanidation, but uses low-toxic beneficiation agents to replace traditional sodium cyanate. The penetration rate of these low-toxic beneficiation agents is lower than 5% in gold production market. The application of these beneficiation agents are not mature yet, and are still at the stage of market introduction and customer cultivation. According to the F&S Report, gold extraction by cyanidation will not be eliminated in the foreseeable future.

We believe that we are well-positioned to compete with other market players, and that our strengths and strategies will differentiate us from our competitors. See “— Competitive Strengths” above for a discussion of our competitive strengths.

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LICENCES AND PERMITS

According to the relevant PRC laws and regulations, we are required to obtain certain licences, approvals and permits for our business operation. As confirmed by our Directors and as advised by our PRC Legal Advisers, (i) we have obtained all material licences, approvals and permits required in the course of our business operation during the Track Record Period and up to the Latest Practicable Date; (ii) all such licences, approvals and permits remain valid as at the Latest Practicable Date; and (iii) there were no major legal obstacles for us to continue to hold such licences, approvals and permits as at the Latest Practicable Date.

Our Group is required to obtain the following key licences and permits to carry out our business and operation:

| Licence/permit | Licence/ permit holder | Issuing Authority | Grant date | Expiry date |
|---|---------------------------|---|--------------|--------------|
| Hazardous Waste Business Licence ⁽¹⁾ | HC Mining | Yantai Municipal Ecology and Environment Bureau | 20 July 2020 | 20 July 2025 |
| Hazardous Waste Business Licence ⁽²⁾ | HC Environmental | Yantai Municipal Ecology and Environment Bureau | 9 March 2020 | 9 March 2025 |

Notes:

- (1) The permitted modes of operation include collection, storage and utilisation of hazardous waste and the permitted annual treatment capacity is 600,000 tonnes.
- (2) The permitted modes of operation include collection, storage and utilisation of hazardous waste and the permitted annual treatment capacity is 560,000 tonnes.

According to the Hazardous Waste Business Licence and confirmations from the Laizhou Branch of Yantai Municipal Ecology and Environment Bureau (煙臺市生態環境局萊州分局), which is the competent authority for environmental protection as confirmed by our PRC Legal Advisers, our Group may undertake the collection, storage and utilisation of hazardous wastes and is not required to obtain licence or permit for hazardous waste for storage rental services. Therefore, our PRC Legal Advisers are of the view that our Group do not require any other licenses or permits for our hazardous waste storage rental services.

The aforesaid licences are subject to renewal for every five years. As such, we will renew all existing licences, approvals and permits before their expiry. Our Directors confirm that there were no foreseeable major obstacles for us to renew such licences, approvals and permits as at the Latest Practicable Date.

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AWARDS AND CERTIFICATES

After years of development, our operations have accomplished a number of milestones and we have obtained a number of awards and certificates, a summary of which is set out below:

| Awards/Certificates | Award/Issuing Organisation | Recipient | Date of Issue | Expiry Date |
|---|---|------------------|------------------|----------------------------------|
| Environmental management system accreditation (ISO 14001) | Shandong Seatone Certification Co., Ltd. (currently known as Shandong Seatone International Certification Co. Ltd.) (“Seatone”) | HC Environmental | 21 October 2021 | 28 October 2024 <i>(Note)</i> |
| Occupational health and safety management system accreditation (OHS MS45001) | Seatone | HC Environmental | 21 October 2021 | 28 October 2024 <i>(Note)</i> |
| Quality management system accreditation (ISO 9001) | Seatone | HC Environmental | 21 October 2021 | 28 October 2024 <i>(Note)</i> |
| Enterprise Progress Award (企業進步獎) | Laizhou City Municipal Government | HC Environmental | February 2019 | Not applicable |
| Advanced Unit for Comprehensive Utilisation of Resources in Shandong Province (山東省資源綜合利用先進單位) | People’s Government of Shandong Province | HC Mining | 25 December 2019 | Not applicable |
| Executive Director of Units (常務理事單位) | All-China Environment Federation (中華環保聯合會) | HC Mining | September 2020 | September 2025 |

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| Awards/Certificates | Award/Issuing Organisation | Recipient | Date of Issue | Expiry Date |
|---|---|-----------------------------|---------------|----------------|
| 2020 Shandong Top Ten Innovation Achievements Award of Circular Economy (2020年度山東省循環經濟十大創新成果獎) | Shandong Provincial Circular Economy Association (山東省循環經濟協會) | HC Mining | December 2020 | Not applicable |
| 2021 Shandong Province “Specialised, and innovative” Small and Medium-sized Enterprises (2021年度山東省“專精特新”中小企業) | Department of Industry and Information Technology of Shandong Province (山東省工業和信息化廳) | HC Mining, HC Environmental | 3 August 2021 | Not applicable |

Note: Each of ISO 9001, ISO 14001, and OHSMS 45001 accreditation currently carries a duration of three years, within which period surveillance audit is conducted by the accreditation body every year to review the implementation of the relevant systems for compliance. After this three year period, each of the ISO 9001, ISO 14001, OHSMS 45001 accreditation is to be further accredited and certified subject to successful implementation of a renewal audit by the accreditation body.

EMPLOYEES

As at the Latest Practicable Date, we had 190 full-time employees who were directly employed by us in Shandong province, the PRC. The table below sets out a breakdown of our employees by department as at the Latest Practicable Date:

| Department | Total number of employees |
|---|---------------------------|
| Management | 3 |
| Production | 99 |
| Quality control, research and development and engineering | 14 |
| Procurement, sales and marketing | 5 |
| Finance, human resources and administration | 52 |
| Logistics | 17 |
| Total | 190 |

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The remuneration packages for our employees include salary, bonuses and allowances. As required by the PRC regulations, we participate in social insurance schemes operated by the relevant local government authorities and maintain mandatory pension contribution plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance for some of our employees. We also contribute to housing accumulation funds for some of our employees.

We are committed to recruiting, training and retaining skilled and experienced people throughout our operations. When we make hiring decisions, we take into account factors such as our business strategies, our development plans, industry trends and the competitive environment. We recruit our employees based on a number of factors such as their work experience, educational background and vacancy needs. We endeavour to attract and retain appropriate and suitable personnel to serve our Group. According to the F&S Report, one of the entry barriers of gold mine hazardous waste treatment market in the PRC is to maintain experts in chemistry, mechanics, environment, engineering design and other industries, and more specifically, professionals which are of adequate academic qualification and experience. We consider that one of our competitive strengths is our ability to attract and maintain high quality professionals in the industry, and we have an experienced and professional management team leading our Group’s business operations. We are one of the important market players in the industry in the PRC and our senior management team consists of professionals with substantial industry, management and operational experience, where a majority of our senior management team have been working in the relevant industries, such as metal processing industry, for more than 20 years. See “Director and Senior Management” of this document for further details of the biographies of our senior management team. We therefore do not foresee any material difficulties with our recruitment due to the insufficiency of high quality professionals in the mine solid waste treatment industry in the PRC. According to the F&S Report, it is expected that there will be an increase in average wages of employees in mining and environmental protection industries in the PRC. However, taking in account that (i) such increase in average wages of employees in mining and environmental protection industries in the PRC are based on the statistics from the National Bureau of Statistics (國家統計局) and these statistics are country-level statistics and it is possible that companies are facing different situations due to different segments, regions and operating conditions; and (ii) adopting our cost-plus pricing policy, we may be able to pass such increase in direct labour costs to our customers, our Directors are of the view that our Group’s profitability going forward will not be adversely affected by such expected increase in direct labour costs.

We provide continuing education and training programmes to our employees to improve their skills and develop their potential. We also adopt evaluation programmes through which our employees can receive feedback. We foster strong employee relations by offering various staff benefits and personal development support. Our Directors considered that our Group have maintained good relationship with our employees. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material difficulties in the recruitment or any disruption to our operations due to labour disputes or claims.

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ENVIRONMENTAL PROTECTION

We are subject to the PRC national and local environmental laws and regulations, including but not limited to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), Law of the PRC on the Prevention and Control of Environment Pollution Caused by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》), the Law of the PRC on Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》) and the Law of the PRC on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》). For details, see “Regulatory Overview — PRC Laws and Regulations Relating to Environmental Protection” in this document. The hazardous waste treatment business is highly regulated in China. Failure to comply with applicable PRC environmental protection laws and regulations may result in significant consequences, including administrative, civil and criminal penalties, liability for damages and negative publicity. Further, such failure to comply, or allege on failure to comply, with the relevant PRC laws, regulations or government policies on environmental protection, may lead to costly litigation or penalty imposed by the relevant judicial or governmental authorities.

During the Track Record Period, we are also subject to annual assessments relating to the Hazardous Waste Standardised Management Index System (《危險廢物規範化管理指標體系》) (the “**Index System**”) as issued by the Ministry of Ecology and Environment, which were conducted by the assessors representing Yantai Municipal Ecology and Environment Bureau, with each inspection involving at least two persons with environmental supervision and law enforcement qualifications, while experts may also be invited to participate in the inspection. The Index System, containing a summary of major applicable environmental protection regulatory requirements in the PRC (which include but not limited to the Law of the People’s Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》), the Measures for the Administration of Hazardous Waste Transfer Manifests (《危險廢物轉移聯單管理辦法》), and the Measures for the Administration of Permit for Operation of Hazardous Wastes (《危險廢物經營許可證管理辦法》) as set out in “Regulatory Overview” of this document), gives assessors a regulatory guideline during their inspection in assessing the level of compliance with the major regulatory requirements stipulated under the Index System. During the inspection, assessors would assess all applicable regulatory requirements stipulated under the Index System as their scope of assessment. Subsequent to the inspection, assessors generally issue a written report to us on the same day, which generally contains, among other things, materials which were inspected by the assessors and an overall result indicating whether we have achieved the compliance standard as set out in the Index System.

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As confirmed by our Directors, we have complied with the relevant standards under the Index System, and there had been no issues raised by Yantai Municipal Ecology and Environment Bureau regarding our Group’s compliance with all material standards and requirements stipulated under the Index System during the Track Record Period. During the Track Record Period, we have adopted and implemented various regular measures to ensure compliance with the regulatory requirements under the Index System, which include but not limited to our repair and maintenance policies and environmental, social and governance policies. See” — Our Production Facilities — Repair and Maintenance” above, and paragraphs below for details.

We emphasise on environmental protection and strive to minimise the environmental impact brought by our business operations. We have adopted and implemented various environmental protection policies and measures to ensure compliance with all relevant regulatory requirements under applicable PRC laws and regulations. We have promulgated various internal policies on environmental compliance matters, and have been supervising and managing our subsidiaries to ensure that they operate in compliance with relevant environmental laws and regulations. Such policies regulate different aspects of our operations, from the design, construction to the operation of our production facilities. In October 2018, HC Environmental was granted the Environmental Management System (ISO 14001) certificate. The following table sets out our major pollutants, environmental protection measures adopted and the relevant discharge standard:

| | Major pollutants | Major environmental protection measures adopted | Discharge standards |
|----|-------------------------|---|--|
| 1. | Exhaust gas | The exhaust gas emitted by our Group mainly comes from the detoxifying process of gold mine hazardous wastes, while the major pollutants produced include sulphur dioxide and hydrogen cyanide. Minimal emission is achieved by installing the confined exhaust gas absorption unit and the exhaust gas is emitted through a 25-metre exhaust pipe. | The Comprehensive Emission Standard of Air Pollutants (《大氣污染物綜合排放標準》) (GB16297–1996) |
| 2. | Dust | Using water sprinkling equipment to sprinkle water on gold mine hazardous wastes, raw materials and recycled products regularly to maintain a certain surface humidity to avoid dust. The storage facilities are surrounded by 3-metre perimeter wall with plastic sheeting above to avoid dust. | The Comprehensive Emission Standard for Atmospheric Particulate Matter from Stationary Sources in Shandong Province (《山東省固定源大氣顆粒物綜合排放標準》) (DB37/1996–2011) |

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| | Major pollutants | Major environmental protection measures adopted | Discharge standards |
|----|--------------------------------------|---|---|
| 3. | Wastewater during production process | Production facilities are equipped with production circulation pools which all polluted waste water generated during the production process can be recycled and not discharged. | The Wastewater Quality Standards for Discharge to Municipal Sewers (《污水排入城市下水道水質標準》) (CJ343-2010) |
| 4. | Domestic sewage | Domestic sewage are treated by the integrated sewage treatment station in production facilities and then be used for greening and dust reduction within the production facilities without discharge. | |
| 5. | Noise | Nosing producing machinery is arranged indoors and away from boundary of the production facilities to minimise the impact of noise on the surrounding environment. Further, we set up sound insulation hold for high-noise machinery to inhibit the noise generated by mechanical vibration from spreading and sound insulation doors and windows for production compartments | The Emission Standard for Industrial Enterprises Noise at Boundary (《工業企業廠界環境噪聲排放標準》) (GB12348-2008) |
| 6. | Solid waste | Non-hazardous solid wastes are gathered and managed by the environmental protection and safety department for land filling within the production facilities or further disposal as appropriate. Hazardous wastes are deposited in specific storage area and entrusted qualified companies to undertake the disposal. | The Standard for Pollution Control on the Storage and Disposal Site for General Industrial Solid Waste (《一般工業固體廢物貯存、處置場污染控制》) (GB18599-2001) The Standard for Pollution Control on Hazardous Waste Storage (《危險廢物貯存污染控制標準》) (GB18598-2001) |

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Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, our operations had not been subject to any pending administrative penalties in relation to environmental laws and regulations of the PRC, which would have a material adverse effect on our business, financial condition and results of operations. For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, our costs of compliance with applicable environmental laws and regulations was approximately RMB0.4 million, RMB0.7 million, RMB0.9 million and RMB0.3 million, respectively. These costs were mainly attributable to salaries and wages for our staff of the environmental protection and safety department, testing fees, and consultancy fee in relation to environmental compliance and these costs did not include historical capital expenditure on property, plant and equipment that may be attributable to environmental compliance.

During the Track Record Period and up to the Latest Practicable Date, we did not receive any material claims from our customers or residents in the areas we operate for failing to comply with the relevant environmental requirements. According to the confirmation letters issued by Laizhou Branch of Yantai Municipal Ecology and Environment Bureau, we were in compliance with all material standards and requirements stipulated by the applicable PRC environmental laws and regulations during the Track Record Period. All of our production facilities met the relevant environmental requirements under the PRC laws and regulations, and we were not subject to any fines or legal action involving material non-compliance with any relevant environmental regulations, nor were we aware of any threatened or pending action by any environmental regulatory authority during the Track Record Period. We have passed the inspection for the completion of environmental protection for our production facilities as required by the applicable PRC laws and regulations. As at the Latest Practicable Date, we did not receive any notifications or warnings, and are not subject to any fines or penalties in relation to any breach of any applicable PRC environmental laws or regulations that could have a material adverse effect on our production. Based on the foregoing, our PRC Legal Advisers advised that we have not been subject to any material claim or penalty in relation to environmental protection and have been in compliance with the applicable PRC laws and regulations in all material aspects during the Track Record Period and up to the Latest Practicable Date.

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Our environmental-related risks and opportunities

We may be exposed to possible financial loss and non-financial detriments arising from environmental and climate-related risks. These risks include the following:

- (a) transition risks, being the risks arising from the compliance with the applicable environmental laws and regulations and the stringent environmental protection standards; and
- (b) physical damages, being the damages arising from the acute weather-related events and longer-term chronic shifts in climate patterns.

Acute physical risks can arise from extreme weather conditions such as flooding and storms, and chronic physical risk can arise from sustained high temperature, which may have potential financial implications for our Group. The operation of our production facilities may be interrupted and direct damage to our assets may result upon occurrence of extreme weather conditions. Also, our suppliers are based in PRC, and we may experience indirect impacts from supply chain disruption if our suppliers suffered from extreme weather conditions like flooding. Severe flooding caused by heavy rain or continuing rainfall may have material impact on our business, but we have established emergency response plans and procedures in order to reduce the risks caused by extreme weather, and the emergency response mechanism will be constantly reviewed by our Board and improved accordingly. While sustained high temperature may result in an elevation of electricity consumption, we have adopted energy conservation measures in managing such risk.

Our production activities in the PRC are subject to the national environmental laws and regulations in the PRC as well as the environmental regulations and standards promulgated by the relevant local government authorities as mentioned above. If we fail to comply with any of the applicable environmental protection laws and regulations and standards, we may be subject to fine or penalty. The laws and regulations on environmental protection in the PRC may change from time to time and any change may increase our cost of compliance and place burden on our operations. See “Risk Factors — Risks Relating to our Business and Industry — We are exposed to environmental compliance risks due to the nature of our operations” in this document for further information. Such regulatory developments, together with existing laws, regulations and expectations, may have impact on our business operations and thus present “transition” risks to us. Furthermore, if our Group is in breach of any environmental laws and regulations, or faces any accusation of negligence in environmental protection, it will adversely affect our reputation and our creditability. It may also affect our business performance. Our business opportunities may also be negatively impacted as our Group may be disadvantaged by the reputational damage and loss of creditability as our customers may be less willing to transact with an unsustainable service provider and recycled products supplier.

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Climate-related issues are among our key agenda. Supervised by our Board, we actively identify and monitor the climate-related risks and opportunities over the short, medium and long term, and we seek to incorporate such climate-related issues into our businesses, strategy and financial planning. Set forth below is a summary of the climate-related risks and opportunities we identified:

A. Climate-related risks

| | Climate-related risks | Potential impacts |
|---|---|---|
| Short term (current annual reporting period) | <ul style="list-style-type: none"> ● Extreme weather conditions such as typhoon, rainstorm or heat | <ul style="list-style-type: none"> ● Decreased production volume and reduced revenues, disruptions to supply chain |
| Medium term (one to three years) | <ul style="list-style-type: none"> ● Heightened pollutant discharge policies | <ul style="list-style-type: none"> ● Higher operating costs due to increased costs for pollutant discharge, fines and penalties as a result of non-compliance and higher operating costs incurred in connection with investment in new equipment |
| | <ul style="list-style-type: none"> ● Environmental regulatory compliance risks | <ul style="list-style-type: none"> ● Increased operating costs of environmental regulatory compliance |
| Long term (four to 10 years) | <ul style="list-style-type: none"> ● Worldwide initiatives for reducing carbon emissions | <ul style="list-style-type: none"> ● Higher operating costs or tax burdens due to increased costs of raw materials |

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B. Opportunities identified

| Opportunities identified | | Potential impacts |
|---------------------------------|--|---|
| Resource efficiency | <ul style="list-style-type: none">• More energy-efficient machinery, equipment and technologies• Supportive policy incentives on raising the efficiency of resource consumed, such as water and energy | <ul style="list-style-type: none">• Reduced operating costs |
| Market | <ul style="list-style-type: none">• Governmental encouragement of circular economy leads to increasing demand for hazardous waste treatment and utilisation• More recycling channels of hazardous waste to promote the growth of the market | <ul style="list-style-type: none">• Increased revenue |
| Technology | <ul style="list-style-type: none">• More technology research and development ability on hazardous waste resource utilisation to enhance the utilisation value of unit hazardous waste | <ul style="list-style-type: none">• Increased profit |

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Our Board will evaluate the likelihood of occurrence and the estimated magnitude of resulting impact over short, medium and long term horizons. The decision to mitigate, transfer, accept or control a risk is influenced by various factors such as the transportation network and policy change. We will incorporate physical and transition risk analysis into our risk assessment processes and risk appetite setting. If the risks and opportunities are considered to be material, we will incorporate them into the strategy and financial planning process. It is expected that the extreme weather conditions for potential physical risks, and change in climate-related regulations and policy for potential transition risks would not have a material impact on our operation in the short and medium terms. We also aim to minimise the transition risk in the long term through enhanced energy efficiency, adoption of green supply chain and we are committed to our emission targets. This does not only reduce our exposure to transition risk, but also improved the environmental performance of our services and recycled products. Upon annual review of the progress against our targets for addressing climate-related issues, we may revise our strategies as appropriate. For further details on our risk management on environmental-related risks, see “— Measures and Strategies in Address ESG-related Risk” and “— Mitigation Steps” below.

We expect that the PRC government will implement more stringent regulation over hazardous waste treatment in the near future. According to the F&S Report, under the increasingly strict environmental protection policies and encouragement of circular economy, an increasing number of companies are expected to improve their hazardous waste utilisation, which enables the company to further expand its profitability and maximise the value of the gold mine while meeting national environmental protection requirements. We will strive to grasp the opportunity and continue to strictly implement our environmental protection measures to ensure compliance with the applicable PRC laws and regulations. We will allocate sufficient resources such as skilled personnel, technology and capital to support environmental protection. We will also strengthen the research and development of technologies, enhance refined management operation ability, adhere to the development strategy of endogenous growth and diversification of product offerings and improve the utilisation rate to maintain our profitability. We will also continue to keep abreast of the latest updates on the relevant laws and regulations in relation to environmental protection and pollution in the PRC and consult with our PRC legal advisers if necessary. As such, our Directors are of the view that we will continue to incur environmental-related compliance costs at a similar level. Based on the foregoing and taken into account the policies and measures adopted by our Group on monitoring and mitigating the impact of environmental risks (including climate-related risks), the strategies of our Group in addressing environmental-related risks and opportunities, and the commitment and dedication of our Directors and senior management on environmental, social and governance reporting requirements (“ESG”) as detailed below, our Directors consider, and the Sole Sponsor concurs, that there will not be environmental-related risks (including climate-related risks) affecting the business operation and financial performance of our Group in any material aspect going forward.

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Our environmental protection performance

In line with our vision for sustainable development, we oversee our environmental protection performances in various aspects, such as efficiency in the use of electricity, emissions and the quality of groundwater. During the Track Record Period, our emissions and electricity consumption increased due to the increase in our production volume and our scale of production. The table below sets forth an analysis of our environmental protection performance for the years/periods indicated:

A. Greenhouse gas (“GHG”) emissions

| Scope of GHG emissions | Year ended 31 December ⁽⁴⁾ | | |
|---|---------------------------------------|---------------------|------------------|
| | 2018 | 2019 ⁽¹⁾ | 2020 |
| | Emissions (tCO ₂ e) | | |
| Scope 1 direct emission combustion of diesel | — ⁽²⁾ | — ⁽²⁾ | — ⁽²⁾ |
| Scope 2 indirect emission purchased electricity ⁽³⁾ | 6,938 | 10,187 | 17,792 |
| GHG intensity (per m² of gross floor area) | 0.21 | 0.04 | 0.08 |
| GHG intensity (per thousand RMB revenue) | 0.07 | 0.08 | 0.09 |

Notes:

- (1) Our production facility in Shahe town, Laizhou city commenced trial operation in October 2019.
- (2) The usage of diesel during the respective year was minimal which the greenhouse gas emissions was less than 0.1% of the total emission of the respective year.
- (3) Combined margin emission factor of 0.8843 tCO_{2e}/MWh was used for purchased electricity in the PRC.
- (4) The GHG emissions analysis is conducted on an annual basis.

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B. Exhaust gas emissions

| | Emissions (mg/m ³) | | | | Discharge permitted level ⁽²⁾ |
|------------------------------------|--------------------------------|---------------------|------|-------------------------------|--|
| | Year ended 31 December 2018 | 2019 ⁽¹⁾ | 2020 | Six months ended 30 June 2021 | |
| Air pollutant and waste gas | | | | | |
| Organised waste gas | | | | | |
| Hydrogen cyanide intensity | 0.65 | 0.59 | 0.67 | 0.69 | 1.9 |
| Unorganised waste gas | | | | | |
| Hydrogen cyanide intensity | — | — | — | — | 0.024 |
| Particulates intensity | 0.29 | 0.21 | 0.3 | 0.22 | 1.0 |

Notes:

- (1) Our production facility in Shahe town, Laizhou city commenced the trial operation in October 2019.
- (2) The applicable standard was the Comprehensive Emission Standard of Air Pollutants (《大氣污染物綜合排放標準》) (GB16297-1996).

C. Quality of underground water

For the year ended 31 December 2018:

| Heavy metals | Cadmium (µg/L) | Mercury (µg/L) | Lead ⁽³⁾ (µg/L) | Arsenic ⁽³⁾ (µg/L) | Zinc (µg/L) | Cyanide (mg/L) |
|-------------------------------------|-------------------|-------------------|-------------------------------|----------------------------------|----------------|-------------------|
| Average | 0.14 | 0.02 | 0.56 | 2.90 | 2.74 | 0.01 |
| Maximum | 0.9 | 0.27 | 4.4 | 9.3 | 51.8 | 0.046 |
| Minimum | — | — | — | — | — | — |
| Standard requirement ⁽¹⁾ | ≤5 | ≤1 | ≤10 | ≤10 | ≤1000 | ≤0.05 |

For the year ended 31 December 2019⁽²⁾:

| Heavy metals | Cadmium (µg/L) | Mercury (µg/L) | Lead ⁽³⁾ (µg/L) | Arsenic ⁽³⁾ (µg/L) | Zinc (µg/L) | Cyanide (mg/L) |
|-------------------------------------|-------------------|-------------------|-------------------------------|----------------------------------|----------------|-------------------|
| Average | — | 0.03 | 1.77 | 2.23 | 0.02 | 0.01 |
| Maximum | — | 0.12 | 9.8 | 9.5 | 0.35 | 0.046 |
| Minimum | — | — | — | — | — | — |
| Standard requirement ⁽¹⁾ | ≤5 | ≤1 | ≤10 | ≤10 | ≤1000 | ≤0.05 |

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For the year ended 31 December 2020:

| Heavy metals | Cadmium ($\mu\text{g/L}$) | Mercury ($\mu\text{g/L}$) | Lead⁽³⁾ ($\mu\text{g/L}$) | Arsenic⁽³⁾ ($\mu\text{g/L}$) | Zinc ($\mu\text{g/L}$) | Cyanide (mg/L) |
|-------------------------------------|---------------------------------------|---------------------------------------|--|---|------------------------------------|-------------------------------------|
| Average | — | 0.02 | 0.15 | 1.54 | — | 0.01 |
| Maximum | — | 0.19 | 5.5 | 5.1 | — | 0.042 |
| Minimum | — | — | — | — | — | — |
| Standard requirement ⁽¹⁾ | ≤ 5 | ≤ 1 | ≤ 10 | ≤ 10 | ≤ 1000 | ≤ 0.05 |

For the six months ended 30 June 2021:

| Heavy metals | Cadmium ($\mu\text{g/L}$) | Mercury ($\mu\text{g/L}$) | Lead⁽³⁾ ($\mu\text{g/L}$) | Arsenic⁽³⁾ ($\mu\text{g/L}$) | Zinc ($\mu\text{g/L}$) | Cyanide (mg/L) |
|--------------------------------------|---------------------------------------|---------------------------------------|--|---|------------------------------------|-------------------------------------|
| Average | 0.03 | 0.02 | 0.28 | 2.22 | 0.55 | 0.01 |
| Maximum | 0.33 | 0.25 | 6.01 | 7.52 | 11.1 | 0.048 |
| Minimum | — | — | — | — | — | — |
| Standard requirements ⁽¹⁾ | ≤ 5 | ≤ 1 | ≤ 10 | ≤ 10 | ≤ 1000 | ≤ 0.05 |

Notes:

- (1) The applicable standard was Category III under the Standard for Groundwater Quality (《地下水質量標準》) (GB/T14848–2017).
- (2) Our production facility in Shahe town, Laizhou city commenced the trial operation in October 2019.
- (3) The relatively higher level of lead and arsenic in the underground water as compared to other heavy metals was mainly attributable to sampling and testing fluctuations resulted from variations in climate, rain, and natural dust in the atmosphere during the material time of sampling and testing. As confirmed by the independent testing company, as the sampling and tests were conducted on the same day at multiple sampling points, such sampling and testing fluctuations can be affected by the level of heavy metal elements in the atmosphere precipitating and infiltrating in underground water at the material time of sampling. Sampling and testing under different weather conditions would highly likely cause fluctuations in results, and in particular, sampling points where heavy metal element in the atmosphere is more concentrated, such sampling points would reflect a higher level of lead and arsenic.

BUSINESS

D. Electricity consumption

| | Year ended 31 December | | | Six months ended |
|--|------------------------|------------|------------|------------------|
| | 2018 | 2019 | 2020 | 30 June 2021 |
| Total electricity consumption (kWh) | 7,846,000 | 11,520,000 | 20,120,000 | 9,457,000 |
| Electricity consumption intensity (kWh per thousand RMB revenue) | 76.7 | 86.2 | 98.0 | 82.7 |

Note: Our production facility in Shahe town, Laizhou city commenced trial operation in October 2019.

Governance on environmental-related risks and social responsibilities, including the respective roles and extent of involvement of our Directors and senior management of our Group

Our Group acknowledges its responsibility on environmental protection and social responsibilities and is committed to comply with the ESG reporting requirements upon [REDACTED]. We have established an ESG policy (the “**ESG Policy**”) which outlined, among others, (i) the appropriate risk governance on ESG matters; (ii) ESG strategy formation procedures; (iii) ESG risk management and monitoring; and (iv) the identification of key performance indicators (“**KPIs**”) and the relevant measurements. Our Group’s ESG Policy was established in accordance with the standards of Appendix 27 to the Listing Rules.

Our Board has the overall responsibility for evaluating and determining our Group’s ESG-related risks, and establishing, adopting and reviewing the ESG vision, policy and target of our Group. Certain senior management of our Group are designed to support our Board in implementing the ESG Policy and collecting ESG data from different parties while preparing for the ESG report. It serves as a supportive role and has to report to our Board regularly and to oversee and monitor in implementing measures to address our Group’s ESG-related risks and responsibilities.

We also intend to invest in social-related aspects, including compliance with employment-related laws and regulations, employees’ health and safety, employee development and training, anti-corruption and community investment.

BUSINESS

Measures and Strategies in Addressing ESG-Related Risk

We intend to adopt various strategies and measures to identify, assess and manage environmental-related risks, social-related risks, and climate-related issues, including but not limited to:

- reviewing and assessing the ESG reports of similar companies in the industry to ensure that all relevant ESG-related risks are identified on a timely basis;
- discussing among management from time to time to ensure all the material ESG areas are recognised and reported;
- discussing with key stakeholders on an ongoing basis on key ESG principles and practices as well as their concerns and expectations to ensure that the significant aspects are covered;
- setting targets for each major ESG KPI with reference to guidance on ESG released by the Stock Exchange, including emission, pollution and other impact on the environment aiming at reducing emissions and natural resource consumption and evaluate the ESG results annually; and
- adopting incentive policies for the management in relation to ESG matters, including but not limited to achievement of the announced ESG targets.

Our Group has also adopted and implemented health and safety measures and procedures to protect our employees from bodily harm and other health and safety risks. See “Occupational Health and Safety Matters” below for further details.

Mitigation Steps

To mitigate the potential impact resulting from environmental-related risk, social-related risk and climate-related risks, our Group has formulated an Emergency Environmental Incidents Response Plan (突發環境事件應急預案) which covers the immediate actions to be carried out during an emergency environmental incident, including leakage of exhaust gas, solid waste (including hazardous waste), solid waste caused by human or irresistible natural factors. This response plan aims to improve the emergency response system for environmental pollution, enhance the prevention and early warning mechanism, and build capacity of staff in handling environmental emergency situations. In addition, by abiding to the response plan, we strive to reduce the environmental risks incurred during the operation of our production facilities, as well as ensuring the environmental pollution incidents are under control within the boundary of our production facilities. In addition, our Group has formulated a crisis management plan (災難恢復計劃) to set out the procedures and guidelines that should be adopted during emergency situations, which include extreme climate events that constitute hazards and dangers to our Group’s property. A disaster management team lead by Mr. Sheng, our executive Director, is set up under an emergency situation to assess the destruction caused by the disaster and to minimise the impact by executing the contingency plan.

BUSINESS

Metrics and Targets

Further, our Board will set metrics and targets for material KPIs at the beginning of each financial year with reference to the disclosure requirements of Appendix 27 to the Listing Rules. Set forth below are some key metrics and targets for the material KPIs we have currently identified:

- (i) in relation to pollutants discharged and emissions, the key metrics mainly include direct (scope 1) and energy indirect (scope 2) GHG emissions in tonnes of carbon dioxide equivalent, and GHG emitted per revenue in tonnes of carbon dioxide equivalent per RMB. We target to reduce our GHG emitted per revenue;
- (ii) in relation to use of resources, the key metrics mainly include the amount of direct energy (diesel consumed in tonne) and indirect energy (electricity consumed in kilowatt-hour), the volume of water in thousand tonne, the average monthly costs of energy and water, the energy and water consumed per revenue. We target to reduce our consumption of energy and freshwater per revenue;
- (iii) in relation to waste generated, the key metrics mainly include hazardous waste in tonnes, and hazardous waste produced per revenue. We target to maintain 100% compliance rate in relation to hazardous waste disposal; and
- (iv) save for the abovementioned targets, we target to maintain zero environmental pollution accidents for our overall environmental matters.

The metrics and targets used to assess social-related risks mainly include employee gender structure, employee turnover rate, employee age distribution, frequency of employee training, and completion of learning hours.

We will continue to promote and educate students and staff on energy conservation and emission reduction to minimise the consumption of water, and energy, and the emission of GHG in accordance with our ESG policies.

Upon [REDACTED], our Directors confirm that we will closely monitor and ensure strict compliance with Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules, the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 of the Listing Rules and all relevant rules and regulations in relation to environmental, social and governance aspects.

BUSINESS

OCCUPATIONAL HEALTH AND SAFETY MATTERS

We are subject to the relevant PRC laws and regulations regarding labour, safety and work-related incidents. Under these laws and regulations, we are required to maintain safe production conditions and to protect the occupational health of our employees. We have implemented production safety management policies and safety measures based on the relevant laws and regulations in the PRC, including procedures on investigation, reporting to management and corrective activities in the event of an occurrence of an accident. We provide training on occupational health and safety for our employees to ensure that they are familiar with the occupational health and safety standards and procedures and our employees are required to follow the relevant standards and procedures. Our PRC Legal Advisers advised that based on the confirmation from the relevant competent authorities, we have not been subject to any material claim or penalty in relation to occupational health and safety, and have been in compliance with the applicable PRC laws and regulations in all material aspects in relation to occupational health and safety during the Track Record Period and up to the Latest Practicable Date.

Set out below are certain general measures included in our safety policy to prevent work accidents:

- proper and effective communication of safety procedures shall be established among our management, safety department, employees by, among others, maintaining proper records of accident statistics, safety reports and training documents, holding regular internal and external safety meetings and conducting briefings on occupational health and safety to all level of personnel;
- health and safety risk assessments to identify potential risks associated with the hazardous waste shall be conducted before commencement of our works and regularly during the processing stage;
- the safety track record and safety standard shall be considered when selecting suppliers provide transportation services;
- emergency response plan shall be developed and implemented and drills shall be organised regularly;
- our safety department shall be responsible for maintaining records of safety training, identifying appropriate training programmes for our employees, organising and inspecting the emergency response drills as well as ensure strict compliance with all applicable occupational health and safety laws and regulations and our internal safety policy; and
- all identified non-compliance at production facilities must be recorded, reported to our safety team and management in a timely manner.

BUSINESS

In October 2018, HC Environmental obtained the Occupational Health and Safety Management Systems (OHSMS 45001) certificate. During the Track Record Period and up to the Latest Practicable Date, our Group had not experienced any significant incidents or accidents in relation to workers’ safety, and have not been involved in any accident or fatality. Our Directors confirm that we were not subject to any penalties or disputes relating to any production safety matters that have a material adverse effect on our financial conditions or business operations during the Track Record Period and up to the Latest Practicable Date.

To mitigate the potential impact resulting from safety production risks, which refer to risks of corporate property loss, temporary production suspensions or tarnished reputation due to production safety accidents caused by deficient safety management system or inadequate accident preventive measures. We have formulated a comprehensive emergency plans (綜合應急預案) for safety accidents to standardise safety risks management and prevent accidents. We have formulated (i) comprehensive contingency plans, describing, among others, our contingency organisation and the functions thereof, the planning system, the response procedure, the prevention of incidents and the contingency training; and (ii) special contingency plans for major potential risks and incidents identified such as such as electric shocks, poisoning, burns, fires and explosions. The special contingency plans cover, among others, the relevant risk analysis, characteristics of potential incidents, preventive measures, contingency handling procedure and contingency safeguard measures.

Pursuant to the Regulations on the Reporting, Investigation and Handling of Work Safety Accidents (《生產安全事故報告和調查處理條例》), work safety accidents that cause personal injuries or deaths or direct economic losses are divided into four categories. The fourth accident category is the lowest category involving general accidents with less than three deaths, serious injuries of less than 10 people or accidents which incurred less than RMB10 million in direct economic losses required to be reported to the Emergency Authority of Laizhou City (萊州應急管理局). As our Group had no reportable accidents which are required to be reported under the fourth category or above in accordance with the relevant regulations, our reportable accident rate during the Track Record Period was nil. According to the F&S Report, the accidents rate in the PRC is usually evaluated by the number of fatalities from work-related accidents per 100 thousand works. According to the statistics from the National Bureau of Statistics (國家統計局), the total numbers of fatalities from work-related accidents in the PRC were 34,046, 29,519 and 27,412 in 2018, 2019 and 2020, respectively, indicating fatalities of 1.547, 1.474 and 1.301 per 100 thousand works, respectively. As such, our Group had a significantly lower accident rate during the Track Record Period. We target to maintain zero work-related fatalities in the future.

BUSINESS

Our Directors are also of the view that the production safety measures currently adopted are in line with the market practice of the industries in which our Group is engaged. During the Track Record Period and up to the Latest Practicable Date, as confirmed by our Directors, we did not experience any accidents that resulted in serious injuries or death and there were no reported accidents of our Group.

INSURANCE

We maintain integrated insurance coverage on our properties and fixed assets, production facilities and equipment against property damage. Further, we are required by relevant laws and regulations in the PRC to maintain employment injury insurance, which covered, among other things, work injuries, accidents or incidents which gave rise to employees’ occupational health diseases. We do not maintain insurance coverage in relation to potential health hazard litigation as is not a mandatory insurance coverage in the PRC, and F&S confirmed that our Group’s insurance coverage is in line with the industry practice. We also make contributions to social security insurance for our employees in accordance with the relevant laws and regulations of the PRC. We also maintained product liability insurance coverage with respect to our sales, which is not compulsory in the PRC. Our Directors believe that this is in line with the general practice in the PRC of the industry in which our Group is engaged.

Our Directors are of the view that we have maintained sufficient insurance coverage for our business and operations. Certain types of risks, such as the risk in relation to the collectability of our trade receivables and liabilities arising from events such as epidemics, natural disasters, adverse weather conditions, political unrest and terrorist attacks, are generally not covered by insurance because they are either uninsurable or it is not cost justifiable to insure against such risks. See “Risk Factors — Risks Relating to Our Business and Industry — Our Insurance Coverage May Not Adequately Cover the Risks Related to our Business and Operations.” in this document for details.

PROPERTIES

Our head office and production facilities for our business operations are located in Laizhou city, Shandong province.

Owned Properties

As at the Latest Practicable Date, we owned six parcels of land, with an aggregate area of approximately 228,683 sq.m., and 11 buildings, with an aggregate gross floor area of approximately 159,014 sq.m. in the PRC. Save for the two warehouses used for the hazardous waste storage rental services, all of the above properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. The total market value of our property interests as at 31 August 2021 was approximately RMB309.5 million, according to the property valuation report prepared by Cushman & Wakefield Limited. Cushman & Wakefield Limited had valued the properties owned by us as at 31 August 2021. The text of the letter and the valuation report issued by Cushman & Wakefield Limited are set out in Appendix III to this document.

BUSINESS

Land use right

As at the Latest Practicable Date, we have obtained the appropriate land use right certificates for six parcels of land that we own, with an aggregate gross site area of approximately 228,683 sq.m., three of which parcels of land have been pledged for bank borrowings. The following table sets forth a summary of our land use rights:

| No. | Land use right owner | Number of parcel of land | Location | Gross site area (sq.m.) | Existing use | Expiry date |
|-----|-------------------------|--------------------------------|--|-------------------------------|-----------------|---------------------|
| 1 | HC Mining | 5 | Shahe town, Laizhou city, Shandong province | 195,231 | Industrial | 23 December 2064 |
| 2 | HC Environmental | 1 | Jincheng town, Laizhou city, Shandong province | 33,452 | Industrial | 25 November 2059 |

Buildings

As at the Latest Practicable Date, we obtained the appropriate property ownership certificates for 11 buildings that we occupied in the PRC with an aggregate gross floor area of approximately 159,014 sq.m., of which six buildings have been pledged. The following table sets forth a summary of the buildings that we occupied:

| No. | Building used by | Number of buildings | Location | Aggregate gross floor area (sq.m.) | Existing use |
|-----|---------------------|------------------------|--|---|---|
| 1 | HC Mining | 7 | Shahe town, Laizhou city, Shandong province | 143,607 | Office, dormitory, warehouse and industrial |
| 2 | HC Environmental | 4 | Jincheng town, Laizhou city, Shandong province | 15,407 | Office, warehouse and industrial |

BUSINESS

As at the Latest Practicable Date, we had four buildings, with a total gross floor area of 1,986 sq.m., without relevant construction procedures and real estate title certificates, located on our owned land. The buildings involved were three bungalows and one canopy enclosure. We use the canopy enclosure as waiting area and parking space for delivery vehicles and the bungalows for storage of sundry items. As advised by our PRC Legal Advisers, the potential legal consequences would be mandatory demolition of such buildings within a prescribed period and if the buildings cannot be demolished, the buildings or the unlawful income would be confiscated and we may, in addition be fined not more than 10% of the construction cost of such buildings. See “Risk Factors — Risks Relating to Our Business and Industry — We may be subject to potential adverse consequences due to our lack of relevant construction procedures and valid title certificates in respect of certain properties we occupied in the PRC.” in this document. Laizhou Municipal Bureau of Natural Resources and Planning (萊州市自然資源和規劃局) and Laizhou Municipal Bureau of Housing and Urban-Rural Development (萊州市住房和城鄉建設管理局), which are the relevant competent authorities, confirmed that our Group has no administrative penalty record in planning and construction procedures, and the above buildings could be maintained in their current state, the authorities further confirmed that they would not require demolition of the buildings, confiscation of the buildings, illegal income or fines to our Group for the above situation. Therefore, our PRC Legal Advisers are of the view that the likelihood that our Group would be penalised or prosecuted for failure to comply with construction procedures and obtain real estate title certificates by the relevant authorities is remote. Given that these buildings are not used for production and operation premises or office premises of HC Mining, our Directors are of the view that such risk would not have a material adverse effect on our business operations or financial positions. As at the Latest Practicable Date, our Group was not under any notice to demolish any of such buildings. In case we were being noticed, we shall duly comply with such request. It is estimated by our Directors that the demolition cost would be approximately RMB75,000.

Leased Properties

Land use rights

As at the Latest Practicable Date, the land parcel in the PRC we leased as the leasee during the Track Record Period had expired, and we did not have any leased land use rights as leasee as at the Latest Practicable Date.

BUSINESS

Buildings

As at the Latest Practicable Date, we leased, as the lessee, two properties with an aggregate gross floor area of approximately 770 sq.m. in the PRC. The following table sets forth the property leased by our Group in the PRC:

| No. | Lessee | Location | Leased area (sq.m.) | Existing use | Term of lease | Lease expiry date |
|-----|-----------|--|------------------------|--------------|------------------|----------------------|
| 1 | HC Mining | 4/F, No. 317 Service Centre, Beiyuan Road, Laizhou city, Shandong province | 720 | Office | Three years | 31 March 2023 |
| 2 | HC R&D | 307, Shandong Qiaoshang Shuangchuang Industrial Park, Qianbeiliu Village, Yonganlu Street, Laizhou city, Shandong province | 50 | Office | Three years | 31 October 2023 |

As at the Latest Practicable Date, we, as the landlord, leased out two warehouses in our production facility in Shahe Town. See “— Our Production Facilities — Our Warehouses — Our Rental Services for Storage of Hazardous Wastes” above for further details of the two lease agreements.

As at the Latest Practicable Date, the four lease agreements for our leased properties, either as the landlord or the lessee, had not been registered with the competent construction or real estate authorities as required under PRC laws. Registration of lease agreements requires the submission of certain documents, including identity documentation of the counterparties and title certificates of the relevant properties, to the authorities. Therefore, the registration is subject to the cooperation of our counterparties, which is not within our control.

BUSINESS

As advised by our PRC Legal Advisers, the lack of registrations will not affect the validity and enforceability of these lease agreements. However, the relevant government authorities may require us to rectify these unregistered lease agreements within a certain period of time and, if we fail to rectify, impose a fine from RMB1,000 to RMB10,000 for each unregistered lease agreement. See “Risk Factors — Risks Relating to Our Business and Industry — We may be subject to administrative penalties as we have not registered all of our leased agreements with competent construction or real estate administration authorities.” in this document. Our PRC Legal Advisers have advised us that the estimated total amount of potential penalty for our failure to register our lease agreements is RMB4,000 to RMB40,000. As at the Latest Practicable Date, we had not received any notice from any regulatory authority with respect to potential administrative penalties or enforcement actions as a result of our failure to file the lease agreements described above.

In the event that our leases as the lessee are challenged by third parties, we intend to find alternative locations nearby and relocate relevant offices. We estimate that the relocation costs will be approximately RMB5,500. Given that these properties are not material to us as they are only used for office purpose, and based on the above, our Directors are of the view that such non-registration would not have a material adverse effect on our business operations or financial positions.

Our Controlling Shareholders have undertaken to indemnify our Group against all fines and penalties incurred by the Group as a result of or in connection with the non-compliances regarding our properties. See “Other Information — 15. Tax and Other Indemnities” in Appendix V to this document for the indemnity undertakings given by our Controlling Shareholders.

Save as disclosed above, our Group did not have any other property interests as at the Latest Practicable Date.

INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, we are the registered owner of certain trademarks, six patents, and a domain name in the PRC and Hong Kong. For further details in relation to our intellectual property rights, see “Other Information — Further Information about the Business of Our Group — 9. Intellectual Property Rights of Our Group” in Appendix V to this document.

During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any intellectual property infringement claims which had any material adverse impact on our Group. See also “Risk Factors — Risks Relating to Our Business and Industry — We may not be able to adequately protect our intellectual property rights in relation to our research and development technology, which could result in losses to our revenue and profit and could, in turn, materially and adversely affect our business, financial position and results of operations.” in this document.

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

BUSINESS

LEGAL PROCEEDINGS

During the Track Record Period and up to the Latest Practicable Date, there was no litigation or arbitration pending or threatened against our Group or any of our Directors which could have a material adverse effect on our Group’s financial condition or results of operations.

REGULATORY COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, we had been involved in certain non-compliance incidents, a summary of which is set out in the table below. Prior to the Track Record Period, administrative penalties amounting to a total of approximately RMB1.2 million were imposed on HC Environmental due to unauthorised use of land of approximately 51,000 sq.m. in aggregate situated in Jincheng town, Laizhou city, mainly for storage of cyanide tailings. All such fines had been fully settled and relevant facilities had been demolished, and such relevant plots of land had been returned in 2018. Save as disclosed, our Directors, based on the legal opinion issued by our PRC Legal Advisers, confirm that we have been in compliance in all material respects with the applicable PRC laws and regulations relating to our business operations during the Track Record Period and up to the Latest Practicable Date.

BUSINESS

| Details of non-compliance incident | Reasons | Possible legal consequences and impact | Remedial measures and internal control measures |
|---|---|--|--|
| <p>(i) <i>Social insurance and housing provident fund</i></p> <p>HC Mining and HC Environmental failed to make full contributions to the social insurance and housing provident fund for employees during the Track Record Period.</p> | <p>The non-compliance incident was mainly due to (i) the insufficient understanding of the relevant PRC laws and regulations of our responsible handling staff; and (ii) absence of professional advice for our staff at the material time.</p> | <p>According to Social Insurance Law of the PRC 《中華人民共和國社會保險法》, where an employer fails to pay social insurance premiums in full, the relevant competent authority shall order it to pay or make up the balance within a prescribed time limit, and impose daily late charge of 0.05%. If an employer still fails to pay within the time limit prescribed, the relevant competent authority may impose a fine of one to three times of the overdue amount.</p> | <p>The carrying amount of our provisions for the underpaid amount of our social insurance and housing provident funds contributions amounted to approximately RMB1.1 million, RMB1.7 million, RMB2.0 million and RMB2.0 million, respectively, as at 31 December 2018, 2019 and 2020 and 30 April 2021. Our Directors are of the view that, the provisions can cover the potential payment in relation to the non-compliance matters, and confirm that HC Mining and HC Environmental have made full contributions to the social insurance and housing provident fund for employees since June 2021.</p> |
| <p>We estimate the underpaid amount of social insurance and housing provident fund contributions for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021 was approximately RMB0.7 million, RMB1.1 million, RMB0.9 million and RMB0.2 million, respectively.</p> | <p>According to the Housing Provident Fund Regulation 《住房公積金管理條例》, in the event that an employer fails to pay its housing provident fund contributions, the relevant competent authority may order it to rectify the non-compliance incidents within the prescribed time limit, failing which the relevant competent authority may apply to the court for compulsory enforcement.</p> | <p>We have obtained (i) confirmations from Laizhou Human Resources and Social Security Bureau 《萊州市人力資源和社會保障局》; and (ii) confirmations from Yantai Housing Provident Fund Management Centre Laizhou Branch 《煙臺市住房公積金管理中心萊州分中心》 that HC Mining and HC Environmental have not and would not be penalised for violating laws and regulations related to social insurance and housing provident fund, respectively.</p> | <p>Our Directors believe that the foregoing non-compliance incident has not caused or will not cause any material and adverse financial or operational impact on us as our internal policy and guidelines have been revised to include (i) calculation of social insurance and housing provident fund contribution matters; (ii) our finance department will review calculation of the relevant contributions, and keep proper records of any contributions paid; and (iii) internal review and approval by our general manager of the calculation of the relevant contributions.</p> |
| | | | <p>In addition, we have designated our finance director to carry out procedures of review to ensure the register of payment record is updated properly and that all payments of contributions to social insurance and housing provident fund are made on a timely basis.</p> |
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BUSINESS

| Details of non-compliance incident | Reasons | Possible legal consequences and impact | Remedial measures and internal control measures |
|---|---|--|--|
| <p>(ii) <i>Transportation of cyanide tailings</i></p> <p>Throughout the Track Record Period until April 2021, HC Mining and HC Environmental had engaged transportation companies which did not possess appropriate permits for the operation of road transport of dangerous goods (“Permits”) for transporting cyanide tailings in Laizhou city from our customers (the “Engagement”).</p> | <p>According to the Safety Management of Dangerous Goods in Road Transport (《危險貨物道路运输安全管理辦法》) (the “Regulations”), it is the obligations of the carriers of dangerous goods to hold Permits and to carry dangerous goods in accordance with the Permits.</p> <p>Prior to each Engagement, our staff ensured the vehicles that we use must have in place effective protective measures for the safe transportation of cyanide tailings from our customers. In light of this requirement and our staff’s reliance on the representations made by the transportation companies regarding their legal and compliance obligations before each Engagement, our staff did not check the Permits of the transportation companies prior to each Engagement. Our Directors confirm that no Director or member of senior management was involved in this non-compliance incident.</p> <p>The rectification of this non-compliance was fully completed in April 2021 because it was not discovered until the preparation for the [REDACTED] process which commenced in late 2020 when the relevant logistics companies admitted that they could not produce the Permits. Our Group took some time to look into the issue with our PRC Legal Advisers, who consulted the local ecology and environmental authorities. Our Group subsequently made arrangements to terminate the Engagement and to replace our supplier as soon as our Directors were advised of the non-compliance, the procedures of which requires time to complete.</p> | <p>According to the Regulations, there is no administrative penalties on consignors of dangerous goods (except consignors of dangerous chemicals) which do not engage carriers of dangerous goods with the Permits.</p> <p>We have obtained written confirmations from the Laizhou Branch of Yantai Municipal Ecology and Environment Bureau (煙臺市生態環境局萊州分局) (the “Environment Bureau”), pursuant to which, the Environment Bureau, among others, (i) confirmed that the Environment Bureau was aware that HC Mining and HC Environmental had engaged transportation companies which did not possess the Permits for the Engagement and details of such non-compliance incident; (ii) confirmed that HC Mining and HC Environmental did not have any material breach of relevant environmental protection laws and regulations for the Engagement; and (iii) HC Mining and HC Environmental had not been and would not be subject to any administrative penalties’ in relation to relevant environmental protection laws and regulations for the Engagement.</p> <p>As advised by our PRC Legal Advisers, the Environment Bureau is the competent authority to confirm the related matters.</p> <p>Our PRC Legal Advisers are of the view that the likelihood of prosecution by the Environment Bureau or other relevant PRC government authority is remote and that there are no other potential legal consequences as a result of this non-compliance incident.</p> | <p>We have implemented the below enhanced internal control measures: (i) purchase department is responsible for requesting the transportation companies to provide the Permits and other qualification documents prior to their engagement; (ii) deputy general manager of transportation department performs regular assessment of the quality of services provided by the transportation companies and their respective qualification requirements; and (iii) upon expiration of the Permits, our purchase department requests the transportation companies to provide the renewed Permits and other qualification documents to us for filing purposes. Our internal control consultant, RSM Consulting (Hong Kong) Limited, has reviewed the above-mentioned enhanced internal control measures and did not note any material deficiencies. To strengthen internal supervision, our Group has designated Mr. Zhan, one of our executive Directors, to ensure that our enhanced internal control measures are properly carried out. For the qualifications and experience of Mr. Zhan, see “Directors and Senior Management” in this document.</p> <p>During the Track Record Period, no environmental pollution accident or any major environmental violation in relation to the Engagement has occurred.</p> <p>Our Directors confirmed that the cost of engagement for approved transportation companies with relevant Permits is comparable with those without. Since May 2021, we only engage transportation companies with the Permits, and such approach has not and would not impose any material impact on the operations and financial performance of our Group.</p> |

BUSINESS

| Details of non-compliance incident | Reasons | Possible legal consequences and impact | Remedial measures and internal control measures |
|---|---|--|---|
| <p>(iii) <i>Bill financing</i></p> <p>In November and October 2018, our PRC subsidiaries, being HC Mining and HC Environmental, were involved in two occasions that involved the issue of bank bills without underlying transactions which was not in compliance with Negotiable Instruments Laws of the PRC (《中華人民共和國票據法》) (the “Arrangements”). They were discovered during the annual audit of HC Mining and HC Environmental for the year ended 31 December 2018.</p> <p>The chain of events which led to the Arrangement was that in the second half of 2018, our Group was constructing a new warehouse for hazardous waste storage which required a large amount of construction materials. In September and October 2018, (i) HC Mining; and (ii) HC Environmental respectively entered into an agreement to purchase (i) gravel; and (ii) construction planks and boards in the amount of (i) RMB2 million; and (ii) RMB10 million respectively from Laizhou Hongshunxiang Logistics Company Limited (萊州鴻順祥物流有限公司) (“Hongshunxiang”), which was a supplier of construction materials and a company beneficially held by Mr. Liu. Our Group engaged Hongshunxiang as a supplier of construction materials because we generally would prioritise Mr. Liu’s associates for new business opportunities before deciding to offer the same to its competitors.</p> | <p>As advised by our Directors, the principal reason for this non-compliance was due to inadequate supervision of our finance department which was delegated to handle financing arrangements. After the management’s decision to raise fund for land purchase, Ms. Zhang who handled the financing plan attempted the Arrangements with an intention to save time and costs for our Group. She proceeded with the Arrangements after reporting the financing plan to Mr. Liu. Mr. Liu confirmed that he was not aware of the legal consequence of the Arrangements at the material time. Saved for Mr. Liu, no other Director or member of senior management was involved in this Arrangement. According to the Arrangements, we were required to place a deposit of 50% of the value of the Bank Bills to the Endorsing Banks for issuance of Bank Bills. In the two occasions, we obtained Bank Bills in total with face amount of RMB12 million by placing RMB6 million pledged deposit to the Endorsing Banks, and the net financed amount was RMB6 million. According to the relevant Bank Bills Business Management Measures (《銀行承兌匯票業務管理辦法》), the amount that a company is required to deposit with a bank as security for issuance of a bank bill corresponds to its credit rating with the bank. The face amount of the bank bill shall be construed to be the full amount available to the company and such deposit shall be refunded after the bank bill is repaid and settled. Ms. Zhang confirmed that she was not aware that the Arrangements were not in compliance with the relevant PRC laws and regulations and she thought it was an acceptable and convenient method to raise funds without going through the time-consuming normal bank loan approval procedures.</p> <p>As advised by our Directors, our Group did not encounter any difficulties in obtaining necessary financing from banks and/or financial institutions during the Track Record Period. To the best knowledge of our Directors after making reasonable enquiries, due to the relatively small scale of operation, Hongshunxiang did not obtain financing from banks and/or financial institutions from the commencement of the Track Record Period up to the date of its deregistration.</p> | <p>As advised by our PRC Legal Advisers, the Arrangements were not in compliance with Article 10 of the Negotiable Instruments Law (《中華人民共和國票據法》), which provides that bank acceptance bills must be issued on the basis of actual underlying transactions and debt relationship. Further, according to our PRC Legal Advisers, there are no specific provisions in the Negotiable Instruments Law or any relevant laws that impose any administrative or criminal liability for the Arrangements.</p> <p>Through the Bank Bills, our Group only incurred administrative costs and no interest was charged on the face amount of RMB12 million. We received interest income from the Endorsing Bank for the RMB6 million pledged deposit. The total amount of interest income received from the deposits placed with the Endorsing Bank under the Arrangements was RMB96,000. Considered that (i) in accordance with the requirements of the Endorsing Bank, for the issuance of the Bank Bills, our Group deposited a total of RMB6 million using our own funds as security into its security deposit account; (ii) interest income was generated from such amount deposited with the Endorsing Bank using our Group’s own funds; (iii) according to the Bank Bills Business Management Measures (《銀行承兌匯票管理辦法》), the interest from security deposits is calculated and paid in accordance with relevant provisions, and according to the Administrative Provisions on Renminbi Interest Rates (《人民幣利率管理規定》), interest from the security deposited collected by financial institutions with approval of the PBOC shall be calculated and settled as per the deposited; and (iv) our Group’s non-compliance with Negotiable Instruments Laws of the PRC (《中華人民共和國票據法》) was due to the transfer of the Bank Bills without underlying transactions, which did not relate to the aforementioned security deposit and interest income generated therefrom, and the Bank Bills had been fully settled by our Group within the agreed timeframe. In view of the above, our PRC Legal Advisers are of the view that such interest income generated through the security deposit account and received by our Group does not constitute non-compliance, and such interest income does not constitute illegal income. Assuming our Group did not enter into the Arrangements and had instead obtained bank borrowings from banks, our Group would have incurred additional interest expenses on the net amount of RMB6 million financed by way of Arrangements for a year, which would amount to approximately RMB429,000, based on the weighted average effective interest rates of bank borrowings.</p> | <p>Since November 2018, we have ceased to enter into any new non-compliant bill financing arrangements.</p> <p>To prevent recurrence of this non-compliant incident, we have adopted the following internal control measures: (i) implementation of internal guidelines and policies for (a) approving, reporting and monitoring bill financing transactions, and (b) prohibiting use of bill financing without underlying transactions; (ii) our finance director shall review all application for payment to suppliers by bank acceptance bills together with the relevant underlying agreements and assess the genuineness of the information contained in the application. The application must then be approved by our general manager; (iii) all bank acceptance bills shall be reviewed by our finance director and approved by our general manager before acceptance; (iv) any single transaction involving payment by or acceptance of bank acceptance bill of more than RMB5 million must be approved by our Board; (v) internal review on bill financing arrangements to be conducted quarterly by our finance director; and (vi) to strengthen internal supervision, our Group has designated Mr. Wong Yun Fai, our chief financial officer, to closely monitor and review bank acceptance bills and ensure that our internal control measures are properly carried out. For the qualifications and experience of Mr. Wong, see “Directors and Senior Management” in this document.</p> <p>In addition, a training has been provided by our PRC Legal Advisers to our Directors and members of the senior management covering areas including an introduction of bills and bill financing, the relevant PRC laws and regulations, the bill financing procedures and the associated risks, case study of bill financing non-compliance, and internal control on management of bill financing procedures.</p> <p>Our internal control consultant, RSM Consulting (Hong Kong) Limited, has reviewed the internal control measures set out above, and performed a walk-through and control testing. Based on the foregoing, our internal control consultant confirmed that it did not note any material deficiencies.</p> |

BUSINESS

Remedial measures and internal control measures

Possible legal consequences and impact

To assess the legal consequences and impact of the Arrangement, on 23 April 2021, the Sole Sponsor, its PRC legal advisers and our PRC Legal Advisers have interviewed at the venue of and consulted with (i) Laizhou city branch of the PBOC (中國人民銀行萊州市支行) (“Laizhou PBOC”); (ii) Laizhou city Office, Yantai Branch of China Banking Regulatory Commission (中國銀行保險監督管理委員會煙臺監管分局萊州辦事處) (“Laizhou CBRC”), both competent authorities (represented by the vice president (副行長) of Laizhou PBOC and the supervisor (主任) of Laizhou CBRC) to opine on such matter; and (iii) the Endorsing Banks. Each of Laizhou PBOC and Laizhou CBRC has verbally confirmed that the Arrangement has ceased, it has not received any complaint on the matter and it has not impose any administrative penalties on HC Mining and HC Environmental and unless complaints are received in relation to the Arrangements, it will not impose any administrative penalties on HC Mining, HC Environmental, the shareholders, directors and senior management of HC Mining and HC Environmental. Each of the Endorsing Banks confirmed that the relevant Bank Bills have been duly settled, they did not incur any loss as a result of the issuance of the Bank Bills, they have not received or launched any complaint against HC Mining and HC Environmental and they have not taken any legal actions against the shareholders, directors and senior management of HC Mining and HC Environmental. Based on the interviews, it is confirmed that if future complaints in relation to the Arrangements are received, the relevant authorities might initiate investigations against the Endorsing Banks. As advised by our PRC Legal Advisers, it is unlikely that the relevant authorities will direct any enforcement actions or impose administrative penalties or fines on our Group.

As advised by our PRC Legal Advisers, Laizhou PBOC and Laizhou CBRC are competent authorities in terms of handling bank bills and given the positions of the relevant officers mentioned above, they are competent and properly authorised to make the confirmations in the interviews. Furthermore, no circumstance or evidence has come to the attention of our PRC Legal Advisers that would result in the confirmations provided by Laizhou PBOC and Laizhou CBRC to be challenged by any higher authority.

Reasons

Details of non-compliance incident

Hongshunxiang was established in the PRC as a limited liability company on 25 April 2017 and was held by our Group's finance manager Ms. Zhang Xiaobo (“Ms. Zhang”), and Mr. Wang Feng (“Mr. Wang”), an accounting staff who resigned at the end of 2019, as to 51% and 49% equity interest respectively on trust for Mr. Liu immediately prior to its dissolution in May 2019. At the material time, as our Group was investing in the construction of warehouses and a production facility in Shahu town, Laizhou city under HC Mining, Mr. Liu decided to establish a company principally engaged in the trading of construction materials as to support our Group, as well as to capture the demand and business opportunities trading of construction materials in the PRC. With Mr. Liu's and our Group's focus on the gold mine hazardous waste treatment business development and expansion, Ms. Zhang and Mr. Wang, as two of Mr. Liu's employees, were entrusted with the direct establishment of Hongshunxiang as nominees for Mr. Liu and its preparations in order to facilitate effective operation and management of Hongshunxiang.

Hongshunxiang was principally engaged in the wholesale trading of construction materials prior to its deregistration. The daily operation of Hongshunxiang was handled by Ms. Zhang who was director and the legal representative. As confirmed by Mr. Liu, he was not involved in the day-to-day operations of Hongshunxiang at the material time. Incorporated in April 2017, Hongshunxiang's revenue for the year ended 31 December 2017, the year ended 31 December 2018 and for the three months ended 31 March 2019 were approximately RMB6.2 million, RMB15.1 million and RMB 2.3 million respectively, whereas its profit/(loss) for the corresponding period/year was approximately RMB50,000, RMB85,000 and (RMB19,000) respectively. It was voluntarily deregistered on 8 May 2019 due to poor business performance and fierce market competition.

BUSINESS

Remedial measures and internal control measures

Possible legal consequences and impact

Reasons

Details of non-compliance incident

Both transactions were then presented to two local banks (“**Endorsing Banks**”) for the issuance of a series of bank bills (the “**Bank Bills**”) to Hongshunxiang in (i) October 2018, and (ii) November 2018. However, Hongshunxiang was unable to provide the construction materials as specified in accordance with the agreed time, due to short notice received from supplier of Hongshunxiang for difficulties in sourcing steel tiles and steel sheets of our required standard and size, as per the understanding of our Directors with Hongshunxiang. Shortly after, both purchase agreements were terminated without the performance of the actual transactions upon negotiation between the parties, due to the decision to not cause any delay to the project in view of its tight schedule and our Group sourced from alternative suppliers with relevant industry expertise to ensure smooth and adequate supply of construction materials and smooth completion of the project. During Track Record Period, Hongshunxiang did not supply any goods and services to our Group. At the same time, Hongshunxiang has supplied other construction materials to other third parties and the terms of such transactions were comparable to those offered by other suppliers of our Group which are independent third parties and the then prevailing market rates. Despite the transactions with Hongshunxiang had been terminated, Ms. Zhang considered that the Endorsing Banks had already issued the Bank Bills and the relevant bank pledges had already been placed, for convenience, cost and time saving, she proceeded with the Arrangement and used the Bank Bills to settle some of our Group’s payables and then she reported to Mr. Liu. Mr. Liu was not aware of the legal consequences of the Arrangement at that time. The settlement of genuine transactions with Independent Third Parties included (i) construction costs and the refund of a prepayment received from a potential customer, and (ii) land purchase costs. Further details are as follows:

BUSINESS

| Details of non-compliance incident | Reasons | Possible legal consequences and impact | Remedial measures and internal control measures |
|--|---------|--|---|
| (i) for land acquisition, Supplier G was one of our landlord and our electricity and water supplier as well as the vendor for a parcel of land which we acquired. See “— Purchases of Services and Goods — Our Five Largest Suppliers” above for further details of the background and other details of Supplier G. The total consideration of land purchase was approximately RMB33.6 million, of which RMB10 million was paid using the Bank Bills; | | | |
| (ii) for construction costs, the Zhuwang Jian'an Branch of Shandong Jianfa Company Limited (山東建發有限公司朱莊建安分公司) (“ Shandong Jianfa ”) and Laizhou Wenhua Steel Structure Factory (萊州市政涵鋼結構廠) (“ Laizhou Wenhua ”) were engaged by our Group for the construction of our production facilities in Shahe town, Laizhou city and its ancillary structures. The business scope of Shandong Jianfa includes housing construction works, building renovation and decoration, installation of mechanical and electrical equipment and structural steel works, while Laizhou Wenhua is principally engaged in the processing, sales and installation of, among others, structural steel and steel tiles, and sales of construction materials. The relevant construction cost was approximately RMB5.4 million, of which approximately RMB1.5 million was paid using the Bank Bills; and | | | |

BUSINESS

| Details of non-compliance incident | Reasons | Possible legal consequences and impact | Remedial measures and internal control measures |
|---|--|--|--|
| <p>(iii) for refund of a prepayment, Laizhou Runyu Paper Company Limited (萊州市潤宇紙業有限公司) (“Laizhou Runyu”), a potential customer whose business scope involves the sales of certain paper-related products, sought our services in the area of printing waste treatment in March 2018, which we obtained a prepayment. Our Directors believe that Laizhou Runyu approached us to provide printing waste treatment services (印刷廢紙無害化處理) even though our Group did not have any prior experience in handling printing waste, as they may have considered that it was similar to our experience in handling gold mine hazardous waste, and the geographical advantage as a result of proximity in location between our Group and Laizhou Runyu, and which was introduced to our Group through a friend of Mr. Liu. At the time of negotiation, our Directors considered that since Laizhou Runyu is an acquaintance and an opportunity arose in which we could explore new business prospects to enhance our scope of operations, we seized our chance and entered into the agreement with Laizhou Runyu. Later in October 2018, we decided that the printing waste treatment was not our focus and we fully refunded the prepayment to Laizhou Runyu upon termination of the agreement after negotiations without providing any services to Laizhou Runyu^(Note). The relevant prepayment was approximately RMB0.5 million, all of which was repaid using the Bank Bills.</p> | | | |
| | <p><i>Note:</i> According to the agreement entered into between our Group and Laizhou Runyu in March 2018, the term for provision of services was between April 2018 and December 2018. The contract sum was RMB2 million, and a prepayment of RMB0.5 million was advanced to our Group. Subsequently, we obtained a report dated 5 September 2018 from an Independent Third Party laboratory analysing a printing waste sample provided by Laizhou Runyu and the composition of chemical elements, the results of which revealed that we would not be able to achieve the conditions for harmless treatment with our existing machinery and equipment and we would require new and additional machinery and equipment and modification of our production process. Our Directors considered that our business focus of gold mine hazardous waste treatment would be directly affected if our machinery and equipment was modified to handle this small intermittent supply of printing waste and that the agreed sum may not be able to cover our costs for providing such services. As such, our Directors terminated the agreement after negotiation with Laizhou Runyu in October 2018.</p> | | |
| | | | <p>To the best knowledge of our Directors after making reasonable enquiries, save as disclosed above, none of the relevant Independent Third Parties have had any past or present relationships between each of them and with our Group, our shareholders, our Directors or senior management, or any of their respective associates during Track Record Period and up to the Latest Practicable Date.</p> |

BUSINESS

Remedial measures and internal control measures

Possible legal consequences and impact

On the basis of the interview results from Laizhou PBOC, Laizhou CBRC and the Endorsing Banks, our PRC Legal Advisers are of the view that the chance of HC Mining and HC Environmental being penalised or prosecuted by the relevant PRC government authority for the Arrangements is remote. There are no other potential consequences as a result of the Arrangement because (i) the Endorsing Banks did not incur any loss as a result of the issuance of the Bank Bills; (ii) there are no specific provisions in the Negotiable Instruments Law or other applicable relevant PRC laws that impose any administrative penalties on the relevant companies and their shareholders, directors and senior executives for the Arrangements; and (iii) there has been no administrative or criminal consequences in connection with the Arrangement brought against HC Mining and HC Environmental.

Our Directors are of the view that the Arrangements did not have any material impact on our operations and our ability to obtain future fundings or borrowings because (i) of the views of our PRC Legal Advisers based on the interview results with Laizhou PBOC, Laizhou CBRC and the Endorsing Banks; (ii) the total additional fund resulted from such activities was only RMB6 million and we have sufficient financial resources generated from our operating activities; and (iii) the interest expenses saved by our Group under the Arrangements were not material to our operating profit during the same period.

Reasons

As confirmed by the Directors, apart from the two occasions as mentioned above, we did not conduct any further Arrangements during the Track Record Period and up to the Latest Practicable Date. We have ceased to enter into any new Arrangements since November 2018 and the Bank Bills were duly settled by November 2019.

Details of non-compliance incident

The Bank Bills were issued for one year and they were duly settled in (i) October; and (ii) November 2019.

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Indemnity given by our Controlling Shareholders

Our Controlling Shareholders have entered into the Deed of Indemnity in favour of our Group, under which they have agreed to indemnify our Group, subject to the terms and conditions therein, in respect of any liability that may be borne by our Group in respect of the above non-compliance incidents. See “Other Information — 15. Tax and other indemnity” in Appendix V to this document for further details of the indemnity that was given by our Controlling Shareholders.

View of our Directors and the Sole Sponsor

Taking into consideration that:

- our Group has established a proper internal control system to prevent future non-compliance with the relevant laws and regulations, and has also implemented the abovementioned internal control measures, including, among others, regular reporting by our staff and supervision by our assigned Director and finance director, to prevent recurrence of the non-compliance incidents;
- our internal control consultant reviewed the internal control measures and did not note any material deficiencies; and
- there has been no recurring of similar non-compliance incidents since the implementation of such measures,

Our Directors confirm, and the Sole Sponsor concurs that, the abovementioned internal control measures implemented are sufficient and could effectively ensure a proper internal control system of our Group and prevent the recurrence of any non-compliance incidents.

RISK MANAGEMENT AND INTERNAL CONTROL

Risk Management

With the growth and expansion of our operations, potential risks to our business increase as well. In order to identify, assess and control the risks that may create impediments to the growth of our business, we have designed and implemented risk management policies to address various potential risks identified in relation to our operations, including operational risks, credit risks, market risks, financial risks and legal risks. Our risk management policies set forth procedures to identify, analyse, categorise, mitigate and monitor various risks as well as the reporting hierarchy of risks identified in our operations. Each of our business departments and functions is responsible for identifying and evaluating the risks relating to its area of operations and implementing our risk management and internal control systems.

BUSINESS

Our audit committee is responsible for overseeing our management in the implementation of our overall risk management and internal control systems and assessing our risk management and internal control systems. For details about the qualifications and experiences of the members of our audit committee, see “Directors and Senior Management”.

We have adopted a risk management system, which we would conduct an enterprise risk assessment when there is a significant change in potential risks, or at least annually, to ensure that:

- a critical risk identification and assessment process is conducted with the involvement of senior management;
- critical risks are identified based on risk parameters and ranked accordingly;
- key risk mitigation measures are developed; and
- the results of the risk assessment are reviewed and approved by our board of Directors and the audit committee of our Company.

For measures over quality control and other risks, see “— Quality Assurance” above. We do not adopt any hedging policy. For details regarding the risks involved in our operations, see “Risk Factors” in this document.

Internal Control

It is responsibility of our Board to ensure that our Company maintains sound and effective internal controls to safeguard our Shareholders’ [REDACTED] and our Group’s assets at all times. We have adopted or expect to adopt immediately after the [REDACTED] a series of internal control policies, procedures and programmes designed to provide reasonable assurance for achieving objectives including effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Highlights of our internal control system include the following:

- **Code of conduct.** Our code of conduct explicitly communicates to each employee our values, acceptable criteria for decision-making and our ground rules for behaviour.
- **Internal audit.** Our internal audit team regularly monitors key controls and procedures in order to assure our management that the internal control system is functioning as intended. The audit committee is responsible for supervising our internal audit function.

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- ***Anti-corruption and anti-bribery:*** Our anti-corruption and anti-bribery policies provide the tools and resources necessary to enable, monitor and enforce full compliance with the anti-bribery and anti-corruption laws of the PRC and other countries where we conduct our business operations. In order to comply with the applicable laws and regulations in relation to anti-corruption and anti-bribery, we have established and implemented anti-corruption and anti-bribery policies and measures to prohibit all forms of bribery and corruption acts or intention of such acts. The policy also sets out the requirements of a company-wide anti-bribery and corruption training and disciplinary actions to be taken in situation of violation of the policy and/or relevant laws and regulations, including termination of employment and bringing forward to legal proceedings. We have also put in place a whistle-blowing system which is overseen by the audit committee of our Board.
- ***Appropriate training.*** We regularly provide training to our Directors, senior management and employees with respect to our internal control policies and the duties and responsibilities of directors and management of listed companies under the Listing Rules and other applicable laws and regulations.
- ***Compliance with Listing Rules.*** Our various policies aim to ensure compliance with the Listing Rules, including but not limited to aspects related to corporate governance, connected transactions and securities transactions by our Directors.
- ***Compliance adviser.*** We have appointed First Shanghai Capital Limited as our compliance adviser to advise on ongoing compliance with the Listing Rules and other applicable securities laws and regulations in Hong Kong.
- ***Non-compliances.*** Please see “— Regulatory Compliance” above for our internal enhancement measures that we have implemented to prevent re-occurrence of the non-compliances. Our Directors are of the view that the internal enhancement measures are adequate and effective for our Group to avoid the non-compliances going forward.

Our Directors are of the view that our current internal control measures are adequate and effective.

BUSINESS

OUTBREAK OF COVID-19

Impact on our operations and financial performance

In view of the outbreak of COVID-19 in the PRC, measures including temporary suspension of operations and travel restrictions have been imposed by the PRC government including Shandong province’s local governmental authorities. Our major upstream customers in Shandong province experienced temporary suspension in February 2020 due to the *Urgent Notice on Delaying the Resumption of Work of Enterprises in Shandong Province* (關於延遲省內企業復工的緊急通知) issued by Shandong Ministry of Human Resources and Social Security on 29 January 2020 in response to the outbreak of COVID-19. According to the F&S Report, the enterprises in Shandong province gradually resumed work and production in March 2020 and there was no suspension of gold mine operations of more than three months in Shandong province caused by the COVID-19 outbreak during the Track Record Period.

In order to further reduce the risk of nationwide outbreak of COVID-19 cases during Chinese New Year in 2021, the General Office of People’s Government of Shandong Province has implemented various measures including mandatory COVID-19 testing, quarantine measures and travel restrictions in preventing high volume of cross-provincial travels during the festive period. Although temporary suspension of business operation of some customers outside Shandong province occurred under the implementation of the aforementioned restrictions and measures since late February 2021, as at the Latest Practicable Date, local governmental authorities in Shandong province have lifted such travel restrictions and quarantine measures. Our Directors consider that the impact of temporary suspension of operations of our upstream customers in February 2020 on our Group’s operations was relatively minimal because it was a relatively short period of suspension and there had been gradual resumption of gold mine operations and production within one month of suspension in March 2020.

In addition, according to the F&S Report, the total volume of accumulated gold mine hazardous waste in Yantai city is estimated to be more than 10 million tonnes as at the end of 2020 and is estimated to be mainly stored in the storage and/or the production facilities within the gold mining companies with business operation in Yantai city. As confirmed by our Directors, the continuous treatment of the historical accumulated gold mine hazardous waste provided by these gold mining companies could also, to certain extent, absorb the impact of temporary suspension during the period. Indicated by the growth in our treatment volume for the year ended 31 December 2020 when compared with the previous year and the availability of accumulated gold mine hazardous waste yet to be treated in the market, our Directors are of the view that our business operation had not been materially affected by the temporary suspension of operation of our upstream customers. Our Directors confirmed that there was no material disruption to our Group’s supply chain in gold mine hazardous waste during the Track Record Period. Our Group’s revenue generated from gold mine hazardous waste treatment services and sale of recycled products for the eight months ended 31 August 2021 has increased as compared to the corresponding period in 2020.

BUSINESS

Our Directors considered that the outbreak of COVID-19 has some degree of indirect impact on the financial position of our Group as the outbreak of COVID-19 in 2020 has led to the plummeting downstream demand of sulphuric acid, and has thereby led to a decrease in both the price of sulphuric acid and the selling price of our pyrite concentrate. However, our Directors believe that, based on information available to our Directors up to the Latest Practicable Date, the outbreak of COVID-19 would not result in a material disruption to our business operations and financial positions due to the fact that (i) amid the outbreak of COVID-19, we recorded an overall increasing trend of our Group’s total revenue 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 to approximately RMB205.4 million for the year ended 31 December 2020, and our increase in demand outweighed the decline in selling price of our pyrite concentrate; (ii) saved for the temporary suspension of our production facility in Jincheng town, Laizhou city from 15 November 2019 to 19 January 2020 for an in-depth and comprehensive repair and maintenance and the closure of our two production facilities for the Chinese New Year holiday from 27 January 2020 to 6 February 2020, our business operations were not suspended during the Track Record Period; (iii) there was no cessation of our Group’s operations subsequent to the Track Record Period and up to the Latest Practicable Date saved for the closure of our two production facilities for the Chinese New Year holiday from 4 February 2021 to 18 February 2021; (iv) no contract or delivery of our services or products has been terminated or materially delayed due to the COVID-19 pandemic; (v) none of our customers who had entered into contracts with us before the COVID-19 pandemic have terminated the contracts; and (vi) our Group has not encountered any material supply chain disruption subsequent to the Track Record Period and up to the Latest Practicable Date.

Our Directors, after careful and due consideration, confirmed that the business, financial condition and results of operation of our Group would not be materially affected by the outbreak of COVID-19, and thus it is unlikely for us to use the [REDACTED] from the [REDACTED] for other purposes or require a business contingency plan under the outbreak of COVID-19. Our Directors will continue to assess the impact of COVID-19 on our Group’s operation and financial performance and closely monitor our exposure to the risks and uncertainties in connection with the pandemic. We will take appropriate measures as necessary and inform our Shareholders and potential [REDACTED] as and where necessary. For further details, see “Risk Factors — Risks Relating to Our Business and Industry — Ongoing pandemic of COVID-19 could significantly affect our production, demand for our services and products and our business.”.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS AND SENIOR MANAGEMENT

Directors

Our Board consists of six members, including three executive Directors and three independent non-executive Directors. Our Board is responsible for and has been granted general powers for the management and conduct of our business.

The following table sets forth certain information regarding our Directors:

| Name | Age | Position | Date of joining our Group | Date of appointment as Director | Responsibilities within our Group | Relationship with other Directors and senior management |
|---|-----|--|---------------------------|---------------------------------|---|---|
| Mr. Liu Zeming (劉澤銘) (formerly known as Liu Zeming (劉澤明)) | 45 | Executive Director and chairman of our Board; member of remuneration committee and chairman of nomination committee | 22 April 2011 | 12 January 2021 | Overall management of our business operations and strategic and corporate development | N/A |
| Mr. Zhan Yirong (戰乙榮) (formerly known as Zhan Dongtang (戰冬棠)) | 31 | Executive Director and our chief executive officer of our Company | 1 March 2012 | 8 April 2021 | Overall administrative and operational management of our Group | N/A |
| Mr. Sheng Haiyan (盛海燕) | 54 | Executive Director and our chief technical officer of our Company | 1 December 2012 | 8 April 2021 | Overall research and development and technical management of our Group | N/A |
| Mr. Zhang Shijun (張式軍) | 55 | Independent non-executive Director; member of audit committee and nomination committee | 23 October 2021 | 23 October 2021 | Supervising and providing independent judgement to our Board | N/A |
| Ms. Liu Ye (劉擘) | 46 | Independent non-executive Director; chairlady of remuneration committee and member of audit committee and nomination committee | 23 October 2021 | 23 October 2021 | Supervising and providing independent judgement to our Board | N/A |
| Mr. Lau Chung Wai (劉仲緯) | 39 | Independent non-executive Director; chairman of audit committee and member of remuneration committee | 23 October 2021 | 23 October 2021 | Supervising and providing independent judgement to our Board | N/A |

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Executive Directors

Mr. Liu Zeming (劉澤銘) (formerly known as Liu Zeming 劉澤明), aged 45

Mr. Liu is an executive Director and chairman of our Board who is responsible for the overall management of the business operations and strategic and corporate development of our Group. He is also a member of the remuneration committee and chairman of the nomination committee. He was appointed as Director on 12 January 2021 and re-designated as executive Director on 8 April 2021. Mr. Liu is a founder of our Group and our Controlling Shareholder. Mr. Liu has over 10 years of experience in operation and management business of metal ore waste processing. Mr. Liu has been an executive director and general manager of HC Mining since April 2011. He has obtained the qualification of PRC Intermediate Assistant Economist (中級助理經濟師) from Yantai Engineering & Technical Position Intermediate Evaluation Committee (煙臺市工程技術職務中級評審委員會) in February 2003. He was appointed as a member of the standing committee of Shandong People’s Political Consultative Conference (中國人民政治協商會議山東省委員會) in January 2013 and January 2018, respectively.

Prior to joining our Group, Mr. Liu worked for Laizhou Jinshan Stone Raw Materials Trading Co., Ltd. (萊州市金山石材銷售有限公司), which principally engaged in the trading of stone raw materials, from September 2003 to April 2011 holding his last position as sales manager. He worked as a manager at Laizhou Property Development Company Limited (萊州房地產開發有限公司) from July 1997 to August 2003. He also worked at the former People’s Government of Xiyou Town, Laizhou City (萊州市西由鎮人民政府), and was primarily responsible for clerical works from September 1995 to July 1997.

Mr. Liu has received various awards with social impact throughout the years. He was awarded a certificate of honour for his personal contribution in fighting the COVID-19 in Shandong Province (「山東省抗擊新冠病毒肺炎疫情先進個人」榮譽證書) issued by the Shandong Provincial Committee of the China Peasants’ and Workers’ Democratic Party (中國農工民主黨山東省委員會) in December 2020; the title of “Model Worker of Yantai” (「煙臺市勞動模範」) jointly issued by the Yantai Municipal Committee of the Communist Party of China and the Yantai Municipal People’s Government (中共煙臺市委和煙臺市人民政府) in April 2019; the “Economic Development Progress Award” for the year 2018 (2018年度「經濟發展進步獎」) jointly issued by the Laizhou Municipal Committee of the Communist Party of China and the Laizhou Municipal People’s Government (中共萊州市委員會及萊州市人民政府) in February 2019; the 13th “Ten Outstanding Youth Nomination Award of Yantai City (「煙臺十大傑出青年」)” jointly issued by the Yantai Municipal Committee of the Communist Youth League and the Yantai Youth Federation (共青團煙臺市委及煙臺市青年聯合會) in October 2015; and the honorary title of “Model Youth of Laizhou” (「萊州市模範青年」) jointly issued by the Organisation Department of the Laizhou Municipal Committee of the Communist Party of China (中共萊州市委組織部) and other four departments in December 2012.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Liu completed the tertiary education program in business administration from Shandong Agricultural Management College (山東省農業管理幹部學院) (currently known as 山東農業工程學院) in July 1999. He further completed a post-graduate education program in modern Chinese history from Shandong Normal University (山東師範大學) in July 2000. Mr. Liu is currently pursuing a doctorate’s degree in Business Administration at North Borneo University College in Malaysia by way of distance learning.

Mr. Liu was a legal representative of the following company which was incorporated in the PRC and was subsequently dissolved:

| Name of Company | Mr. Liu’s position | Nature of business | Methods of dissolution | Date of dissolution | Reason of dissolution |
|---|----------------------|---|------------------------|---------------------|--|
| Hanzhong Dingcheng Mining Co., Ltd (漢中鼎鉞礦業有限責任公司) (“Dingcheng”) | Legal representative | Management, construction and sales of mining projects | revoked | 6 June 2014 | failure to attend to the annual SAIC filings |

As confirmed by Mr. Liu, Dingcheng failed to attend to the annual SAIC filings because after its cessation of business in 2011, the then staff of the local shareholder, Hanzheng Geological Team of Shaanxi Geology and Mineral Exploration and Development Bureau (陝西省地質礦產勘查開發局32中地質大隊), who was in charge of the daily operation, failed to realise that pursuant to the relevant PRC laws and regulations, a company needed to attend to proper annual SAIC filings before it could be duly dissolved. Mr. Liu, in his capacity as a legal representative, has confirmed that the aforementioned failure was not caused by his mistake or fault.

As advised by our PRC Legal Advisers, such deregistration with the company registration organ was completed in June 2014 and will not affect Mr. Liu’s appointment as director in other PRC companies in accordance with the PRC Company Law.

DIRECTORS AND SENIOR MANAGEMENT

As further advised by Mr. Liu, he was a director or supervisor of the following companies which were incorporated in the PRC and were subsequently dissolved voluntarily by shareholders’ resolutions or simplified deregistration procedure due to the reason that these companies did not conduct business since their respective date of incorporation:

| Name of company | Mr. Liu’s position | Date of dissolution |
|--|---|----------------------------|
| Laizhou Puyuan Mineral Processing Co., Ltd. (萊州市普元選礦有限公司) | executive director | 4 September 2012 |
| Laizhou Jiaxin Mining Co., Ltd. (萊州市嘉鑫礦業有限公司) | executive director and general manager | 25 December 2009 |
| Laizhou Beihai Garden Engineering Co., Ltd (萊州市北海園林工程有限公司) | executive director and general manager | 25 December 2009 |
| Laizhou Sanyi Stone Co., Ltd (萊州市三一石子有限公司) | supervisor | 11 November 2019 |
| Zhaoyuan Hongcheng Technology Consulting Co., Ltd (招遠市鴻承技術諮詢有限公司) | executive director and general manager | 17 February 2020 |
| Shandong Aorunlai Shuangchuang Industrial Park Co., Ltd. (山東澳潤萊雙創產業園有限公司) | supervisor | 25 March 2020 |
| HC Smelting | executive director and general manager | 23 February 2021 |

Mr. Liu confirmed that the above companies were solvent at the time of their respective dissolution, and such dissolutions were not caused by any fraudulence or misconduct. Mr. Liu was not aware of any liability or obligation imposed on him.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhan Yirong (戰乙榮) (formerly known as Zhan Dongtang (戰冬棠)), aged 31

Mr. Zhan is an executive Director and the chief executive officer of our Company who is responsible for the overall administrative and operational management of our Group. He was appointed as an executive Director on 8 April 2021. Mr. Zhan has more than eight years of experience in corporate management in the gold mine hazardous waste treatment industry. He joined our Group in March 2012 and worked as purchasing manager of HC Mining. During the years, he worked as deputy manager and manager of business administration department, general manager assistant and deputy general manager of HC Mining and acquired experiences in sales and business administration. Mr. Zhan has been the general manager of HC Mining and HC Environmental concurrently since January 2017.

Mr. Zhan obtained a bachelor’s degree in mechanical design, manufacturing and automation from Qingdao Binhai University (青島濱海學院) in July 2012. He obtained the PRC Cartographer at Senior Skill Level qualification from Shandong Vocational Skills Identification and Guidance Center (山東省職業技能鑒定中心) in February 2011.

As advised by Mr. Zhan, he was a director and/or supervisor or general manager of the following companies which were incorporated in the PRC and were subsequently dissolved voluntarily by shareholders’ resolutions due to the reason that these companies did not conduct business since their respective dates of incorporation:

| Name of company | Mr. Zhan’s position | Date of dissolution |
|--|---|----------------------------|
| Laizhou Beijia Aquaculture Co., Ltd. (萊州倍佳水產養殖有限公司) | supervisor | 17 March 2017 |
| Yantai City Jingwei Elderly Care Services Limited (煙臺市璟煒養老服務有限公司) | executive director and general manager | 4 December 2020 |

Mr. Zhan confirmed that the above companies were solvent at the time of their respective dissolution, and such dissolutions were not caused by any fraudulence or misconduct. Mr. Zhan was not aware of any liability or obligation imposed on him.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Sheng Haiyan (盛海燕), aged 54

Mr. Sheng is an executive Director and chief technical officer of our Company who is responsible for the overall research and development and technical management of our Group. He was appointed as an executive Director on 8 April 2021. He has more than 29 years of experience in chemical related industry. He joined our Group in December 2012. Mr. Sheng was the technical research and development engineer of HC Environmental from December 2012 to December 2017. He has been the technical research and development engineer of HC Mining since January 2018. Prior to joining our Group, Mr. Sheng worked at Laizhou Jinxing Chemicals Co., Ltd. (萊州金興化工有限責任公司), which principally engaged in, among other things chemicals manufacturing and processing from August 1991 to November 2012 holding his last position as chief engineer.

Mr. Sheng obtained a bachelor’s degree in organic chemistry from Jiangxi University (江西大學) (currently known as Nanchang University (南昌大學)) in July 1991. He obtained the qualification of intermediate engineer from Yantai Chemical Engineering and Technical Evaluation Committee (煙臺市化工工程技術職務中級評審委員會) in October 1998.

As advised by Mr. Sheng, he was a manager of the following companies which were incorporated in the PRC and were subsequently dissolved voluntarily by shareholders’ resolutions due to the reason that these companies did not conduct business since their respective date of incorporation:

| Name of company | Mr. Sheng’s position | Date of dissolution |
|--|----------------------|---------------------|
| Yantai Xinsaier Trading Co., Ltd (煙臺市新賽爾商貿有限公司) | manager | 11 January 2007 |
| Laizhou Jinxing Mining Co., Ltd. (萊州金興礦業有限公司) | manager | 11 June 2009 |

Mr. Sheng confirmed that the above companies were solvent at the time of their respective dissolution, and such dissolutions were not caused by any fraudulence or misconduct. Mr. Sheng was not aware of any liability or obligation imposed on him.

DIRECTORS AND SENIOR MANAGEMENT

Independent non-executive Directors

Mr. Zhang Shijun (張式軍), aged 55

Mr. Zhang is an independent non-executive Director who is responsible for supervising and providing independent judgement to our Board of our Group. He is also a member of the audit committee and the nomination committee. He was appointed as an independent non-executive Director on 23 October 2021. Mr. Zhang has over 36 years of experience in education and environmental management. He has been teaching at Shandong University (山東大學) since July 2005 and has been working as a professor of law since October 2020. Mr. Zhang served at Qingdao Municipal Bureau of Ecology and Environment (青島市生態環境局), a government bureau located in Qingdao, Shandong province, which principally engaged in the environmental management and supervision of Qingdao city from July 1996 to August 2002, holding his last position as engineer of environmental management. Mr. Zhang served as a lecturer at Normal College of Qingdao University (青島大學師範學院) from April 1996 to June 1996. He also worked as a teacher at No. 3 Middle School of Laoshan Qingdao (青島市嶗山區第三中學) from July 1984 to August 1993. Mr. Zhang also worked as an independent non-executive director in Shandong Sunway Chemical Group CO., Ltd. (山東三維化學集團股份有限公司), a company listed on Shenzhen Stock Exchange (stock code: 002469), since April 2017.

Mr. Zhang obtained a bachelor’s degree in geography from Shandong Normal University (山東師範大學) in June 1990. He then obtained a master’s degree in environmental chemistry from Zhejiang University (浙江大學) in March 1996. Mr. Zhang further obtained a doctorate’s degree in science of environment and natural resources protection law from Wuhan University (武漢大學) in June 2005.

Ms. Liu Ye (劉曄), aged 46

Ms. Liu is an independent non-executive Director who is responsible for supervising and providing independent judgement to our Board of our Group. She is also the chairlady of the remuneration committee and a member of the audit committee and the nomination committee. She was appointed as an independent non-executive Director of our Group on 23 October 2021. Ms. Liu has approximately 23 years of teaching experience and approximately nine years of part-time working experience in the legal industry. She has worked as a part-time lawyer at Shandong Zhongcheng Renhe Law Firm (山東眾成仁和律師事務所) from March 2012 to May 2015 and Grandall Law Firm (Ji Nan Office) (國浩律師(濟南)事務所) from May 2015 to June 2016 respectively. She has been working as a senior partner at Shandong Ray & Young Law Firm (山東睿揚律師事務所) since June 2016. Ms. Liu taught at Shandong Police Officer Training Institute (山東省警官培訓學院) as a teacher from December 1997 to December 2013. She has been teaching at Shandong University of Political Science and Law (山東政法學院) since May 2014 and has been working as an associate professor since November 2017.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Liu obtained a bachelor’s degree in international trading from Yantai University (煙臺大學) in July 1997. She further obtained a master’s degree in political economies from Shandong University (山東大學) in December 2003. Ms. Liu obtained the qualification of PRC Legal Professional Qualification Certificate in February 2009. She also obtained the qualification of PRC Securities Practice Certificate in April 2017.

Mr. Lau Chung Wai (劉仲緯), aged 39

Mr. Lau is an independent non-executive Director who is responsible for supervising and providing independent judgement to our Board. He is also the chairman of the audit committee and a member of the remuneration committee. He was appointed as an independent non-executive Director on 23 October 2021. He is the independent non-executive Director who has the qualifications and experience to meet the requirements under Rule 3.10(2) of the Listing Rules.

Mr. Lau has over 16 years of experience in accounting and finance. He has been serving as chief financial officer and company secretary of Kwung’s Holdings Limited, a company listed on the Main Board (stock code: 1925), since March 2019. Mr. Lau has also been working as an independent non-executive director of Fufeng Group Limited, a company listed on the Main Board (stock code: 546), and Metropolis Capital Holdings Limited, a company listed on the GEM of the Stock Exchange (stock code: 8621), since June 2019 and November 2018 respectively. He has been working as a company secretary of Hygieia Group Limited, a company listed on the Main Board (stock code: 1650) and IAG Holdings Limited, a company listed on the GEM of the Stock Exchange (stock code: 8513), since December 2019 and August 2017, respectively. Mr. Lau worked as company secretary and chief financial officer of Da Sen Holdings Group Limited, a company listed on the Main Board (stock code: 1580), from August 2015 to March 2019. He worked as group financial controller of Passion Art International Holdings Limited, a company primarily engaged in manufacture and sale of furniture and home decoration products, from May 2013 to July 2015. Mr. Lau worked as financial manager of Starcom Worldwide, a media agency company which is a subsidiary of Publicis Groupe SA, a company listed on the Euronext Paris (stock code: PUB), from September 2011 to April 2013. He worked at the Hong Kong office of Ernst & Young from September 2004 to September 2011, holding his last position as manager in the assurance department.

Mr. Lau graduated from the Hong Kong University of Science and Technology with a degree of bachelor of business administration in accounting in November 2004. He was admitted as a certified public accountant of HKICPA in January 2008 and a fellow member of HKICPA in May 2015.

DIRECTORS AND SENIOR MANAGEMENT

Senior management

Our senior management is responsible for the day-to-day management of our business. All of our executive Directors are also the senior management of our Group. See “— Board of Directors — Executive Directors” above for details. The following table sets out certain information regarding other members of our senior management:

| Name | Age | Position in our Group | Date of joining our Group | Date of appointment as our senior management | Responsibilities within our Group |
|----------------------------|-----|--|---------------------------|--|--|
| Mr. Zhang Weiping (張衛平) | 51 | Deputy general manager of HC Environmental | 1 May 2017 | 1 February 2020 | Overall daily operation of HC Environmental and overall production safety of our Group |
| Mr. Zhu Guangping (朱廣平) | 49 | Deputy general manager of HC Mining | 20 November 2017 | 1 March 2020 | Overall daily operation of HC Mining and overall environmental and safety operation of our Group |
| Mr. Wong Yun Fai (王潤輝) | 33 | chief financial officer and company secretary of our Group | 21 December 2020 | 21 December 2020 | Overall financial management of our Group |

Mr. Zhang Weiping (張衛平), aged 51

Mr. Zhang is the deputy general manager of HC Environmental who is responsible for the overall daily operation of HC Environmental and overall production safety of HC Environmental. Mr. Zhang has over 30 years of experience in production safety and operation. He joined our Group in May 2017 working as the supervisor of production safety and environmental protection at HC Environmental from May 2017 to September 2018. He then worked at HC Mining as deputy general manager for production safety and operation from September 2018 to February 2020. Mr. Zhang has been serving as the deputy general manager of HC Environmental since February 2020. Prior to joining our Group, Mr. Zhang worked at Shandong Tiancheng Biological Golden Industry Co., Ltd. (山東天承生物金業有限公司) (“**Shandong Tiancheng**”) which principally engages in metal processing from February 1990 to May 2017 holding his last position as supervisor of environmental protection safety.

Mr. Zhang obtained a diploma in mechatronics engineering from Qingdao University of Technology (青島理工大學) in July 2018 by way of distance learning. He obtained the certificate of PRC senior environmental protection safety engineer from AXKG Appraisal Organization (AXKG 全國職業技能考試鑒定中心) in October 2020.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhu Guangping (朱廣平), aged 49

Mr. Zhu is the deputy general manager of HC Mining who is responsible for the overall daily operation of HC Mining and overall environmental and safety operation of HC Mining. Mr. Zhu has over 33 years of experience in production and manufacturing industry. He joined our Group in November 2017 working as the deputy general manager for production safety and environmental protection of HC Environmental from November 2017 to March 2020. He has been serving as the deputy general manager of HC Mining since March 2020. Prior to joining our Group, Mr. Zhu worked at Shandong Tiancheng from December 1987 to July 2017 holding his last position as workshop supervisor.

Mr. Zhu obtained a diploma in metallurgical technology from Northeastern University (東北大學) in July 2015 by way of distance learning. He obtained the certificate of PRC senior solid waste processing engineer from China Association of Machinery Equipment Maintenance and Renovation (中國機電裝備維修與改造技術協會) in September 2020.

Mr. Wong Yun Fai (王潤輝), aged 33

Mr. Wong is the chief financial officer of our Group who is responsible for the overall financial management of our Group. He joined our Group on 21 December 2020 and was subsequently appointed as the chief financial officer of our Group on 23 April 2021. Mr. Wong has over 10 years of experience in audit and accounting. Prior to joining our Group, Mr. Wong worked at certain PRC subsidiaries of Shenzhen Huaruixin Asset Management Co., Ltd. (深圳市華睿信資產管理有限公司) (“HRX”), a company which principally engaged in asset management from January 2018 to December 2020, holding his last position as chief financial officer of both HRX and EMP Capital Limited, a Hong Kong subsidiary of HRX. He worked at the Xiamen office of Deloitte Touche Tohmatsu and the Hong Kong office of Deloitte Touche Tohmatsu from January 2016 to December 2017 and from February 2015 to January 2016, respectively, holding his last position as a manager of the audit and assurance department. Mr. Wong worked as senior operations planning executive at Neo Derm (HK) Limited, a company which principally engaged in providing medical aesthetics services, from April 2014 to January 2015. He worked at Moore Stephens Associates Limited (currently know as Moore Stephens CPA Limited) from October 2010 to April 2014, holding his last position as audit senior.

Mr. Wong obtained a bachelor’s degree in accountancy from the Hong Kong Polytechnic University in November 2010. He was admitted as a certified public accountant of HKICPA in July 2014. Mr. Wong was further admitted as a certified public accountant by the Washington State Board of Accountancy in January 2020.

DIRECTORS AND SENIOR MANAGEMENT

OTHER INFORMATION IN RELATION TO OUR DIRECTORS

Each of our Directors has confirmed that there are no other matters relating to his appointment as a Director that need to be brought to the attention of our Shareholders and there is no other information in relation to his appointment which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

None of our Directors hold any other positions within our Group.

Save as disclosed above in respect of the working experiences of Mr. Zhang Shijun and Mr. Lau Chung Wai, none of our other Directors has been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this document. None of our Directors and senior management of our Group is related to other Directors and senior management of our Group.

Save as the interests of each of the executive Directors in the Shares which are disclosed in “Further Information about Our Directors and Substantial Shareholders — 11. Directors” in Appendix V to this document, each of our Directors did not have any interest in the Shares within the meaning of Part XV of the SFO.

COMPANY SECRETARY

Mr. Wong Yun Fai, (王潤輝), aged 33

Mr. Wong was appointed as the company secretary of our Company on 8 March 2021. See “— Senior Management” above for his biographical details.

BOARD COMMITTEES

Audit Committee

We established an audit committee with written terms of reference in compliance with Rule 3.21 and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules on 23 October 2021 with effect upon the [REDACTED]. The primary duties of the audit committee include ensuring that an effective financial reporting, internal control and risk management systems are in place and compliance of the Listing Rules, controlling the completeness of our Company’s financial statements, selecting external auditors and assessing their independence and qualifications, and ensuring the effective communication between our internal and external auditors.

The audit committee initially comprises three members, namely Mr. Lau Chung Wai, Mr. Zhang Shijun and Ms. Liu Ye. Mr. Lau Chung Wai is the chairman of the audit committee who holds the appropriate professional qualifications as required under Rule 3.10(2).

DIRECTORS AND SENIOR MANAGEMENT

Remuneration Committee

We established a remuneration committee with written terms of reference in compliance with Rule 3.25 and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules on 23 October 2021 with effect upon the [REDACTED]. The primary duties of the remuneration committee include assisting our Board in determining the remuneration policy for and structure of our Directors and senior management of our Group, reviewing incentive schemes and service contracts of our Directors, and ensuring the execution of the remuneration packages of the executive Directors and senior management of our Group.

The remuneration committee initially comprises three members, namely Ms. Liu Ye, Mr. Lau Chung Wai and Mr. Liu Zeming. Ms. Liu Ye is the chairlady of the remuneration committee.

Nomination Committee

We established a nomination committee with written terms of reference in compliance with the Corporate Governance Code in Appendix 14 to the Listing Rules on 23 October 2021 with effect upon the [REDACTED]. The primary duties of the nomination committee include assisting our Board in identifying suitable candidates for our Directors and making recommendations to our Board, assessing the structure and composition of our Board, preparing, making recommendations to and supervising the execution of the nomination policy of our Company.

The nomination committee initially comprises three members, namely Mr. Liu Zeming, Ms. Liu Ye and Mr. Zhang Shijun. Mr. Liu Zeming is the chairman of the nomination committee.

BOARD DIVERSITY

We have adopted a board diversity policy which sets out the approach to achieve and maintain an appropriate balance of diversity perspectives of our Board that are relevant to our Company’s development. Pursuant to our board diversity policy, selection of our Board candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry experience. The ultimate decision will be based on merit and contribution that the selected candidates will bring to our Board.

DIRECTORS AND SENIOR MANAGEMENT

Our Board and senior management team, have a balanced mix of experiences and background, including but not limited to, experiences in metal ore waste processing, business administration, corporate management, manufacturing and processing, environmental management, legal, education, and audit and accounting industry industries. Our Board and senior management team obtained degrees in various majors including business administration, mechanical design, manufacturing and automation, chemistry, geography, environmental chemistry, international trading, political economy, accounting, metallurgical technology, and mechatronics. We have three independent non-executive Directors with different industry backgrounds. Moreover, our Board members has a wide range of age, ranging from 31 years old to 55 years old.

Our nomination committee is delegated by our Board to be responsible for compliance with relevant codes governing board diversity under the Corporate Governance Code. After [REDACTED], our nomination committee will review the board diversity policy from time to time to ensure its effectiveness and we will disclose in our corporate governance report a summary of the board diversity policy and the related objectives we have set and the progress on achieving the objectives on an annual basis.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The aggregate amount of salaries, discretionary bonuses, allowances, benefits in kinds and contribution to retirement schemes paid to our Directors for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021 were approximately RMB354,000, RMB775,000, RMB793,000 and RMB309,000, respectively. The aggregate amount of salaries, discretionary bonus, allowances, benefits in kinds and contribution to retirement schemes paid to our senior management for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021 were approximately RMB145,000, RMB305,000, RMB342,000 and RMB395,000, respectively. The five individuals whose emoluments were the highest in our Group include three, three, three and three directors for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021. The aggregate amount of remuneration (including salaries, contributions to pension schemes and other social benefits) of remaining five highest paid non-director individuals for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021 were approximately RMB562,000, RMB1.2 million, RMB1.2 million and RMB1.0 million, respectively.

DIRECTORS AND SENIOR MANAGEMENT

During the Track Record Period, no remuneration was paid by our Group to our Directors or the five highest paid individuals of our Group as an inducement to join or upon joining our Group. No compensation was paid to or receivable by such individuals during the Track Record Period for the loss of any office in connection with the management of the affairs of any member of our Group.

Save as disclosed above, no after payments have been made or are payable during the Track Record Period by our Group to our Directors.

For information on our Directors’ service contracts and their remuneration, see “Further Information about Our Directors and Substantial Shareholders — 11. Directors” in Appendix V to this document for details.

Our Board will review and determine the remuneration and compensation packages of the Directors and senior management which, following the [REDACTED], will receive recommendations from our remuneration committee which will take into account salaries paid by comparable companies, time commitment and responsibilities of our Directors and the performance of our Group.

COMPLIANCE ADVISER

Our Company has appointed First Shanghai Capital Limited, in accordance with Rule 3A.19 of the Listing Rules, as our compliance adviser for the period commencing on the [REDACTED] and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the [REDACTED]. Pursuant to 3A.23 of the Listing Rules, the compliance adviser will provide advice to us in the following circumstances:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notification or connected transaction, is contemplated, including share issues and share repurchases;
- (iii) where we propose to use the [REDACTED] from the [REDACTED] in a manner different from that detailed in this document or if our business activities, developments or results deviate from any forecast, estimate or other information in this document; and
- (iv) where the Stock Exchange makes any inquiry to us regarding unusual movements in the [REDACTED] or [REDACTED] volume of our Shares.

The term of appointment will commence on the [REDACTED] and end on the date on which we distribute the annual report of our financial results for the first full financial year commencing after the [REDACTED] and such appointment may be subject to extension by mutual agreement.

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

DIRECTORS AND SENIOR MANAGEMENT

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme on 23 October 2021 under which certain selected classes of participants (including, among others, full-time employees and Directors) may be granted options to subscribe for our Shares. The principal terms of the Share Option Scheme are summarised in “Other Information — 14. Share Option Scheme” in Appendix V to this document.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS OF OUR COMPANY

Immediately following the completion of the [REDACTED] and the [REDACTED] and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] and the options which were granted or may be granted under the Share Option Scheme, we will be owned as to approximately [REDACTED] by Zeming International. Zeming International is an investment holding company.

Zeming International is 100% owned by Mr. Liu. Mr. Liu is a founder of our Group, chairman of our Board and an executive Director. See “Directors and Senior Management” in this document for further information on Mr. Liu’s work experiences. For the purpose of the Listing Rules, Zeming International and Mr. Liu are our Controlling Shareholders.

As at the Latest Practicable Date, none of our Controlling Shareholders and his/its respective close associates had any other company or business that competes with or is likely to compete, directly or indirectly, with our business.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors do not expect that there will be any significant transactions or competitions between our Group and our Controlling Shareholders upon or shortly after the [REDACTED]. As at the Latest Practicable Date, we did not contemplate any continuing connected transaction upon [REDACTED]. Our Directors consider that our Group is capable of carrying on our business independently of our Controlling Shareholders and their respective associates (other than us) based on the following reasons:

Operational Independence

We have established a set of internal control procedures to facilitate the effective operation of our business. We also have full rights to make all decisions regarding, and carry out, our business operations independently to our Controlling Shareholder. We have established our own organisational structure and each department is assigned to specific areas of responsibilities. We have independent access to our customers and suppliers. We are also in possession of all necessary licences, approvals and certificates to carry on our business and we have sufficient operational capacity in terms of capital and employees to operate and manage our business independently. We do not rely on our Controlling Shareholders or his/its close associates for our business operations and continuance. We have a management team (including our Directors and senior management) to handle our daily operational work.

Based on the above, our Directors are satisfied that there is no operational dependence by us on our Controlling Shareholders and our Group is able to operate independently of our Controlling Shareholders after [REDACTED].

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Financial Independence

During the Track Record Period and up to the Latest Practicable Date, we had our own finance department and independent accounting systems. Our Directors also believe that we are able to obtain financing independent from our Controlling Shareholders.

During the Track Record Period, we had various bank borrowings secured by personal guarantees and assets from our Controlling Shareholders, including (i) personal guarantee from Mr. Liu, Ms. Li Liyan, Mr. Liu YS and Ms. Lv; (ii) the property, plant and equipment of Laizhou Jiamingda New Building Material Co., Ltd. (萊州市嘉銘達新型建材有限公司), an entity controlled by Mr. Liu; and (iii) the property, plant and equipment of Zhonglian Cement, these personal guarantee have been released and pledge of our Controlling Shareholder’s assets have been replaced by our Group’s assets as at the Latest Practicable Date. All loans, advances and balances due to and from our Controlling Shareholders and their respective close associates will also be fully settled upon [REDACTED]. Thus, our Directors are of the view that we will be financially independent of our Controlling Shareholders and their respective close associates upon [REDACTED].

Our Directors are satisfied that we have sufficient capital for our financial needs and are capable of conducting our business independently of any of our Controlling Shareholders upon [REDACTED]. Our Directors further believe that we are capable of obtaining financing from external sources independently without the support of our Controlling Shareholders or their respective close associates.

In light of the foregoing, our Directors are of the view that our Group does not rely on our Controlling Shareholders and/or their respective close associates for any financial assistance after [REDACTED].

Management Independence

Our Board comprises three executive Directors and three independent non-executive Directors. One of our executive Directors is Mr. Liu, who is also our Controlling Shareholder.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Each of our Directors is aware of his fiduciary duties as a Director which require, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In addition, we have an independent management team to carry out the business decisions of our Group independently. Our Directors are satisfied that our management team is able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders and their respective close associates after the [REDACTED].

RULE 8.10 OF THE LISTING RULES

None of our Controlling Shareholders and his/its respective close associates nor our Directors has any interest in a business apart from our Group’s business which competes or is likely to compete, directly or indirectly, with our Group’s business, and would require disclosure pursuant to Rule 8.10 of the Listing Rules as at the Latest Practicable Date.

CORPORATE GOVERNANCE MEASURES

Each of our Controlling Shareholders has confirmed that none of them engages in, or is interested in any business (other than our Group) which, directly or indirectly, competes or may compete with our business.

Deed of Non-competition

To further protect our Group from any potential competition, our Controlling Shareholders have given non-compete undertakings in our favour under the Deed of Non-competition, pursuant to which each of our Controlling Shareholders has, among other matters, irrevocably and unconditionally undertaken with us on a joint and several basis that at any time during the Relevant Period (as defined below), each of our Controlling Shareholders shall, and shall procure that their respective associates (other than our Group) shall:

- (i) save for the Excluded Business (as defined below), not, directly or indirectly, carry on, invest in or be engaged in any business which will or may compete with the business currently and from time to time engaged by our Group (“**Restricted Business**”), including but not limited to the marketing, sales, distribution, production and/or processing of recycled products from gold mine hazardous waste treatment and other relevant products of our Group from time to time (“**Restricted Products**”);

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (ii) not solicit any existing or then existing employee of our Group for employment by them or their respective associates (excluding our Group);
- (iii) not, without the consent from our Company, make use of any information pertaining to the business of our Group which may have come to their knowledge in their capacity as our Controlling Shareholders and/or Directors for the purpose of competing with the Restricted Business; and
- (iv) in respect of any order undertaken or proposed to be undertaken by them or their respective associates (excluding our Group) involving the marketing, sales, distribution, production and/or processing of any Restricted Products, unconditionally use reasonable endeavours to procure that such customer(s) to appoint or contract directly with any member of our Group for the marketing, sales, distribution, production and/or processing of the Restricted Products under the relevant order.

For the above purpose:

- (A) the “Relevant Period” means the period commencing from the [REDACTED] and shall, in respect of each Controlling Shareholder, expire upon the earliest date of occurrence of the events below:
 - (a) the date on which such Controlling Shareholder ceases to be a controlling shareholder of our Company (as defined under the Listing Rules); or
 - (b) the date on which our Shares cease to be listed on the Stock Exchange or (if applicable) other stock exchange;
- (B) the “Excluded Business” means:
 - (a) any direct or indirect investments of the Controlling Shareholders and/or their respective associates (excluding our Group) in any member of our Group;
 - (b) any direct or indirect investment of the Controlling Shareholders and/or their respective associates (excluding our Group) in the marketing, sales, distribution, production and/or processing of the Restricted Products outside the PRC whereby:
 - (i) the aggregate investment by such Controlling Shareholder and/or his/its associates in the business shall not exceed 30% of the entire equity interests in that business; and
 - (ii) none of such Controlling Shareholder and/or his/its associates will be involved in the operation and management of that business; and

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (c) any direct or indirect investment in our Controlling Shareholders and/or their respective associates (excluding our Group) in shares of a publicly listed company (other than any member of our Group) whereby:
 - (i) the aggregate interests held by such Controlling Shareholder and/or his/its associates shall not exceed 5% of the entire issued shares of that company; and
 - (ii) none of such Controlling Shareholder and/or his/its associates (individually or taken as a whole) will be the single largest shareholder or equity holder of that company; and
 - (iii) none of such Controlling Shareholder and/or his/its associates will be involved in the operation and management of that company and/or its subsidiaries.

Other corporate governance measures

In order to strengthen our internal control in relation to the compliance and enforcement of the Deed of Non-competition, we have adopted the following corporate governance measures:

- (i) our independent non-executive Directors shall review, at least on an annual basis, the compliance with and enforcement of the terms of the Deed of Non-competition by our Controlling Shareholders;
- (ii) we will disclose any decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the Deed of Non-competition either through our annual report or by way of announcement;
- (iii) we will disclose in the corporate governance report of our annual report on how the terms of the Deed of Non-competition have been complied with and enforced; and
- (iv) in the event that any of our Directors and/or their respective associates has material interest in any matter to be deliberated by the Board in relation to the compliance and enforcement of the Deed of Non-competition, he shall disclose his interests to our Board and may not vote on the resolutions of the Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Articles of Association.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between our Controlling Shareholders and their respective associates and our Group and to protect the interests of our Shareholders, in particular, the minority Shareholders.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the [REDACTED] and the [REDACTED] (but without taking into account any Shares which may allotted and issued upon the exercise of the [REDACTED] and any options which may be granted under the Share Option Scheme), the following persons will have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of members of our Group (other than our Company):

| Name of Shareholder | Nature of interest | As at the Latest Practicable Date | | Immediately following completion of the [REDACTED] and the [REDACTED] (assuming no exercise of the [REDACTED] and without taking into account any [REDACTED]) | |
|----------------------|---|--|---|---|---|
| | | Number of securities held ⁽¹⁾ | Approximate shareholding percentage (%) | Number of securities held ⁽¹⁾ | Approximate shareholding percentage (%) |
| Zeming International | Beneficial owner | 786 Shares (L) | 78.6% | [REDACTED] Shares (L) | [REDACTED] |
| Mr. Liu | Interest of a controlled corporation ⁽²⁾ | 786 Shares (L) | 78.6% | [REDACTED] Shares (L) | [REDACTED] |
| Ms. Li Liyan (李麗豔) | Interest of spouse ⁽³⁾ | 786 Shares (L) | 78.6% | [REDACTED] Shares (L) | [REDACTED] |

Notes:

- (1) The letter “L” denotes a person’s “long position” in such Shares.
- (2) By virtue of the SFO, Mr. Liu is taken to be interested in the Shares held by Zeming International.
- (3) Ms. Li Liyan is the spouse of Mr. Liu. Under the SFO, Ms. Li Liyan is taken to be interested in the same number of Shares in which Mr. Liu is interested.

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SUBSTANTIAL SHAREHOLDERS

Except as disclosed above, our Directors are not aware of any persons who will, immediately following completion of the [REDACTED] and the [REDACTED] (but without taking into account any Shares which may allotted and issued upon the exercise of the [REDACTED] and any options which may be granted under the Share Option Scheme), have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 or 3 of Part XV of the SFO, or, will be expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group (other than our Company). Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

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SHARE CAPITAL

TOTAL AUTHORISED AND ISSUED SHARE CAPITAL OF OUR COMPANY

The authorised and issued share capital of our Company is as follows:

Authorised share capital

| | |
|--|---------------|
| | <i>HKD</i> |
| 200,000,000,000 Shares of HKD0.01 each | 2,000,000,000 |

Issued share capital

Assuming the [REDACTED] is not exercised, the issued share capital of our Company immediately following the completion of the [REDACTED] and the [REDACTED] will be as follows:

| | |
|--|-------------------|
| | <i>HKD</i> |
| 1,000 Shares in issue at the date of this document | 10 |
| [REDACTED] Shares to be issued pursuant to the [REDACTED] | [REDACTED] |
| [REDACTED] Shares to be issued pursuant to the [REDACTED] (excluding any Shares which may be issued under the [REDACTED]) | [REDACTED] |
| <u>[REDACTED] Shares</u> | <u>[REDACTED]</u> |

Assuming the [REDACTED] is exercised in full, the issued share capital of our Company immediately following the completion of the [REDACTED] and the [REDACTED] will be as follows:

| | |
|---|-------------------|
| | <i>HKD</i> |
| 1,000 Shares in issue at the date of this document | 10 |
| [REDACTED] Shares to be issued pursuant to the [REDACTED] | [REDACTED] |
| [REDACTED] Shares to be issued pursuant to the [REDACTED] | [REDACTED] |
| [REDACTED] Shares to be issued if the [REDACTED] is exercised in full | [REDACTED] |
| <u>[REDACTED] Shares</u> | <u>[REDACTED]</u> |

SHARE CAPITAL

ASSUMPTIONS

The above table assumes that the [REDACTED] becomes unconditional and is completed in accordance with the relevant terms and conditions. It takes no account of any Shares (i) which may be allotted and issued upon the exercise of the options which were or may be granted under the Share Option Scheme; and (ii) which may be allotted, issued or repurchased by our Company pursuant to the general mandates granted to our Directors for the allotment and issue of Shares and the repurchase of Shares as referred to below or otherwise.

MINIMUM [REDACTED]

Pursuant to Rule 8.08 of the Listing Rules, at least [REDACTED] of the total number of issued Shares must at all times be held by the public. The [REDACTED] represent [REDACTED] of the total number of issued Shares upon [REDACTED].

RANKING

The [REDACTED] and the Shares that may be issued pursuant to the [REDACTED] will rank *pari passu* with all existing Shares in issue on the date of the allotment and issue of such Shares, and in particular will be entitled to all dividends or other distributions declared, made or paid after the date of this document.

SHARE OPTION SCHEME

We have adopted the Share Option Scheme. For further details, see “Other Information — 14. Share Option Scheme” in Appendix V to this document.

GENERAL MANDATE TO ISSUE SHARES

Subject to the [REDACTED] becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate number of Shares of not more than the sum of:

- (i) 20% of the aggregate number of Shares in issue, excluding the Shares which may be issued pursuant to the [REDACTED], immediately following completion of the [REDACTED] and the [REDACTED]; and
- (ii) the aggregate number of Shares repurchased by us, if any, under the general mandate to repurchase the Shares referred to below.

The aggregate number of Shares which our Directors are authorised to allot and issue under this mandate will not be reduced by the allotment and issue of Shares under a rights issue, scrip dividend scheme or similar arrangement in accordance with the Articles of Association, or pursuant to the exercise of options which were granted or may be granted under the Share Option Scheme or under the [REDACTED] or upon the exercise of the [REDACTED].

SHARE CAPITAL

This general unconditional mandate will expire upon the earliest occurrence of any of the following:

- (i) the conclusion of our Company’s next annual general meeting;
- (ii) the expiration of the period within which our Company is required by law or its Articles of Association to hold its next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting.

See “Further Information About Our Group — 6. Repurchase By Our Company Of Our Own Securities” in Appendix V to this document for further details of this general mandate.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the [REDACTED] becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with an aggregate number of Shares of not more than 10% of the aggregate number of Shares in issue following the completion of the [REDACTED] and the [REDACTED] (excluding Shares which may be issued pursuant to the exercise of the [REDACTED] and any options which were granted or may be granted under the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which our Shares are listed (and which are recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and/or requirements of the Listing Rules. See “Further Information About Our Group — 6. Repurchase By Our Company Of Our Own Securities” in Appendix V to this document.

This mandate will expire at the earliest of:

- (i) the conclusion of our Company’s next annual general meeting;
- (ii) the expiration of the period within which our Company is required by law or its Articles of Association to hold its next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting.

See “Further Information About Our Group — 6. Repurchase By Our Company Of Our Own Securities” in Appendix V to this document for further details.

SHARE CAPITAL

CIRCUMSTANCES UNDER WHICH GENERAL MEETINGS ARE REQUIRED

Pursuant to the Companies Act and the terms of our Memorandum of Association and Articles of Association, our Company may from time to time by ordinary resolution of our Shareholders (i) increase our capital; (ii) consolidate and divide our capital into Shares of larger amount; (iii) divide our shares into classes; (iv) subdivide our Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may reduce our share capital by special resolution of our Shareholders. For more details, see “2. Articles of Association — (a) Shares — (iii) Alteration of Capital” in Appendix IV to this document.

Pursuant to the Memorandum and Articles of Association, all or any of the special rights (unless otherwise provided for by the terms of issue of that class) attached to any class may, subject to the provisions of the Companies Act, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. For more details, see “2. Articles of Association — (a) Shares — (ii) Variation Of Rights Of Existing Shares Or Classes Of Shares” in Appendix IV to this document.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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:

| | 2018 | | Year ended 31 December | | | | Four months ended 30 April | | | |
|---|----------------|--------------|------------------------|--------------|----------------|--------------|----------------------------|--------------|---------------|--------------|
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| | | | | | | | (unaudited) | | | |
| 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 <i>(Note)</i> | 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 become 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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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.

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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% |
|-------------------------------------|----------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| 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% |
|-------------------------------------|----------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| 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.

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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 | |
|--|------------------------|---------------|---------------|-------------------|---------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | (unaudited) | | | | |
| 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 | <u>30,696</u> | <u>48,477</u> | <u>72,865</u> | <u>16,739</u> | <u>17,127</u> |

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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 | |
|--|------------------------|----------------|-------------------|-------------------|-------------------|
| | 2018 | 2019 | 2020 | 30 April 2020 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| 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 <i>(unaudited)</i> ⁽²⁾ | <u>30,696</u> | <u>48,477</u> | <u>[REDACTED]</u> | <u>16,739</u> | <u>[REDACTED]</u> |
| Adjusted net profit margin <i>(unaudited)</i> ⁽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%.

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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:

| | 2018 | | Year ended 31 December | | | | Four months ended 30 April | | | |
|---|----------------|--------------|------------------------|--------------|----------------|--------------|----------------------------|--------------|---------------|--------------|
| | RMB'000 | % | 2019 | % | 2020 | % | 2020 | % | 2021 | % |
| | | | RMB'000 | | RMB'000 | | RMB'000 | | RMB'000 | |
| | | | | | | | (unaudited) | | | |
| 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.

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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:

| | 2018 | | | Year ended 31 December | | | | | | Four months ended 30 April | | | | | |
|--|---------|------------------|---------------------------------|------------------------|------------------|---------------------------------|---------|------------------|---------------------------------|----------------------------|------------------|---------------------------------|---------|------------------|---------------------------------|
| | | | Average treatment fee per tonne | 2019 | | | 2020 | | | 2020 | | | 2021 | | |
| | Revenue | Treatment volume | | 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 | 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 |

(unaudited)

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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.

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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.

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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.

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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:

| | 2018 | | | Year ended 31 December 2019 | | | 2020 | | | 2020 | | | Four months ended 30 April 2021 | | |
|-----------------------------------|---------------|----------------|-----------------------|-----------------------------|----------------|-----------------------|---------------|----------------|-----------------------|---------------|---------------|-----------------------|---------------------------------|----------------|-----------------------|
| | Revenue | Sale volume | Average selling price | Revenue | Sale volume | Average selling price | Revenue | Sale volume | Average selling price | Revenue | Sale volume | Average selling price | Revenue | Sale volume | Average selling price |
| | RMB'000 | Tonnes | RMB/tonne | RMB'000 | Tonnes | RMB/tonne | RMB'000 | Tonnes | RMB/tonne | RMB'000 | 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 | – | – | – | – | – | – |
| | <u>57,642</u> | <u>280,641</u> | 205 | <u>56,413</u> | <u>316,137</u> | 178 | <u>82,514</u> | <u>480,341</u> | 172 | <u>13,636</u> | <u>80,385</u> | 170 | <u>28,805</u> | <u>162,727</u> | 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.

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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.

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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.

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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 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| | | | | (unaudited) | |
| Rental income | | | | | |
| Nominal rental income | 555 | 7,436 | 7,450 | 2,484 | 2,484 |
| Other lease payments | <u>528</u> | <u>7,054</u> | <u>7,057</u> | <u>2,352</u> | <u>2,352</u> |
| | <u>1,083</u> | <u>14,490</u> | <u>14,507</u> | <u>4,836</u> | <u>4,836</u> |

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.

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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:

| | 2018 | | Year ended 31 December | | | | Four months ended 30 April | | | |
|------------------------|---------------|--------------|------------------------|--------------|---------------|--------------|----------------------------|--------------|---------------|--------------|
| | RMB'000 | % | 2019 | % | 2020 | % | 2020 | % | 2021 | % |
| | | | RMB'000 | | RMB'000 | | RMB'000 | | RMB'000 | |
| | | | | | | | (unaudited) | | | |
| 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.

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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.

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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.

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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:

| | 2018 | | Year ended 31 December 2019 | | 2020 | | 2020 | | Four months ended 30 April 2021 | |
|--|-------------------------|--------------|-----------------------------|--------------|-------------------------|---------------------|-------------------------|--------------|---------------------------------|--------------|
| | Gross profit RMB'000 | % | Gross profit RMB'000 | % | Gross profit RMB'000 | % | Gross profit RMB'000 | % | Gross profit RMB'000 | % |
| Gold mine hazardous waste treatment services | 28,619 | 49.6 | 42,591 | 51.8 | 76,311 | 61.6 | 20,214 | 70.1 | 23,387 | 57.4 |
| Sale of recycled products | 28,735 | 49.8 | 28,389 | 34.5 | 37,439 | 30.2 | 5,229 | 18.1 | 13,994 | 34.3 |
| Hazardous waste storage rental services | 291 | 0.5 | 11,081 | 13.5 | 10,121 | 8.2 | 3,374 | 11.7 | 3,374 | 8.3 |
| Others | 74 | 0.1 | 124 | 0.2 | 23 | — ^(Note) | 19 | 0.1 | — | — |
| Total/overall | 57,719 | 100.0 | 82,185 | 100.0 | 123,894 | 100.0 | 28,836 | 100.0 | 40,755 | 100.0 |

(unaudited)

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.

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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.

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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:

| | 2018 | | Year ended 31 December | | | | 2020 | | Four months ended 30 April | | | |
|-----------------------------------|---------------|-------------|------------------------|-------------|---------------|-------------|--------------|-------------|----------------------------|-------------|--|--|
| | Gross profit | | 2019 | | 2020 | | 2020 | | 2021 | | | |
| | Gross profit | margin | Gross profit | margin | Gross profit | margin | Gross profit | margin | Gross profit | margin | | |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 | % | | |
| | (unaudited) | | | | | | | | | | | |
| 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 | | |

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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.

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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.

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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.

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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 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Interest income from a related party | — | 6,460 | 5,144 | 1,921 | — |
| Others | — | 3 | 43 | 20 | 64 |
| | <u>—</u> | <u>3</u> | <u>43</u> | <u>20</u> | <u>64</u> |
| Total | <u>—</u> | <u>6,463</u> | <u>5,187</u> | <u>1,941</u> | <u>64</u> |

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 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| 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 |
| | <u>77</u> | <u>(240)</u> | <u>412</u> | <u>(1)</u> | <u>4</u> |
| Total | <u>77</u> | <u>(240)</u> | <u>412</u> | <u>174</u> | <u>(299)</u> |

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.

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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 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| | | | | (unaudited) | |
| 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 | <u>5,972</u> | <u>2,518</u> | <u>2,886</u> | <u>887</u> | <u>917</u> |

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.

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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.

FINANCIAL INFORMATION

Administrative expenses

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

| | 2018 | | Year ended 31 December | | | | Four months ended 30 April | | | |
|-------------------------------------|--------------|--------------|------------------------|--------------|-------------------|-------------------|----------------------------|--------------|-------------------|-------------------|
| | RMB'000 | % | 2019 | | 2020 | | 2020 | | 2021 | |
| | | | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| | | | | | | | (unaudited) | | | |
| 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.

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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.

FINANCIAL INFORMATION

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 | |
|--|------------------------|----------------|----------------|-------------------|----------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| | | | | (unaudited) | |
| <i>Finance income</i> | | | | | |
| — Interest income derived from bank balances | 113 | 175 | 40 | 2 | 26 |
| <i>Finance costs</i> | | | | | |
| — 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 | — | — | — |
| | <u>(3,023)</u> | <u>(5,398)</u> | <u>(6,083)</u> | <u>(2,005)</u> | <u>(2,051)</u> |
| Net finance costs | <u>(2,910)</u> | <u>(5,223)</u> | <u>(6,043)</u> | <u>(2,003)</u> | <u>(2,025)</u> |

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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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.

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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.

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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.

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FINANCIAL INFORMATION

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 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| | (unaudited) | | | | |
| 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 | <u>(6,422)</u> | <u>(15,320)</u> | <u>(12,630)</u> | <u>(1,770)</u> | <u>(7,165)</u> |
| 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 | <u>23,913</u> | <u>14,305</u> | <u>34,973</u> | <u>4,124</u> | <u>(22,197)</u> |
| 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 | <u>—</u> | <u>—</u> | <u>(57)</u> | <u>—</u> | <u>(73)</u> |
| Cash and cash equivalents at end of year/period | <u><u>12,077</u></u> | <u><u>2,056</u></u> | <u><u>45,363</u></u> | <u><u>5,562</u></u> | <u><u>55,846</u></u> |

FINANCIAL INFORMATION

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.

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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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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.

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FINANCIAL INFORMATION

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 | As at |
|--|-------------------|-----------------|----------------|------------------|-------------------------------|
| | 2018 | 2019 | 2020 | 30 April 2021 | 31 August 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> (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 |
| | <u>144,483</u> | <u>179,471</u> | <u>138,036</u> | <u>131,928</u> | <u>123,431</u> |
| 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 |
| | <u>233,433</u> | <u>267,658</u> | <u>128,261</u> | <u>107,593</u> | <u>89,768</u> |
| Net current (liabilities)/assets | <u>(88,950)</u> | <u>(88,187)</u> | <u>9,775</u> | <u>24,335</u> | <u>33,663</u> |

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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.

FINANCIAL INFORMATION

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.

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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.

FINANCIAL INFORMATION

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 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Raw materials | 918 | 2,007 | 2,586 | 2,376 |
| Work-in-progress | 502 | 1,491 | 1,304 | 1,479 |
| Finished goods | <u>3,117</u> | <u>13,778</u> | <u>20,106</u> | <u>23,261</u> |
| Total | <u>4,537</u> | <u>17,276</u> | <u>23,996</u> | <u>27,116</u> |

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 |
|--|------------------------|-------------|-------------|---------------------|
| | 2018 | 2019 | 2020 | ended 30 April 2021 |
| Average inventory turnover days <i>(Note)</i> | <u>36.7</u> | <u>77.3</u> | <u>92.4</u> | <u>112.9</u> |

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.

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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:

| | 2018 | As at 31 December | | As at 30 April |
|---|----------------------|-------------------|----------------------|----------------------|
| | 2019 | 2020 | 2021 | |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Trade receivables, gross, related to: | | | | |
| Gold mine hazardous waste treatment services | 7,787 | — | 1,781 | 14,780 |
| Sales of recycled products | <u>11,210</u> | <u>350</u> | <u>21,167</u> | <u>9</u> |
| | 18,997 | 350 | 22,948 | 14,789 |
| Less: provision for impairment | <u>(95)</u> | <u>(2)</u> | <u>(115)</u> | <u>(74)</u> |
| Trade receivables, net | <u><u>18,902</u></u> | <u><u>348</u></u> | <u><u>22,833</u></u> | <u><u>14,715</u></u> |

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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.

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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 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| 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 | <u>5,221</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| Trade receivables, gross | 18,997 | 350 | 22,948 | 14,789 |
| Less: provision for impairment | <u>(95)</u> | <u>(2)</u> | <u>(115)</u> | <u>(74)</u> |
| Trade receivables, net | <u><u>18,902</u></u> | <u><u>348</u></u> | <u><u>22,833</u></u> | <u><u>14,715</u></u> |

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

| | Year ended 31 December | | | Four months |
|---|------------------------|--------------------|--------------------|--------------------|
| | 2018 | 2019 | 2020 | ended 30 April |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Average trade receivables turnover days ^(Note) | <u><u>75.4</u></u> | <u><u>26.3</u></u> | <u><u>20.6</u></u> | <u><u>33.2</u></u> |

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.

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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:

| | 2018 | As at 31 December | | As at 30 April |
|------------------------------------|----------------|--------------------------|-------------------|-----------------------|
| | 2019 | 2020 | 2021 | |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| 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 |
| | <u>6,429</u> | <u>17,826</u> | <u>[REDACTED]</u> | <u>[REDACTED]</u> |

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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.

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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.

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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:

| | 2018 | As at 31 December | | As at 30 April |
|--|----------------|-------------------|----------------|----------------|
| | 2019 | 2020 | 2021 | |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| <i>Contract liabilities relating to</i> | | | | |
| — 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 |
| | <u>12,468</u> | <u>15,241</u> | <u>10,827</u> | <u>23,095</u> |

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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:

| | 2018 | As at 31 December | | As at 30 April |
|-----------------------------------|----------------|-------------------|----------------|----------------|
| | 2019 | 2020 | 2021 | |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Trade payables | | | | |
| — related to transportation costs | 7,092 | 13,117 | 17,308 | 12,934 |
| — related to raw materials | <u>2,082</u> | <u>107</u> | <u>2,839</u> | <u>3,157</u> |
| | <u>9,174</u> | <u>13,224</u> | <u>20,147</u> | <u>16,091</u> |

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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 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| 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 |
| | <u>9,174</u> | <u>13,224</u> | <u>20,147</u> | <u>16,091</u> |

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

| | Year ended 31 December | | | Four months |
|--|------------------------|-------------|-------------|----------------|
| | 2018 | 2019 | 2020 | ended 30 April |
| | | | | 2021 |
| Average trade payables turnover days (<i>Note</i>) | <u>156.4</u> | <u>79.4</u> | <u>74.7</u> | <u>80.0</u> |

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.

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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 <i>RMB'000</i> | 2019 <i>RMB'000</i> | 2020 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
| 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 | <u>6,893</u> | <u>3,401</u> | <u>1,278</u> | <u>516</u> |
| | <u>117,540</u> | <u>162,792</u> | <u>[REDACTED]</u> | <u>[REDACTED]</u> |

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.

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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 RMB'000 | 2019 RMB'000 | 2020 RMB'000 | 2021 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 |
| | <u>66,841</u> | <u>144,279</u> | <u>133,881</u> | <u>130,458</u> |
| | <u>66,841</u> | <u>162,171</u> | <u>151,773</u> | <u>137,573</u> |

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.

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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.

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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.

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

FINANCIAL INFORMATION

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 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| 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 | — | — |
| | <u>141,612</u> | <u>142,559</u> | <u>9,990</u> | <u>5,099</u> |

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 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| <i>Contracted but not recognised as liabilities</i> | | | | |
| — Commitments for construction and acquisition of property, plant and equipment | <u>176,667</u> | <u>2,887</u> | <u>3,408</u> | <u>3,169</u> |

FINANCIAL INFORMATION

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 | As at |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-------------------------------|
| | 2018 | 2019 | 2020 | 30 April 2021 | 31 August 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> (unaudited) |
| Non-current | | | | | |
| Bank borrowings | — | — | 39,880 | 39,880 | 38,820 |
| Lease liabilities | 408 | 683 | 823 | — | — |
| Other liabilities in relation to rental arrangement | <u>38,162</u> | <u>88,380</u> | <u>92,489</u> | <u>93,901</u> | <u>95,335</u> |
| | 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 | <u>4,486</u> | <u>539</u> | <u>762</u> | <u>376</u> | <u>250</u> |
| | <u>83,645</u> | <u>56,111</u> | <u>11,099</u> | <u>2,496</u> | <u>2,370</u> |
| Total | <u><u>122,215</u></u> | <u><u>145,174</u></u> | <u><u>144,291</u></u> | <u><u>136,277</u></u> | <u><u>136,525</u></u> |

FINANCIAL INFORMATION

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 | As at |
|---------------|-------------------|----------------|----------------|------------------|-------------------------------|
| | 2018 | 2019 | 2020 | 30 April 2021 | 31 August 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> (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 |
| | <u>28,480</u> | <u>32,000</u> | <u>42,000</u> | <u>42,000</u> | <u>40,940</u> |

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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| | | | | (unaudited) | |
| 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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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.

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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.

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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]).

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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.

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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.

| | <i>RMB’000</i> |
|--|-----------------------|
| 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 | <u>3,204</u> |
| Net book value of property interest as at 31 August 2021 | 256,291 |
| Valuation surplus, before tax | <u>53,209</u> |
| Valuation as at 31 August 2021 | <u><u>309,500</u></u> |

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FINANCIAL INFORMATION

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.

FUTURE PLANS AND USE OF [REDACTED]

FUTURE PLANS

See “Business — Business Strategies” in this document for a detailed discussion of our future plans.

USE OF [REDACTED]

We estimate that the net [REDACTED] we will receive from the [REDACTED] (after deducting [REDACTED] commissions, fees and anticipated expenses payable by us in connection with the [REDACTED]) will be approximately [REDACTED] (equivalent to approximately [REDACTED]), assuming the [REDACTED] is not exercised and an [REDACTED] of [REDACTED] per Share, being the mid-point of the [REDACTED] range of [REDACTED] to [REDACTED] per Share as stated in this document. Our Directors presently intend to apply such net [REDACTED] as follows:

(i) Increase our production capacity and capabilities to solidify our market position

- approximately [REDACTED] (equivalent to approximately [REDACTED]), representing [REDACTED] of the net [REDACTED] from the [REDACTED], will be used to establish the New Production Facility, comprising two production compartments, where we can qualify for obtaining a new Hazardous Waste Business Licence with a permitted annual treatment capacity of 600,000 tonnes, and diversify our product offerings in our sale of recycled products business, among which:
 - (a) approximately [REDACTED] (equivalent to approximately [REDACTED]), representing [REDACTED] of the net [REDACTED] from the [REDACTED], will be used for the acquisition of the land use rights for a parcel of land of approximately 166,500 sq.m. earmarked for the construction of the New Production Facility. Our Group is currently considering various suitable locations of the land and has yet to identify the particular parcel of land for acquisition. The acquisition of the land use rights for this parcel of land is planned to be utilised by the end of 2021;
 - (b) approximately [REDACTED] (equivalent to approximately [REDACTED]), representing approximately [REDACTED] of the net [REDACTED], will be used for the construction of the New Production Facilities with an estimated building area of approximately 87,300 sq.m. (being approximately 52.4% of the site area). It is planned that the construction will be completed in two phases, with the first phase (construction of the production compartment for gold mine hazardous waste treatment and the new research and development laboratory) (the “**Phase One Production Compartment**”) and second phase (construction of the production compartment for production of recycled products including construction aggregates) (the “**Phase Two Production Compartment**”) planned to be completed within the fourth quarter of 2022 and by the end of the first quarter of 2023, respectively. For

FUTURE PLANS AND USE OF [REDACTED]

obtaining the new Hazardous Waste Business Licence, we expect that we would commence the trial operation of the production compartment for gold mine hazardous waste treatment within three months after the completion and obtain the new Hazardous Waste Business Licence by mid 2023 upon the completion of the trial operation the New Production Facility;

- (c) approximately [REDACTED] (equivalent to approximately [REDACTED]), representing [REDACTED] of the net [REDACTED] from the [REDACTED], to partially finance the purchase costs of the machinery and equipment for the production in the New Production Facility. The following table sets forth the major additional machinery (with an estimated net [REDACTED] to be utilised over [REDACTED]) we intend to acquire for the New Production Facility:

| Machinery | Functions | Unit | Total estimated net [REDACTED] to be utilised (RMB million) |
|--|--|------|--|
| Oxygen-enriched air smelting machine | Separate the components of the materials at high temperature | 1 | [REDACTED] |
| Flotation tank | Separate pyrite concentrate and gold-bearing pyrite concentrate from other materials by creating a froth which adheres to them | 48 | [REDACTED] |
| Filer press machines | Separate the solid products from liquid by drying the froth from the flotation tank | 6 | [REDACTED] |
| Waste heat recovery boiler | Cool down the smoke and recover the heat power | 1 | [REDACTED] |
| Loader/bulldozer | Load and transport various materials at the production facilities, such as gold concentrates cyaniding tailings and/or pyrite concentrate | 11 | [REDACTED] |
| Exhaust gas treatment system | carry out absorption treatment of harmful gases in exhaust gases | 1 | [REDACTED] |
| Excavators | Dig and move various materials at the production facilities, such as cyanide tailings, pyrite concentrate and gold-bearing pyrite concentrates | 2 | [REDACTED] |
| Other machinery and equipment, which the estimated net [REDACTED] to be utilised for each of them is estimated to be below [REDACTED] or not | | | [REDACTED] |
| Total | | | [REDACTED] |

FUTURE PLANS AND USE OF [REDACTED]

We estimate that the total purchase cost for the New Production Facility will be approximately [REDACTED] (equivalent to approximately [REDACTED]) and the remaining acquisition costs of approximately [REDACTED] (equivalent to approximately [REDACTED]) will be financed by our internal resources; and

- (d) approximately [REDACTED] (equivalent to approximately [REDACTED]), representing [REDACTED] of the net [REDACTED] from the [REDACTED], to expand our production team for operating the New Production Facility. This amount of net [REDACTED] is planned for the payment of wages of the production team for the operation of the New Production Facility from the commencement of trial operation of the New Production Facility up to mid 2023.

The table below sets forth our Group’s plan on the additional production team:

| Department | Total number of employees |
|---|--|
| Management ⁽¹⁾ | 2 |
| Production ⁽²⁾ | 48 |
| Quality control and engineering ⁽³⁾ | 5 |
| Procurement, sales and marketing ⁽⁴⁾ | 3 |
| Finance and administration ⁽⁵⁾ | 15 |
| Logistics ⁽⁶⁾ | 13 |
| Total | 86 |

Notes:

- (1) The staff must have at least five years of related working experiences. The expected monthly salary is in the range of RMB12,000 to RMB15,000.
- (2) The staff must have at least one year to five years of related working experiences. For certain positions, we also require the possession of valid qualification certificate for the operation of special work (特種作業操作證), such as electric works, fusion welding and thermal cutting. The expected monthly salary is in the range of RMB2,900 to RMB10,000.
- (3) The staff must have at least one year to five years of related working experiences. The expected monthly salary is in the range of RMB3,400 to RMB6,000.
- (4) The staff must have at least one year to three years of related working experiences. The expected monthly salary is in the range of RMB3,400 to RMB6,300.

FUTURE PLANS AND USE OF [REDACTED]

- (5) The staff must have at least one year to five years of related working experiences. For certain positions, we also require a bachelor’s degree in accountancy or business management. The expected monthly salary is in the range of RMB1,600 to RMB7,000.
- (6) The staff must have at least three years of working experiences in operating forklifts or at least five years of working experiences in vehicle repair works with possession of valid qualification certificate for the operation of special work in electric works. The expected monthly salary is in the range of RMB4,800 to RMB7,600.

(ii) Strengthen our research and development capabilities

— approximately [REDACTED] (equivalent to approximately [REDACTED]), representing [REDACTED] of the net [REDACTED] from the [REDACTED], will be used for strengthening our research and development capabilities to enhance existing products and diversify our product offering, among which:

- a) approximately [REDACTED] (equivalent to approximately [REDACTED]), representing [REDACTED] of the net [REDACTED] from the [REDACTED], will be used to acquire the machinery and equipment of the new laboratory in the New Production Facility with an estimated building area of approximately 5,000 sq.m.. We intend to acquire the following major machinery and equipment (with the acquisition cost over [REDACTED]) for the new research and development laboratory:

| Machinery | Functions | Unit | Total estimated cost RMB (million) |
|--|---|-------------|---|
| Multi-functional High Temperature Testing Furnace | Conduct comprehensive metal recycling and smelting, with the combination of different materials, temperatures and components recorded, which is used to develop more effective and comprehensive metal recycling technology | 1 | [REDACTED] |
| Smelting flue smoke and dust absorption system | Absorb the flue smoke from high-temperature smelting with the function of cooling and dust removal | 1 | [REDACTED] |
| Other machinery and equipment, which the estimated net [REDACTED] to be utilised for each of them is estimated to be [REDACTED] or below | | | <u>[REDACTED]</u> |
| Total | | | <u>[REDACTED]</u> |

The new laboratory is planned to be launched by the end of the second quarter of 2022; and

FUTURE PLANS AND USE OF [REDACTED]

- b) approximately [REDACTED] (equivalent to approximately [REDACTED]), representing [REDACTED] of the net [REDACTED] from the [REDACTED], will be used for the recruitment and expansion of our research and development team. It is planned that the net [REDACTED] will be used for the payment of wages from January 2022 to June 2022. It is planned that these nine staffs will work at our office in existing production facilities first, and they will relocate to the new research and development laboratory upon its launch. The table below sets forth our Group’s plan on the nine additional staff to be employed:

| Position | Number | Specific qualifications and/or requirements to be imposed on the staff by our Group |
|---|--------|--|
| Technical director ⁽¹⁾ | 1 | Must have: (i) a bachelor’s degree in chemistry or related discipline; and (ii) at least 10 years’ working experience in research and development of hazardous substances in gold mining. |
| Deputy technical director ⁽¹⁾ | 1 | Must have: (i) a bachelor’s degree in chemistry or related discipline; and (ii) at least eight years’ working experience in research and development of hazardous substances in gold mining. |
| Manager ⁽¹⁾ | 1 | Must have: (i) a bachelor’s degree in chemistry or related discipline; and (ii) at least five years’ working experience in research and development of hazardous substances in gold mining. |
| Senior technician ⁽²⁾ | 1 | Must have: (i) a bachelor’s degree in chemistry or related discipline; and (ii) at least three years’ working experience in research and development of hazardous substances in gold mining. |
| Technician ⁽²⁾ | 2 | Must have at least one year’s working experience in research and development of hazardous substances in gold mining. |
| Chemist ⁽²⁾ | 2 | Must have at least one year’s working experience in research and development of hazardous substances in gold mining. |
| General administration manager ⁽³⁾ | 1 | Must have: (i) completed tertiary education or above; and (ii) at least five years’ working experience in administration. |

FUTURE PLANS AND USE OF [REDACTED]

Notes:

- (1) The expected monthly salary is in the range of RMB12,000 to RMB27,600.
- (2) The expected monthly salary is in the range of RMB2,900 to RMB10,000.
- (3) The expected monthly salary is approximately RMB7,000.

(iii) General working capital

- approximately [REDACTED] (equivalent to approximately [REDACTED]), representing [REDACTED] of the net [REDACTED] from the [REDACTED], will be used for our general working capital.

We will use our net [REDACTED] to implement our future plans after [REDACTED] and expect that our net [REDACTED] will be fully utilised within three years after [REDACTED].

The above allocation of the net [REDACTED] from the [REDACTED] will be adjusted on a pro rata basis in the event that the [REDACTED] is fixed at a higher or lower level compared to the mid-point of the proposed [REDACTED] range or the [REDACTED] is exercised.

If the [REDACTED] is fixed at [REDACTED] per Share (being the high end of the [REDACTED] range stated in this document) and assuming the [REDACTED] is not exercised, the net [REDACTED] we receive will be approximately [REDACTED] (equivalent to approximately [REDACTED]), after deducting [REDACTED] commissions, fees and anticipated expenses payable by us in connection with the [REDACTED].

If the [REDACTED] is fixed at [REDACTED] per Share (being the low end of the [REDACTED] range stated in this document) and assuming the [REDACTED] is not exercised, the net [REDACTED] we receive will be approximately [REDACTED] (equivalent to approximately [REDACTED]), after deducting [REDACTED] commissions, fees and anticipated expenses payable by us in connection with the [REDACTED].

In the event that the [REDACTED] is exercised in full, we will receive additional net [REDACTED] of approximately [REDACTED] (assuming an [REDACTED] of [REDACTED] per Share, being the low end of the proposed [REDACTED] range), approximately [REDACTED] (assuming an [REDACTED] of [REDACTED] per Share, being the mid-point of the proposed [REDACTED] range) and [REDACTED] (assuming an [REDACTED] of [REDACTED] per Share, being the high end of the proposed [REDACTED] range), after deducting [REDACTED] commissions, fees and anticipated expenses payable by us in connection with the [REDACTED]. Additional net [REDACTED] received due to the exercise of any [REDACTED] will be used for the above purposes on a pro rata basis.

FUTURE PLANS AND USE OF [REDACTED]

To the extent that the net [REDACTED] of the [REDACTED] are not immediately applied to the purposes described above and to the extent permitted by applicable law and regulations, we intend that such [REDACTED] will only be placed in short-term deposits with licensed banks in Hong Kong or the PRC. Our Directors consider that the net [REDACTED] from the [REDACTED], together with the internal resources of our Group, will be sufficient to finance the implementation of our Group’s business plans as set out in this section.

We will issue an appropriate announcement if there is any material change in the aforementioned use of [REDACTED].

Bases and Assumptions

Our future plans and business strategies are based on the following general assumptions:

- we will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which our future plans relate;
- there will be no material changes in the funding requirement for each of our future plans described in this document from the amount as estimated by our Directors;
- there will be no material changes in existing laws and regulations, or other government policies relating to our Group, our industry or the political or market environment in which we operate;
- there will be no material changes in the existing accounting policies from those stated in the Accountant’s Report in Appendix I as at and for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021;
- the [REDACTED] will be completed in accordance with and as described in the section headed “Structure and Conditions of the [REDACTED]” in this document;
- there will be no material changes in the bases or rates of taxation applicable to our activities;
- we will continue our business operations in the same manner as we had operated during the Track Record Period;
- our operations including our future plans will not be interrupted by any force majeure, unforeseeable factors, extraordinary items or economic changes in respect of, among others, inflation and interest rate, in the PRC;

FUTURE PLANS AND USE OF [REDACTED]

- there will be no disasters (natural, political or otherwise), which would materially disrupt our business or operations; and
- we will not be materially affected by the risk factors as set out in the “Risk Factors” in this document.

IMPLEMENTATION PLAN

The following table sets out the approximate amounts, sources of funding, key milestones and timeframe for each strategic plan. [REDACTED] should note that the following implementation plan was formulated on the bases and assumptions referred to in “— Use of [REDACTED] — Bases and Assumptions” above. The bases and assumptions outlined are inherently subject to uncertainties, particularly those outlined in the section headed “Risk Factors” in this document. Our actual course of business may vary from the business strategies as set forth in this document due to unforeseeable events, and there can be no assurance that we will accomplish our business strategies in a timely manner, or at all.

| Major category | Implementation activities | Amount of net [REDACTED] | Percentage of total net [REDACTED] | Timeframe and amount utilised |
|---|--|--------------------------|------------------------------------|--|
| (i) Establish the New Production Facility, comprising two production compartments, with a permitted annual treatment capacity of 600,000 tonnes, and diversification of our product offerings | (a) Acquire the land use rights for a parcel of land of approximately 166,500 sq.m. for the construction | [REDACTED] | [REDACTED] | • 2021, [REDACTED] |
| | (b) Construct the New Production Facility | [REDACTED] | [REDACTED] | • 2022, [REDACTED] • 2023, [REDACTED] • 2024, [REDACTED] |
| | (c) Acquire machinery and equipment | [REDACTED] | [REDACTED] | • 2022-2023, [REDACTED] |
| | (d) Expand our production team | [REDACTED] | [REDACTED] | • 2022-2023, [REDACTED] |
| (ii) Strengthen our research and development capabilities to enhance existing products and diversify our product offering | (a) Acquire the machinery and equipment of the new laboratory in the New Production | [REDACTED] | [REDACTED] | • 2022, [REDACTED] |
| | (b) Pay the wages of new staffs for the expansion of our research and development team | [REDACTED] | [REDACTED] | • 2022, [REDACTED] |

FUTURE PLANS AND USE OF [REDACTED]

REASONS FOR [REDACTED]

The following are our main purposes for the [REDACTED]:

- we believe that there is a necessity of implementing our business strategies to capture more market share in the industry. Encouraged by national circular economy and green mining, the utilisation value of hazardous waste originated from the process of mining has been emphasised, and our Directors formulated business strategies, as detailed in “Business — Business Strategies”, to capture the market opportunities taking into account the following market drivers and forecast, (i) the increase in the hazardous waste output rate which will lead to an increase in the total hazardous waste output volume, and drive a demand on hazardous waste treatment service in the PRC; (ii) the consolidation of the gold mine hazardous waste production encouraged by government policies is expected to drive the centralisation of the gold mine hazardous waste treatment demand correspondingly, which is expected to increase the reliance on hazardous waste treatment companies; (iii) with the growth of the gold mine hazardous waste treatment market in Shandong province with a CAGR of approximately 18% from 2020 to 2025, when we expect to obtain the new Hazardous Waste Business Licence by mid 2023, the total revenue of the gold mine hazardous waste treatment market in Shandong province will increase by approximately RMB986.2 million, representing approximately 76.5%, from approximately RMB1,288.8 million in 2020 to RMB2,275.0 million in 2023; and (iv) it is expected that both the gold mine hazardous waste treatment fee and the sale price of our recycled products will increase at a moderate growth rate in the foreseeable future. As such, our Directors believe that the [REDACTED] will allow us to capture more capital and expand market share in the industry. In respect of the use of [REDACTED] from the [REDACTED] to implement our business strategies, please see the paragraph headed “Use of [REDACTED]” in this section;
- we believe that the additional access of equity funding by means of issuance of new Shares, which may arise in light of the [REDACTED], will enable us to pursue potential business opportunities pursuant to our expansion plans. In addition, our Directors believe that a combination of equity financing, debt financing and internal resources will provide a suitable capital structure to support the long term growth of our Group;

FUTURE PLANS AND USE OF [REDACTED]

- the [REDACTED] provides a platform for our Group to access the capital markets for future secondary fund-raising through either (i) the issuance of shares; or (ii) for debt securities, depending on the prevailing market condition at the time of capital needs. It can also provide additional funding sources to cater for our Group’s further expansion plans (other than those future plans stated in this document) and when opportunities arise. Furthermore, the ability to obtain bank financing is generally easier with a [REDACTED] entity as compared to a private entity and our Directors believe that a [REDACTED] status will allow us to gain leverage in obtaining bank financing with relatively more favourable terms in the PRC and Hong Kong, in which the latter in general has a lower interest rate than in the PRC;
- the [REDACTED] broadens our shareholder base and enhance the liquidity of the Shares, as compared to the limited liquidity of the Shares that are privately held before the [REDACTED];
- the [REDACTED] can elevate our corporate image and status and provide reassurance and confidence to our customers and suppliers, which in turn provides a stronger bargaining position when exploring new business opportunities with our customers and suppliers. Furthermore, with a more established corporate image, it can further assist us to obtain additional contracts, as disclosed in “Business — Our Business Strategies” in this document; and
- the [REDACTED] can enhance employee incentive and commitment. As experienced and quality employees are vital to our business operations and future development, being a [REDACTED] company can help us to attract, recruit and retain our valued management personnel, employees and skilled professionals. To this end, we have also put in place the Share Option Scheme for our employees in order to attract and retain talents. See “Other Information — 14. Share Option Scheme” in Appendix V in this document for a summary of principal terms of the scheme.

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[REDACTED]

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STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

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STRUCTURE AND CONDITIONS OF THE [REDACTED]

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STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

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STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

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STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

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STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

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STRUCTURE AND CONDITIONS OF THE [REDACTED]

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STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

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STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

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STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

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STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

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STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

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HOW TO APPLY FOR [REDACTED]

[REDACTED]

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HOW TO APPLY FOR [REDACTED]

[REDACTED]

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HOW TO APPLY FOR [REDACTED]

[REDACTED]

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HOW TO APPLY FOR [REDACTED]

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[REDACTED]

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HOW TO APPLY FOR [REDACTED]

[REDACTED]

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HOW TO APPLY FOR [REDACTED]

[REDACTED]

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HOW TO APPLY FOR [REDACTED]

[REDACTED]

APPENDIX I**ACCOUNTANT’S REPORT**

The following is the text of a report set out on pages I-1 to I-3, received from the Company’s reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of Hong Kong Standard on Investment Circular Reporting Engagements 200, Accountants’ Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.

[Letterhead of PricewaterhouseCoopers]

[Draft]

ACCOUNTANT’S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF HONGCHENG ENVIRONMENTAL TECHNOLOGY COMPANY LIMITED AND FIRST SHANGHAI CAPITAL LIMITED

Introduction

We report on the historical financial information of HONGCHENG ENVIRONMENTAL TECHNOLOGY COMPANY LIMITED (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-4 to I-83, which comprises the statement of financial position of the Company as at 30 April 2021, the consolidated statements of financial position as at 31 December 2018, 2019 and 2020, and 30 April 2021, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years/period then ended (the “Track Record Period”), and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-4 to I-83 forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [Date] (the “Document”) in connection with the initial [REDACTED] of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors’ responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

APPENDIX I**ACCOUNTANT’S REPORT**

Reporting accountant’s responsibility

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant’s judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity’s preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant’s report, a true and fair view of the financial position of the Company as at 30 April 2021, the consolidated financial position of the Group as at 31 December 2018, 2019 and 2020 and 30 April 2021 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statements of comprehensive income, changes in equity and cash flows for the four months ended 30 April 2020 and other explanatory information (the “Stub Period Comparative Financial Information”). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements

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APPENDIX I**ACCOUNTANT’S REPORT**

2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the International Auditing and Assurance Standards Board. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant’s report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “LISTING RULES”) AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 36 to the Historical Financial Information which states that no dividend has been declared by the Company in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

[PricewaterhouseCoopers]
Certified Public Accountants
Hong Kong
[Date]

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APPENDIX I**ACCOUNTANT’S REPORT**

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountant’s report. The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board (“Underlying Financial Statements”).

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

APPENDIX I

ACCOUNTANT’S REPORT

A. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | <i>Note</i> | Year ended 31 December | | | Four months ended 30 April | |
|---|-------------|------------------------|------------------------|------------------------|-------------------------------|------------------------|
| | | 2018 <i>RMB'000</i> | 2019 <i>RMB'000</i> | 2020 <i>RMB'000</i> | 2020 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
| Revenue | 5 | 102,281 | 133,664 | 205,392 | 49,030 | 67,918 |
| Cost of sales | 8 | <u>(44,562)</u> | <u>(51,479)</u> | <u>(81,498)</u> | <u>(20,194)</u> | <u>(27,163)</u> |
| Gross profit | | 57,719 | 82,185 | 123,894 | 28,836 | 40,755 |
| Other income | 6 | — | 6,463 | 5,187 | 1,941 | 64 |
| Other (losses)/gains — net | 7 | 77 | (240) | 412 | 174 | (299) |
| Reversal/(provision) of impairment on financial assets | | 22 | 93 | (113) | (27) | 41 |
| Selling expenses | 8 | <u>(5,972)</u> | <u>(2,518)</u> | <u>(2,886)</u> | <u>(887)</u> | <u>(917)</u> |
| Administrative expenses | 8 | <u>(8,700)</u> | <u>(17,347)</u> | <u>(23,962)</u> | <u>(5,702)</u> | <u>(13,048)</u> |
| Operating profit | | 43,146 | 68,636 | 102,532 | 24,335 | 26,596 |
| Finance income | 10 | 113 | 175 | 40 | 2 | 26 |
| Finance costs | 10 | <u>(3,023)</u> | <u>(5,398)</u> | <u>(6,083)</u> | <u>(2,005)</u> | <u>(2,051)</u> |
| Finance costs — net | 10 | <u>(2,910)</u> | <u>(5,223)</u> | <u>(6,043)</u> | <u>(2,003)</u> | <u>(2,025)</u> |
| Profit before income tax | | 40,236 | 63,413 | 96,489 | 22,332 | 24,571 |
| Income tax expense | 11 | <u>(9,540)</u> | <u>(14,936)</u> | <u>(23,624)</u> | <u>(5,593)</u> | <u>(7,444)</u> |
| Profit and total comprehensive income for the year/period, all attributable to owners of the Company | | <u>30,696</u> | <u>48,477</u> | <u>72,865</u> | <u>16,739</u> | <u>17,127</u> |
| Earnings per share for the year/period attributable to owners of the Company | | | | | | |
| Basic and diluted | 12 | <u>31</u> | <u>48</u> | <u>73</u> | <u>17</u> | <u>17</u> |

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APPENDIX I

ACCOUNTANT’S REPORT

B. CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | | As at 31 December | | | As at |
|--|-------|-----------------------|-----------------------|-----------------------|-----------------------|
| | | 2018 | 2019 | 2020 | 30 April |
| | Note | RMB'000 | RMB'000 | RMB'000 | 2021 |
| | | | | | RMB'000 |
| ASSETS | | | | | |
| Non-current assets | | | | | |
| Right-of-use assets | 13 | 29,489 | 28,701 | 28,299 | 26,793 |
| Property, plant and equipment | 14 | 31,946 | 129,396 | 130,434 | 132,063 |
| Investment properties | 15 | 103,142 | 138,363 | 133,977 | 132,515 |
| Intangible assets | 16 | — | 28 | 21 | 19 |
| Prepayment for non-current assets | 17 | 2,206 | 4,957 | 2,996 | 2,799 |
| Deferred income tax assets | 29 | 484 | 799 | 743 | 781 |
| | | <u>167,267</u> | <u>302,244</u> | <u>296,470</u> | <u>294,970</u> |
| Current assets | | | | | |
| Inventories | 18 | 4,537 | 17,276 | 23,996 | 27,116 |
| Trade receivables | 20 | 18,902 | 348 | 22,833 | 14,715 |
| Other receivables and prepayments | 21 | 6,429 | 17,826 | 9,997 | 7,582 |
| Amounts due from related parties | 33(c) | 86,295 | 139,075 | 33,887 | 23,429 |
| Amounts due from the Controlling Shareholder | 33(c) | — | — | — | 1,990 |
| Financial assets measured at fair value through other comprehensive income | 22 | 10,243 | 2,890 | 1,960 | 1,250 |
| Restricted bank balance | 23 | 6,000 | — | — | — |
| Cash and cash equivalents | 23 | 12,077 | 2,056 | 45,363 | 55,846 |
| | | <u>144,483</u> | <u>179,471</u> | <u>138,036</u> | <u>131,928</u> |
| Total assets | | <u><u>311,750</u></u> | <u><u>481,715</u></u> | <u><u>434,506</u></u> | <u><u>426,898</u></u> |
| EQUITY | | | | | |
| Equity attributable to owners of the Company | | | | | |
| Share capital | 24 | — | — | — | —* |
| Share premium | 24 | — | — | — | 345,858 |
| Other reserves | 25 | 7,669 | 12,217 | 42,920 | (302,938) |
| Retained earnings | | <u>10,224</u> | <u>54,153</u> | <u>63,204</u> | <u>80,331</u> |
| Total equity | | <u><u>17,893</u></u> | <u><u>66,370</u></u> | <u><u>106,124</u></u> | <u><u>123,251</u></u> |

* The balance represents an amount less than RMB1,000.

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APPENDIX I

ACCOUNTANT’S REPORT

| | Note | As at 31 December | | | As at |
|---|-------|-------------------|----------------|----------------|----------------|
| | | 2018 | 2019 | 2020 | 30 April |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| LIABILITIES | | | | | |
| Non-current liabilities | | | | | |
| Borrowings | 28 | — | — | 39,880 | 39,880 |
| Dividend payable | 33(c) | — | — | 40,600 | 40,600 |
| Deferred income tax liabilities | 29 | — | — | 104 | 283 |
| Lease liabilities | 13 | 408 | 683 | 823 | — |
| Other liabilities | 30 | 60,016 | 147,004 | 118,714 | 115,291 |
| | | <u>60,424</u> | <u>147,687</u> | <u>200,121</u> | <u>196,054</u> |
| Current liabilities | | | | | |
| Trade payables | 26 | 9,174 | 13,224 | 20,147 | 16,091 |
| Other payables and accruals | 27 | 117,540 | 162,792 | 23,726 | 25,139 |
| Dividend payable | 33(c) | — | — | 11,600 | — |
| Amount due to the Controlling Shareholder | 33(c) | 50,679 | 23,572 | 8,217 | — |
| Borrowings | 28 | 28,480 | 32,000 | 2,120 | 2,120 |
| Current income tax liabilities | | 3,781 | 5,123 | 17,803 | 18,490 |
| Contract liabilities | 5 | 12,468 | 15,241 | 10,827 | 23,095 |
| Lease liabilities | 13 | 4,486 | 539 | 762 | 376 |
| Other liabilities | 30 | 6,825 | 15,167 | 33,059 | 22,282 |
| | | <u>233,433</u> | <u>267,658</u> | <u>128,261</u> | <u>107,593</u> |
| Total liabilities | | <u>293,857</u> | <u>415,345</u> | <u>328,382</u> | <u>303,647</u> |
| Total equity and liabilities | | <u>311,750</u> | <u>481,715</u> | <u>434,506</u> | <u>426,898</u> |

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APPENDIX I

ACCOUNTANT’S REPORT

C. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | <i>Note</i> | As at 30 April 2021 RMB'000 |
|-------------------------------------|-------------|--|
| ASSETS | | |
| Non-current assets | | |
| Investment in subsidiaries | 24 | 345,858 |
| Current assets | | |
| Prepayments | 21 | <u>3,394</u> |
| Total assets | | <u><u>349,252</u></u> |
| EQUITY | | |
| Share capital | 24 | —* |
| Share premium | 24 | 345,858 |
| Accumulated losses | | <u>(9,453)</u> |
| Total equity | | <u>336,405</u> |
| LIABILITIES | | |
| Current liabilities | | |
| Accruals | 27 | 6,422 |
| Amounts due to subsidiaries | 33(c) | <u>6,425</u> |
| Total liabilities | | <u>12,847</u> |
| Total equity and liabilities | | <u><u>349,252</u></u> |

* The balance represents an amount less than RMB1,000.

APPENDIX I

ACCOUNTANT’S REPORT

D. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Equity attributable to owners of the Company | | | | |
|--|--|------------------------------------|-------------------------------------|--|-------------------------|
| | Share capital <i>RMB'000</i> | Share premium <i>RMB'000</i> | Other reserves <i>RMB'000</i> | (Accumulated losses)/ retained earnings <i>RMB'000</i> | Total <i>RMB'000</i> |
| <i>Note</i> | | | | | |
| Balance at 1 January 2018 | — | — | 5,330 | (18,133) | (12,803) |
| Comprehensive income | | | | | |
| Profit for the year | — | — | — | 30,696 | 30,696 |
| Transactions with owners | | | | | |
| Profit appropriation to statutory reserves | — | — | 2,339 | (2,339) | — |
| Balance at 31 December 2018 | — | — | 7,669 | 10,224 | 17,893 |
| Comprehensive income | | | | | |
| Profit for the year | — | — | — | 48,477 | 48,477 |
| Transactions with owners | | | | | |
| Profit appropriation to statutory reserves | — | — | 4,548 | (4,548) | — |
| Balance at 31 December 2019 | — | — | 12,217 | 54,153 | 66,370 |
| Comprehensive income | | | | | |
| Profit for the year | — | — | — | 72,865 | 72,865 |
| Transactions with owners | | | | | |
| Profit appropriation to statutory reserves | — | — | 5,814 | (5,814) | — |
| Dividend distribution | 36 | — | — | (58,000) | (58,000) |
| Deemed contribution from shareholders | 25(a) | — | 24,670 | — | 24,670 |
| Contribution from shareholders | 25(a) | — | 29,619 | — | 29,619 |
| Deemed distribution to shareholders | 25(a) | — | (29,400) | — | (29,400) |
| Total transactions with owners | — | — | 30,703 | (63,814) | (33,111) |
| Balance at 31 December 2020 | — | — | 42,920 | 63,204 | 106,124 |

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APPENDIX I

ACCOUNTANT’S REPORT

| | <i>Note</i> | Equity attributable to owners of the Company | | | | Total <i>RMB'000</i> |
|---------------------------------------|-------------|--|--|---|--|--------------------------------|
| | | Share capital <i>RMB'000</i> | Share premium <i>RMB'000</i> | Other reserves <i>RMB'000</i> | (Accumulated losses)/ retained earnings <i>RMB'000</i> | |
| Comprehensive income | | | | | | |
| Profit for the period | | — | — | — | 17,127 | 17,127 |
| Transactions with owners | | | | | | |
| Effect of the Group | | | | | | |
| Reorganization | 24, 25 | — | 345,858 | (345,858) | — | — |
| Balance at 30 April 2021 | | <u>—</u> | <u>345,858</u> | <u>(302,938)</u> | <u>80,331</u> | <u>123,251</u> |
| (unaudited) | | | | | | |
| Balance at 1 January 2020 | | — | — | 12,217 | 54,153 | 66,370 |
| Comprehensive income | | | | | | |
| Profit for the period | | — | — | — | 16,739 | 16,739 |
| Transactions with owners | | | | | | |
| Dividend distribution | 36 | — | — | — | (58,000) | (58,000) |
| Deemed contribution from shareholders | 25 | — | — | 24,670 | — | 24,670 |
| Total transactions with owners | | — | — | 24,670 | (58,000) | (33,330) |
| Balance at 30 April 2020 | | <u>—</u> | <u>—</u> | <u>36,887</u> | <u>12,892</u> | <u>49,779</u> |

APPENDIX I

ACCOUNTANT’S REPORT

E. CONSOLIDATED STATEMENTS OF CASH FLOWS

| | <i>Note</i> | Year ended 31 December | | | Four months ended 30 April | |
|--|-------------|------------------------|------------------------|------------------------|-------------------------------|------------------------|
| | | 2018 <i>RMB'000</i> | 2019 <i>RMB'000</i> | 2020 <i>RMB'000</i> | 2020 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
| Cash flows from operating activities | | | | | | |
| Cash generated from operations | 31(a) | 90,535 | 115,506 | 80,129 | 15,913 | 49,752 |
| Interest received | | 113 | 175 | 40 | 2 | 26 |
| Interest paid | | (2,617) | (1,411) | (1,846) | (635) | (549) |
| Income tax paid | | (3,805) | (13,909) | (10,784) | (1,135) | (6,616) |
| Net cash generated from operating activities | | <u>84,226</u> | <u>100,361</u> | <u>67,539</u> | <u>14,145</u> | <u>42,613</u> |
| Cash flows from investing activities | | | | | | |
| Advance to third parties | | (118) | (14,628) | (6) | — | — |
| Repayments from third parties | | 2,211 | 10,241 | 8,724 | 115 | 491 |
| Loans and advance to related parties | 33(b) | (91,871) | (161,310) | (30,103) | (1,000) | — |
| Repayments from related parties | | 18,083 | 109,453 | 111,827 | 1,228 | 10,150 |
| Advance to the Controlling Shareholder | | — | — | — | — | (1,990) |
| Proceeds from disposal of property, plant and equipment and other assets | 31(b) | 400 | 1,744 | 240 | — | 545 |
| Purchase of land use rights | | (19,566) | — | — | — | — |
| Purchases of property, plant and equipment and investment properties | | (12,980) | (70,153) | (149,830) | (15,106) | (19,056) |
| Purchases of intangible assets | | — | (34) | — | — | — |
| Net cash used in investing activities | | <u>(103,841)</u> | <u>(124,687)</u> | <u>(59,148)</u> | <u>(14,763)</u> | <u>(9,860)</u> |

APPENDIX I

ACCOUNTANT’S REPORT

| | Note | Year ended 31 December | | | Four months ended | |
|--|------------|------------------------|---------------------|----------------------|---------------------|----------------------|
| | | 2018 | 2019 | 2020 | 30 April | 2021 |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | | | | (unaudited) | |
| Cash flows from financing activities | | | | | | |
| Proceeds from bank borrowings | 31(c) | 42,480 | 32,000 | 84,000 | — | 10,000 |
| Repayment of bank borrowings | 31(c) | (57,460) | (28,480) | (74,000) | — | (10,000) |
| Increase in amounts due to the Controlling Shareholder | 33(b) | 60,450 | 67,687 | 87,255 | 8,245 | 3,222 |
| Repayments of amounts due to the Controlling Shareholder | | (52,378) | (94,794) | (67,640) | (3,972) | (4,689) |
| Proceeds in relation to warehouse lease arrangements | 30(b) | 37,874 | 46,290 | — | — | — |
| Contributions from shareholders | | — | — | 29,619 | — | — |
| Deemed distributions to shareholders in relation to reorganization | | — | — | (22,651) | — | (6,749) |
| [REDACTED] expense paid | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| (Increase)/decrease in restricted cash balance | | (6,000) | 6,000 | — | — | — |
| Principal and interest elements of lease payments | | (1,053) | (14,398) | (526) | (149) | (500) |
| Dividends paid | | — | — | — | — | (11,600) |
| Net cash generated from/ (used in) financing activities | | <u>23,913</u> | <u>14,305</u> | <u>[REDACTED]</u> | <u>4,124</u> | <u>[REDACTED]</u> |
| 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 | 23 | <u><u>12,077</u></u> | <u><u>2,056</u></u> | <u><u>45,363</u></u> | <u><u>5,562</u></u> | <u><u>55,846</u></u> |

II NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

1.1 General information

The Company was incorporated in the Cayman Islands on 12 January 2021 as an exempted company with limited liability under the Companies Act, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company. The Company’s subsidiaries (together “the Group”) are engaged in the provision of gold mine hazardous waste treatment services and recycling and extracting therefrom resources with economic value for sale, such as pyrite concentrate (the “[REDACTED] Business”) in Shandong province of the People’s Republic of China (the “PRC”). The Group’s headquarter is in Laizhou City, Shandong province of the PRC.

The ultimate controlling party of the Company is Mr. Liu Zeming (the “Controlling Shareholder” or “Mr. Liu”).

1.2 History of the Group and the Reorganization

Immediately prior to the Reorganization as defined below and during the Track Record Period, the [REDACTED] Business of the Group was carried out by Laizhou Hongcheng Mining Environmental Protection Development Co., Ltd. (“HC Environmental”) and Shandong Hongcheng Mining (Group) Co., Ltd. (“HC Mining”) and their subsidiaries (collectively the “Operating Entities”). Both HC Environmental and HC Mining were established in the PRC and ultimately controlled by the Controlling Shareholder.

In preparation for the [REDACTED] and [REDACTED] of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited, the Group underwent a reorganization (the “Reorganization”), pursuant to which the beneficial interests of HC Environmental, HC Mining and the companies engaged in the [REDACTED] Business were transferred to the Company. Details of the Reorganization are set out below:

1. Incorporation of HC International and HC Hong Kong

On 30 March 2020, Hong Cheng International Investments Limited (“HC International”) was incorporated in the British Virgin Island (“BVI”) and wholly-owned by the Controlling Shareholder.

On 16 April 2020, Hong Kong Hong Cheng Environmental Protection Development Group Limited (“HC Hong Kong”) was incorporated in Hong Kong as a wholly-owned subsidiary of HC International.

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2. *Mr. Sze acquired 2% equity interest in each of HC Mining and HC Environmental*

On 30 March 2020, Mr. Liu Yuansheng, father of the Controlling Shareholder, transferred his 2% equity interest in HC Mining to Mr. Sze Weiwei (“Mr. Sze”), a third party investor, and another 3% to the Controlling Shareholder, at cash considerations of HK\$220,000 (equivalent to approximately RMB200,000) and RMB300,000, respectively. Upon completion of the equity transfer, HC Mining became a foreign investment company in the PRC.

On 19 June 2020, Mr. Liu Yuansheng, transferred his 2% and 8% equity interest in HC Environmental to Mr. Sze and the Controlling Shareholder, at cash considerations of HK\$666,700 (equivalent to approximately RMB600,000) and RMB1.6 million, respectively. Upon completion of the equity transfer, HC Mining became a foreign investment company in the PRC.

3. *Establishment of Shandong Jinjia and transfer of 98% of HC Mining and HC Environmental to Shandong Jinjia*

On 8 June 2020, Shandong Jinjia Environmental Protection Co., Ltd. (“Shandong Jinjia”) was established in the PRC as a wholly owned subsidiary of HC Hong Kong.

On 11 June and 17 July 2020, the Controlling Shareholder transferred his entire 98% equity interests in each of HC Mining and HC Environmental to Shandong Jinjia at considerations of RMB9,800,000 and RMB19,600,000 respectively, totalling RMB29,400,000. In December 2020, the Controlling Shareholder made cash contribution totalling USD4,540,000 (equivalent to approximately RMB29,619,000) to HC Hong Kong, of which RMB29,400,000 was used to settle the consideration payable to Mr. Liu.

Upon completion of the equity transfers, Shandong Jinjia owns 98% equity interests in each of HC Mining and HC Environmental and remaining 2% were held by Mr. Sze.

4. *Disposal of entities not engaging in the [REDACTED] Business*

On 1 April 2020, HC Mining entered into an equity transfer agreement with Beijing Yutaida Technology Limited (“Beijing Yutaida”), a company beneficially owned by the Controlling Shareholder, and disposed all its 61.68% equity interest in Yantai Zhonglian Cement Co., Ltd. (“Zhonglian Cement”) to Beijing Yutaida, at a consideration of RMB24,670,000. Zhonglian Cement is in the business of manufacturing and sale of cement in Shandong, the PRC.

On 20 April 2020, HC Mining entered into an equity transfer agreement with the Controlling Shareholder and disposed all its 95% equity interest in Hexington Banner Gold Mining Limited to the Controlling Shareholder at a consideration of RMB2.85 million (Note 31).

On 15 July 2020, HC Mining and HC Environmental entered into equity transfer agreements with Beijing Yutaida and transferred their respective 50% equity interest in Shandong Hongcheng Smelting Co., Ltd. (“HC Smelting”) to Beijing Yutaida at nil consideration. HC Smelting did not have business activities and had no assets and liabilities at the date of disposal.

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5. *Transfer of 2% of HC Mining and HC Environmental to HC Hong Kong*

On 8 January 2021, Mr. Sze transferred his 2% equity interest in each of HC Mining and HC Environmental to HC Hong Kong, in exchange, the Controlling Shareholder transferred 2% issued share capital in HC International to Mr. Sze. Upon completion of the equity transfer, HC Mining and HC Environmental became wholly owned subsidiaries of HC International through HC Hong Kong as to 2% and Shandong Jinjia as to 98%.

6. *[REDACTED]*

On 25 February 2021, the Controlling Shareholder entered into several sale and purchase agreements for the transfer of totaling 19.4% issued share capital in HC International to various [REDACTED], including Mr. Sze.

7. *Incorporation of the Company and transfer of HC International to the Company*

On 12 January 2021, the Company was incorporated in the Cayman Islands and one subscriber share was issued to a company wholly-owned by the Controlling Shareholder.

On 15 April 2021, the Controlling Shareholder, Mr. Sze and the [REDACTED], as vendors, transferred the entire 100% equity interests in HC International to the Company, as the purchaser, in exchange for the Company issuing 999 shares to the vendors. Upon completion of the transfers, the Company became beneficially and indirectly owned as to 78.6% by Mr. Liu, 3.3% by Mr. Sze and 18.1% by the [REDACTED].

Upon completion of the Reorganization, the Company became the holding company of the companies now comprising the Group.

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

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As at the date of this report, the Company has direct or indirect interests in the following subsidiaries:

| Company name | Date of incorporation | Country/Place of incorporation, legal status | Paid in capital as at 30 April 2021 | Effective interest held as at | | | | Principal activities | Note |
|---|-----------------------|--|---|-------------------------------|------|------|---------------|--|------|
| | | | | 31 December 2018 | 2019 | 2020 | 30 April 2021 | | |
| Directly hold: | | | | | | | | | |
| Hong Cheng International Investments Limited 鴻承國際投資有限公司 | 30 March 2020 | BVI | USD1 | N/A | N/A | 100% | 100% | Investment holding | (i) |
| Indirectly hold: | | | | | | | | | |
| Hong Kong Hong Cheng Environmental Protection Development Group Limited 香港鴻承環保開發集團有限公司 | 16 April 2020 | Hong Kong, limited liability company | HKD1,000,000 | N/A | N/A | 100% | 100% | Investment holding | (ii) |
| Shandong Jinjia Environment Co., Ltd. 山東金嘉環保有限公司 | 8 June 2020 | PRC, limited liability company | USD10,000,000 | N/A | N/A | 100% | 100% | Investment holding | (i) |
| Shandong Hongcheng Mining (Group) Co., Ltd. 山東鴻承礦業(集團)有限公司 | 28 April 2011 | PRC, limited liability company | RMB10,000,000 | 100% | 100% | 100% | 100% | Provision of gold mine hazardous waste treatment services and recycling gold mine hazardous waste into resources with economic value for sale. | (ii) |
| Laizhou Hongcheng Mining Environmental Protection Development Co., Ltd. 萊州市鴻鉞礦業環保開發有限公司 | 12 February 2014 | PRC, limited liability company | RMB20,000,000 | 100% | 100% | 100% | 100% | Provision of gold mine hazardous waste treatment services and recycling gold mine hazardous waste into resources with economic value for sale. | (ii) |
| Shandong Hongcheng Resources Comprehensive Utilization Co., Ltd. 山東鴻承資源綜合利用有限公司 | 1 January 2019 | PRC, limited liability company | RMB150,000,000 (Registered and unpaid capital) | N/A | 100% | 100% | 100% | Provision of metal waste processing services, processing and sales of iron powder, building materials, mental products, etc. | (i) |
| Laizhou Hongcheng Gold Tailings and Cyanidation Comprehensive Utilisation Research and Development Centre 萊州鴻承黃金尾礦及氰化渣綜合利用技術研究中心 | 11 June 2020 | PRC, private non-enterprise institution | RMB200,000 | N/A | N/A | 100% | 100% | Research and development | (i) |

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Note (i): No audit of statutory financial statements were performed for these subsidiaries as they are newly incorporated or not required to issue audited financial statements under local statutory requirements of their respective places of incorporation.

Note (ii): The statutory financial statements of HC Mining and HC Environmental for the years ended 31 December 2018, 2019 were audited by Shan Dong Huanuo CPA Co., Ltd. (“山東華諾會計師事務所有限公司”) and were audited by Yitai Tianrun United Certified Public Accountants’ Firm (“煙臺天潤聯合會計師事務所(普通合伙)”) for the year ended 31 December 2020. The statutory financial statements of HC Hong Kong was audited by Wiser CPA Limited (“聚賢會計師有限公司”) for the year ended 31 December 2020.

* *The English names of certain subsidiaries referred to above represent the best effort made by management of the Company to directly translate the Chinese names as they have not registered any official English names.*

1.3 Basis of presentation

Immediately prior to and after the Reorganization, the [REDACTED] Business is carried out by the Operating Entities. Pursuant to the Reorganization, the Operating Entities are transferred to and held by the Company. The Company has not been involved in any other business prior to the Reorganization and does not meet the definition of a business. The Reorganization is merely a recapitalization of the [REDACTED] Business with no changes in management of such business and the ultimate owners of the [REDACTED] Business remain the same. Accordingly, the Group resulting from the Reorganization is regarded as a continuation of the [REDACTED] Business under the Operating Entities and, for the purpose of this report, the Historical Financial Information has been prepared and presented as a continuation of the consolidated financial statements of the Operating Entities, with the assets and liabilities of the Group recognized and measured at the carrying amounts of the [REDACTED] Business under the consolidated financial statements of the Operating Entities for all years/period presented.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to the Track Record Period, unless otherwise stated. The Historical Financial Information has been prepared on a historical cost basis.

2.1 Basis of preparation

The Historical Financial Information of the Group has been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”) issued by International Accounting Standards Board (“IASB”).

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

New standards and interpretations not yet adopted

All effective standards, amendments to standards and interpretations, including IFRS 9 and IFRS 15, which are mandatory for the financial year beginning on 1 January 2018, and IFRS 16, which is mandatory for the financial year beginning on 1 January 2019, are consistently applied to the Group for the Track Record Period.

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Certain new accounting standards and interpretations have been published that are not mandatory for the Track Record Period and have not been early adopted by the Group. These new standards and interpretations are:

| Standards and amendments | Effective for annual periods beginning on or after |
|--|---|
| COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16) | 1 April 2021 |
| IAS 16 (Amendment) ‘Property, plant and equipment — proceeds before intended use’ | 1 January 2022 |
| IAS 37 (Amendment) ‘Onerous contracts — cost of fulfilling a contract’ | 1 January 2022 |
| IFRS 3 (Amendment) ‘Reference to the conceptual Framework’ | 1 January 2022 |
| Annual Improvements to IFRS Standards 2018–2020 | 1 January 2022 |
| IAS 1 (Amendment) ‘Classification of liabilities as current or non-current’ | 1 January 2023 |
| IFRS 17 ‘Insurance contracts’ | 1 January 2023 |
| IAS 1 (Amendment) and IFRS Practice Statement 2 (Amendment) ‘Disclosure of Accounting Policies’ | 1 January 2023 |
| IAS 8 (Amendment) ‘Definition of Accounting Estimates’ | 1 January 2023 |
| Amendments to IAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction | 1 January 2023 |
| IFRS 10 (Amendment) and IAS 28 (Amendment) ‘Sale or contribution of assets between an investor and its associate or joint venture’ | To be determined |

Management is currently assessing the effects of applying these new standards and amendments on the Group’s consolidated financial information. None of these is expected to have a significant effect on the consolidated financial information of the Group. The Group does not expect to adopt these new standards and amendments until their effective dates.

2.2 Principles of consolidation

(a) *Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognized in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs.

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Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

2.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee’s net assets including goodwill. Investments in subsidiaries are also assessed for impairment and written down to their recoverable amounts in accordance with note 2.10.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker of the Company assesses the financial performance and position of the Group, and makes strategic decisions. The chief operating decision maker of the Group consists of the executive directors and the chief financial officer.

2.5 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The consolidated financial statements are presented in Renminbi (‘RMB’), which is the Company’s functional and the Group’s presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end/period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equity instrument measured at fair value through other comprehensive income (“FVOCI”) are recognised in other comprehensive income. The Group does not have non-monetary items measured at fair value in a foreign currency during the Track Record Period.

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2.6 Leases

Lease of properties and equipment

The Group leases properties and equipment as a lessee. Rental contracts for properties and equipment are typically made for fixed periods of 2 to 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. 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.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payments that are based on an index or a rate are initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee’s incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The Group’s right-of-use assets consist of up-front the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Land use rights

For land use rights, the cost comprise the payments to acquire long-term interest in the usage of land, which are stated at cost less accumulated amortisation and accumulated impairment losses. Cost represents consideration paid for the rights to use the land and other direct related costs from the date when the respective rights were granted.

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Amortisation of prepaid land lease payments is calculated on a straight-line basis over the lease terms of 50 years as stated in the relevant land use right certificates granted for usage by the Group in the PRC or the best estimate based on the normal terms in the PRC and is charged to profit or loss in the consolidated statements of comprehensive income.

Leases where the Group is a lessor

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the consolidated balance sheets based on their nature.

2.7 Property, plant and equipment

Property, plant and equipment (other than construction in progress) are stated at historical cost less depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting year/period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives as follows:

| | |
|--|------------|
| Buildings including structures for storage of cyanide tailings and pyritic concentrate | 3–30 years |
| Machinery | 5–10 years |
| Furniture fixtures and equipment | 5 years |
| Vehicle | 10 years |

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

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

Construction in progress represents properties under construction and is stated at cost less accumulated impairment losses. This includes cost of construction and other direct costs. Construction in progress is not depreciated until such time as the assets are completed and are ready for operational use.

2.8 Investment properties

Investment properties, principally comprising buildings, are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the Group. Investment properties are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using a straight-line method to allocate the depreciable amounts over the estimated useful lives. The residual values and useful lives of investment properties are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are included in the income statement when the changes arise. The gain or loss on disposal of investment property is calculated as the difference between the net disposal proceeds and the carrying amount at the date of disposal.

Investment properties are depreciated over the estimated useful lives of 30 years.

2.9 Intangible assets

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring the specific software into usage. These costs are amortised using the straight-line method over their estimated useful lives of 6 years, which is estimated by the Group based on the expected technical obsolescence and innovations and the useful life of similar computer software estimated by comparable companies in the market. Costs associated with maintaining computer software programmes are recognised as expense as incurred.

2.10 Impairment of non-financial assets

Assets that have an indefinite useful life for example, goodwill or other non-amortising intangible assets are not subject to depreciation and are tested annually for impairment. Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.11 Financial assets

(i) Classification

The Group classifies its financial assets in the following categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group’s business model for managing the financial assets and the contractual terms of the cash flows.

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For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (“FVPL”), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group’s business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments as:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in profit or loss of the consolidated statements of comprehensive income.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in “other gains/(losses) — net”. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in “other gains/(losses) — net” and impairment losses are presented as a separate line item in profit or loss of the consolidated statements of comprehensive income.

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- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is exchanged in profit or loss and presented net within “other gains/(losses) — net” in the period in which it arises.

(iv) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at a amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1(b) details how the Group determines whether there has been a significant increase in credit risk.

Expected credit losses are a probability-weighted estimation of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial assets.

The Group has the following types of assets that are subject to IFRS 9’s expected credit loss model:

- trade receivables
- other receivables
- cash and bank balances
- restricted bank balances

While cash and bank balances, restricted bank balances and other receivables are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of the trade receivables with similar risk characteristics and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

Impairment on other receivables, cash and bank balances and restricted bank balances are measured as lifetime expected credit losses if a significant increase in credit risk of a receivable has occurred since initial recognition.

Impairment on other receivables and amounts due from related parties is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the consolidated statements of comprehensive income.

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2.12 Offsetting financial instruments

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

2.13 Trade and other receivables and amounts due from related parties

Trade receivables are amounts due from customers for the provision of gold mine hazardous waste treatment services and sales of recycled products. Amounts due from related parties are loans provided to related parties with interest, and they are unsecured and repayable on demand. If collection of trade and other receivables and amounts due from related parties is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables and amounts due from related parties are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less allowance for impairment.

2.14 Contract assets and liabilities

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assumes performance obligations to transfer goods or services to the customer. The combination of those rights and performance obligations gives rise to a net asset or a net liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognized as contract assets if the measure of the remaining conditional rights to consideration exceeds the satisfied performance obligations. Conversely, the contract is a liability and recognized as contract liabilities if the measure of the remaining performance obligations exceeds the measure of the remaining rights.

2.15 Inventories

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

2.16 Cash and cash equivalents

Cash is cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. In the consolidated statements of cash flows, cash and cash equivalents includes cash at bank and on hand and short-term bank deposits with original maturities of three months or less.

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2.17 Share capital

Ordinary shares are classified as equity (Note 24).

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the [REDACTED].

Where the Company issued shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums over share capital shall be classified as share premium.

2.18 Trade and other payables and amounts due to related parties

Trade payables represent liabilities for products and services provided to the Group prior to the end of the reporting year which are unpaid. Trade and other payables and amounts due to related parties are classified as current liabilities if payment is due within one year or less (or within the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables and amounts due to related parties are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.19 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting year/period.

2.20 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognized in profit or loss in the year/period in which they are incurred.

2.21 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period’s taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company’s subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

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2.22 Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees’ services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

(ii) Pension obligations

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees’ salaries, subject to certain ceiling. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Group in an independent fund managed by the PRC government. The Group’s contributions to these plans are expensed as incurred.

(iii) Housing funds, medical insurances and other social insurances

The PRC employees of the Group are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group’s liability in respect of these funds is limited to the contributions payable in each period.

2.23 Revenue recognition

Revenue from contracts with customers

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

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

(i) Revenue from provision of gold mine hazardous waste treatment services

Revenue from the provision of gold mine hazardous waste treatment services is recognised over the relevant period in which the services are rendered based on the completion percentage of the treatment services performance obligation which is in turn determined with reference to the percentage of cost incurred up to date to the total cost. Further analysis of the estimates and judgements applied in the recognition of revenue from provision of gold mine hazardous waste treatment services is set out in Note 4(c).

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The portion of service revenue received from customers but not earned is recorded as contract liabilities on the consolidated statements of financial position as at the balance sheet date. Amounts which will be earned within one year is reflected as a current liability, and which will be earned beyond one year is reflected as a non-current liability.

(ii) Sales of recycled products

Revenue from sales of recycled products, namely the pyritic concentrate, is recognized at the point in time when control of the product is transferred to the customer, generally on delivery of the products.

Other revenue — rental income

The Group derives rental income from investment properties. Rental income is recognised on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease (if any) are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income.

2.24 Interest income

Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in profit or loss as part of other income and finance income.

Interest income is presented as other income and finance income and where it is earned from financial assets that are held for cash management purposes.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.25 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

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

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred revenue and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2.26 Dividend distribution

Dividend distribution to the Company’s shareholders is recognised as a liability in the Group’s financial statements in the period in which the dividends are approved by the Company’s shareholders or directors, where appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group’s activities expose it to a variety of financial risks: market risk (including fair value interest rate risk and cash flow interest rate risk, and foreign exchange risk), credit risk and liquidity risk. The Group’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group’s financial performance.

(a) Market risk

(i) Interest rate risk

The Group’s interest rate risk arises from bank deposits and borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash at bank with variable interest rates. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. During the Track Record Period, the Group’s borrowings bore interest both at variable rates and fixed rates.

Bank deposits carried at prevailing market interest rate expose the Group to cash flow interest rate risk. The Group closely monitors trend of interest rate and its impact on the Group’s interest rate risk exposure to ensure it is within an acceptable level. The Group currently has not used any interest rate swap arrangements but will consider hedging interest rate risk should the need arise.

During the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2020 and 2021, if interest rate on borrowings had been higher/lower by 50 basis points of current interest rate, with other variables held constant, the Group’s post-tax profit would have been approximately RMB13,000 lower/higher, RMB7,000 lower/higher and RMB9,000 lower/higher, and RMB2,000 lower/higher, and RMB2,000 lower/higher, respectively.

(ii) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the functional currency of the relevant group entity. The Group operates mainly in the PRC so it is not exposed to significant foreign exchange risk arising from foreign currency transactions.

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(b) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group’s exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations.

The credit risk of the Group’s financial assets, which mainly comprise cash and cash equivalents, trade and other receivables and amounts due from related parties, arises from potential default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

All of the Group’s trade receivables, other receivables and amounts due from related parties have no collateral. The Group assessed the credit quality of the counterparties by taking into account their financial position, credit history, forward looking information and other factors. Management also regularly reviews the recoverability of these receivables and follow up the disputes or amounts overdue, if any.

(i) Credit risks of cash and bank balances, including restricted bank balances

As at 31 December 2018, 2019 and 2020 and 30 April 2021, substantially all of the Group’s bank deposits were deposited with major financial institutions incorporated in the PRC, which management believes are of high-credit-quality without significant credit risk.

(ii) Credit risks of trade receivables

The Group is engaged in the provision of gold mine hazardous waste treatment services and sales of recycled products. The Group’s customers for the provision of gold mine hazardous waste treatment services are mainly gold smelting companies while customers for the sale of recycled products are mainly companies primarily engaged in the business of production or trading of chemical products. The credit terms grant to customers are generally ranged from 30 to 60 days from the invoice date.

The Group applies the IFRS 9 simplified approach to provide for expected credit losses, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the aging of trade receivables. The expected credit losses also incorporate forward looking information affecting the ability of the customers to settle the receivables.

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The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customers’ ability to meet its obligations;
- actual or expected significant changes in the operating results of customers;
- significant changes in the expected performance and behaviour of customers, including changes in the payment status.

In determining the related expected credit loss (“ECL”), the management of the Group considered that:

1. For trade receivables relating to provision of gold mine hazardous waste treatment services, major customers are state-owned gold smelting companies of prominent gold mining groups in Shandong province. Majority of the customers have good credit rating, aging of relevant trade receivables was short with no bad debt history.
2. For trade receivables relating to sales of recycled products, major customers are chemical manufacturing companies and trading with low receivable balances and no bad debt history.

Given the above, the Group concluded that the credit risk is insignificant to the Group. The Group also considered that there would be no significant change in the risk profile of its customer base as the Group continues to serve its 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. Therefore an expected credit loss rate of 0.5% is applied to overall trade receivables across different time bands.

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In determining the 0.5% expected loss rate, the Group calculated the probability of default (“PD”) and potential loss given default (“LGD”) for each class of trade receivables by incorporating forward-looking adjustments, taking into accounts the effect of macroeconomic variables such as the gross domestic product index (“GDP”) of the PRC in which the Group provide its services.

With the outbreak of COVID-19 in 2020, although there is an economic downturn in all regions where the Group’s customers locate, management did not consider that there would be a significant change in the risk profile of its customer base as the Group continued to serve its long-standing customers and the cash flow recovery is good. Consequently, the Group expected credit loss rate remained unchanged during the Track Record Period.

The Group considers that the expected credit loss provided was sufficient for the Track Record Period.

The following table shows the loss allowance provision for the Group’s trade receivables as at 31 December 2018, 2019 and 2020 and 30 April 2021.

| Track Record Period | 1-30 days <i>RMB’000</i> | 31-60 days <i>RMB’000</i> | 61-90 days <i>RMB’000</i> | 91-180 days <i>RMB’000</i> | Over 180 days <i>RMB’000</i> | Total <i>RMB’000</i> |
|-------------------------------|-----------------------------|------------------------------|------------------------------|-------------------------------|---------------------------------|-------------------------|
| As at 31 December 2018 | | | | | | |
| Gross carrying amount | 3,339 | 5,279 | 3,098 | 2,060 | 5,221 | 18,997 |
| Expected loss rate | 0.5% | 0.5% | 0.5% | 0.5% | 0.5% | |
| Total loss allowance | <u>17</u> | <u>26</u> | <u>16</u> | <u>10</u> | <u>26</u> | <u>95</u> |
| As at 31 December 2019 | | | | | | |
| Gross carrying amount | 350 | — | — | — | — | 350 |
| Expected loss rate | 0.5% | — | — | — | — | |
| Total loss allowance | <u>2</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>2</u> |
| As at 31 December 2020 | | | | | | |
| Gross carrying amount | 9,243 | 10,673 | 1,890 | 1,142 | — | 22,948 |
| Expected loss rate | 0.5% | 0.5% | 0.5% | 0.5% | — | |
| Total loss allowance | <u>46</u> | <u>53</u> | <u>10</u> | <u>6</u> | <u>—</u> | <u>115</u> |
| As at 30 April 2021 | | | | | | |
| Gross carrying amount | 10,439 | 4,350 | — | — | — | 14,789 |
| Expected loss rate | 0.5% | 0.5% | — | — | — | |
| Total loss allowance | <u>52</u> | <u>22</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>74</u> |

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As at 31 December 2018, 2019 and 2020 and 30 April 2021, balances of trade receivables aged within 30 days were generally current and not past due.

The Group assesses the credit quality of its 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 region in which they operate. Individual risk limits are set based on internal or external ratings in accordance with limits set by the management. The compliance with credit limits by customers is regularly monitored by the management.

(iii) Credit risks of other receivables and amounts due from related parties

For other receivables and amounts due from related parties, management makes periodic collective assessments as well as individual assessment on the recoverability of such receivables based on historical settlement records and past experience. The directors believe that there is no material credit risk inherent in the Group’s outstanding balance of other receivables and amounts due from related parties as the Group closely monitors their repayment.

As at 31 December 2018, 2019 and 2020 and 30 April 2021, management consider the credit risks of other receivables and amounts due from related parties as low since the counterparties have a strong capacity to meet the contractual cash flow obligations in the near term. The Group has assessed that the expected credit losses for these receivables as immaterial under the 12 months expected losses method. Thus, the loss allowance provision recognized during the Track Record Period for these balances is close to zero.

(e) Liquidity risk

To manage the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group’s operations and mitigate the effects of fluctuations in cash flows. The Group expects to fund its future cash flow needs through internally generated cash flows from operations and borrowings from financial institutions. Management believes that there is no significant liquidity risk in view of the expected cash flow from operations and continuous support from banks in the coming twelve months.

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The tables below analyse the Group’s non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows.

| | Less than 1 year <i>RMB'000</i> | Between 1 and 2 years <i>RMB'000</i> | Between 2 and 5 years <i>RMB'000</i> | Over 5 years <i>RMB'000</i> | Total <i>RMB'000</i> |
|--|---------------------------------------|--|--|-----------------------------------|-------------------------|
| As at 31 December 2018 | | | | | |
| Trade payables | 9,174 | — | — | — | 9,174 |
| Other payables (excluding non-financial liabilities) | 109,158 | — | — | — | 109,158 |
| Amounts due to the Controlling | | | | | |
| Shareholder | 50,679 | — | — | — | 50,679 |
| Borrowings, including interest payables | 29,670 | — | — | — | 29,670 |
| Lease liabilities | 4,596 | 575 | 977 | 810 | 6,958 |
| Other liabilities — payable to | | | | | |
| LZ Assets | — | — | — | 50,400 | 50,400 |
| | <u>203,277</u> | <u>575</u> | <u>977</u> | <u>51,210</u> | <u>256,039</u> |
| As at 31 December 2019 | | | | | |
| Trade payables | 13,224 | — | — | — | 13,224 |
| Other payables (excluding non-financial liabilities) | 152,275 | — | — | — | 152,275 |
| Amount due to the Controlling | | | | | |
| Shareholder | 23,572 | — | — | — | 23,572 |
| Borrowings, including interest payables | 32,660 | — | — | — | 32,660 |
| Lease liabilities | 591 | 589 | 442 | 756 | 2,378 |
| Other liabilities — retention payable | — | 17,892 | — | — | 17,892 |
| Other liabilities — payable to | | | | | |
| LZ Assets | — | — | 112,000 | — | 112,000 |
| | <u>222,322</u> | <u>18,481</u> | <u>112,442</u> | <u>756</u> | <u>354,001</u> |
| As at 31 December 2020 | | | | | |
| Trade payables | 20,147 | — | — | — | 20,147 |
| Other payables (excluding non-financial liabilities) | 9,212 | — | — | — | 9,212 |
| Dividend Payable | 11,600 | 40,600 | — | — | 52,200 |
| Amount due to the Controlling | | | | | |
| Shareholder | 8,217 | — | — | — | 8,217 |
| Borrowings, including interest payables | 3,800 | 3,714 | 39,268 | — | 46,782 |
| Lease liabilities | 589 | 334 | 162 | 702 | 1,787 |
| Other liabilities — retention payable | 17,892 | — | — | — | 17,892 |
| Other liabilities — payable to | | | | | |
| LZ Assets | — | — | 112,000 | — | 112,000 |
| | <u>71,457</u> | <u>44,648</u> | <u>151,430</u> | <u>702</u> | <u>268,237</u> |

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| | Less than 1 year <i>RMB'000</i> | Between 1 and 2 years <i>RMB'000</i> | Between 2 and 5 years <i>RMB'000</i> | Over 5 years <i>RMB'000</i> | Total <i>RMB'000</i> |
|--|---------------------------------------|--|--|-----------------------------------|-------------------------|
| As at 30 April 2021 | | | | | |
| Trade payables | 16,091 | — | — | — | 16,091 |
| Other payables (excluding non-financial liabilities) | 9,907 | — | — | — | 9,907 |
| Dividend payable | — | 40,600 | — | — | 40,600 |
| Borrowings, including interest payables | 3,800 | 3,714 | 39,268 | — | 46,782 |
| Lease liabilities | 410 | — | — | — | 410 |
| Other liabilities — retention payable | 7,115 | — | — | — | 7,115 |
| Other liabilities — payable to LZ Assets | — | — | 112,000 | — | 112,000 |
| | <u>37,323</u> | <u>44,314</u> | <u>151,268</u> | <u>—</u> | <u>232,905</u> |

3.2 Capital management

The Group’s objectives when managing capital are to:

- safeguard the ability to continue as a going concern, so that the Group can continue to provide returns for shareholders and benefits for other stakeholders, and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio, being total net debt divided by total capital. Total capital is the total of net debts and total equity as shown on the consolidated statements of financial position.

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The gearing ratios during the Track Record Period were as follow:

| | Year ended 31 December | | | As at |
|--|------------------------|----------------|----------------|----------------|
| | 2018 | 2019 | 2020 | 30 April 2021 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Borrowings (note 28) | 28,480 | 32,000 | 42,000 | 42,000 |
| Lease liabilities (note 13) | 4,894 | 1,222 | 1,585 | 376 |
| Amount due to the Controlling Shareholder (note 33(c)) | 50,679 | 23,572 | 8,217 | — |
| Other liabilities — payable to LZ Assets (note 30) | <u>38,162</u> | <u>88,380</u> | <u>92,489</u> | <u>93,901</u> |
| Total debt | 122,215 | 145,174 | 144,291 | 136,277 |
| Less: Cash and bank balances (note 23) | (12,077) | (2,056) | (45,363) | (55,846) |
| Restricted bank balance (note 23) | <u>(6,000)</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| Net debt (a) | 104,138 | 143,118 | 98,928 | 80,431 |
| Total equity | <u>17,893</u> | <u>66,370</u> | <u>106,124</u> | <u>123,251</u> |
| Total capital (b) | <u>122,031</u> | <u>209,488</u> | <u>205,052</u> | <u>203,682</u> |
| Gearing ratio (a/b) | <u>85%</u> | <u>68%</u> | <u>48%</u> | <u>39%</u> |

The decrease in gearing ratio from 31 December 2018 to 31 December 2019 was resulted from the combined effects of a decrease in amount due to the Controlling Shareholder (Note 33), increase in payable to LZ Assets (Note 30) and increase in total equity due to profit for the year ended 31 December 2019. The decrease in gearing ratio from 31 December 2019 to 30 April 2021 was mainly resulted from the increase in total equity due to profit for the year ended 31 December 2020 and the four months ended 30 April 2021.

3.3 Fair value estimation

The carrying values less impairment provision of trade receivables, deposits, financial assets at fair value through other comprehensive income and other receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The fair value estimation of the investment property is categorised in level 3 hierarchy.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of Historical Financial Information requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group’s accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimated useful lives and residual values of property, plant and equipment

The Group’s management determines the estimated useful lives and residual values and consequently the related depreciation charges for its property, plant and equipment, and reviews the useful lives and residual values periodically to ensure that the method and rates of depreciation are consistent with the expected pattern of realization of economic benefits from property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. If there are significant changes from previously estimated useful lives and residual values, the amount of depreciation expenses may change.

(b) Impairment of property, plant and equipment

The carrying amounts of items of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in note 2.7 to the Historical Financial Information. The recoverable amount is the higher of its fair value less costs of disposal and value in use, and calculations of which involve the use of estimates. In estimating the recoverable amounts of assets, various assumptions, including future cash flows and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group’s results of operations or financial position. The carrying amounts of property, plant and equipment in the consolidated statements of financial positions as at 31 December 2018, 2019 and 2020 and 30 April 2021 are set out in note 14 to the Historical Financial Information.

(c) Revenue recognition from provision of gold mine hazardous waste treatment services

The Group’s gold mine hazardous waste treatment services are conducted in various detoxing processes and integrated with the production process of recycled products such as pyrite concentrate and high-gold pyrite concentrate which can be sold for sales revenue. The Group recognises revenue based on the completion percentage of the treatment services performance obligation which is in turn determined with reference to the percentage of cost incurred up to date to the total cost. The determination of performance obligation and the completion percentage of performance obligation involves judgements.

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(d) Estimated lease term of warehouses

The Group leased two warehouses to LZ Assets (as defined in Note 30). The lease term in the lease contracts is 20 years with a committed minimum lease period of 5 years and with an option to both the Group and the lessee to terminate the lease arrangement upon the expiry of the committed 5 years lease period subject to a compensation of one year rental. The Group considers that there is a likelihood that the lessee will exercise the right to terminate the lease arrangement upon the expiry of the committed 5 years lease period and accordingly the Group accounted for the leases as a five year lease contract, with the remaining rental payment refundable to LZ Assets being accounted for as Other Liabilities — payable to LZ Assets.

(e) Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group’s past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the note 3.1(b).

(f) Current and deferred income taxes

The Group is subject to income taxes in a few jurisdictions. Judgement is required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provisions in the periods in which such determinations are made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers that it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation in the periods in which such estimate is changed.

5 SEGMENT INFORMATION**(a) Description of segments and principal activities**

The Group’s CODM has been identified as the executive directors of the board and the chief financial controller.

The Group is principally engaged in the provision of gold mine hazardous waste treatment services and sales of recycled products such as pyrite concentrate in the PRC. The process of the treatment services and production of the resultant recycled products are in one integral process. Also, for the purpose of resource allocation and performance assessment, the CODM reviews and assesses the overall results and financial position of the Group as a whole. Accordingly, the CODM determines that the Group has only one single reportable segment. Management of the Group assesses the performance of the reportable segment based on the revenue and gross profit for the year/period of the Group as presented in the consolidated statements of comprehensive income.

Geographical information

The Group’s principal market, majority of revenue and operating profit and all operations and non-current assets are in Shandong province of the PRC. Accordingly, no geographical segment information is presented.

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(b) Revenue during the Track Record Period

| | Year ended 31 December | | | Four months ended | |
|---|------------------------|----------------|----------------|-------------------|---------------|
| | 2018 | 2019 | 2020 | 30 April | |
| | RMB'000 | RMB'000 | RMB'000 | 2020 | 2021 |
| | | | | (unaudited) | |
| | | | | | |
| Revenue from contract with customers within the scope of IFRS 15 | | | | | |
| Revenue from provision of gold mine hazardous waste treatment services | 41,014 | 61,567 | 107,958 | 30,212 | 34,277 |
| Revenue from sales of recycled products | 57,642 | 56,413 | 82,514 | 13,636 | 28,805 |
| Others | <u>2,542</u> | <u>1,194</u> | <u>413</u> | <u>346</u> | <u>—</u> |
| | 101,198 | 119,174 | 190,885 | 44,194 | 63,082 |
| Other revenue | | | | | |
| Rental income | <u>1,083</u> | <u>14,490</u> | <u>14,507</u> | <u>4,836</u> | <u>4,836</u> |
| | <u>102,281</u> | <u>133,664</u> | <u>205,392</u> | <u>49,030</u> | <u>67,918</u> |
| Rental income | | | | | |
| Nominal rental income | 555 | 7,436 | 7,450 | 2,484 | 2,484 |
| Other lease payments | <u>528</u> | <u>7,054</u> | <u>7,057</u> | <u>2,352</u> | <u>2,352</u> |
| | <u>1,083</u> | <u>14,490</u> | <u>14,507</u> | <u>4,836</u> | <u>4,836</u> |

For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, the rental income of approximately RMB1.1 million, RMB14.5 million, RMB14.5 million and RMB4.8 million (excluding VAT), respectively, includes (i) nominal rental income of RMB0.6 million, RMB7.4 million, RMB7.4 million and RMB2.5 million (excluding VAT) respectively, and (ii) other lease payments in relation to compensation and penalty rental income of approximately RMB0.5 million, RMB7.1 million, RMB7.1 million and RMB2.3 million (excluding VAT) respectively, which arose from the one year compensation income of approximately RMB7.5 million (excluding VAT) upon the expiry of the 5 years lease terms, and the discounting impact of RMB27.8 million from the discounting of non-current other liabilities — payables to LZ Assets at the inception of the warehouse leasing arrangements due to the estimated early termination of leases upon the expiry of the 5 years lease terms. Refer to Note 30(b) for further details of the warehouse lease arrangements. The aforementioned discounting impact of RMB27.8 million is regarded as part of lease payments in accordance with IFRS 16 Appendix A, and is accounted for as part of the lease payments to be amortized as revenue together with the one year compensation rental income of RMB7.5 million (excluding VAT) over the five years committed lease period in accordance with IFRS 16 paragraph 81.

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The analysis of revenue from contract with customers within the Scope of IFRS 15 recognised over time and at a point in time as required by IFRS 15 is set out below:

| | Year ended 31 December | | | Four months ended 30 April | |
|--|------------------------|------------------------|------------------------|-------------------------------|------------------------|
| | 2018 <i>RMB'000</i> | 2019 <i>RMB'000</i> | 2020 <i>RMB'000</i> | 2020 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
| Recognized over time | | | | | |
| Revenue from provision of gold mine hazardous waste treatment services | 41,014 | 61,567 | 107,958 | 30,212 | 34,277 |
| Recognized at a point in time | | | | | |
| Revenue from sales of recycled products | 57,642 | 56,413 | 82,514 | 13,636 | 28,805 |
| Others | 2,542 | 1,194 | 413 | 346 | — |
| | <u>101,198</u> | <u>119,174</u> | <u>190,885</u> | <u>44,194</u> | <u>63,082</u> |

(c) Contract liabilities

The Group recognized the following contract liabilities:

| | As at 31 December | | | As at 30 April |
|---|------------------------|------------------------|------------------------|------------------------|
| | 2018 <i>RMB'000</i> | 2019 <i>RMB'000</i> | 2020 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
| Contract liabilities related to provision of gold mine hazardous waste treatment services | 7,010 | 11,279 | 8,676 | 1,704 |
| Contract liabilities related to sales of recycled products | 5,458 | 3,962 | 2,151 | 21,391 |
| | <u>12,468</u> | <u>15,241</u> | <u>10,827</u> | <u>23,095</u> |

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 increase in advance payments made by the customers for hazardous waste treatment services as a result of the increase in demand from the customers for the services during the year ended 31 December 2019.

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 the recognition of revenue upon the Group’s provision of hazardous waste treatment services and sales of recycled products during the year ended 31 December 2020.

Contract liabilities increased from approximately RMB10.8 million as at 31 December 2020 to approximately RMB23.1 million as at 30 April 2021, mainly because of the increase in advance payments received from the downstream customers for sales of recycled products due to the increase in demand for the four months ended 30 April 2021.

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The following table shows how much of the revenue recognized during the Track Record Period relates to carried-forward contract liabilities:

| | Year ended 31 December | | | Four months ended | |
|---|------------------------|---------------|---------------|-------------------|---------------|
| | 2018 | 2019 | 2020 | 30 April | |
| | RMB'000 | RMB'000 | RMB'000 | 2020 | 2021 |
| | | | | RMB'000 | RMB'000 |
| | | | | (unaudited) | |
| Revenue recognized that was included in the balance of contract liabilities at the beginning of the year/period | | | | | |
| — Provision of gold mine hazardous waste treatment services | — | 7,010 | 11,279 | 11,279 | 8,676 |
| — Sales of recycled products | 2,434 | 5,458 | 3,962 | 3,962 | 2,151 |
| | <u>2,434</u> | <u>12,468</u> | <u>15,241</u> | <u>15,241</u> | <u>10,827</u> |

(d) Unsatisfied contracts

The following table shows unsatisfied performance obligations resulting from contracts with customers:

| | As at 31 December | | | As at | |
|---|-------------------|---------------|---------------|---------------|---------|
| | 2018 | 2019 | 2020 | 30 April | |
| | RMB'000 | RMB'000 | RMB'000 | 2021 | RMB'000 |
| Expected to be recognized within one year | | | | | |
| Provision of gold mine hazardous waste treatment services | 7,010 | 11,279 | 8,676 | 1,704 | |
| Sales of recycled products | 5,458 | 3,962 | 2,151 | 21,391 | |
| | <u>12,468</u> | <u>15,241</u> | <u>10,827</u> | <u>23,095</u> | |

(e) Information about major customers

Revenue from individual customers which individually accounted for 10% or more of the Group’s total revenue during the Track Record Period is set out below:

| | Year ended 31 December | | | Four months ended | |
|------------|------------------------|---------|---------|-------------------|---------|
| | 2018 | 2019 | 2020 | 30 April | |
| | RMB'000 | RMB'000 | RMB'000 | 2020 | 2021 |
| | | | | RMB'000 | RMB'000 |
| | | | | (unaudited) | |
| Customer A | 15,049 | 28,569 | 56,074 | 18,857 | 16,392 |
| Customer B | 23,136 | 20,566 | 34,822 | 6,084 | 14,901 |
| Customer C | 10,245 | 17,021 | 20,852 | N/A(i) | N/A(i) |
| Customer D | 18,060 | N/A(i) | N/A(i) | N/A(i) | N/A(i) |
| Customer E | N/A(i) | 14,490 | N/A(i) | N/A(i) | N/A(i) |
| Customer F | N/A(ii) | N/A(ii) | N/A(ii) | N/A(ii) | 15,822 |
| Customer G | N/A(i) | N/A(i) | N/A(i) | 5,149 | N/A(i) |

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(i) Contributed less than 10% of the Group’s total revenue for the relevant year/period.

(ii) No contribution for the relevant year/period.

6 OTHER INCOME

| | Year ended 31 December | | | Four months ended 30 April | |
|--------------------------------------|------------------------|-----------------|-----------------|-------------------------------|-----------------|
| | 2018 RMB’000 | 2019 RMB’000 | 2020 RMB’000 | 2020 RMB’000 | 2021 RMB’000 |
| Interest income from a related party | — | 6,460 | 5,144 | 1,921 | — |
| Others | — | 3 | 43 | 20 | 64 |
| | <u>—</u> | <u>6,463</u> | <u>5,187</u> | <u>1,941</u> | <u>64</u> |

During the years ended 31 December 2019 and 2020, the Group’s subsidiary, HC Environmental, provided short-term loans to its related party, Zhonglian Cement and recognised interest income (Note 33(b)).

7 OTHER GAINS/(LOSSES) — NET

| | Year ended 31 December | | | Four months ended 30 April | |
|---|------------------------|-----------------|-----------------|-------------------------------|-----------------|
| | 2018 RMB’000 | 2019 RMB’000 | 2020 RMB’000 | 2020 RMB’000 | 2021 RMB’000 |
| Foreign exchange loss | — | — | 154 | — | 35 |
| Insurance claim | — | — | 175 | 175 | 30 |
| Net gains/(losses) on disposal of property, plant and equipment and other assets (Note 31) | 71 | (232) | 50 | — | (368) |
| Others | <u>6</u> | <u>(8)</u> | <u>33</u> | <u>(1)</u> | <u>4</u> |
| | <u>77</u> | <u>(240)</u> | <u>412</u> | <u>174</u> | <u>(299)</u> |

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8 EXPENSES BY NATURE

The detailed analysis of cost of sales, selling expenses and administrative expenses is as follow:

| | Year ended 31 December | | | Four months ended 30 April | |
|--|------------------------|-----------------|-------------------|--------------------------------|-------------------|
| | 2018 RMB'000 | 2019 RMB'000 | 2020 RMB'000 | 2020 RMB'000 (unaudited) | 2021 RMB'000 |
| Changes in inventories of finished goods and work-in-progress (<i>Note 18</i>) | (1,433) | (11,650) | (6,141) | (7,448) | (3,330) |
| Raw materials and consumables used | 20,974 | 28,930 | 41,328 | 12,012 | 14,657 |
| Transportation costs | 16,064 | 13,427 | 12,451 | 4,270 | 4,102 |
| Employee benefit expenses (<i>Note 9</i>) | 6,077 | 9,865 | 12,615 | 3,854 | 5,424 |
| Entertainment expense | 757 | 2,673 | 3,563 | 1,041 | 1,297 |
| Electricity and water expenses | 4,760 | 7,689 | 13,015 | 4,091 | 3,583 |
| Taxes and levies | 2,064 | 2,535 | 3,717 | 1,076 | 1,220 |
| Depreciation of right-of-use assets (<i>Note 13</i>) | 782 | 894 | 1,129 | 349 | 349 |
| Depreciation of property, plant and equipment (<i>Note 14</i>) | 2,480 | 4,396 | 8,035 | 2,582 | 2,987 |
| Depreciation of investment properties (<i>Note 15</i>) | 792 | 3,410 | 4,386 | 1,462 | 1,462 |
| Amortisation of intangible assets (<i>Note 16</i>) | — | 6 | 7 | 2 | 2 |
| Repair and maintenance costs | 2,769 | 3,368 | 3,127 | 1,050 | 747 |
| Production safety cost | 887 | 424 | 1,621 | 317 | 592 |
| Professional service fee | 301 | 482 | 525 | 216 | 173 |
| Donations | 128 | 154 | 781 | 650 | — |
| Auditor’s remuneration — audit services | 18 | 18 | 20 | — | — |
| [REDACTED] expenses | — | — | [REDACTED] | — | [REDACTED] |
| Others | 1,814 | 4,723 | 3,628 | 1,259 | 2,949 |
| Total | 59,234 | 71,344 | [REDACTED] | 26,783 | [REDACTED] |

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9 EMPLOYEE BENEFIT EXPENSES

| | Year ended 31 December | | | Four months ended | |
|---|------------------------|--------------|---------------|-------------------|--------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | | | (unaudited) | |
| Salaries, wages and bonuses | 5,502 | 8,021 | 11,590 | 3,399 | 4,627 |
| Contributions to pension plan, medical insurance and other social insurance (a) | 455 | 1,653 | 664 | 332 | 749 |
| Housing fund | <u>120</u> | <u>191</u> | <u>361</u> | <u>123</u> | <u>48</u> |
| | <u>6,077</u> | <u>9,865</u> | <u>12,615</u> | <u>3,854</u> | <u>5,424</u> |

(a) Contributions to pension plan

The PRC based employees of the Group participate in various defined contribution retirement and social benefit plans organized by the relevant municipal and provincial governments in the PRC. The Group and the employees are required to make monthly contributions to these plans calculated as a percentage of employees’ salaries, subject to certain ceiling. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plans described above. The assets of these plans are held separately from those of the Group in an independent fund managed by the PRC government. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The Group’s contributions to these plans are expensed as incurred.

During the year ended 31 December 2020, due to COVID-19, part of the contributions to retirement and social benefit plans, including pension insurance, unemployment insurance and employee injury insurance were exempted by the local government.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include 3, 3, 3, 3 and 3 directors for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2020 and 2021. Their emoluments are reflected in the analysis presented in Note 35. Details of the remunerations of the remaining highest paid non-director individuals during the Track Record Period are as follows:

| | Year ended 31 December | | | Four months ended | |
|---|------------------------|--------------|--------------|-------------------|------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | | | (unaudited) | |
| Salaries, wages and bonuses | 493 | 1,104 | 1,190 | 381 | 624 |
| Contributions to pension plan, housing fund, medical insurance and other social benefits | <u>69</u> | <u>138</u> | <u>50</u> | <u>43</u> | <u>345</u> |
| | <u>562</u> | <u>1,242</u> | <u>1,240</u> | <u>424</u> | <u>969</u> |

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The number of highest paid non-director individuals whose remuneration for the Track Record Period fell within the following bands are as follows:

| | Year ended 31 December | | | Four months ended | |
|--|------------------------|----------|----------|-------------------|----------|
| | 2018 | 2019 | 2020 | 30 April 2020 | 2021 |
| Emolument bands (Nil to HK\$1,000,000) | <u>2</u> | <u>2</u> | <u>2</u> | <u>2</u> | <u>2</u> |

During the Track Record Period, none of the five highest paid individuals waived or has agreed to waive any emoluments, and none of the five highest paid individuals received emoluments from the Group as inducement to join or upon joining the Group, or as compensation for loss of office.

10 FINANCE COSTS — NET

| | Year ended 31 December | | | Four months ended | |
|---|------------------------|-----------------|-----------------|-----------------------------|-----------------|
| | 2018 RMB'000 | 2019 RMB'000 | 2020 RMB'000 | 30 April 2020 RMB'000 | 2021 RMB'000 |
| Finance income | | | | | |
| — Interest income derived from bank balances | <u>(113)</u> | <u>(175)</u> | <u>(40)</u> | <u>(2)</u> | <u>(26)</u> |
| Finance costs | | | | | |
| — Interest expenses on bank borrowings | 2,617 | 1,781 | 1,846 | 635 | 549 |
| — Interest expenses relating to warehouse lease arrangements (<i>note 30</i>) | 288 | 3,927 | 4,110 | 1,349 | 1,412 |
| — Interest expenses on lease liabilities (<i>note 13</i>) | 118 | 60 | 70 | 21 | 17 |
| — Other losses | <u>—</u> | <u>—</u> | <u>57</u> | <u>—</u> | <u>73</u> |
| | 3,023 | 5,768 | 6,083 | 2,005 | 2,051 |
| Less: borrowing costs capitalised in property, plant and equipment | <u>—</u> | <u>(370)</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| | <u>3,023</u> | <u>5,398</u> | <u>6,083</u> | <u>2,005</u> | <u>2,051</u> |
| Finance costs — net | <u>2,910</u> | <u>5,223</u> | <u>6,043</u> | <u>2,003</u> | <u>2,025</u> |

During the year ended 31 December 2019, the capitalisation rate used to determine the amount of borrowing costs to be capitalised was the interest rate applicable to the entity’s borrowings for constructions in process during the year of 5.61% per annum.

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11 INCOME TAX EXPENSE

| | Year ended 31 December | | | Four months ended 30 April | |
|--|------------------------|------------------------|------------------------|-------------------------------|------------------------|
| | 2018 <i>RMB'000</i> | 2019 <i>RMB'000</i> | 2020 <i>RMB'000</i> | 2020 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
| PRC income tax | | | | | |
| — Current income tax expense | 7,586 | 15,251 | 23,464 | 5,534 | 7,303 |
| — Deferred income tax expense (note 29) | 1,954 | (315) | 160 | 59 | 141 |
| | <u>9,540</u> | <u>14,936</u> | <u>23,624</u> | <u>5,593</u> | <u>7,444</u> |

The Group’s principal applicable taxes and tax rates are as follows:

(a) Cayman Islands

The Company is an exempted company incorporated in the Cayman Islands and is not liable for taxation in the Cayman Islands.

(b) British Virgin Islands

The Group’s subsidiary incorporated in the BVI is exempted company and is not liable for taxation in the BVI.

(c) Hong Kong

Hong Kong profits tax was considered at the rate of 16.5% on the estimated assessable profits during the Track Record Period. The Group did not have assessable profits in Hong Kong during the Track Record Period.

(d) PRC corporate income tax (“CIT”)

Taxation on PRC income has been calculated on the estimated assessable profit for the year/period at the rates of taxation prevailing in the PRC in which the Group operates. The Company’s subsidiaries incorporated in PRC are subject to CIT at the rate of 25% during the Track Record Period.

(e) PRC withholding income tax

According to the CIT Law, a 10% withholding tax on dividends received/receivable will be levied on the PRC companies’ immediate holding companies established out of the PRC. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding companies and simultaneously certain conditions are satisfied.

During the Track Record Period, no PRC withholding income tax has been provided since the parent entities are able to control the timing of distributions from their subsidiaries and are not expected to distribute these profits in the near future.

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As at 31 December 2020 and 30 April 2021, deferred income tax liabilities of RMB6,320,000 and RMB8,641,000 have not been recognised for the withholding tax that would be payable on unremitted earnings of PRC subsidiaries of the Group amounting to RMB63,204,000 and RMB86,405,000, respectively. The Group does not have an intention to distribute the respective unremitted profits in the foreseeable future.

The tax on the Group’s profit before income tax differs from the theoretical amount that would arise using the statutory tax rate applicable to profit of the consolidated entities as follows:

| | Year ended 31 December | | | Four months ended | |
|--|------------------------|---------|---------|-------------------|---------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Profit before income tax | 40,236 | 63,413 | 96,489 | 22,332 | 24,571 |
| Tax calculated at CIT rate of 25% | 10,059 | 15,853 | 24,122 | 5,583 | 6,143 |
| Tax effects of: | | | | | |
| — Difference in tax base (i) | 718 | — | — | — | — |
| — Expenses not deductible for income tax purpose | 204 | 536 | 1,862 | 351 | 1,482 |
| — Income not subject to income tax (ii) | (1,441) | (1,410) | (2,063) | (341) | (720) |
| — Tax losses for which no deferred income tax asset was recognised (iii) | — | — | 9 | — | 539 |
| — Additional deduction on research and development expenses | — | (43) | (306) | — | — |
| Tax charge | 9,540 | 14,936 | 23,624 | 5,593 | 7,444 |

- (i) For the year ended 31 December 2018, HC Mining was qualified as a small-scale taxpayer under the PRC CIT regime. HC Mining’s CIT was therefore assessed on a basis agreed with the local tax bureau, being the taxable income that is subject to CIT at the rate of 25% was pre-determined at 4% of the total revenue. Since the year ended 31 December 2019, with the increase in scale of operations and therefore revenue, HC Mining is no longer a small-scale taxpayer and is subject to CIT at the rate of 25% on its assessable taxable income according to its profit or loss for the year.
- (ii) In accordance with the Circular of the Ministry of Finance and the State Administration of Taxation on Issues concerning Implementing the Enterprise Income Tax Incentive Catalogue for Comprehensive Utilization of Resources Cai Shui [2008] No. 47 (《財政部、國家稅務總局關於執行資源綜合利用企業所得稅優惠目錄有關問題的通知》財稅[2008] 47號), an enterprise, which uses the raw materials under the catalogue to produce recycled resource products under the catalogue and the products meet the national or industrial standards, is entitled to incentive tax arrangement such that 90% of the sales revenue of the products is subject to the calculation of the taxable income. The Group’s sales of recycled products qualify for the incentive tax arrangement and therefore 10% of the Group’s revenue from sales of recycled products was deducted from the taxable income of the Group in the calculation of CIT during the Track Record Period.

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- (iii) Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is possible.

The cumulative losses of the Group that no deferred income tax assets were recognised were as follow:

| | As at 31 December | | | As at |
|---|-------------------|---------|---------|----------|
| | 2018 | 2019 | 2020 | 30 April |
| | RMB'000 | RMB'000 | RMB'000 | 2021 |
| | | | | RMB'000 |
| Year of expiration | | | | |
| — 2026 | — | — | — | 2,036 |
| Without expiry date of Hong Kong entities | — | — | 36 | 220 |
| Total | — | — | 36 | 2,256 |

12 EARNINGS PER SHARE

(a) Basic

The basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the Track Record Period.

In determining the weighted average number of ordinary shares in issue during the Track Record Period, 1,000 shares issued by the Company pursuant to the Reorganization are assumed to have been issued since the beginning of the Track Record Period.

The earnings per share has not taken into account the proposed [REDACTED] pursuant to the shareholders’ resolution because the proposed [REDACTED] has not been effected as at the date of this report.

| | Year ended 31 December | | | Four months ended | |
|--|------------------------|--------|--------|-------------------|--------|
| | 2018 | 2019 | 2020 | 31 May | 2021 |
| | | | | 2020 | |
| | | | | (unaudited) | |
| Profit attributable to owners of the Company (RMB'000) | 30,696 | 48,477 | 72,865 | 16,739 | 17,127 |
| Weighted average number of ordinary shares in issue (Notes 1.2 and 24) | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Basic earnings per share (RMB'000) | 31 | 48 | 73 | 17 | 17 |

(b) Diluted

Diluted earnings per share presented is the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued during the Track Record Period.

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ACCOUNTANT’S REPORT

13 LEASES

(i) **Amounts recognised in the consolidated statements of financial position**

| | As at 31 December | | | As at |
|---------------------------------|-------------------|----------------|----------------|---------------|
| | 2018 | 2019 | 2020 | 30 April |
| | RMB'000 | RMB'000 | RMB'000 | 2021 |
| | | | | RMB'000 |
| Right-of-use assets | | | | |
| Land use rights | 26,522 | 25,930 | 25,336 | 25,138 |
| Leased properties | — | 645 | 1,096 | 307 |
| Leased equipment | 2,967 | 2,126 | 1,867 | 1,348 |
| | <u>29,489</u> | <u>28,701</u> | <u>28,299</u> | <u>26,793</u> |
| Lease liabilities | | | | |
| Land use rights | | | | |
| — Current | (3,495) | (16) | — | — |
| Leased properties and equipment | | | | |
| — Non-current | (408) | (683) | (823) | — |
| — Current | (991) | (523) | (762) | (376) |
| | <u>(4,894)</u> | <u>(1,222)</u> | <u>(1,585)</u> | <u>(376)</u> |

Movements in right-of-use assets during the Track Record Period are analysed as follows:

| | Land use rights | Leased equipment | Leased properties | Total |
|--------------------------------|-----------------|------------------|-------------------|---------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2018 | 6,467 | 2,184 | — | 8,651 |
| Additions | 20,540 | 1,080 | — | 21,620 |
| Depreciation (Note 8) | (485) | (297) | — | (782) |
| At 31 December 2018 | <u>26,522</u> | <u>2,967</u> | <u>—</u> | <u>29,489</u> |
| At 1 January 2019 | 26,522 | 2,967 | — | 29,489 |
| Additions | — | — | 653 | 653 |
| Termination of lease contracts | — | (547) | — | (547) |
| Depreciation (Note 8) | (592) | (294) | (8) | (894) |
| At 31 December 2019 | <u>25,930</u> | <u>2,126</u> | <u>645</u> | <u>28,701</u> |
| At 1 January 2020 | 25,930 | 2,126 | 645 | 28,701 |
| Additions | — | — | 727 | 727 |
| Depreciation (Note 8) | (594) | (259) | (276) | (1,129) |
| At 31 December 2020 | <u>25,336</u> | <u>1,867</u> | <u>1,096</u> | <u>28,299</u> |

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| | Land use rights | Leased equipment | Leased properties | Total |
|--------------------------------|----------------------------|-----------------------------|------------------------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| At 1 January 2021 | 25,336 | 1,867 | 1,096 | 28,299 |
| Disposal | — | (433) | — | (433) |
| Termination of lease contracts | — | — | (724) | (724) |
| Depreciation (<i>Note 8</i>) | <u>(198)</u> | <u>(86)</u> | <u>(65)</u> | <u>(349)</u> |
| As at 30 April 2021 | <u>25,138</u> | <u>1,348</u> | <u>307</u> | <u>26,793</u> |
| (unaudited) | | | | |
| At 1 January 2020 | 25,930 | 2,126 | 645 | 28,701 |
| Additions | — | — | 726 | 726 |
| Depreciation (<i>Note 8</i>) | <u>(198)</u> | <u>(86)</u> | <u>(65)</u> | <u>(349)</u> |
| As at 30 April 2020 | <u>25,732</u> | <u>2,040</u> | <u>1,306</u> | <u>29,078</u> |

The Group’s land use rights comprise leases of the factory sites of HC Mining and HC Environmental located at Laizhou city of Shandong Province, the PRC.

The estimated useful life of the Group’s land use rights is determined to be 50 years which is the best estimate of the useful life based on the normal terms of land use right leases in the PRC.

As at 31 December 2018, 2019 and 2020 and 30 April 2021, land use rights of the Group with a total net book value of RMB6,313,000, RMB6,159,000 and RMB6,004,000 and RMB5,953,000 were pledged as security for short-term and long-term bank borrowings of the Group as disclosed in Note 28.

The Group also leases office premises, warehouses and equipment under operating leases for periods ranging from 2 to 3 years.

(ii) Amounts recognised in the consolidated statements of comprehensive income

| | Year ended 31 December | | | Four months ended 30 April | |
|--|-------------------------------|----------------|----------------|---------------------------------------|----------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Cost of sales | 452 | 534 | 809 | 269 | 227 |
| Administrative expenses | <u>330</u> | <u>360</u> | <u>320</u> | <u>80</u> | <u>122</u> |
| | <u>782</u> | <u>894</u> | <u>1,129</u> | <u>349</u> | <u>349</u> |
| Interest expense (included in finance cost) (<i>Note 10</i>) | <u>118</u> | <u>60</u> | <u>70</u> | <u>21</u> | <u>17</u> |

The total cash outflow for leases during the year ended 31 December 2018, 2019 and 2020 and four months ended 30 April 2020 and 2021 were RMB1,053,000, RMB14,398,000 and RMB526,000, RMB149,000 and RMB500,000 respectively.

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ACCOUNTANT’S REPORT

14 PROPERTY, PLANT AND EQUIPMENT

| | Building <i>RMB'000</i> | Machinery <i>RMB'000</i> | Furniture fixtures and equipment <i>RMB'000</i> | Vehicles <i>RMB'000</i> | Construction in progress <i>RMB'000</i> | Total <i>RMB'000</i> |
|------------------------------------|-----------------------------------|------------------------------------|---|-----------------------------------|---|--------------------------------|
| Year ended 31 December 2018 | | | | | | |
| Opening net book amount | 8,715 | 6,843 | 688 | 601 | 1,850 | 18,697 |
| Additions | 325 | 2,055 | — | 2,779 | 10,899 | 16,058 |
| Transfer upon completion | 2,921 | — | — | — | (2,921) | — |
| Disposals | — | — | — | (329) | — | (329) |
| Depreciation (<i>note 8</i>) | <u>(1,018)</u> | <u>(1,018)</u> | <u>(233)</u> | <u>(211)</u> | <u>—</u> | <u>(2,480)</u> |
| Closing net book amount | <u>10,943</u> | <u>7,880</u> | <u>455</u> | <u>2,840</u> | <u>9,828</u> | <u>31,946</u> |
| At 31 December 2018 | | | | | | |
| Cost | 14,001 | 11,344 | 1,228 | 3,080 | 9,828 | 39,481 |
| Accumulated depreciation | <u>(3,058)</u> | <u>(3,464)</u> | <u>(773)</u> | <u>(240)</u> | <u>—</u> | <u>(7,535)</u> |
| Net book amount | <u>10,943</u> | <u>7,880</u> | <u>455</u> | <u>2,840</u> | <u>9,828</u> | <u>31,946</u> |
| Year ended 31 December 2019 | | | | | | |
| Opening net book amount | 10,943 | 7,880 | 455 | 2,840 | 9,828 | 31,946 |
| Additions | 2,272 | 14,940 | 1,538 | 2,083 | 82,442 | 103,275 |
| Transfer upon completion | 88,042 | — | — | — | (88,042) | — |
| Disposals | — | (1,429) | — | — | — | (1,429) |
| Depreciation (<i>note 8</i>) | <u>(1,964)</u> | <u>(1,655)</u> | <u>(381)</u> | <u>(396)</u> | <u>—</u> | <u>(4,396)</u> |
| Closing net book amount | <u>99,293</u> | <u>19,736</u> | <u>1,612</u> | <u>4,527</u> | <u>4,228</u> | <u>129,396</u> |
| At 31 December 2019 | | | | | | |
| Cost | 104,315 | 24,358 | 2,766 | 5,163 | 4,228 | 140,830 |
| Accumulated depreciation | <u>(5,022)</u> | <u>(4,622)</u> | <u>(1,154)</u> | <u>(636)</u> | <u>—</u> | <u>(11,434)</u> |
| Net book amount | <u>99,293</u> | <u>19,736</u> | <u>1,612</u> | <u>4,527</u> | <u>4,228</u> | <u>129,396</u> |

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| | Building RMB'000 | Machinery RMB'000 | Furniture fixtures and equipment RMB'000 | Vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|------------------------------------|-----------------------|----------------------|---|---------------------|--|-----------------------|
| Year ended 31 December 2020 | | | | | | |
| Opening net book amount | 99,293 | 19,736 | 1,612 | 4,527 | 4,228 | 129,396 |
| Additions | — | 4,800 | 954 | 506 | 3,003 | 9,263 |
| Transfer upon completion | 7,231 | — | — | — | (7,231) | — |
| Disposals | — | (190) | — | — | — | (190) |
| Depreciation (note 8) | <u>(4,465)</u> | <u>(2,554)</u> | <u>(478)</u> | <u>(538)</u> | <u>—</u> | <u>(8,035)</u> |
| Closing net book amount | <u>102,059</u> | <u>21,792</u> | <u>2,088</u> | <u>4,495</u> | <u>—</u> | <u>130,434</u> |
| At 31 December 2020 | | | | | | |
| Cost | 111,546 | 28,790 | 3,720 | 5,669 | — | 149,725 |
| Accumulated depreciation | <u>(9,487)</u> | <u>(6,998)</u> | <u>(1,632)</u> | <u>(1,174)</u> | <u>—</u> | <u>(19,291)</u> |
| Net book amount | <u>102,059</u> | <u>21,792</u> | <u>2,088</u> | <u>4,495</u> | <u>—</u> | <u>130,434</u> |
| Four months ended | | | | | | |
| 30 April 2021 | | | | | | |
| Opening net book amount | 102,059 | 21,792 | 2,088 | 4,495 | — | 130,434 |
| Additions | 1,243 | 728 | 516 | 2,611 | — | 5,098 |
| Disposals | — | (482) | — | — | — | (482) |
| Depreciation (note 8) | <u>(1,460)</u> | <u>(1,010)</u> | <u>(201)</u> | <u>(316)</u> | <u>—</u> | <u>(2,987)</u> |
| Closing net book amount | <u>101,842</u> | <u>21,028</u> | <u>2,403</u> | <u>6,790</u> | <u>—</u> | <u>132,063</u> |
| As at 30 April 2021 | | | | | | |
| Cost | 112,789 | 28,914 | 4,236 | 8,280 | — | 154,219 |
| Accumulated depreciation | <u>(10,947)</u> | <u>(7,886)</u> | <u>(1,833)</u> | <u>(1,490)</u> | <u>—</u> | <u>(22,156)</u> |
| Net book amount | <u>101,842</u> | <u>21,028</u> | <u>2,403</u> | <u>6,790</u> | <u>—</u> | <u>132,063</u> |
| (unaudited) | | | | | | |
| Four months ended | | | | | | |
| 30 April 2020 | | | | | | |
| Opening net book amount | 99,293 | 19,736 | 1,612 | 4,527 | 4,228 | 129,396 |
| Additions | — | 1,713 | 10 | 506 | 1,328 | 3,557 |
| Depreciation (note 8) | <u>(1,451)</u> | <u>(810)</u> | <u>(150)</u> | <u>(171)</u> | <u>—</u> | <u>(2,582)</u> |
| Closing net book amount | <u>97,842</u> | <u>20,639</u> | <u>1,472</u> | <u>4,862</u> | <u>5,556</u> | <u>130,371</u> |
| As at 30 April 2020 | | | | | | |
| Cost | 104,315 | 26,070 | 2,776 | 5,669 | 5,556 | 144,386 |
| Accumulated depreciation | <u>(6,473)</u> | <u>(5,431)</u> | <u>(1,304)</u> | <u>(807)</u> | <u>—</u> | <u>(14,015)</u> |
| Net book amount | <u>97,842</u> | <u>20,639</u> | <u>1,472</u> | <u>4,862</u> | <u>5,556</u> | <u>130,371</u> |

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Depreciation of property, plant and equipment is included in the following categories in the consolidated statements of comprehensive income:

| | Year ended 31 December | | | Four months ended 30 April | |
|-------------------------|------------------------|-----------------|-----------------|--------------------------------|-----------------|
| | 2018 RMB'000 | 2019 RMB'000 | 2020 RMB'000 | 2020 RMB'000 (unaudited) | 2021 RMB'000 |
| Cost of sales | 1,595 | 2,587 | 6,270 | 2,077 | 2,202 |
| Administrative expenses | <u>885</u> | <u>1,809</u> | <u>1,765</u> | <u>505</u> | <u>785</u> |
| Total | <u>2,480</u> | <u>4,396</u> | <u>8,035</u> | <u>2,582</u> | <u>2,987</u> |

During the year ended 31 December 2019, the Group capitalised interest on borrowings amounting to approximately RMB370,000 (Note 10). Borrowing costs were capitalised at the weighted average rate of 5.61% for the year ended 31 December 2019.

Construction-in-progress mainly comprises buildings under construction in the PRC.

As at 31 December 2018, 2019 and 2020 and 30 April 2021, buildings of the Group with a total net book value of RMB4,532,000, RMB4,224,000 and RMB71,380,000 and RMB70,495,000 were pledged to secure borrowings of the Group as disclosed in Note 28, respectively.

15 INVESTMENT PROPERTIES

| | Building RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|------------------------------------|---------------------|--|------------------|
| Year ended 31 December 2018 | | | |
| Opening net book amount | — | — | — |
| Addition | 12,522 | 91,412 | 103,934 |
| Transfer upon completion | 56,016 | (56,016) | — |
| Depreciation (Note 8) | <u>(792)</u> | <u>—</u> | <u>(792)</u> |
| Closing net book amount | <u>67,746</u> | <u>35,396</u> | <u>103,142</u> |
| As at 31 December 2018 | | | |
| Cost | 68,538 | 35,396 | 103,934 |
| Accumulated depreciation | <u>(792)</u> | <u>—</u> | <u>(792)</u> |
| Net book amount | <u>67,746</u> | <u>35,396</u> | <u>103,142</u> |
| Year ended 31 December 2019 | | | |
| Opening net book amount | 67,746 | 35,396 | 103,142 |
| Addition | — | 38,631 | 38,631 |
| Transfer upon completion | 74,027 | (74,027) | — |
| Depreciation (Note 8) | <u>(3,410)</u> | <u>—</u> | <u>(3,410)</u> |
| Closing net book amount | <u>138,363</u> | <u>—</u> | <u>138,363</u> |

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ACCOUNTANT’S REPORT

| | Building <i>RMB'000</i> | Construction in progress <i>RMB'000</i> | Total <i>RMB'000</i> |
|--|-----------------------------------|---|--------------------------------|
| As at 31 December 2019 | | | |
| Cost | 142,565 | — | 142,565 |
| Accumulated depreciation | <u>(4,202)</u> | <u>—</u> | <u>(4,202)</u> |
| Net book amount | <u>138,363</u> | <u>—</u> | <u>138,363</u> |
| Year ended 31 December 2020 | | | |
| Opening net book amount | 138,363 | — | 138,363 |
| Depreciation (<i>Note 8</i>) | <u>(4,386)</u> | <u>—</u> | <u>(4,386)</u> |
| Closing net book amount | <u>133,977</u> | <u>—</u> | <u>133,977</u> |
| As at 31 December 2020 | | | |
| Cost | 142,565 | — | 142,565 |
| Accumulated depreciation | <u>(8,588)</u> | <u>—</u> | <u>(8,588)</u> |
| Net book amount | <u>133,977</u> | <u>—</u> | <u>133,977</u> |
| Four months ended 30 April 2021 | | | |
| Opening net book amount | 133,977 | — | 133,977 |
| Depreciation (<i>Note 8</i>) | <u>(1,462)</u> | <u>—</u> | <u>(1,462)</u> |
| Closing net book amount | <u>132,515</u> | <u>—</u> | <u>132,515</u> |
| As at 30 April 2021 | | | |
| Cost | 142,565 | — | 142,565 |
| Accumulated depreciation | <u>(10,050)</u> | <u>—</u> | <u>(10,050)</u> |
| Net book amount | <u>132,515</u> | <u>—</u> | <u>132,515</u> |
| (unaudited) | | | |
| Four months ended 30 April 2020 | | | |
| Opening net book amount | 138,363 | — | 138,363 |
| Depreciation (<i>Note 8</i>) | <u>(1,462)</u> | <u>—</u> | <u>(1,462)</u> |
| Closing net book amount | <u>136,901</u> | <u>—</u> | <u>136,901</u> |
| As at 30 April 2020 | | | |
| Cost | 142,565 | — | 142,565 |
| Accumulated depreciation | <u>(5,664)</u> | <u>—</u> | <u>(5,664)</u> |
| Net book amount | <u>136,901</u> | <u>—</u> | <u>136,901</u> |

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- (a) As at 31 December 2018, 2019 and 2020 and 30 April 2021, the fair value of the Group’s investment properties were approximately RMB107,831,000, RMB164,401,000 and RMB160,600,000 and RMB150,664,000, respectively. The fair values of the investment properties as at 31 December 2018 and 2019 were estimated by the management of the Group and the fair value as at 31 December 2020 was determined with reference to a professional valuation by Cushman & Wakefield Limited, a professional valuer. The fair value as at 30 April 2021 was estimated by the management of the Group.
- (b) Investment properties of the Group as at 31 December 2020 and 30 April 2021 with a total net book value of RMB70,315,000 and RMB69,492,000 were pledged to secure bank borrowings of the Group as disclosed in Note 28, respectively.

(c) Valuation techniques

Income approach is adopted and takes into account the current rents of the property interests and the reversionary potentials of the tenancies, term yield and reversionary yield are then applied respectively to derive the market value of the property, there were no changes to the valuation techniques for each of the two investment properties during the Track Record Period.

Information about fair value measurements of investment properties using significant unobservable inputs (level 3) is as follows:

| | As at 31 December | | | As at 30 April |
|--|-------------------|----------------|----------------|----------------|
| | 2018 | 2019 | 2020 | 2021 |
| | RMB’000 | RMB’000 | RMB’000 | RMB’000 |
| Fair value (RMB’000) | 107,831 | 164,401 | 160,600 | 150,664 |
| Unobservable inputs | | | | |
| — Term yield | 5.0% per annum | 5.0% per annum | 5.0% per annum | 5.0% per annum |
| — Reversion yield | 5.5% per annum | 5.5% per annum | 5.5% per annum | 5.5% per annum |
| — Annually market rent (RMB/square meter/annum) | 11–23 | 12–25 | 11–22 | 11–23 |

- (d) Rental income relating to the lease of investment properties was included in the consolidated statements of comprehensive income as follows:

| | Year ended 31 December | | | Four months ended | |
|-----------------|------------------------|---------|---------|-------------------|---------|
| | 2018 | 2019 | 2020 | 30 April | 2021 |
| | RMB’000 | RMB’000 | RMB’000 | RMB’000 | RMB’000 |
| Revenue | | | | | |
| — Rental income | 1,083 | 14,490 | 14,507 | 4,836 | 4,836 |

(unaudited)

The Group leases investment properties under operating leases. The operating leases are estimated to have a lease period of 5 years. Details of the lease arrangement are set out in Note 30.

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ACCOUNTANT’S REPORT

16 INTANGIBLE ASSETS

| | As at 31 December | | | As at |
|--|-------------------|-----------|-----------|-----------|
| | 2018 | 2019 | 2020 | 30 April |
| | RMB'000 | RMB'000 | RMB'000 | 2021 |
| | | | | RMB'000 |
| Software: | | | | |
| As at the beginning of the year/ period | | | | |
| Cost | — | — | 34 | 34 |
| Accumulated amortisation | — | — | (6) | (13) |
| Net book amount | — | — | 28 | 21 |
| Opening net book amount | — | — | 28 | 21 |
| Additions | — | 34 | — | |
| Amortisation (<i>Note 8</i>) | — | (6) | (7) | (2) |
| Closing net book amount | — | 28 | 21 | 19 |
| As at the end of the year/period | | | | |
| Cost | — | 34 | 34 | 34 |
| Accumulated amortisation | — | (6) | (13) | (15) |
| Net book amount | — | 28 | 21 | 19 |

Amortisation of the intangible assets was included in administrative expenses in the consolidated statements of comprehensive income:

17 PREPAYMENT FOR NON-CURRENT ASSETS

| | As at 31 December | | | As at |
|---|-------------------|--------------|--------------|--------------|
| | 2018 | 2019 | 2020 | 30 April |
| | RMB'000 | RMB'000 | RMB'000 | 2021 |
| | | | | RMB'000 |
| Prepayment for purchase of equipment and vehicle | 328 | 3,627 | 2,500 | 2,026 |
| Prepayment for construction in progress | 1,878 | 1,330 | 496 | 773 |
| | 2,206 | 4,957 | 2,996 | 2,799 |

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18 INVENTORIES

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

During the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2020 and 2021, the cost of inventories recognised in “cost of sales” amounted to RMB19,541,000, RMB17,280,000 and RMB35,187,000, RMB6,874,000 and RMB11,327,000 respectively.

19 FINANCIAL INSTRUMENTS BY CATEGORY

The Group has the following financial instruments:

| | As at 31 December | | | As at |
|---|-------------------|----------------|----------------|----------------|
| | 2018 | 2019 | 2020 | 30 April |
| | RMB'000 | RMB'000 | RMB'000 | 2021 |
| | | | | RMB'000 |
| Assets at amortized cost | | | | |
| Trade and other receivables excluding prepayments (Notes 20 and 21) | 24,725 | 11,536 | 24,690 | 15,294 |
| Amounts due from related parties (Note 33(c)) | 86,295 | 140,173 | 33,887 | 25,419 |
| Restricted bank deposit (Note 23) | 6,000 | — | — | — |
| Cash and cash equivalents (Note 23) | <u>12,077</u> | <u>2,056</u> | <u>45,363</u> | <u>55,846</u> |
| | <u>129,097</u> | <u>153,765</u> | <u>103,940</u> | <u>96,559</u> |
| Liabilities at amortized cost | | | | |
| Trade payable (Note 26) | 9,174 | 13,224 | 20,147 | 16,091 |
| Other payables excluding non-financial liabilities (Note 27) | 109,158 | 152,275 | 9,172 | 9,907 |
| Dividend payable | — | — | 52,200 | 40,600 |
| Amounts due to the Controlling Shareholder (Note 33(c)) | 50,679 | 23,572 | 8,217 | — |
| Borrowings (Note 28) | 28,480 | 32,000 | 42,000 | 42,000 |
| Lease liabilities (Note 13) | 4,894 | 1,222 | 1,585 | 376 |
| Other liabilities (Note 30) | <u>38,162</u> | <u>106,272</u> | <u>110,381</u> | <u>101,016</u> |
| | <u>240,547</u> | <u>328,565</u> | <u>243,702</u> | <u>209,990</u> |

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ACCOUNTANT’S REPORT

20 TRADE RECEIVABLES

| | As at 31 December | | | As at |
|--|----------------------|-------------------|----------------------|----------------------|
| | 2018 | 2019 | 2020 | 30 April |
| | RMB'000 | RMB'000 | RMB'000 | 2021 |
| | | | | RMB'000 |
| Trade receivables | | | | |
| — related to provision of gold mine hazardous waste treatment services | 7,787 | — | 1,781 | 14,780 |
| — related to sales of recycled products | <u>11,210</u> | <u>350</u> | <u>21,167</u> | <u>9</u> |
| | 18,997 | 350 | 22,948 | 14,789 |
| Less: provision for impairment | <u>(95)</u> | <u>(2)</u> | <u>(115)</u> | <u>(74)</u> |
| | <u><u>18,902</u></u> | <u><u>348</u></u> | <u><u>22,833</u></u> | <u><u>14,715</u></u> |

(i) Ageing analysis of the trade receivables

The trade receivables represent receivable relating to provision of gold mine hazardous waste treatment services and receivable relating to sales of recycled products. The credit terms grant to customers are generally from 30 to 60 days.

As at 31 December 2018, 2019 and 2020 and 30 April 2021, the ageing analysis of the trade receivables based on the invoice date is as follows:

| | As at 31 December | | | As at |
|---------------|----------------------|-------------------|----------------------|----------------------|
| | 2018 | 2019 | 2020 | 30 April |
| | RMB'000 | RMB'000 | RMB'000 | 2021 |
| | | | | RMB'000 |
| 1–30 days | 3,339 | 350 | 9,243 | 10,439 |
| 31–60 days | 5,279 | — | 10,673 | 4,350 |
| 61–90 days | 3,098 | — | 1,890 | — |
| 91–180 days | 2,060 | — | 1,142 | — |
| Over 180 days | <u>5,221</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| | <u><u>18,997</u></u> | <u><u>350</u></u> | <u><u>22,948</u></u> | <u><u>14,789</u></u> |

Due to the short-term nature of the trade receivables, their carrying amounts approximated their fair values as at the balance sheet dates and were dominated in RMB.

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(ii) Impairment of the trade receivables

The Group applies the simplified approach to provide for expected credit loss which was a lifetime expected loss allowance for all trade receivables and retention receivables as prescribed by IFRS 9. Details of the expected loss rates based on the payment profile of sales are set out in Note 3.1 b (ii).

The movements in provision for impairment of trade receivables were as follows:

| | As at 31 December | | | As at |
|--|-------------------|-------------|------------|-------------|
| | 2018 | 2019 | 2020 | 30 April |
| | RMB'000 | RMB'000 | RMB'000 | 2021 |
| | | | | RMB'000 |
| As at 1 January | 117 | 95 | 2 | 115 |
| Loss allowance recognised/ (reversal) in profit or loss during the year/period | <u>(22)</u> | <u>(93)</u> | <u>113</u> | <u>(41)</u> |
| As at year/period end | <u>95</u> | <u>2</u> | <u>115</u> | <u>74</u> |

21 OTHER RECEIVABLES AND PREPAYMENTS

(a) The Group

| | As at 31 December | | | As at |
|---------------------------------|-------------------|---------------|-------------------|-------------------|
| | 2018 | 2019 | 2020 | 30 April |
| | RMB'000 | RMB'000 | RMB'000 | 2021 |
| | | | | RMB'000 |
| Amounts due from third parties | 4,827 | 9,215 | 491 | — |
| Prepayments for: | | | | |
| — transportation costs | — | — | 1,792 | — |
| — technical consulting expenses | — | 600 | 1,554 | 465 |
| — [REDACTED] expenses | — | — | [REDACTED] | [REDACTED] |
| — electricity and water | 52 | 3,129 | 791 | 978 |
| — purchase of raw materials | 606 | 467 | 1,287 | 1,455 |
| Value-added tax recoverables | — | 2,788 | 1,164 | 711 |
| Others | <u>944</u> | <u>1,627</u> | <u>1,366</u> | <u>579</u> |
| | <u>6,429</u> | <u>17,826</u> | <u>[REDACTED]</u> | <u>[REDACTED]</u> |

The amounts due from third parties represented advances to third parties during the Track Record Period and were unsecured, interest free and without fixed repayment terms. The amounts had been fully settled as at 30 April 2021.

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(b) The Company

As at
30 April
2021
RMB’000

Prepayments for [REDACTED] expenses [REDACTED]

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | As at 31 December | | | As at 30 April |
|--|-------------------|--------------|--------------|-------------------|
| | 2018 | 2019 | 2020 | 2021 |
| | RMB’000 | RMB’000 | RMB’000 | RMB’000 |
| Debt investments at FVOCI | | | | |
| Current assets — bank acceptance notes | | | | |
| At 1 January | 6,940 | 10,243 | 2,890 | 1,960 |
| Additions | 3,303 | — | — | — |
| Disposals | — | (7,353) | (930) | (710) |
| As at year/period end | <u>10,243</u> | <u>2,890</u> | <u>1,960</u> | <u>1,250</u> |

The Group’s financial assets at FVOCI comprised bank acceptance notes, where the contractual cash flows are solely principal and the objective of the Group’s business model is achieved both by collecting contractual cash flows and selling financial assets. Bank acceptance notes are classified as current assets due to short maturity.

On disposal of financial assets at FVOCI, any related balance within the FVOCI reserve is reclassified to profit or loss.

23 CASH AND CASH EQUIVALENTS AND RESTRICTED BANK BALANCE

| | As at 31 December | | | As at 30 April |
|---------------------------------|-------------------|--------------|---------------|-------------------|
| | 2018 | 2019 | 2020 | 2021 |
| | RMB’000 | RMB’000 | RMB’000 | RMB’000 |
| Cash and cash equivalent | | | | |
| Cash in hand and at bank | 12,077 | 2,056 | 45,363 | 55,846 |
| Restricted bank balance | | | | |
| Restricted bank deposits | <u>6,000</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| | <u>18,077</u> | <u>2,056</u> | <u>45,363</u> | <u>55,846</u> |

The restricted bank balance as at 31 December 2018 of RMB6,000,000 represented deposits of the Group pledged as security for issue of bills payable (Note 27). The deposits were released during the year ended 31 December 2019 when the bills were fully settled.

As at 31 December 2018, 2019 and 2020 and 30 April 2021, cash and cash equivalents and restricted bank balance of the Group were denominated in RMB.

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24 SHARE CAPITAL AND SHARE PREMIUM — GROUP AND COMPANY

| | | | Number of shares | Nominal value HK\$ |
|---|---------------------|-----------------------------|-----------------------------|--------------------------|
| Authorised: | | | | |
| As at 12 January 2021 (date of incorporation) | | | <u>38,000,000</u> | <u>380,000</u> |
| | Number of shares | Share capital RMB'000 | Share premium RMB'000 | Total RMB'000 |
| Issued: | | | | |
| Ordinary shares issued upon incorporation on 12 January 2021 (date of incorporation) | 1 | —* | — | —* |
| Issuance of shares (Note 1.2(7)) | <u>999</u> | <u>—*</u> | <u>345,858</u> | <u>345,858</u> |
| As at 30 April 2021 | <u>1,000</u> | <u>—*</u> | <u>345,858</u> | <u>345,858</u> |

* The issued share capital of the Company as at 30 April 2021 amounted to HK\$10 which was below RMB1,000.

The Company was incorporated on 12 January 2021 with an authorised share capital of HK\$380,000 divided into 38,000,000 shares with a par value of HK\$0.01 each. Upon incorporation, one nil-paid share was allotted and issued to the initial subscriber of the Company which was transferred on the same date to a company wholly-owned by Mr. Liu, the Controlling Shareholder of the Group.

On 15 April 2021, the Controlling Shareholder, Mr. Sze, and the [REDACTED] (Note 1.2) as vendors, transferred the entire 100% equity interests in HC International to the Company, as the purchaser, in exchange for the Company issuing 999 shares of the Company to the vendors. The Company’s cost of investment in the subsidiaries was recorded based on the fair values of the subsidiaries as at the date of the transfer which was estimated to be RMB345,858,000, and the corresponding credit was recorded in share capital of HKD10 (equivalent to approximately RMB9) and the remaining balance in share premium account.

Upon completion of the transfers, the Company became beneficially and indirectly owned as to 78.6% by Mr. Liu, 3.3% by Mr. Sze and 18.1% by the [REDACTED].

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25 OTHER RESERVES

| | Capital reserve RMB'000 | Statutory surplus reserve RMB'000 | Total RMB'000 |
|--|--|--|--------------------------|
| As at 1 January 2018 | — | 5,330 | 5,330 |
| Profit appropriation to statutory surplus reserves | — | 2,339 | 2,339 |
| As at 31 December 2018 | <u>—</u> | <u>7,669</u> | <u>7,669</u> |
| As at 1 January 2019 | — | 7,669 | 7,669 |
| Profit appropriation to statutory surplus reserves | — | 4,548 | 4,548 |
| As at 31 December 2019 | <u>—</u> | <u>12,217</u> | <u>12,217</u> |
| As at 1 January 2020 | — | 12,217 | 12,217 |
| Profit appropriation to statutory surplus reserves | — | 5,814 | 5,814 |
| Deemed contribution from shareholders | 24,670 | — | 24,670 |
| Contribution from shareholders | 29,619 | — | 29,619 |
| Deemed distribution to shareholders | <u>(29,400)</u> | <u>—</u> | <u>(29,400)</u> |
| As at 31 December 2020 | <u>24,889</u> | <u>18,031</u> | <u>42,920</u> |
| As at 1 January 2021 | 24,889 | 18,031 | 42,920 |
| Effect of the Reorganization | <u>(345,858)</u> | <u>—</u> | <u>(345,858)</u> |
| As at 30 April 2021 | <u>(320,969)</u> | <u>18,031</u> | <u>(302,938)</u> |
| (unaudited) | | | |
| As at 1 January 2020 | — | 12,217 | 12,217 |
| Deemed contribution from shareholders | <u>24,670</u> | <u>—</u> | <u>24,670</u> |
| As at 30 April 2020 | <u>24,670</u> | <u>12,217</u> | <u>36,887</u> |

(a) Capital reserve

Capital reserve represents the aggregate paid-in capital of the subsidiaries acquired, offset by investment costs in subsidiaries of the Company during the Reorganisation.

As mentioned in Note 1.2(4), in April 2020, HC Mining disposed its 61.68% equity interest in Zhonglian Cement to Beijing Yutaida, a company beneficially owned by the Controlling Shareholder. The settlement of consideration receivable of RMB24,670,000 was regards as a deemed contribution from shareholders during the year ended 31 December 2020.

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As mentioned in Note 1.2(3), in December 2020, the Controlling Shareholder made cash contribution totalling USD4,540,000 (equivalent to RMB29,619,000) to HC Hong Kong, of which RMB29,400,000 was used to settle the consideration payable to the Controlling Shareholder for the acquisition of the equity interest in HC Mining and HC Environmental from the Controlling Shareholder. For the purpose of the Accountant’s Report, the financial information of HC Mining and HC Environmental, as the major operating companies conducting the [REDACTED] Business, had been combined in the historical financial information of the Group since the beginning of the Track Record Period before the actual acquisition of the companies by the Group in the Reorganisation, accordingly, the settlement of consideration payable of RMB29,400,000 to the Controlling Shareholder for the acquisitions was accounted for as a deemed distribution to the Group’s then shareholders within equity for the year ended 31 December 2020.

(b) Statutory surplus reserves

Pursuant to the relevant laws and regulations in the PRC, the Company’s subsidiaries in the PRC shall make appropriations from after-tax profit to non-distributable reserve funds as determined by the boards of directors of the relevant PRC subsidiaries.

In accordance with the relevant laws and regulations in the PRC and Articles of Association of the PRC subsidiaries of the Group, they are required to appropriate 10% of the annual statutory net profits of the PRC subsidiaries, after offsetting any prior years’ losses as determined under the PRC accounting standards, to the statutory reserves fund before distributing the net profit. When the balance of the statutory reserves fund reaches 50% of the registered capital of the PRC subsidiaries, any further appropriation is at the discretion of shareholders. The statutory reserves fund can be used to offset prior years’ losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding, provided that the remaining balance of the statutory reserves fund after such issue is not less than 25% of registered capital.

26 TRADE PAYABLES

| | As at 31 December | | | As at |
|-----------------------------------|--------------------------|----------------|----------------|-----------------|
| | 2018 | 2019 | 2020 | 30 April |
| | <i>RMB’000</i> | <i>RMB’000</i> | <i>RMB’000</i> | 2021 |
| | | | | <i>RMB’000</i> |
| Trade payables | | | | |
| — related to transportation costs | 7,092 | 13,117 | 17,308 | 12,934 |
| — related to raw materials | <u>2,082</u> | <u>107</u> | <u>2,839</u> | <u>3,157</u> |
| | <u>9,174</u> | <u>13,224</u> | <u>20,147</u> | <u>16,091</u> |

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The ageing analysis of trade payables is as follows:

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

27 OTHER PAYABLES AND ACCRUALS

(a) The Group

| | As at 31 December | | | As at |
|---|-------------------|----------------|-------------------|-------------------|
| | 2018 | 2019 | 2020 | 30 April |
| | RMB'000 | RMB'000 | RMB'000 | 2021 |
| | | | | 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 projects | 11,500 | — | — | — |
| Employee benefits payables | 1,860 | 2,542 | 3,048 | 3,011 |
| Payable for [REDACTED] expenses | — | — | [REDACTED] | [REDACTED] |
| Other taxes payable | 6,522 | 7,975 | 11,506 | 12,221 |
| Others | <u>6,893</u> | <u>3,401</u> | <u>1,278</u> | <u>516</u> |
| Total | <u>117,540</u> | <u>162,792</u> | <u>[REDACTED]</u> | <u>[REDACTED]</u> |

The carrying amounts of other payables approximated their fair values as at the balance sheet dates and were denominated in RMB.

(b) The Company

| | As at |
|---------------------------------|-------------------|
| | 30 April |
| | 2021 |
| | RMB'000 |
| Payable for [REDACTED] expenses | <u>[REDACTED]</u> |

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28 BORROWINGS

| | As at 31 December | | | As at |
|--|-------------------|---------------|---------------|---------------|
| | 2018 | 2019 | 2020 | 30 April |
| | RMB'000 | RMB'000 | RMB'000 | 2021 |
| | | | | RMB'000 |
| Non-current: | | | | |
| Long term bank borrowings, secured and guaranteed (a) | — | — | 39,880 | 39,880 |
| Current: | | | | |
| Short term bank borrowings, secured and guaranteed (b) | 28,480 | 32,000 | — | — |
| Current portion of long-term bank borrowings, secured and guaranteed (a) | — | — | 2,120 | 2,120 |
| Total borrowings | 28,480 | 32,000 | 42,000 | 42,000 |

- (a) The Group’s long-term bank borrowings as at 31 December 2020 and 30 April 2021 of RMB42,000,000 were secured by the Group’s land use rights with net book value of RMB6,004,000 and RMB5,953,000, property, plant and equipment with net book value of RMB71,380,000 and RMB70,495,000 and investment properties with net book value of RMB70,315,000 and RMB69,492,000, respectively, and were guaranteed by related parties (Note 33(b)). The long term borrowings are for a term of 3 years and interest bearing at 4.05% per annum. The guarantee by related parties was released in February 2021 and replaced by guarantees provided by subsidiaries within the Group.
- (b) The Group’s short term bank borrowings as at 31 December 2018 and 2019 were secured by the Group’s land use rights with net book value of RMB6,313,000 and RMB6,159,000, and property, plant and equipment with net book value of RMB4,532,000 and RMB4,224,000 respectively, and were guaranteed by related parties and properties of related parties (Note 33(b)). The short term borrowings are interest bearing from 4.05% to 6.53% per annum.
- (c) For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2020 and 2021, the weighted average effective interest rates of the bank borrowings were 5.93%, 5.61%, 4.83%, 5.85% and 4.05%, respectively.
- (d) The carrying amounts of the Group’s current bank borrowings approximated their fair values as at the balance sheet date due to their short term maturity.

The carrying amounts of the Group’s non-current bank borrowings approximated their fair values as at the balance sheet date as they were carried at fixed interest rates and the discounting impact was not material.

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- (e) The Group’s borrowings as at the balance sheet dates during the Track Record Period were repayable as follows:

| | As at 31 December | | | As at |
|---------------|-------------------|---------------|---------------|---------------|
| | 2018 | 2019 | 2020 | 30 April |
| | RMB’000 | RMB’000 | RMB’000 | 2021 |
| | | | | RMB’000 |
| Within 1 year | 28,480 | 32,000 | 2,120 | 2,120 |
| 1–2 years | — | — | 2,120 | 2,120 |
| 2–3 years | — | — | 37,760 | 37,760 |
| Total | <u>28,480</u> | <u>32,000</u> | <u>42,000</u> | <u>42,000</u> |

29 DEFERRED INCOME TAX

The analysis of deferred income tax assets and liabilities is as follows:

| | As at 31 December | | | As at |
|-----------------------------------|-------------------|------------|--------------|--------------|
| | 2018 | 2019 | 2020 | 30 April |
| | RMB’000 | RMB’000 | RMB’000 | 2021 |
| | | | | RMB’000 |
| Deferred income tax assets: | | | | |
| — to be recovered within | | | | |
| 12 months | 183 | 403 | 208 | 217 |
| — to be recovered after 12 months | <u>301</u> | <u>396</u> | <u>535</u> | <u>564</u> |
| | 484 | 799 | 743 | 781 |
| Deferred income tax liabilities: | | | | |
| — to be recovered after 12 months | <u>—</u> | <u>—</u> | <u>(104)</u> | <u>(283)</u> |
| Deferred income tax assets — net | <u>484</u> | <u>799</u> | <u>639</u> | <u>498</u> |

The gross movement of deferred income tax assets/(liabilities) — net is as follows:

| | Year ended 31 December | | | Four months ended | |
|---|------------------------|------------|--------------|-------------------|--------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB’000 | RMB’000 | RMB’000 | RMB’000 | RMB’000 |
| | | | | | |
| | | | | (unaudited) | |
| At the beginning of year/period | 2,438 | 484 | 799 | 799 | 639 |
| (Charged)/credit to consolidated statements of comprehensive income (Note 11) | <u>(1,954)</u> | <u>315</u> | <u>(160)</u> | <u>(59)</u> | <u>(141)</u> |
| At the end of year/period | <u>484</u> | <u>799</u> | <u>639</u> | <u>740</u> | <u>498</u> |

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The movement in deferred income tax assets and liabilities during the Track Record Period, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

| | Decelerated depreciation of property, plant and equipment <i>RMB'000</i> | Impairment of trade receivables <i>RMB'000</i> | Accrued payroll <i>RMB'000</i> | Tax losses <i>RMB'000</i> | Expenses accrual <i>RMB'000</i> | Total <i>RMB'000</i> |
|--|--|---|--------------------------------------|------------------------------|---------------------------------------|-------------------------|
| At 1 January 2018 | 183 | 29 | 268 | 1,958 | — | 2,438 |
| Credited/(charged) to the consolidated statements of comprehensive income | <u>94</u> | <u>(6)</u> | <u>(84)</u> | <u>(1,958)</u> | <u>—</u> | <u>(1,954)</u> |
| At 31 December 2018 | 277 | 23 | 184 | — | — | 484 |
| Credited/(charged) to the consolidated statements of comprehensive income | <u>119</u> | <u>(23)</u> | <u>23</u> | <u>—</u> | <u>196</u> | <u>315</u> |
| At 31 December 2019 | 396 | — | 207 | — | 196 | 799 |
| Credited/(charged) the consolidated statements of comprehensive income | <u>125</u> | <u>13</u> | <u>2</u> | <u>—</u> | <u>(196)</u> | <u>(56)</u> |
| At 31 December 2020 | 521 | 13 | 209 | — | — | 743 |
| Credited/(charged) the consolidated statements of comprehensive income | <u>43</u> | <u>(6)</u> | <u>1</u> | <u>—</u> | <u>—</u> | <u>38</u> |
| As at 30 April 2021 | <u>564</u> | <u>7</u> | <u>210</u> | <u>—</u> | <u>—</u> | <u>781</u> |
| (unaudited) | | | | | | |
| At 1 January 2020 | 396 | — | 207 | — | 196 | 799 |
| Credited/(charged) the consolidated statements of comprehensive income | <u>42</u> | <u>7</u> | <u>(24)</u> | <u>—</u> | <u>(84)</u> | <u>(59)</u> |
| As at 30 April 2020 | <u>438</u> | <u>7</u> | <u>183</u> | <u>—</u> | <u>112</u> | <u>740</u> |

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Deferred income tax liabilities

| | Accelerated depreciation of property, plant and equipment <i>RMB'000</i> |
|--|---|
| At 1 January 2020 | — |
| Charged to the consolidated statements of comprehensive income | <u>(104)</u> |
| At 31 December 2020 | (104) |
| Charged to the consolidated statements of comprehensive income | <u>(179)</u> |
| As at 30 April 2021 | <u><u>(283)</u></u> |
| (unaudited) | |
| At 1 January 2020 | — |
| Charged to the consolidated statements of comprehensive income | <u>—</u> |
| As at 30 April 2020 | <u><u>—</u></u> |

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30 OTHER LIABILITIES

| | As at 31 December | | | As at |
|---|-------------------|---------|---------|----------|
| | 2018 | 2019 | 2020 | 30 April |
| | RMB'000 | RMB'000 | RMB'000 | 2021 |
| | | | | RMB'000 |
| Retention payable for construction projects (a) | | | | |
| Current | — | — | 17,892 | 7,115 |
| Non-current | — | 17,892 | — | — |
| Total | — | 17,892 | 17,892 | 7,115 |
| Warehouse lease arrangements (b) | | | | |
| Advance from lessee (i) | | | | |
| — Current portion | 6,825 | 15,167 | 15,167 | 15,167 |
| — Non-current portion | 21,854 | 40,732 | 26,225 | 21,390 |
| Sub-total | 28,679 | 55,899 | 41,392 | 36,557 |
| Payable to LZ Assets | | | | |
| — non-current (ii) | | | | |
| — First warehouse | 38,162 | 39,937 | 41,794 | 42,432 |
| — Second warehouse | — | 48,443 | 50,695 | 51,469 |
| Sub-total | 38,162 | 88,380 | 92,489 | 93,901 |
| Total | 66,841 | 144,279 | 133,881 | 130,458 |
| Grand total | 66,841 | 162,171 | 151,773 | 137,573 |
| Presented on the balance sheet as: | | | | |
| Other liabilities — current portion | 6,825 | 15,167 | 33,059 | 22,282 |
| Other liabilities — non-current portion | 60,016 | 147,004 | 118,714 | 115,291 |
| | 66,841 | 162,171 | 151,773 | 137,573 |

(a) Retention payable for construction projects

According to the construction contracts with the contractors of the Group’s buildings under property, plant and equipment and investment properties, 10% of the total payables for construction cost was set aside as retention fund with a warranty period of 2 years from the date of inspection for certification of completion of the buildings.

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(b) Warehouse lease arrangements

In October 2018 and December 2018, HC Environmental entered into two gold mine hazardous waste storage warehouse lease agreements with Laizhou City State-owned Assets Management Company Limited (萊州市國有資產經營有限公司, “LZ Assets”), a state-owned enterprise, for the storage of cyanide tailings hazardous waste from a State-owned enterprise. Pursuant to the lease agreements, LZ Assets advanced RMB72 million in the fourth quarter of 2018 and RMB88 million in the first half year of 2019, totalling RMB160 million, to HC Environmental for leases of two warehouses at an annual rental of RMB3.6 million from 1 November 2018 for the first warehouse; and RMB4.4 million from 1 January 2019 for the second warehouse, totalling RMB8 million per annum (inclusive of value added tax on rental income) for a twenty years term.

Pursuant to the lease agreements, the minimum term of the lease period shall be five years from the respective lease commencement dates, unless the cyanide tailings hazardous waste in the warehouse is put for tender for detoxing treatment through public bidding during the five years term, and in the event that HC Environmental 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 deduction of rental income up to the date of termination. From the sixth year, either LZ Assets or HC Environmental has the right to terminate the lease arrangement by paying an amount equivalent to one year rental, being RMB8 million, as compensation to the other party, and HC Environmental will be required to repay the remaining balance of the advances to 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.

The Group considers there is a likelihood that LZ Assets will exercise the right to terminate the lease agreements upon expiry of the 5 years committed lease term by then the Group would have an obligation to pay back LZ Assets RMB50.4 million and RMB61.6 million totalling RMB112 million, being the total advances of RMB160 million less 5 years’ rental income of RMB40 million and compensation of RMB8 million upon the expiry of the 5 years lease terms in October and December 2023 for the two warehouses, respectively. Accordingly, on initial recognition of the two warehouse lease arrangements, the Group recorded other liabilities — payables to LZ Assets of RMB37.9 million and RMB46.3 million, totalling RMB84.2 million, which represented the present value by discounting the obligations to pay back LZ Assets of RMB50.4 million and RMB61.6 million, totalling RMB112 million, by October and December 2023, respectively. The discount rate applied in deriving the present value of the amounts payable to LZ Assets was the current market rate available to the Group for similar financial instruments.

The difference between the received advances of RMB72 million for the first warehouse and RMB88 million for the second warehouse, totalling RMB160 million, and the recorded other liabilities — payables to LZ Assets of RMB37.9 million and RMB46.3 million, totalling RMB84.2 million, amounted to RMB34.1 million and RMB41.7 million, totalling RMB75.8 million, respectively, and were recognized as advances from lessee at initial recognition of the two warehouse lease arrangements. The advances from lessee of RMB75.8 million comprised i) five years rental income of RMB40 million, ii) one year compensation rental income of RMB8 million, and iii) discounting impact of RMB112 million obligation to pay back LZ Assets upon expiry of the five years rental period of RMB27.8 million. The discounting impact of RMB27.8 million is regarded as part of the lease payments in accordance with IFRS 16 Appendix A, and is accounted for as part of the lease payments to be amortized as revenue together with the one year compensation rental income of RMB8 million over the five year committed lease period in accordance with IFRS 16 paragraph 81. The advances from lessee of RMB75.8 million was amortized and credited to rental income evenly over 5 years. The rental income recognized for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2020 and 2021 was RMB1,083,000, RMB14,490,000, RMB14,507,000, RMB4,836,000 and RMB4,836,000, respectively (Note 5(b)).

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Interest expenses are recognised on other liabilities — payables to LZ Assets using the aforementioned discount rate. The amount of interest expenses relating to the two warehouse lease arrangements during the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2020 and 2021 were RMB288,000, RMB3,927,000, RMB4,110,000, RMB1,349,000 and RMB1,412,000, respectively (Note 10).

31 CASH FLOW INFORMATION

(a) Cash generated from operations

| | Year ended 31 December | | | Four months ended | |
|---|------------------------|----------------|---------------|-------------------|---------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Profit before income tax | 40,236 | 63,413 | 96,489 | 22,332 | 24,571 |
| Adjustments for | | | | | |
| — (Gains)/loss on disposal of property, plant and equipment and others (Note 7) | (71) | 232 | (50) | — | 368 |
| — Finance costs — net (Note 10) | 2,910 | 5,223 | 6,043 | 2,003 | 2,025 |
| — Depreciation of right-of-use assets (Note 13) | 782 | 894 | 1,129 | 349 | 349 |
| — Depreciation of property, plant and equipment (Note 14) | 2,480 | 4,396 | 8,035 | 2,582 | 2,987 |
| — Depreciation of investment properties (Note 15) | 792 | 3,410 | 4,386 | 1,462 | 1,462 |
| — Amortisation of intangible assets (Note 16) | — | 6 | 7 | 2 | 2 |
| — Reversal/(provision) of impairment on financial assets | (22) | (93) | 113 | 27 | (41) |
| Changes in working capital: | | | | | |
| — Inventories | (119) | (12,739) | (6,720) | (9,629) | (3,120) |
| — Contract liabilities | 9,645 | 2,773 | (4,414) | 220 | 12,268 |
| — Advances from lessee | 28,679 | 27,220 | (14,507) | (4,836) | (4,836) |
| — Trade and other payables | (18,772) | (88) | 11,716 | 10,132 | 1,229 |
| — Trade and other receivables and prepayments | 23,995 | 20,859 | (22,098) | (8,731) | 12,488 |
| Cash generated from operating activities | <u>90,535</u> | <u>115,506</u> | <u>80,129</u> | <u>15,913</u> | <u>49,752</u> |

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(b) Proceeds from disposal of properties, plant and equipment and other assets

Disposal of property, plant and equipment

| | Year ended 31 December | | | Four months ended | |
|---|------------------------|--------------|------------|-------------------|--------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | | | (unaudited) | |
| Net book value (<i>Note 14</i>) | 329 | 1,429 | 190 | — | 482 |
| Gains/(losses) on disposal of property, plant and equipment (<i>Note 7</i>) | <u>71</u> | <u>(45)</u> | <u>50</u> | <u>—</u> | <u>(137)</u> |
| Proceeds from the disposal | <u>400</u> | <u>1,384</u> | <u>240</u> | <u>—</u> | <u>345</u> |

Disposal of other assets

During the year ended 31 December 2019, the Group disposed certain leased equipment with net book value of RMB547,000 and recorded a loss of RMB187,000. In this transaction, the Group received cash proceeds of RMB360,000.

During the four months ended 30 April 2021, the Group disposed certain leased equipment with net book value of RMB433,000 and recorded a loss of RMB233,000. In this transaction, the Group received cash proceeds of RMB200,000; During the four months ended 30 April 2021, the Group also terminated several leased properties with net book value of right of use assets of RMB724,000 and lease liabilities of RMB726,000 and recorded a gain of RMB2,000.

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(c) **Reconciliation of liabilities arising from financing activities**

| | Bank borrowings and interest payable <i>RMB'000</i> | Lease liabilities and bills payables related to purchase of land use rights <i>RMB'000</i> | Amount due to the Controlling Shareholder <i>RMB'000</i> | Payable to LZ Assets <i>RMB'000</i> | Total <i>RMB'000</i> |
|--|---|---|--|---|-------------------------|
| Total debt as at 1 January 2018 | 43,460 | 1,497 | 42,607 | — | 87,564 |
| Cash flows arising from financing activities | (14,980) | (1,053) | 8,072 | 37,874 | 29,913 |
| Cash flows arising from operating activities | (2,617) | — | — | — | (2,617) |
| New leases | — | 14,332 | — | — | 14,332 |
| Amortization of borrowing costs | 2,617 | 118 | — | 288 | 3,023 |
| Total debt as at 31 December 2018 | 28,480 | 14,894 | 50,679 | 38,162 | 132,215 |
| Cash flows arising from financing activities | 3,520 | (14,398) | (27,107) | 46,290 | 8,305 |
| Cash flows arising from operating activities | (1,411) | — | — | — | (1,411) |
| Cash flows arising from investing activities | (370) | — | — | — | (370) |
| New leases | — | 665 | — | — | 665 |
| Amortization of borrowing costs | 1,781 | 60 | — | 3,928 | 5,769 |
| Total debt as at 31 December 2019 | 32,000 | 1,221 | 23,572 | 88,380 | 145,173 |
| Cash flows arising from financing activities | 10,000 | (526) | 19,615 | — | 29,089 |
| Cash flows arising from operating activities | (1,846) | — | — | — | (1,846) |
| Non-cash transaction | — | — | (41,720) | — | (41,720) |
| New leases | — | 820 | — | — | 820 |
| Amortization of borrowing costs | 1,846 | 70 | — | 4,109 | 6,025 |
| Total debt as at 31 December 2020 | 42,000 | 1,585 | 1,467 | 92,489 | 137,541 |
| Cash flows arising from financing activities | — | (500) | (1,467) | — | (1,967) |
| Cash flows arising from operating activities | (549) | — | — | — | (549) |
| Termination of leasing contract | — | (726) | — | — | (726) |
| Amortization of borrowing costs | 549 | 17 | — | 1,412 | 1,978 |
| Total debt as at 30 April 2021 | 42,000 | 376 | — | 93,901 | (136,277) |
| (unaudited) | | | | | |
| Total debt as at 31 December 2019 | 32,000 | 1,221 | 23,572 | 88,380 | 145,173 |
| Cash flows arising from financing activities | — | (149) | 4,273 | — | 4,124 |
| Cash flows arising from operating activities | (635) | — | — | — | (635) |
| Non-cash transaction | — | — | (24,670) | — | (24,670) |
| New leases | — | 728 | — | — | 728 |
| Amortization of borrowing costs | 635 | 21 | — | 1,349 | 2,005 |
| Total debt as at 30 April 2020 | 32,000 | 1,821 | 3,175 | 89,729 | 126,725 |

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(d) Non-cash transactions

During the year ended 31 December 2018, certain purchase of land use rights and construction projects amounting to RMB11,500,000 were settled by the issuance of bills payable to the suppliers.

During the year ended 31 December 2020, the major non-cash transactions were as follows:

- According to an agreement between Zhonglian Cement and the Controlling Shareholder, an amount due from Zhonglian Cement of RMB14,200,000 was settled by offsetting with the amount due to the Controlling Shareholder, and
- The consideration receivable of RMB2,850,000 in respect of the disposal of Hexingten Banner Gold Mining Limited, as detailed in Note 1.2(4), and of RMB24,670,000 in respect of the disposal of Zhonglian Cement as detailed in Note 1.2(4), were settled by offsetting amount due to the Controlling Shareholder.

There were no material non-cash transactions for the year ended 31 December 2019 and the four months ended 30 April 2021.

32 COMMITMENTS

Capital commitments

| | As at 31 December | | | As at |
|---|--------------------------|----------------|----------------|-----------------|
| | 2018 | 2019 | 2020 | 30 April |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Contracted but not recognised as liabilities | | | | |
| — Commitments for construction and acquisition of property, plant and equipment | <u>176,667</u> | <u>2,887</u> | <u>3,408</u> | <u>3,169</u> |

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33 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, common significant influence or joint control.

The Controlling Shareholder, members of key management and their close family members of the Group are also considered as related parties. In the opinion of the Directors, the related party transactions were carried out in normal course of business and at terms negotiated between the Group and the respective related parties.

(a) Related parties of the Group

| Name of related parties | Relationship |
|--|--|
| Mr. Liu Zeming (劉澤銘) | The Controlling Shareholder, Chairman and executive director |
| Beijing Yutaida (北京鈺泰達科技有限公司) | Controlled by the Controlling Shareholder |
| Zhonglian Cement (煙臺中聯水泥有限公司) | Controlled by the Controlling Shareholder |
| Laizhou Hongxiang New Building Materials Co., Ltd. (萊州市鴻祥新型建材有限公司) (“Laizhou Hongxiang”) | Controlled by the Controlling Shareholder |
| Laizhou Coast Building Materials Co., Ltd. (萊州市海岸建材有限公司) (“Laizhou Coast”) | Controlled by the Controlling Shareholder |
| Laizhou Hengchang Building Materials Co., Ltd. (萊州市恒昌建材有限公司) (“Laizhou Hengchang”) | Controlled by the Controlling Shareholder |
| Laizhou Jiaming da New Building Materials Co., Ltd. (萊州市嘉銘達新型建材有限公司) (“Laizhou Jiaming da”) | Controlled by the father of the Controlling Shareholder |
| Ms. Li Liyan | Spouse of the Controlling Shareholder |
| Ms. Lv Huamin | Mother of the Controlling Shareholder |
| Mr. Liu Yuansheng | Father of the Controlling Shareholder |

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the Track Record Period, and balances arising from related party transactions as at the respective balance sheet dates.

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(b) Transactions with related parties

| | Year ended 31 December | | | Four months ended | |
|---|------------------------|----------------|---------------|-------------------|--------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | | | (unaudited) | |
| <i>Discontinued transactions:</i> | | | | | |
| (i) Increase in amounts due from related parties | | | | | |
| Advance to Beijing Yutaida | — | 94,642 | — | — | — |
| Loans to Zhonglian Cement | 91,871 | 66,668 | 30,103 | 1,000 | — |
| | <u>91,871</u> | <u>161,310</u> | <u>30,103</u> | <u>1,000</u> | <u>—</u> |
| (ii) Increase in amounts due to the Controlling Shareholder | <u>60,450</u> | <u>67,687</u> | <u>87,255</u> | <u>8,245</u> | <u>3,222</u> |
| (iii) Interest charged to a related party | <u>—</u> | <u>6,460</u> | <u>5,144</u> | <u>1,921</u> | <u>—</u> |
| (iv) Purchases of goods and services | | | | | |
| Zhonglian Cement | — | 1,000 | 960 | 239 | — |
| Beijing Yutaida | — | 849 | 955 | — | — |
| Laizhou Hengchang | — | — | 463 | — | — |
| Laizhou Coast | — | — | 386 | — | — |
| | <u>—</u> | <u>1,849</u> | <u>2,764</u> | <u>239</u> | <u>—</u> |
| (v) Sale of goods to related parties | | | | | |
| Laizhou Hongxiang | — | 741 | 413 | 346 | — |
| Zhonglian Cement | 2,542 | — | — | — | — |
| | <u>2,542</u> | <u>741</u> | <u>413</u> | <u>346</u> | <u>—</u> |

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(c) **Balances with related parties**

The Group

| | As at 31 December | | | As at |
|---|-------------------|---------|---------|----------|
| | 2018 | 2019 | 2020 | 30 April |
| | RMB'000 | RMB'000 | RMB'000 | 2021 |
| | | | | RMB'000 |
| (i) Amount due from related parties | | | | |
| Non-trade | | | | |
| Zhonglian Cement | 86,295 | 98,434 | 33,579 | 23,429 |
| Beijing Yutaida | — | 39,719 | — | — |
| The Controlling Shareholder | — | — | — | 1,990 |
| Subtotal | 86,295 | 138,153 | 33,579 | 25,419 |
| Trade | | | | |
| Laizhou Hongxiang | — | 742 | — | — |
| Laizhou Hengchang | — | 180 | 308 | — |
| Subtotal | — | 922 | 308 | — |
| Total | 86,295 | 139,075 | 33,887 | 25,419 |
| (ii) Dividends payable | | | | |
| The Controlling Shareholder | — | — | 46,980 | 36,540 |
| Ms. Lv Huamin | — | — | 5,220 | 4,060 |
| | — | — | 52,200 | 40,600 |
| (iii) Amount due to the Controlling Shareholder | | | | |
| Non-trade | | | | |
| The Controlling Shareholder | 50,679 | 23,572 | 8,217 | — |

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Except for the amount due from Zhonglian Cement of RMB86,295,000, RMB98,434,000 and RMB33,579,000 as at 31 December 2018, 2019 and 2020, which was unsecured, bearing an interest at 6.86% per annum and repayable within one year, the other amounts due from related parties were unsecured, non-interest bearing and repayable on demand as at 31 December 2018, 2019 and 2020 and 30 April 2021.

As at 20 January 2020, HC Environmental declared to distribute dividends in the total amount of RMB58,000,000 to the then shareholders in proportion to their shareholding. The dividends will be settled by batches, being 10% in 2020, 20% in 2021 and 70% in 2022, being RMB5,800,000, RMB11,600,000 and RMB40,600,000 respectively. In December 2020, the first batch of dividend payment of RMB5,800,000 was offset with the amount due from a related party, Zhonglian Cement, according to an offsetting agreement between the parties. In February and April 2021, the second batch of dividend payment of RMB11,600,000 was paid in cash. In June 2021, the Group early settled part of the third batch of dividend of RMB15,000,000 in cash. As of the day of this report, the outstanding dividend payable had been early settled.

The amount due to and from the Controlling Shareholder as at 31 December 2018, 2019 and 2020 and 30 April 2021 were unsecured, non-interest bearing and repayable on demand.

All non-trade balances will be settled prior to the [REDACTED].

The Company

The amounts due to subsidiaries were due to HC Hong Kong and HC Mining. The amounts were unsecured, non-interest bearing and payable on demand.

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(d) Guarantees

| | As at 31 December | | | As at |
|--|-------------------|---------|---------|----------|
| | 2018 | 2019 | 2020 | 30 April |
| | RMB’000 | RMB’000 | RMB’000 | 2021 |
| Guarantees provided by related parties for the Group’s bank borrowings | 28,480 | 32,000 | 10,000 | — |

As at 31 December 2018, the Group’s short-term bank borrowings of RMB28,480,000 was guaranteed by the Controlling Shareholder together with Ms. Lv Huamin and Mr. Liu Yuansheng pursuant to the guarantee agreements between these individuals and the banks. In addition, the borrowings were secured by the property, plant and equipment of Laizhou Jiaming da. The guarantees and securities had been released upon the full repayment of the borrowings in 2019.

As at 31 December 2019, the Group’s short-term bank borrowings of RMB32,000,000 was guaranteed by the Controlling Shareholder together with Ms. Lv Huamin pursuant to the guarantee agreements between these individuals and the banks. In addition, the borrowings were secured by the property, plant and equipment of Zhonglian Cement. The guarantees and securities had been released upon the full repayment of the borrowings in 2020.

As at 31 December 2020, the Group’s long-term borrowings of RMB10,000,000 were guaranteed by Ms. Li Liyan. The guarantee was released in February 2021 and replaced by guarantees provided by subsidiaries within the Group.

(e) Key management compensation

Key management includes directors (executive and non-executive), executive officers, and the Company Secretary. The compensation paid or payable to key management for employee services is as follows:

| | Year ended 31 December | | | Four months ended | |
|----------------------|------------------------|--------------|--------------|-------------------|------------|
| | 2018 | 2019 | 2020 | 30 April | 2021 |
| | RMB’000 | RMB’000 | RMB’000 | 2020 | 2021 |
| — Salaries and bonus | 561 | 1,228 | 1,357 | 352 | 770 |
| — Other benefits | 80 | 163 | 58 | 36 | 37 |
| | <u>641</u> | <u>1,391</u> | <u>1,415</u> | <u>388</u> | <u>807</u> |

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34 BENEFITS AND INTERESTS OF DIRECTORS

(a) Remuneration of directors

The remuneration of each director of the Company paid/payable by the Group for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2020 and 2021 are set out as follows:

| Name of Directors | Basic salaries <i>RMB'000</i> | Welfare, medical and other expenses <i>RMB'000</i> | Total <i>RMB'000</i> |
|--|-------------------------------------|--|-------------------------|
| Year ended 31 December 2018 | | | |
| Executive directors | | | |
| The Controlling Shareholder | 99 | 19 | 118 |
| Mr. Zhan Yirong | 96 | 12 | 108 |
| Mr. Sheng Haiyan | <u>117</u> | <u>11</u> | <u>128</u> |
| | <u>312</u> | <u>42</u> | <u>354</u> |
| Year ended 31 December 2019 | | | |
| Executive directors | | | |
| The Controlling Shareholder | 171 | 33 | 204 |
| Mr. Zhan Yirong | 188 | 21 | 209 |
| Mr. Sheng Haiyan | <u>338</u> | <u>24</u> | <u>362</u> |
| | <u>697</u> | <u>78</u> | <u>775</u> |
| Year ended 31 December 2020 | | | |
| Executive directors | | | |
| The Controlling Shareholder | 241 | 11 | 252 |
| Mr. Zhan Yirong | 183 | 8 | 191 |
| Mr. Sheng Haiyan | <u>339</u> | <u>11</u> | <u>350</u> |
| | <u>763</u> | <u>30</u> | <u>793</u> |
| Four months ended 30 April 2021 | | | |
| Executive directors | | | |
| The Controlling Shareholder | 80 | 6 | 86 |
| Mr. Zhan Yirong | 99 | 5 | 104 |
| Mr. Sheng Haiyan | <u>113</u> | <u>6</u> | <u>119</u> |
| | <u>292</u> | <u>17</u> | <u>309</u> |
| (unaudited) | | | |
| Four months ended 30 April 2020 | | | |
| Executive directors | | | |
| The Controlling Shareholder | 81 | 2 | 83 |
| Mr. Zhan Yirong | 37 | 2 | 39 |
| Mr. Sheng Haiyan | <u>113</u> | <u>2</u> | <u>115</u> |
| | <u>231</u> | <u>6</u> | <u>237</u> |

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(b) Directors’ other benefits

There were no retirement benefits paid to or receivable by any Directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiaries undertakings during the Track Record Period.

There were no termination benefits paid to or receivable by any Director during the Track Record Period.

No payment was made to the former employer of Directors for making available the services of them as a Director of the Company during the Track Record Period.

Other than those disclosed in Note 33(b), there were no loans, quasi-loans and other dealings entered into between the Group and the directors and in favour of the directors during the Track Record Period.

Other than those as disclosed in Note 33, there are no significant transactions, arrangements and contracts in relation to the Group’s business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year/period or at any time during the Track Record Period.

35 CONTINGENCIES

As at 31 December 2018, 2019 and 2020 and 30 April 2021, the Group had no material contingencies.

36 DIVIDEND

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

Details of dividend declared by HC Environmental to its then shareholders in the year ended 31 December 2020 are set out in Note 33(c) to this report.

37 SUBSEQUENT EVENTS

By resolutions in writing of the Company’s shareholders passed on 23 October 2021, it is resolved that:

- (i) the authorised share capital of the Company of HK\$0.01 each increase from HK\$380,000 to HK\$2,000,000,000 by the creation of 199,962,000,000 new shares to 200,000,000,000 shares; and
- (ii) conditional on the share premium account of the Company being credited as a result of the [REDACTED], the directors were authorised to capitalise [REDACTED] standing to the credit of the share premium account of the Company by applying that sum in paying up in full at par [REDACTED] shares of the Company for allotment and issue to the holders of the shares whose names appear on the register of members of the Company at the close of business on the business day immediately before the [REDACTED] Date in proportion (as nearly as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then existing respective shareholdings in the Company.

Save as disclosed above, there are no other material subsequent events undertaken by the Company or by the Group after 30 April 2021.

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III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Company and its subsidiaries in respect of any period subsequent to 30 April 2021. No dividend or distribution has been declared, made or paid by the Company or any companies comprising the Group in respect of any period subsequent to 30 April 2021.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set forth in this Appendix II does not form part of the Accountant’s Report received from the Company’s reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as set forth in Appendix I to this document, and is included herein for illustrative purpose only.

The unaudited pro forma financial information should be read in conjunction with the section headed “Financial Information” in this document and the Accountant’s Report set forth in Appendix I to this document.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following table of our unaudited pro forma adjusted consolidated net tangible assets has been prepared in accordance with Rule 4.29 of the Listing Rules and is set out below to illustrate the effect of the [REDACTED] on our net tangible assets as of 30 April 2021 as if it had taken place on that date. The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group had the [REDACTED] been completed as of 30 April 2021 or any future date.

| | Audited consolidated net tangible assets of our Group attributable to the owners of our Company as of 30 April 2021 ⁽¹⁾ RMB'000 | Estimated net [REDACTED] from the [REDACTED] ⁽²⁾ RMB'000 | Pro forma net tangible assets of our Group attributable to the owners of our Company as of 30 April 2021 RMB'000 | Pro forma net tangible assets of our Group attributable to the owners of our Company per Share as of 30 April 2021 ^{(3), (5)} RMB HK\$ | |
|---|---|---|---|---|------------|
| Based on an [REDACTED] of [REDACTED] per [REDACTED] | 123,232 | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| Based on an [REDACTED] of [REDACTED] per [REDACTED] | 123,232 | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |

Notes:

- (1) The audited consolidated net tangible assets of our Group attributable to owners of our Company as of 30 April 2021 is extracted from the Accountant’s Report included in Appendix I to this document, which is based on the audited consolidated net assets of our Group attributable to owners of our Company as of 30 April 2021 of RMB123 million less the intangible assets of our Group of 30 April 2021 of approximately RMB19,000.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

- (2) The estimated net [REDACTED] from the [REDACTED] are based on [REDACTED] of an indicative [REDACTED] of [REDACTED] and [REDACTED] per [REDACTED], respectively, after deducting the [REDACTED] fees and other related expenses (excluding [REDACTED] expenses of [REDACTED] which has been accounted for in the consolidated statements of comprehensive income up to 30 April 2021), and takes no account of any options which may be granted under the share option scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates.
- (3) The pro forma adjusted net tangible assets of our Group attributable to owners of our Company as of 30 April 2021 per Share is arrived at after the adjustments referred to in the preceding paragraph and on the basis that [REDACTED] Shares were in issue assuming the [REDACTED] and the [REDACTED] had been completed on 30 April 2021. It takes no account of any Shares which may be allotted and issued pursuant to the exercise at [REDACTED] (if any) and any options which may be granted under the share option scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates.
- (4) No adjustment has been made to the pro forma adjusted net tangible assets of our Group attributable to owners of our Company as of 30 April 2021 to reflect any trading result or other transaction of our Group entered into subsequent to 30 April 2021.
- (5) For the purpose of the pro forma adjusted net tangible assets of our Group attributable to the owners of our Company per Share, the amount stated in Renminbi are converted into Hong Kong dollars at the rate of HK\$1.00 to RMB0.84. No representation is made that the amounts in Renminbi have been, could have been or may be converted to the amounts in Hong Kong dollars, or vice versa, at that rate or at all.

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APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

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APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

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APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

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APPENDIX III**PROPERTY VALUATION REPORT**

The following is the text of a letter, summary of valuations and valuation reports prepared for the purpose of incorporation in this document received from Cushman & Wakefield Limited, an independent property valuer, in connection with its opinion of market values in existing state of the Properties of the Group in PRC as at 31 August 2021.



27/F, One Island East
Taikoo Place
18 Westlands Road
Quarry Bay
Hong Kong

[REDACTED] 2021

The Board of Directors
HONGCHENG ENVIRONMENTAL TECHNOLOGY COMPANY LIMITED
(鴻承環保科技有限公司)

27/F, Alexandra House
18 Chater Road
Central
Hong Kong

Dear Sirs,

INSTRUCTIONS, PURPOSE & VALUATION DATE

In accordance with your instructions for us to value the “Properties” of HONGCHENG ENVIRONMENTAL TECHNOLOGY COMPANY LIMITED (鴻承環保科技有限公司) (the “Company”) and its subsidiaries (together referred to as the “Group”) in the People’s Republic of China (“PRC”), we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we considered necessary for the purpose of providing you with our opinion of the market values in existing state of the Properties as at 31 August 2021 (the “Valuation Date”).

DEFINITION OF MARKET VALUE

Our valuations of each of the Properties represent its Market Value which in accordance with HKIS Valuation Standards 2020 published by The Hong Kong Institute of Surveyors (“HKIS”) is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

APPENDIX III**PROPERTY VALUATION REPORT**

VALUATION BASIS & ASSUMPTIONS

Our valuations exclude an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of value available only to a specific owner or purchaser.

In the course of our valuations of the Properties situated in PRC, with reference to the legal opinion (the “PRC Legal Opinion”) of the Company’s legal advisers as to PRC law, Jingtian & Gongcheng (競天公誠律師事務所) (“PRC Legal Advisers”), we have prepared our valuation on the basis that transferable land use rights in respect of the Properties for its specific term at nominal annual land use fees have been granted and that any premium payable has already been fully paid. We have relied on the information and advice given by the Company and made reference to PRC Legal Opinion, dated [REDACTED] 2021 regarding the title to the Properties and the interest in the Properties. In valuing the Properties, we have prepared our valuations on the basis that the owners have enforceable title to the Properties and have free and uninterrupted rights to use, occupy or assign the Properties for the whole of the unexpired terms as granted.

No allowance has been made in our valuations for any charges, pledges or amounts owing on the Properties nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is valued on the basis that the Properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

METHOD OF VALUATION

In valuing the Properties which are held for owner-occupation by the Group in PRC, in the absence of relevant market data to arrive at the market value of the Properties by means of market-based evidence, we have valued the Properties by Depreciated Replacement Cost Approach which requires a valuation of the market value of the land in its existing use and an estimate of the new replacement cost of the buildings and structures, from which deductions are made to allow for the age, condition and functional obsolescence. The reported market values by Depreciated Replacement Cost Approach only apply to the whole of the Properties as a unique interest, and no piecemeal transaction of the Properties is assumed.

In valuing the Properties, we have complied with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and HKIS Valuation Standards 2020.

SOURCE OF INFORMATION

In the course of our valuations, we have relied to a considerable extent on the information given by the Group and have accepted advice on such matters as planning approvals or statutory notices, easements, tenure, identification of the Properties, construction cost, site and floor areas and all other relevant matters.

APPENDIX III**PROPERTY VALUATION REPORT**

Dimensions, measurements and areas included in the valuation reports are based on the information provided to us and are therefore only approximations. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuation. We were also advised by the Group that no material facts have been omitted from the information provided.

We would point out that the copies of documents provided to us are mainly compiled in Chinese characters and the transliteration into English represents our understanding of the contents. We would therefore advise the Company to make reference to the original Chinese edition of the documents and consult your legal adviser regarding the legality and interpretation of these documents.

TITLE INVESTIGATION

We have been provided by the Group with copies of documents in relation to the current title to the Properties. However, we have not been able to conduct searches to verify the ownership of the Properties; we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us. We are also unable to ascertain the title of the Properties in PRC and we have therefore made reference to the advice given by PRC Legal Advisers in PRC Legal Opinion.

SITE INSPECTION

Our Qingdao Office valuers, Hanson Han (10 years of valuation experience, China Real Estate Appraiser), and Winnie Zhang (3 years of valuation experience, China Real Estate Appraiser) have inspected the exterior and, wherever possible, the interior of the Properties in November 2020. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the Properties are free of rot, infestation or any other structural defects. No tests were carried out to any of the services. Moreover, we have not carried out investigation on site to determine the suitability of the soil conditions and the services etc. for any future development. Our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary costs or delays will be incurred during the construction period.

Unless otherwise stated, we have not carried out on-site measurements to verify the site and floor areas of the Properties and we have assumed that the areas shown on the copies of the documents handed to us are correct.

CURRENCY

Unless otherwise stated, all monetary amounts indicated herein our valuations are in Renminbi (RMB) which is the official currency of PRC.

MARKET VOLATILITY

The recent outbreak of the Novel Coronavirus (COVID-19) has brought high volatility to global financial markets and uncertainty to the property market. It is expected that property values will be very sensitive to development of the pandemic and changes in the financial markets. The extents of impact on different sectors of the market are different and the time for marketing and negotiating sale of a property will be longer than normal. There will be less certainty as to how long a valuation may sustain and property prices may fluctuate rapidly and materially over a short period of time. Our valuations of the Properties are valid only at the Valuation Date and any subsequent changes in market conditions as well as the resulting impacts on property values after the Valuation Date cannot be taken into account. If any party intends to make reference to our valuations when entering into any transaction, he must bear in mind the high market volatility during this period of time and that property values may or may not have changed since the Valuation Date.

OTHER DISCLOSURE

We hereby confirm that Cushman & Wakefield Limited and the valuers conducting the valuations have no pecuniary or other interests that could conflict with the proper valuations of the Properties or could reasonably be regarded as being capable of affecting our ability to give an unbiased opinion. We confirm that we are an independent qualified valuer, as referred to Rule 5.08 of the Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

We attach herewith the summary of valuations and valuation reports.

Yours faithfully,
For and on behalf of
Cushman & Wakefield Limited
Philip C Y Tsang
Registered Professional Surveyor (General Practice)
Registered China Real Estate Appraiser
MSc, MHKIS
Director

Note: Mr. Philip C Y Tsang is Registered Professional Surveyor who has over 28 years' experience in the valuation of properties in PRC.

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APPENDIX III

PROPERTY VALUATION REPORT

SUMMARY OF VALUATIONS

| Property | Market value in existing state as at 31 August 2021 RMB | Interest attributable to the Group % | Market value in existing state as at 31 August 2021 attributable to the Group RMB |
|--|--|---|--|
| Properties held for owner-occupation by the Group in PRC | | | |
| 1. An industrial development at Yeyan Road North Dadongzhuang Village North Shahe Town Laizhou Yantai Shandong Province PRC | 286,200,000 | 100% | 286,200,000 |
| 2. An industrial development at Lot No. 370683009-021-3003 Zhonglian Road North Yuanjia Village Jincheng Town Laizhou Yantai Shandong Province PRC | 23,300,000 | 100% | 23,300,000 |
| Grand Total: | <u>309,500,000</u> | | <u>309,500,000</u> |

APPENDIX III

PROPERTY VALUATION REPORT

VALUATION REPORT

Properties held for owner-occupation by the Group in PRC

| Property | Description and tenure | Particulars of occupancy | Market Value in existing state as at 31 August 2021 |
|---|---|---|---|
| 1. An industrial development at Yeyan Road North Dadongzhuang Village North Shahe Town Laizhou Yantai Shandong Province PRC | <p>The Property comprises an industrial complex erected on five parcels of industrial land with a total site area of 195,231.46 sq m. The buildings were completed during 2018 and 2020.</p> <p>The Property have a total gross floor area of 143,607.05 sq m. Please refer to Note (1) for details of the buildings.</p> <p>The Property is located at north of Yeyan Road, north of Dadongzhuang Village, Shahe Town, Yantai. Developments in vicinity comprise mainly industrial developments. The Property is for industrial uses, there is no environmental issues and litigation dispute.</p> <p>The land use rights of the Property have been granted for a term due to expire on 23 December 2064 for industrial use.</p> | <p>As at the Valuation Date, 2 single storey warehouses with a total gross floor area of 74,499.80 sq m were subject to two tenancies with the latest expiry date in December 2038 at a total annual rent of RMB8,000,000; the remaining portion of the Property was owner-occupied for industrial use.</p> | <p>RMB286,200,000 (RENMINBI TWO HUNDRED EIGHTY SIX MILLION TWO HUNDRED THOUSAND)</p> <p>(100% interest attributable to the Group: RMB286,200,000)</p> |

APPENDIX III

PROPERTY VALUATION REPORT

Notes:

- (1) According to 7 Real Estate Title Certificates, the land use rights and building ownership rights of the Property, have been granted to Shandong Hongcheng Mining (Group) Co., Ltd. (山東鴻承礦業(集團)有限公司) (“HC Mining”), an indirect wholly owned subsidiary of the Company:

| Certificate No. | Land Uses | Expiry Date | Site Area (sq m) | No. of Storey of Building | Building Uses | Gross Floor Area (sq m) |
|--|------------|---------------------|---------------------|---------------------------------|--------------------------|-------------------------------|
| Lu (2020) Laizhou Shi Budongchanquan No. 0015075 Hao | Industrial | 23 December 2064 | 41,268.19 | 1 | Warehouse | 33,089.09 |
| Lu (2020) Laizhou Shi Budongchanquan No. 0015076 Hao | Industrial | 23 December 2064 | 50,407.16 | 1 | Warehouse | 41,410.71 |
| Lu (2020) Laizhou Shi Budongchanquan No. 0015077 Hao | Industrial | 23 December 2064 | 14,069.18 | 1 | Others* | 159.33 |
| Lu (2021) Laizhou Shi Budongchanquan No. 0004404 Hao | Industrial | 23 December 2064 | | 2 | Office* | 1,063.71 |
| Lu (2021) Laizhou Shi Budongchanquan No. 0004403 Hao | Industrial | 23 December 2064 | | 2 | Dormitory* | 1,301.67 |
| Lu (2021) Laizhou Shi Budongchanquan No. 0015078 Hao | Industrial | 23 December 2064 | 17,730.64 | 1 | Warehouse | 12,524.25 |
| Lu (2021) Laizhou Shi Budongchanquan No. 0015081 Hao | Industrial | 23 December 2064 | 71,756.29 | 1 | Industrial/ Warehouse | 31,074.89 22,983.40 |
| | | | Total: | | | <u>195,231.46</u> |
| | | | | | | <u>143,607.05</u> |

* Those buildings are in the same site with site area of 14,069.18 sq m.

- (2) According to Business Licence No. 91370683573935532W dated 25 August 2020, HC Mining has been established as a limited company with a registered capital of RMB10,000,000.
- (3) According to PRC Legal Opinion:
- (i) HC Mining is the registered owner of the Property, it has the rights to possess, use, lease, transfer or legally dispose of the Property within the stipulated period of land use rights and under the relevant Chinese Laws; and
- (ii) The land use rights and buildings under Real Estate Title Certificate No. Lu (2020) Laizhou Shi Budongchanquan No. 0015081 Hao and Lu (2020) Laizhou Shi Budongchanquan No. 0015076 Hao are subject to a bank mortgage; if HC Mining transfer, lease, remortgage or dispose of the said mortgaged land use rights and buildings, it should obtain the consent of mortgagee.

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APPENDIX III

PROPERTY VALUATION REPORT

(4) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and with reference to PRC Legal Opinion:

| | |
|-------------------------------|-------------------------|
| Real Estate Title Certificate | Yes (land and building) |
| Business Licence | Yes |

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APPENDIX III

PROPERTY VALUATION REPORT

VALUATION REPORT

Properties held for owner-occupation by the Group in PRC

| Property | Description and tenure | Particulars of occupancy | Market Value in existing state as at 31 August 2021 |
|--|---|---|---|
| 2. An industrial development at Lot No. 370683009-021-3003 Zhonglian Road North Yuanjia Village Jincheng Town Laizhou Yantai Shandong Province PRC | <p>The Property comprises an industrial complex erected on one parcel of industrial land with a total site area of 33,451.52 sq m. The buildings were completed in 2016.</p> <p>The Property have a total gross floor area of 15,407.44 sq m. Please refer to Note (2) for details of the buildings.</p> <p>The Property is located at the north of Yuanjia Village, Jincheng Town, Yantai. Developments in vicinity comprise mainly industrial developments. The Property is for industrial uses, there is no environmental issues and litigation dispute.</p> <p>The land use rights of the Property have been granted for a term due to expire on 25 November 2059 for industrial use.</p> | As at the Valuation Date, the Property was owner-occupied for industrial use. | <p>RMB23,300,000 (RENMINBI TWENTY THREE MILLION THREE HUNDRED THOUSAND)</p> <p>(100% interest attributable to the Group: RMB23,300,000)</p> |

APPENDIX III

PROPERTY VALUATION REPORT

Notes:

- (1) According to State-owned Land Use Rights Certificate, the land use rights of the Property, comprising a total site area of 33,451.52 sq m, have been granted to Laizhou Hongcheng Mining Environmental Protection Development Co., Ltd. (萊州市鴻鉞礦業環保開發有限公司) (“HC Environmental”), an indirect wholly owned subsidiary of the Company:

| Certificate No. | Lot No. | Uses | Expiry Date | Site Area (sq m) |
|--|--------------------|------------|------------------|---------------------|
| Laizhou Guoyong (2014) No. 1170 Hao | 370683009-021-3003 | Industrial | 25 November 2059 | 33,451.52 |

- (2) According to 4 Building Ownership Certificates, the building ownership of the Property, comprising a total gross floor area of 15,407.44 sq m, have been vested in HC Environmental:

| Certificate No. | No. of Storey of Building | Building Uses | Gross Floor Area (sq m) |
|---|------------------------------|------------------|-------------------------------|
| Lai Fangquanzheng Jincheng Town Zi No. 091035 Hao | 1 | Industrial | 1,390.50 |
| Lai Fangquanzheng Jincheng Town Zi No. 091039 Hao | 1 | Industrial | 8,585.68 |
| Lai Fangquanzheng Jincheng Town Zi No. 091040 Hao | 1 | Warehouse | 2,588.36 |
| Lai Fangquanzheng Jincheng Town Zi No. 091968 Hao | 4 | Office | <u>2,842.90</u> |
| Total: | | | <u>15,407.44</u> |

- (3) According to Business Licence No. 913706830924502786 dated 4 November 2020, HC Environmental has been established as a limited company with a registered capital of RMB20,000,000.

- (4) According to PRC Legal Opinion:

- (i) HC Environmental is the registered owner of the Property, it has the rights to possess, use, lease, transfer or legally dispose of the Property within the stipulated period of land use rights and under the relevant Chinese Laws;
- (ii) The Property is subject to a bank mortgage; if HC Environmental transfer, lease, remortgage or dispose of the said mortgaged land use rights and buildings, it should obtain the consent of mortgagee; and
- (iii) HC Environmental has four properties, with a total gross floor area of 1,985.69 sq m without real estate title certificates, located on its owned land. These four properties are not HC Environmental’s production and business premises and office premises. These four properties are at risk of being ordered to be demolished within a time limit by the relevant competent authorities. According to the company’s confirmation, HC Environmental has not been ordered by the relevant government authorities to correct or demolish within a specified time for these properties, and have not been subject to confiscation of physical objects or fines. If the relevant government authorities order corrections or dismantling within a time limit, HC Environmental will complete the dismantling and rectification within the prescribed time limit in accordance with the requirements of the relevant government authorities.

Our valuation has excluded these four properties without real estate title certificates in Note 4 (iii).

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APPENDIX III

PROPERTY VALUATION REPORT

(5) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and with reference to PRC Legal Opinion:

| | |
|---|-----|
| State-owned Land Use Rights Certificate | Yes |
| Building Ownership Certificate | Yes |
| Business Licence | Yes |

APPENDIX IV

**SUMMARY OF THE CONSTITUTION OF
OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW**

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 12 January, 2021 under the Companies Act, Cap. 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands (the “**Companies Act**”). The Company’s constitutional documents consist of its Amended and Restated Memorandum of Association (the “**Memorandum**”) and its Amended and Restated Articles of Association (the “**Articles**”).

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, *inter alia*, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Act and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 23 October with effect from the [REDACTED]. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) Classes of shares

The share capital of the Company consists of ordinary shares.

APPENDIX IV

**SUMMARY OF THE CONSTITUTION OF
OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW**

(ii) Variation of rights of existing shares or classes of shares

Subject to the Companies Act, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

The Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

APPENDIX IV

SUMMARY OF THE CONSTITUTION OF
OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(iv) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

Notwithstanding the foregoing, for so long as any shares are listed on the Stock Exchange, titles to such listed shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares. The register of members in respect of its listed shares (whether the principal register or a branch register) may be kept by recording the particulars required by Section 40 of the Companies Act in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

APPENDIX IV

**SUMMARY OF THE CONSTITUTION OF
OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW**

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

(v) Power of the Company to purchase its own shares

The Company is empowered by the Companies Act and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

The board may accept the surrender for no consideration of any fully paid share.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

APPENDIX IV

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If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days’ notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(b) Directors

(i) Appointment, retirement and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re election or appointment but as between persons who became or were last re elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

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The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

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(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Act and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Act and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount to their nominal value.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Act to be exercised or done by the Company in general meeting.

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(iv) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) Remuneration

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or past Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex employees of the Company and their dependents or any class or classes of such persons.

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The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

The board may resolve to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and the profit and loss account) whether or not the same is available for distribution by applying such sum in paying up unissued shares to be allotted to (i) employees (including directors) of the Company and/or its affiliates (meaning any individual, corporation, partnership, association, joint-stock company, trust, unincorporated association or other entity (other than the Company) that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, the Company) upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting, or (ii) any trustee of any trust to whom shares are to be allotted and issued by the Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting.

(vi) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

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(viii) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;

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- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the [REDACTED] or sub [REDACTED] of the [REDACTED];
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(c) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(d) Alterations to constitutional documents and the Company’s name

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

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(e) Meetings of members

(i) Special and ordinary resolutions

A special resolution of the Company must be passed by a majority of not less than three fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Act, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

(ii) Voting rights and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

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If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings and extraordinary general meetings

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

Extraordinary general meetings may be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the board shall be reimbursed to the requisitionist(s) by the Company.

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(iv) Notices of meetings and business to be conducted

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member’s registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers; and
- (ee) the fixing of the remuneration of the directors and of the auditors.

(v) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

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The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy or, for quorum purposes only, two persons appointed by the clearing house as authorised representative or proxy, and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class.

(vi) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Act or necessary to give a true and fair view of the Company’s affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act of the Cayman Islands.

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A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditor at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Act.

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Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

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All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Act or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(j) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

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If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Act and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, the Company’s operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

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(b) Share capital

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Act provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Act); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Act provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

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(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Act expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company’s articles of association or the Companies Act.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company’s memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

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(e) Dividends and distributions

The Companies Act permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

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(g) Disposal of assets

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company’s affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to the Tax Concessions Act of the Cayman Islands, the Company has obtained an undertaking:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 20 January, 2021.

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The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Act prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

The notice of registered office is a matter of public record. A list of the names of the current directors and alternate directors (if applicable) is made available by the Registrar of Companies for inspection by any person on payment of a fee. The register of mortgages is open to inspection by creditors and members.

Members of the Company have no general right under the Companies Act to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company’s Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. The register of members shall contain such particulars as required by Section 40 of the Companies Act. A branch register must be kept in the same manner in which a principal register is by the Companies Act required or permitted to be kept. The company shall cause to be kept at the place where the company’s principal register is kept a duplicate of any branch register duly entered up from time to time.

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There is no requirement under the Companies Act for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act of the Cayman Islands.

(o) Register of Directors and Officers

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(p) Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, 25% or more of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are [REDACTED] on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company’s affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

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A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days’ notice to each contributory in any manner authorised by the company’s articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

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(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(t) Indemnification

Cayman Islands law does not limit the extent to which a company’s articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

(u) Economic Substance Requirements

Pursuant to the International Tax Cooperation (Economic Substance) Act, 2018 of the Cayman Islands (“**ES Act**”) that came into force on 1 January 2019, a “relevant entity” is required to satisfy the economic substance test set out in the ES Act. A “relevant entity” includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands. Accordingly, for so long as the Company is a tax resident outside the Cayman Islands, including in Hong Kong, it is not required to satisfy the economic substance test set out in the ES Act.

4. GENERAL

Conyers Dill & Pearman, the Company’s special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in “Documents on Display and available for inspection” in Appendix VI to this document. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation of our Company

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Act on 12 January 2021.

As our Company was incorporated in the Cayman Islands, we operate subject to the relevant laws and regulations of the Cayman Islands and our constitution which comprises a memorandum of association and the Articles of Association. A summary of the relevant laws and regulations of the Cayman Islands and of our Company’s constitution is set out in Appendix IV to this document.

2. Changes in share capital of our Company

(a) Changes in share capital

- (i) As at the date of incorporation of our Company, the authorised share capital was HK\$380,000 divided into 38,000,000 Shares having a par value of HK\$0.01 each.
- (ii) The authorised share capital of our Company was increased from HK\$380,000 to HK\$2,000,000,000 by the creation of 199,962,000,000 new Shares pursuant to a resolution passed by our Shareholders referred to in paragraph 3 below and subject to the conditions contained therein.
- (iii) Immediately following completion of the [REDACTED] and the [REDACTED] but taking no account of any Shares which have been or may be allotted and issued pursuant to the exercise of the options which were granted or may be granted under the Share Option Scheme and upon the exercise of the [REDACTED], our authorised share capital will be HK\$2,000,000,000 divided into 200,000,000,000 Shares, of which [REDACTED] will be issued fully paid or credited as fully paid, and [REDACTED] will remain unissued.
- (iv) Other than pursuant to the exercise of the [REDACTED] and the exercise of any options which were granted or may be granted under the Share Option Scheme, there is no present intention to issue any of the authorised but unissued share capital of our Company and, without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Controlling Shareholders over us.

Save as disclosed herein and in “— Further Information About Our Group — 3. Resolutions in writing of our Shareholders passed on 23 October 2021” and “— Further Information About Our Group — 4. Group reorganisation” of this Appendix, there has been no alteration in the share capital of our Company since its incorporation.

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(b) Founder shares

Our Company has no founder shares, management shares or deferred shares.

3. Resolutions in writing of our Shareholders passed on 23 October 2021

By resolutions in writing of our Shareholders passed on 23 October 2021:

- (a) we approved the increase of the authorised share capital of our Company from HK\$380,000 to HK\$2,000,000,000 by the creation of a further 199,962,000,000 new Shares;
- (b) we approved and adopted the amended and restated Articles of Association conditionally which shall become effective on the [REDACTED];
- (c) we approved and adopted the amended and restated memorandum of association with immediate effect;
- (d) conditional on (aa) the Stock Exchange granting the [REDACTED] of, and permission to [REDACTED], the Shares in issue and to be issued as mentioned in this document, and such [REDACTED] and permission not having been subsequently revoked prior to the commencement of [REDACTED] in the Shares on the Stock Exchange; (bb) the [REDACTED] having been duly determined; (cc) the execution and delivery of the [REDACTED]; and (dd) the obligations of the [REDACTED] under each of the [REDACTED] becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) thereunder by the Sole Sponsor, on behalf of the [REDACTED]) and not being terminated in accordance with the respective terms of the [REDACTED] or otherwise, in each case, on or before the day falling 30 days after the date of this document:
 - (i) the [REDACTED] and the grant of the [REDACTED] by our Company were approved and our Directors were authorised to allot and issue the [REDACTED] pursuant to the [REDACTED] and such number of Shares as may be allotted and issued upon the exercise of the [REDACTED];
 - (ii) the rules of the Share Option Scheme, the principal terms of which are set out in “— Other Information — 14. Share Option Scheme” of this Appendix, were approved and adopted and our Directors were authorised to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected to by the Stock Exchange, and at their absolute discretion to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of subscription rights attaching to any options which may be granted under the Share Option Scheme and to take all such steps as may be necessary, desirable or expedient to carry into effect the Share Option Scheme;

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- (iii) conditional on the share premium account of our Company being credited as a result of the [REDACTED], our Directors were authorised to capitalise [REDACTED] standing to the credit of the share premium account of our Company by applying that sum in paying up in full at par [REDACTED] Shares for allotment and issue to the holders of Shares whose names appear on the register of members of our Company at the close of business on the business day immediately before the [REDACTED] (or as they may direct) in proportion (as nearly as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then existing respective shareholdings in our Company and so that the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the then existing issued Shares and our Directors were authorised to give effect to such [REDACTED];

- (iv) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements in accordance with the Articles of Association, or pursuant to the exercise of any options which were granted or may be granted under the Share Option Scheme, or pursuant to exercise of rights of subscription or conversion attaching to any warrants of our Company or any securities which are convertible into Shares, or under the [REDACTED] or upon the exercise of the [REDACTED], an aggregate number of Shares not exceeding the sum of (aa) 20% of the aggregate number of Shares in issue immediately following completion of the [REDACTED] and the [REDACTED] but excluding any Shares which may be issued pursuant to the exercise of the [REDACTED] or exercise of any options which were granted or may be granted under the Share Option Scheme, and (bb) the aggregate number of Shares which may be purchased by us pursuant to the authority granted to the Directors as referred to in subparagraph (v) below, until the conclusion of our next annual general meeting, or the date by which our next annual general meeting is required by the Articles of Association, the Companies Act or any applicable law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to the Directors, whichever occurs first;

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- (v) a general unconditional mandate (the “**Repurchase Mandate**”) was given to the Directors to exercise all powers of our Company to purchase Shares on the Stock Exchange or on any other stock exchange on which the securities of our Company may be [REDACTED] or recognised by the SFC and the Stock Exchange for this purpose with an aggregate number of Shares not exceeding 10% of the aggregate number of Shares in issue immediately following the completion of the [REDACTED] and the [REDACTED] but excluding any Shares which may be issued pursuant to the exercise of the [REDACTED] or exercise of any options which were granted or may be granted under the Share Option Scheme until the conclusion of our next annual general meeting, or the date by which our next annual general meeting is required by the Articles of Association, the Companies Act or any applicable law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to the Directors, whichever occurs first;
- (vi) the extension of the general mandate to allot, issue and deal with Shares to include the number of Shares which may be purchased or repurchased pursuant to paragraph (v) above; and
- (e) the form and substance of each of the service agreements made between our executive Directors and our Company, and the form and substance of each of the appointment letters made between each of our independent non-executive Directors with our Company were approved.

4. Group reorganisation

The companies comprising our Group underwent a reorganisation to rationalise our Group’s structure in preparation for the [REDACTED] of the Shares on the Stock Exchange, details of which are set out in “History, Reorganisation and Corporate Structure — Reorganisation” in this document.

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5. Changes in share capital of our subsidiaries

Our subsidiaries are listed in the Accountant’s Report set out in Appendix I to this document.

In addition to the alterations described in “History, Reorganisation and Corporate Structure — Establishment and major changes concerning main operating subsidiaries of our Group” in this document, the following alterations in the share capital of each of our Company’s subsidiaries took place within the two years immediately preceding the date of this document:

- (a) HC International was incorporated on 30 March 2020 in the BVI as a limited liability company with 50,000 authorised shares of US\$1 each. 1 share of HC International was issued to Mr. Liu upon its incorporation. On 16 December 2020, Mr. Liu subscribed for a 999 shares at par value of HC International. For details on the change of shareholdings of HC International pursuant to the Reorganisation, see “History, Reorganisation and Corporate Structure” in this document; and
- (b) HC Hong Kong was incorporated on 16 April 2020 in Hong Kong as a limited company with share capital of HK\$1,000,000 divided into 1,000,000 shares. 1,000,000 shares of HC Hong Kong were issued to HC International upon its incorporation.

Save as disclosed above and pursuant to the Reorganisation, there has been no alteration in the share capital of our subsidiaries within the two years immediately preceding the date of this document.

6. Repurchase by our Company of our own securities

This paragraph includes information required by the Stock Exchange to be included in this document concerning the repurchase by our Company of our own securities.

(a) Shareholders’ approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

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Pursuant to a resolution in writing passed by our Shareholders on 23 October 2021, the Repurchase Mandate was given to our Directors authorising any repurchase by us of Shares on the Stock Exchange or any other stock exchange on which our securities may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of up to 10% of the number of Shares in issue immediately following completion of the [REDACTED] but excluding any Shares which may be issued pursuant to the exercise of the [REDACTED] and options which were granted or may be granted under the Share Option Scheme, such mandate to expire at the conclusion of our next annual general meeting, or the date by which our next annual general meeting is required by the Articles of Association or applicable law to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first.

(b) Source of funds

Repurchases must be paid out of funds legally available for the purpose in accordance with the Articles of Association and the Companies Act. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Under the Cayman Islands laws, any repurchases by us may be made out of our profits or out of the proceeds of a fresh issue of shares made for the purpose of the repurchase or from sums standing to the credit of our share premium account or, if so authorised by the Articles of Association and subject to the Companies Act, out of capital. Any premium payable on a redemption or purchase over the par value of the Shares to be purchased must be provided for out of our profits or from sums standing to the credit of our share premium account or, if authorised by the Articles of Association and subject to the provisions of the Companies Act, out of capital.

(c) Reasons for repurchases

Our Directors believe that it is in the best interest of our Company and the Shareholders for our Directors to have general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if our Directors believe that such repurchases will benefit our Company and our Shareholders as a whole.

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(d) Funding of repurchases

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands.

On the basis of our current financial position as disclosed in this document and taking into account our current working capital position, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or our gearing position as compared to the position disclosed in this document. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or our gearing levels which, in the opinion of our Directors, are from time to time appropriate for us.

(e) General

The exercise in full of the Repurchase Mandate, on the basis of [REDACTED] Shares in issue immediately after the [REDACTED], would result in up to [REDACTED] Shares being repurchased by us during the period in which the Repurchase Mandate remains in force.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any Shares to our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If, as a result of a securities repurchase, a Shareholder’s proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below [REDACTED] of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No core connected person of our Company has notified us that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

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7. Registration under Part 16 of the Companies Ordinance

Our principal place of business in Hong Kong for the purpose of registration under Part 16 of the Companies Ordinance at 27/F, Alexandra House, 18 Chater Road, Central, Hong Kong. Our Company has been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 25 March 2021. Mr. Wong Yun Fai, the company secretary of our Company, has been appointed as the agent of our Company for the acceptance of service of process in Hong Kong.

FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP**8. Summary of material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of our Group within the two years preceding the date of this document and are or may be material:

1. an equity transfer agreement dated 11 June 2020 entered into between Mr. Liu and Shandong Jinjia, Mr. Liu transferred all his 98% interests in the registered capital of HC Mining, to Shandong Jinjia at a consideration of RMB9.8 million;
2. equity transfer agreement dated 17 July 2020 entered into between Mr. Liu and Shandong Jinjia, Mr. Liu transferred all his interests in the registered capital of HC Environmental, being 98% of its registered capital to Shandong Jinjia at a consideration of RMB19.6 million;
3. a sale and purchase agreement dated 15 April 2021 entered into between Mr. Liu, Mr. Sze, Ace Quality, Golden Clover, Azure Astro as vendors and the Company as purchaser to transfer (i) 786, 33, 64, 60 and 57 shares in HC International, respectively, which together represented the entire issued share capital of HC International. In consideration of such transfer, our Company credited the one nil-paid Share held by Zeming International as fully paid and further allotted and issued, 785 Shares to Zeming International (as directed by Mr. Liu), 33 shares to Keen Day (as directed by Mr. Sze), 64 Shares to Ace Quality, 60 Shares to Golden Clover and 57 Shares to Azure Astro, all credited as fully-paid;
4. a deed of indemnity dated 23 October 2021 executed by our Controlling Shareholders with and in favour of our Company (for ourselves and as trustee for our subsidiaries stated therein) containing the indemnities more particularly referred to in “— Other Information — 15. Tax and Other Indemnity” of this Appendix;
5. the deed of non-competition dated 23 October 2021 entered into by our Controlling Shareholders in favour of our Company, particulars are set out in “Relationship with our Controlling Shareholders — Deed of Non-competition” in this document; and
6. the [REDACTED].



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9. Intellectual property rights of our Group

(a) Trademarks

As at the Latest Practicable Date, our Group was the registered owner and beneficial owner of the following trademarks which is material in relation to our Group’s business:

| Trademark | Registered owner | Place of registration | Class | Registration number | Duration of validity |
|---|------------------|-----------------------|-------------------|---------------------|--------------------------------------|
|  | HC Hong Kong | Hong Kong | 40 ⁽¹⁾ | 305454874 | 20 November 2020 to 19 November 2030 |
|  | HC Mining | PRC | 19 ⁽²⁾ | 29233379 | 28 December 2018 to 27 December 2028 |

Notes:

- (1) The specific services under class 40 in respect of which the trademark was applied for registration are processing of minerals; recycling services; recycling of minerals; recycling of waste materials; extraction of minerals contained in waste residues; purification of minerals by chemical methods.
- (2) The specific goods under class 19 in respect of which the trademark was applied for registration are mortar, slag for construction use, marble, debris, cement, plaster.

(b) Patents

As at the Latest Practicable Date, our Group had the following registered patent which we consider to be material to our business:

| | Patent name | Holder | Type | Patent Number | Date of application | Validity period |
|---|------------------------|------------------|---------------|------------------|---------------------|--------------------------------------|
| 1 | 一種非金屬礦石清洗工藝裝備 | HC Environmental | Utility model | ZL202021256760.6 | 30 June 2020 | 30 June 2020 to 29 June 2030 |
| 2 | 一種黃金尾礦輸送皮帶的粉塵隔離回收裝置 | HC Environmental | Invention | ZL202110198432.8 | 23 February 2021 | 23 February 2021 to 22 February 2041 |
| 3 | 一種黃金氧化尾渣綜合利用的泵混式管道加藥裝置 | HC Mining | Invention | ZL202110222492.9 | 1 March 2021 | 1 March 2021 to 28 February 2041 |
| 4 | 一種浮選機用側旁除塵裝置 | HC Mining | Invention | ZL202110222491.4 | 1 March 2021 | 1 March 2021 to 28 February 2041 |
| 5 | 一種用於生產硫鐵精礦粉的攪拌裝置 | HC Mining | Invention | ZL202110252464.1 | 9 March 2021 | 9 March 2021 to 8 March 2041 |
| 6 | 一種黃金尾礦污水分流處理回收裝置 | HC Mining | Invention | ZL202110257252.2 | 10 March 2021 | 10 March 2021 to 9 March 2041 |

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(c) Domain name

As at the Latest Practicable Date, our Group had registered the following domain name which is material in relation to our Group’s business:

| Domain name | Registered owner | Registration date | Expiry date |
|--------------------|-------------------------|--------------------------|--------------------|
| sdhcgroun.cn | HC Mining | 16 April 2021 | 16 April 2022 |

10. Related party transactions

Save as disclosed in Note 33 to the Accountant’s Report, the text of which is set out in Appendix I to this document, during the two years immediately preceding the date of this document, we have not engaged in any other material related party transactions.

FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

11. Directors

(a) Particulars of Directors’ service contracts

Executive Directors

Each of our executive Directors has entered into a service contract with our Company pursuant to which they agreed to act as executive Directors for an initial term of three years with effect from the [REDACTED] which may be terminated by either party by giving not less than three months’ written notice. The term of service contract shall be renewed and extended automatically for successive terms of one year upon expiry of the then current term until terminated by either party by giving not less than three months’ written notice to the other.

During the term of the service contract, each of these executive Directors is entitled to the respective basic salary set out below (excluding any discretionary bonus).

In addition, during the term of the service contract, each of the executive Directors is also entitled to a discretionary management bonus in such sum as the Board may in its absolute discretion determine.

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An executive Director may not vote on any resolution of the Directors regarding the amount of management bonus payable to him. The current basic annual salaries of the executive Directors payable under their service contracts are as follows:

| Name | Annual salary (HKD) |
|-------------|--------------------------------|
| Mr. Liu | 10,000 |
| Mr. Zhan | 10,000 |
| Mr. Sheng | 10,000 |

As at the Latest Practicable Date, Mr. Liu, Mr. Zhan and Mr. Sheng have also entered into an employment contract with a subsidiary of our Company in the PRC. Pursuant to the respective employment contracts, their salary is RMB20,000, RMB20,000 and RMB27,600 per month, respectively.

Independent non-executive Directors

Each of the independent non-executive Directors has been appointed for an initial term of three years commencing from 23 October 2021 which may be terminated by either party by giving not less than three months’ written notice. The term of appointment shall be renewed and extended automatically for successive terms of two years upon expiry of the then current term until terminated by either party giving not less than three months’ written notice to the other. The appointments are subject to the provisions of the Articles of Association with regard to vacation of office of Directors, removal and retirement by rotation of Directors. Mr. Lau Chung Wai, Mr. Zhang Shijun and Ms. Liu Ye are entitled to a director’s fee of HK\$12,000, HK\$10,000 and HK\$10,000 per month with effect from the [REDACTED]. Save for directors’ fees (as the case may be), none of the independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

Save as aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any of our subsidiaries other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

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(b) Remuneration of Directors

- (i) The aggregate emoluments paid and benefits in kind granted by our Group to our Directors in respect of the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021 were approximately RMB354,000, RMB775,000, RMB793,000 and RMB309,000, respectively.
- (ii) Under the arrangements currently in force, the aggregate emoluments (excluding discretionary bonus) payable by our Group to and benefits in kind receivable by our Directors (including our independent non-executive Directors) for the year ending 31 December 2021, are expected to be approximately RMB1.1 million.
- (iii) None of our Directors or any past directors of any member of our Group has been paid any sum of money for each of the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021 as (i) an inducement to join or upon joining our Company; or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (iv) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021.

(c) Interests and short positions of our Directors and the chief executive of our Company in the shares, underlying shares or debentures of our Company and our associated corporations following the [REDACTED]

Immediately following completion of the [REDACTED] and the [REDACTED] and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] and the options which may be granted under the Share Option Scheme, the interests and short positions of our Directors and the chief executive of our Company in the shares, underlying shares or debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock

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Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, once the Shares are [REDACTED], will be as follows:

| Name of Director/ chief executive of our Company | Name of Group member/ associated corporation | Capacity/Nature of interest | Number and class of securities | Approximate percentage of shareholding |
|--|---|--|--------------------------------------|--|
| Mr. Liu | Our Company | Interest of a controlled corporation ⁽²⁾ | [REDACTED] (L) ⁽¹⁾ | [REDACTED] |

Notes:

- (1) The letter “L” denotes our Directors’ long position in the shares of our Company or the relevant associated corporation.
- (2) These [REDACTED] Shares are held by Zeming International, which is ultimately controlled by Mr. Liu. Under the SFO, Mr. Liu is deemed to be interested in the Shares held by Zeming International.

12. Interest discloseable under the SFO and substantial shareholders

So far as is known to the Directors, immediately following completion of the [REDACTED] and the [REDACTED] (but without taking account of any Shares which may be taken up or acquired under the [REDACTED] and any Shares which may be allotted, and issued upon the exercise of the [REDACTED] and the options which were granted or may be granted under the Share Option Scheme), other than a Director or chief executive of our Company whose interests are disclosed under “— Further Information About Our Directors And Substantial Shareholders — 11. Directors — (c) Interests and short positions of our Directors and the chief executive of our Company in the shares, underlying shares or debentures of our Company and our associated corporations following the [REDACTED]” above, the following persons will have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

| Name of Shareholders | Capacity/ nature of interest | Number and class of securities | Approximate percentage of shareholding |
|----------------------|-----------------------------------|-----------------------------------|--|
| Zeming International | Beneficial owner | [REDACTED] (L) ⁽¹⁾ | [REDACTED] |
| Ms. Li Liyan | Interest of spouse ⁽²⁾ | [REDACTED] (L) ⁽¹⁾ | [REDACTED] |

Notes:

- (1) The letter “L” denotes the shareholder’s long position in the Shares.
- (2) Ms. Li Liyan is the spouse of Mr. Liu. Under the SFO, Ms. Li Liyan is taken to be interested in the same number of Shares in which Mr. Liu is interested.

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13. Disclaimers

Save as disclosed in this Appendix and “History, Reorganisation and Corporate Structure” and “[REDACTED]” in this document:

- (a) and taking no account of any Shares which may be taken up or acquired under the [REDACTED] or upon the exercise of the [REDACTED] and any options which were granted or may be granted under the Share Option Scheme, the Directors are not aware of any person (not being a Director or chief executive of our Company) who immediately following the completion of the [REDACTED] and the [REDACTED] will have an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who will, either directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of us;
- (b) none of our Directors has any interest or short position in any of the shares, underlying shares or debentures of our Company or any associated corporations within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any of them is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, in each case once the Shares are [REDACTED];
- (c) none of our Directors nor any of the parties listed in the paragraph 21 below has been interested in the promotion of, or has any direct or indirect interest in any assets which have been, within the two years immediately preceding the date of this document, acquired or disposed of by or leased to our Company or any of the subsidiaries of our Company, or are proposed to be acquired or disposed of by or leased to our Company or any other member of us nor will any Director apply for the [REDACTED] either in his own name or in the name of a nominee;
- (d) none of our Directors nor any of the parties listed in the paragraph 21 below is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to business of us; and
- (e) save in connection with the [REDACTED], none of the parties listed in the paragraph 21 below:
 - (i) is interested legally or beneficially in any securities of any member of us; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of us.

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OTHER INFORMATION

14. Share Option Scheme

(a) Summary of terms

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a resolution in writing passed by the then Shareholders on 23 October 2021:

(i) Purposes of the scheme

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

(ii) Who may join

Our Directors may, at its absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

- (aa) any employee (whether full-time or part-time including any executive director but excluding any non-executive director) of our Company, any of our subsidiaries or any entity (“**Invested Entity**”) in which any member of us holds an equity interest;
- (bb) any non-executive directors (including independent non-executive directors) of our Company, any of our subsidiaries or any Invested Entity;
- (cc) any supplier of goods or services to any member of us or any Invested Entity;
- (dd) any customer of any member of us or any Invested Entity;
- (ee) any person or entity that provides research, development or other technological support to any member of us or any Invested Entity;

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- (ff) any shareholder of any member of us or any Invested Entity or any holder of any securities issued by any member of us or any Invested Entity;
- (gg) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of us or any Invested Entity;
- (hh) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of us;

and, for the purposes of the Share Option Scheme, the offer for the grant of option may be made to any company wholly owned by one or more persons belonging to any of the above classes of participants.

For avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of us to any person who falls within any of the above classes of participants shall not, by itself, unless our Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the above class of participants to an offer for the grant of any option shall be determined by our Directors from time to time on the basis of our Directors’ opinion as to his contribution to the development and growth of us.

(iii) Maximum number of the Shares

- (aa) The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by us must not in aggregate exceed 30% of the share capital of our Company in issue from time to time.
- (bb) The total number of the Shares which may be allotted and issued upon the exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of us) to be granted under the Share Option Scheme and any other share option scheme of us must not in aggregate exceed 10% of the number of Shares in issue on the [REDACTED], being 100,000,000 Shares (“**General Scheme Limit**”).

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(cc) Subject to (aa) above but without prejudice to (dd) below, our Company may seek approval of our Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of us must not exceed 10% of the number of Shares in issue as at the date of approval of the limit and, for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of us) previously granted under the Share Option Scheme and any other share option scheme of us will not be counted. The circular sent by our Company to our Shareholders shall contain, among other information, the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(dd) Subject to (aa) above and without prejudice to (cc) above, our Company may seek separate Shareholders’ approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the extended limit referred to in (cc) above to participants specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to our Shareholders containing a generic description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(iv) Maximum entitlement of each participant

The total number of Shares issued and which may fall to be issued upon the exercise of the options granted under the Share Option Scheme and any other share option scheme of us (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the number of Shares in issue for the time being (“**Individual Limit**”). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant must be separately approved by our Shareholders in general meeting of our Company with such grantee and his close associates (or his associates if the grantee is a connected person) abstaining from voting. The number and terms (including our exercise price) of options to be granted must be fixed before the approval of the Shareholders and the date of our Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under Note (1) to Rule 17.03(9) of the Listing Rules.

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(v) Grant of options to the Directors, chief executive or substantial shareholders of our Company or their respective associates

(aa) Any grant of options under the Share Option Scheme to a Director, chief executive or substantial shareholder of our Company or any of their respective associates must be approved by independent non-executive Directors (excluding independent non-executive Director who or whose associates is the proposed grantee of the options).

(bb) Where any grant of options to a substantial shareholder or an independent non-executive Director or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue; and
- (ii) having an aggregate value, based on the closing price of the Shares at the date of each offer for the grant, in excess of HK\$5 million;

such further grant of options must be approved by Shareholders in general meeting. Our Company must send a circular to our Shareholders, within such time as may be specified in the Listing Rules. The grantee, his associates and all core connected persons of our Company must abstain from voting in favour at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll. Any change in the terms of options granted to a substantial shareholder or an independent non-executive Director or any of their respective associates must be approved by the Shareholders in general meeting (with such grantee, his associates and all core connected persons of our Company abstaining from voting in favour).

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(vi) Time of acceptance and exercise of option

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Directors to each grantee, which period may commence from the date of the offer for the grant of options is made, but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by our Directors and stated in the offer for the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

(vii) Performance targets

Unless our Directors otherwise determined and stated in the offer for the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

(viii) Subscription price for the Shares and consideration for the option

The subscription price for the Shares under the Share Option Scheme shall be a price determined by our Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet for trade in one or more board lots of the Shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of Shares as stated in the Stock Exchange’s daily quotations for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a Share.

A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

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(ix) Ranking of the Shares

The Shares allotted and issued upon the exercise of an option will be subject to all the provisions of the articles of association of our Company for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the reopening of the register of members (the “**Exercise Date**”) and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee has been entered on the register of members of our Company as the holder thereof.

Unless the context otherwise requires, references to “Shares” in this paragraph include references to shares in the ordinary equity share capital of our Company of such nominal amount as shall result from a subdivision, consolidation, re-classification or re-construction of the share capital of our Company from time to time.

(x) Restrictions on the time of the offer for the grant of options

No offer for grant of options shall be made after inside information has come to our Company’s knowledge until we have announced the information. In particular, during the period commencing one month immediately preceding the earlier of (aa) the date of our Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company’s results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), and (bb) the deadline for our Company to publish an announcement of our results for any year, half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of the results announcement, no offer for the grant of options may be made.

Our Directors may not make any offer for the grant of option to a participant who is a Director during the periods or times in which Directors are prohibited from dealing in shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

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(xi) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

(xii) Rights on ceasing employment

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than death, ill-health or retirement in accordance with his contract of employment or the termination of his employment on one or more of the grounds referred to in sub-paragraph (xiv) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and shall not be exercisable unless our Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as our Directors may determine following the date of such cessation, which will be taken to be the last day on which the grantee was at work with us or the Invested Entity whether salary is paid in lieu of notice or not.

Eligible Employee means any employee (whether full time or part time employee, including any executive director but not any non-executive director) of our Company, any of our subsidiaries or any Invested Entity.

(xiii) Rights on death, ill-health or retirement

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation of employment which date shall be the last day on which the grantee was at work with us or the Invested Entity whether salary is paid in lieu of notice or not or such longer period as our Directors may determine.

(xiv) Rights on dismissal

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of a termination of his employment on the grounds that he has been guilty of persistent or serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of our Directors does not bring the grantee or us or the Invested Entity into disrepute), his option (to the extent not already exercised) will lapse automatically on the date of cessation to be an Eligible Employee.

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(xv) Rights on breach of contract

If our Directors shall at their absolute discretion determine that (aa) (1) the grantee of any option (other than an Eligible Employee) or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and us or any Invested Entity on the other part, or (2) that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally, or (3) the grantee could no longer make any contribution to the growth and development of us by reason of the cessation of its relations with us or by other reason whatsoever; and (bb) the option granted to the grantee under the Share Option Scheme shall lapse as a result of any event specified in sub-paragraph (1), (2) or (3) above, his option will lapse automatically on the date on which our Directors have so determined.

(xvi) Rights on a general offer, a compromise or arrangement

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, Shareholders. If such offer becomes or is declared unconditional, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee’s notice to our Company in exercise of his option at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under such scheme of arrangement, as the case may be. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date which such offer (or, as the case may be, revised offer) closed or the relevant date for entitlements under such scheme of arrangement, as the case may be.

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(xvii) Rights on winding up

In the event of a resolution being proposed for the voluntary winding-up of our Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two business days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and our Company shall allot and issue to the grantee the Shares in respect of which such grantee has exercised his option not less than one business day before the date on which such resolutions to be considered and/or passed whereupon he shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation *pari passu* with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up of our Company.

(xviii) Grantee being a company wholly owned by eligible participants

If the grantee is a company wholly owned by one or more eligible participants:

- (aa) sub-paragraphs (xii), (xiii), (xiv) and (xv) shall apply to the grantee and to the options to such grantee, *mutatis mutandis*, as if such options had been granted to the relevant eligible participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in sub-paragraphs (xii), (xiii), (xiv) and (xv) shall occur with respect to the relevant eligible participant; and
- (bb) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant eligible participant provided that our Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

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(xix) Adjustments to the subscription price

In the event of a [REDACTED], rights issue, subdivision or consolidation of Shares or reduction of capital of our Company while an option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being of or an independent financial adviser to our Company as fair and reasonable will be made to the number of Shares to which the Share Option Scheme or any option relates (insofar as it is/they are unexercised) and/or the subscription price of the option concerned and/or (unless the grantee of the option elects to waive such adjustment) the number of Shares comprised in an option or which remains comprised in an option, provided that (aa) any adjustments shall give a grantee the same proportion of the number of issued shares as that to which he was entitled prior to such alteration, (bb) the issue of Shares or other securities of us as consideration in a transaction may not be regarded as a circumstance requiring adjustment, (cc) no alteration may be made to the extent that a Share would be issued at less than its nominal value, and (dd) any adjustment must be made in compliance with the Listing Rules and such rules, codes and guidance notes of the Stock Exchange from time to time. In addition, in respect of any such adjustments, other than any adjustment made on a [REDACTED], such auditors or independent financial adviser must confirm to our Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules.

(xx) Cancellation of options

Any cancellation of options granted but not exercised must be subject to the prior written consent of the relevant grantee and the approval of our Directors.

When our Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding the options so cancelled) within the General Scheme Limit or the new limits approved by the Shareholders pursuant sub-paragraphs (iii) (cc) and (dd) above.

(xxi) Termination of the Share Option Scheme

Our Company may by resolution in general meeting at any time terminate the Share Option Scheme and in such event no further options shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

APPENDIX V**STATUTORY AND GENERAL INFORMATION**

(xxii) Rights are personal to the grantee

An option is personal to the grantee and shall not be transferable or assignable.

(xxiii) Lapse of option

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (aa) the expiry of the option period in respect of such option;
- (bb) the expiry of the periods or dates referred to in paragraph (xii), (xiii), (xiv), (xv), (xvi), (xvii) and (xviii); and
- (cc) the date on which our Directors exercise our Company’s right to cancel the option by reason of a breach of paragraph (xxii) above by the grantee.

(xxiv) Miscellaneous

- (aa) The Share Option Scheme is conditional on the Stock Exchange granting the [REDACTED] of, and permission to [REDACTED], such number of Shares to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.
- (bb) The terms and conditions of the Share Option Scheme relating to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees of the options except with the approval of our Shareholders in general meeting.
- (cc) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by our Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (dd) The amended terms of the Share Option Scheme or the options shall comply with the relevant requirements of Chapter 17 of the Listing Rules.
- (ee) Any change to the authority of our Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall be approved by the shareholders of our Company in general meeting.

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(b) Present status of the Share Option Scheme

(i) Approval of the Stock Exchange required

The Share Option Scheme is conditional on the Stock Exchange granting the [REDACTED] of, and permission to [REDACTED], such number of Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.

(ii) Application for approval

Application has been made to the Stock Exchange for the [REDACTED] of and permission to [REDACTED] the Shares to be issued within the General Scheme Limit pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(iii) Grant of option

As at the date of this document, no options have been granted or agreed to be granted under the Share Option Scheme.

(iv) Value of options

Our Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to [REDACTED].

(v) Compliance with the Listing Rules

The Share Option Scheme complies with Chapter 17 of the Listing Rules.

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15. Tax and other indemnity

Our Controlling Shareholders (together, the “**Indemnifiers**”) have entered into the Deed of Indemnity with and in favour of our Company (for ourselves and as trustee for each of our subsidiaries stated therein) to provide indemnities on a joint and several basis in respect of, among other matters, taxation, together with all reasonable costs (including all legal costs), fines, penalties, costs, charges, expenses and other liabilities which may be incurred by any member of our Group resulting from or by reference to any income, profits or gains earned, accrued or received on or before the [REDACTED] or any transaction or event entered into or occurring on or before the [REDACTED] whether alone or in conjunction with any circumstances whenever occurring and whether or not such taxation are chargeable against or attributable to any other person, firm, company or corporation.

The Indemnifiers are under no liability under the Deed of Indemnity in respect of any taxation:

- (a) to the extent that provision has been made for such taxation in the audited accounts of any member of our Group for any accounting period up to 31 December 2020;
- (b) to the extent that such taxation or liability falling on any of the members of our Group in respect of any accounting period commencing after 31 December 2020 and ending on the [REDACTED], where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily effected by, any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of any of the Indemnifiers, otherwise than any such act, omission or transaction:
 - (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after 31 December 2020; or
 - (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before 31 December 2020 or pursuant to any statement of intention made in this document; or

APPENDIX V**STATUTORY AND GENERAL INFORMATION**

- (c) to the extent of any provision or reserve made for taxation in the audited accounts of any member of our Group up to 31 December 2020 and which is finally established to be an over-provision or an excessive reserve, in which case the Indemnifiers’ liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied to reduce the Indemnifiers’ liability in respect of taxation shall not be available in respect of any such liability arising thereafter; or
- (d) to the extent that such taxation claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the laws, rules and regulations or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the taxation authority in the PRC, or any other relevant authority (whether in Hong Kong or the PRC or any other part of the world) coming into force after the date of the Deed of Indemnity or to the extent such taxation claim arises or is increased by an increase in rates of taxation or taxation claim after the date of the Deed of Indemnity with retrospective effect.

Under the Deed of Indemnity, each of the Indemnifiers has also jointly and severally undertaken to us that he/it will indemnify and at all times keep each of the members of our Group fully indemnified on demand from and against all losses, claims, actions, demands, liabilities, damages, costs, expenses, fines, penalties and charges and of whatever nature suffered or incurred by any member of our Group directly or indirectly arising out of or in connection with the non-compliance or alleged non-compliance by any member of our Group with any applicable laws and regulations on or before the [REDACTED].

Under the Deed of Indemnity, each of the Indemnifiers has also jointly and severally undertaken to us that he/it will indemnify and at all times keep each of the members of our Group fully indemnified on demand from any depletion in or reduction in value of its assets or any loss (including all legal costs and suspension of operation), cost, expenses, damages or other liabilities which any member of our Group may incur or suffer arising from or in connection with the implementation of the Reorganisation.

16. Litigation

As at the Latest Practicable Date, no member of our Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company, that would have a material adverse effect on our results of operations or financial condition of our Company.

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17. Preliminary expenses

The preliminary expenses of our Company were approximately USD7,000 and has been paid by our Company.

18. Promoter

- (a) Our Company does not have any promoter.
- (b) Within the two years preceding the date of this document, no amount or benefit has been paid or given to any promoters of our Company in connection with the [REDACTED] or the related transactions described in this document.

19. Agency fees or commissions received

For details of the agency fees or commissions to be received by the [REDACTED], See “[REDACTED] — Commissions, Fees and Expenses” in this document.

20. The Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Stock Exchange for [REDACTED] of, and permission to [REDACTED], the Shares in issue and to be issued as mentioned in this document and any Shares which may be issued upon the exercise of the [REDACTED] and any option which were granted or may be granted under the Share Option Scheme, on the Stock Exchange. All necessary arrangements have been made to enable the securities to be admitted into [REDACTED].

The Sole Sponsor is independent from our Company pursuant to Rule 3A.07 of the Listing Rules.

The sponsor’s fees payable by us in respect of the Sole Sponsor’s services as sponsor for the [REDACTED] is HK\$4.6 million. The Sole Sponsor is also entitled to receive a praecipium of 0.5% of the [REDACTED] per [REDACTED].

APPENDIX V**STATUTORY AND GENERAL INFORMATION**

21. Qualifications of experts

The following are the qualifications of the experts who have given opinions or advice which are contained in this document:

| | |
|---|--|
| First Shanghai Capital Limited | Licensed corporation under the SFO to carry out type 6 (advising on corporate finance) regulated activities |
| PricewaterhouseCoopers | Certified Public Accountants under the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong) and Registered Public Interest Entity Auditor under the Financial Reporting Council Ordinance (Chapter 588 of the Laws of Hong Kong) |
| Conyers Dill & Pearman | Cayman Islands attorneys-at-law |
| Jingtian & Gongcheng | Qualified PRC lawyers |
| Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. | Industry consultant |
| Cushman & Wakefield Limited | Professional property valuer |
| RSM Consulting (Hong Kong) Limited | Internal control consultant |

22. Consents of experts

Each of the experts as set out in paragraph 21 above has given and has not withdrawn their respective written consents to the issue of this document with the inclusion of their report and/or letter and/or legal memorandum and/or legal opinion and/or opinion and/or confirmations and/or summary thereof and/or summary of valuations (as the case may be) and the references to their names included herein in the form and context in which they respectively appear.

APPENDIX V**STATUTORY AND GENERAL INFORMATION**

23. Binding effect

This document shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (WUMP) Ordinance so far as applicable.

24. Taxation of holders of Shares

Dealings in Shares registered on our Company’s Hong Kong branch register of members will be subject to Hong Kong stamp duty. Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares. It is emphasised that none of our Company, our Directors or the other parties involved in the [REDACTED] can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.26% of the consideration or, if higher, the value of the Shares being sold or transferred.

Under present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty except for those which hold interests in land in the Cayman Islands.

25. Miscellaneous

- (a) Save as disclosed in this Appendix and in “History, Reorganisation and Corporate Structure” and “[REDACTED]” in this document:
 - (i) within two years preceding the date of this document:
 - (aa) no share or loan capital of our Company or of any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and
 - (cc) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any shares in our Company or any of our subsidiaries;

APPENDIX V**STATUTORY AND GENERAL INFORMATION**

- (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (b) our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 30 April 2021 (being the date to which the latest audited consolidated financial statements of our Group were made up);
- (c) our Directors confirm that there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this document; and
- (d) our Company has no outstanding convertible debt securities or debentures.

26. Bilingual document

The English language and Chinese language versions of this document are being published separately, in reliance upon the exemption provided under section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses for Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

APPENDIX VI **DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION IN HONG KONG**

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this document delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (a) a copy of the [REDACTED];
- (b) the written consents referred to under “Other Information — 22. Consents Of Experts” in Appendix V to this document; and
- (c) copies of the material contracts referred to in “Further Information about the Business of Our Group — 8. Summary Of Material Contracts” in Appendix V to this document.

DOCUMENTS ON DISPLAY AND AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Howse Williams at 27th Floor, Alexandra House, 18 Chater Road, Central, Hong Kong during normal business hours, and will be displayed on the websites of the Stock Exchange (www.hkexnews.hk) and our Company (www.sdhegroup.cn) up to and including the date which is 14 days from the date of this document:

- (a) our Memorandum and the Articles of Association;
- (b) the Accountant’s Report and the report on the unaudited pro forma financial information of our Group from PricewaterhouseCoopers, the texts of which are set out in Appendices I and II to this document;
- (c) the audited consolidated financial statements of our Group for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021;
- (d) the property valuation report prepared by Cushman & Wakefield Limited, our property valuer, as set out in Appendix III to this document;
- (e) the letter of advice prepared by Conyers Dill & Pearman, our legal adviser on Cayman Islands law, in relation to certain aspects of Cayman Islands company law referred to in Appendix IV to this document;
- (f) the legal opinions prepared by Jingtian & Gongcheng, our PRC Legal Advisers, in relation to certain aspects of our Group and our property interests in the PRC and the summary of PRC laws and regulations relation to our business set out in this document;
- (g) the Companies Act;
- (h) the industry report prepared by F&S;

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

APPENDIX VI **DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION IN HONG KONG**

- (i) the internal control report prepared by RSM Consulting (Hong Kong) Limited, our internal control consultant;
- (j) the written consents referred to in “Other Information — 22. Consents Of Experts” in Appendix V to this document;
- (k) the material contracts referred to in “Further Information about the Business of Our Group — 8. Summary of Material Contracts” in Appendix V to this document; and
- (l) the service contracts and the letters of appointment with our Directors referred to in “Further Information About Our Directors and Substantial Shareholders — 11. Directors — (a) Particulars of Directors’ Service Contracts” in Appendix V to this document.