The following is the text of a report, prepared for the purpose of incorporation in this document, received from the reporting accountants of the Company, Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong.

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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF VANOV HOLDINGS COMPANY LIMITED AND CMBC INTERNATIONAL CAPITAL LIMITED

Introduction

We report on the historical financial information of Vanov Holdings Company Limited (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages I-5 to I-84, which comprises the consolidated statements of financial position of the Group as at 31 December 2018, 2019, 2020 and 30 June 2021, the statements of financial position of the Company as at 31 December 2018, 2019, 2020 and 30 June 2021, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2018, 2019, 2020 and six months ended 30 June 2021 (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-5 to I-84 forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated **[REDACTED]** (the "**Document**") in connection with the **[REDACTED]** of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in notes 1.2 and 2.1 to the Historical Financial Information, respectively, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgment, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in notes 1.2 and 2.1 to the Historical Financial Information, respectively, 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 of the Company, 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 purpose of the accountants' report, a true and fair view of the Group's consolidated financial position as at 31 December 2018, 2019, 2020 and 30 June 2021, of the Company's financial position as at 31 December 2018, 2019, 2020 and 30 June 2021 and of the Group's consolidated financial performance and consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in notes 1.2 and 2.1 to the Historical Financial Information, respectively.

Review of interim period comparative financial information

We have reviewed the interim period comparative financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2020 and other explanatory information (the "**Interim Period Comparative Financial Information**"). The directors of the Company are responsible for the presentation and preparation of the Interim Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in notes 1.2 and 2.1 to the Historical Financial Information, respectively. Our responsibility is to express a conclusion on the Interim Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. 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 Hong Kong 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 Interim Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in notes 1.2 and 2.1 to the Historical Financial Information, respectively.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange 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-5 have been made.

Dividends

We refer to note 11 to the Historical Financial Information which contains information about dividends paid by the Company's subsidiary in respect of the Track Record Period and states that no dividend have been paid by the Company since its incorporation.

No historical financial statements for the Company

No financial statements have been prepared for the Company since its date of incorporation.

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[REDACTED]

[REDACTED]
Practising Certificate No.: **[REDACTED]**

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 accountants' report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") (the "**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.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			Six months ended 30 June	
	Notes	2018	2019	2020	2020	2021
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Revenue	*4*	159,356	167,314	182,759	66,205	76,515
Cost of sales		(81,472)	(77,985)	(83,140)	(31,351)	(37,438)
Gross profit		77,884	89,329	99,619	34,854	39,077
Other income	*5*	8,083	4,761	6,025	1,527	1,264
Selling and distribution expenses		(12,587)	(14,855)	(17,764)	(6,340)	(7,083)
Administrative and other operating expenses		(22,437)	(31,088)	(32,145)	(12,142)	(12,998)
Finance costs	*6*	(7,483)	(6,669)	(7,241)	(3,640)	(3,803)
Profit before income tax	*7*	43,460	41,478	48,494	14,259	16,457
Income tax expense	*8*	(6,254)	(6,401)	(7,481)	(2,747)	(2,171)
Profit and total comprehensive income for the year/period		37,206	35,077	41,013	11,512	14,286
Profit and total comprehensive income attributable to:						
Equity holders of the Company		34,366	34,633	40,517	11,379	14,134
Non-controlling interests		2,840	444	496	133	152
		37,206	35,077	41,013	11,512	14,286
Earnings per share attributable to equity holders of the Company						
Basic and diluted (RMB cents)	*10*	9.39	9.47	11.08	3.11	3.86

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 30 June
	Notes	**2018**	**2019**	**2020**	**2021**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	*12*	65,735	61,566	72,694	131,246
Land lease prepayment	*13*	6,532	6,194	5,856	5,687
Intangible assets	*14*	39,896	44,155	51,108	55,736
Prepayment of acquisition for property, plant and equipment and intangible assets		3,503	3,600	22,593	4,958
Deposit		2,100	2,100	2,100	2,100
Deferred tax assets	*24*	1,472	942	1,086	1,128
		119,238	118,557	155,437	200,855
Current assets					
Inventories	*15*	12,311	11,263	10,034	11,529
Trade and other receivables	*16*	107,511	128,885	141,111	123,767
Amounts due from related parties	*30(c)*	3,220	3,389	205	99
Restricted bank deposit	*17*	1,800	1,000	1,000	1,002
Cash and cash equivalent	*17*	14,851	28,439	29,775	37,702
		139,693	172,976	182,125	174,099
Current liabilities					
Contract liabilities	*18*	737	711	739	1,034
Trade and other payables	*19*	41,850	43,899	47,221	46,484
Lease liabilities	*20*	1,453	1,397	1,545	1,574
Amount due to a related party	*30(c)*	27	30	27	5
Discounted bills financing	*21*	500	450	—	—
Bank borrowings	*22*	122,500	117,000	115,000	115,000
Other borrowing	*23*	—	—	—	7,942
Income tax payable		3,765	4,642	6,586	4,344
		170,832	168,129	171,118	176,383
Net current (liabilities)/assets		(31,139)	4,847	11,007	(2,284)
Total assets less current liabilities		88,099	123,404	166,444	198,571
Non-current liabilities					
Lease liabilities	*20*	1,405	8	1,338	541
Other borrowing	*23*	—	—	—	18,606
Deferred tax liabilities	*24*	433	117	814	846
		1,838	125	2,152	19,993
Net assets		86,261	123,279	164,292	178,578

		As at 31 December			As at 30 June
	Notes	**2018**	**2019**	**2020**	**2021**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
CAPITAL AND RESERVES					
Share capital	*25*	—*	1	1	1
Reserves	*26*	78,649	121,895	162,412	176,546
Equity attributable to equity holders of the Company		78,649	121,896	162,413	176,547
Non-controlling interests		7,612	1,383	1,879	2,031
Total equity		86,261	123,279	164,292	178,578

* Represent amount less than RMB1,000

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

	Notes	As at 31 December			As at 30 June
		2018	2019	2020	2021
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS AND LIABILITIES					
Non-current assets					
Interests in subsidiaries	*32*	1	1,594	1,594	1,594
Current assets					
Prepaid **[REDACTED]**	*16*	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Current liabilities					
Amount due to a subsidiary		283	10,209	16,408	20,437
Accruals	*19*	4,855	5,682	8,425	5,361
		5,138	15,891	24,833	25,798
Net current liabilities		(3,878)	(13,186)	(21,692)	(22,553)
Total assets less current liabilities/ net liabilities		(3,877)	(11,592)	(20,098)	(20,959)
CAPITAL AND RESERVES					
Share capital	*25*	—*	1	1	1
Reserves	*26*	(3,877)	(11,593)	(20,099)	(20,960)
Capital deficiencies		(3,877)	(11,592)	(20,098)	(20,959)

* Represent amount less than RMB1,000

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Notes	Attributable to equity holders of the Company						
		Share capital	Capital reserve	Statutory reserve	Retained profits	Subtotal	Non-controlling interests	Total
		RMB'000	*RMB'000* (note 26(b))	*RMB'000* (note 26(b))	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2018		—	35,228	13,794	15,261	64,283	4,772	69,055
Profit and total comprehensive income for the year		—	—	—	34,366	34,366	2,840	37,206
Dividend recognised as distribution	*11*	—	—	—	(20,000)	(20,000)	—	(20,000)
Transfer		—	—	5,645	(5,645)	—	—	—
Issue of shares upon Reorganisation	*25*	—*	—	—	—	—*	—	—*
As at 31 December 2018 and 1 January 2019		—*	35,228	19,439	23,982	78,649	7,612	86,261
Profit and total comprehensive income for the year		—	—	—	34,633	34,633	444	35,077
Capital injection		—	1,940	—	—	1,940	—	1,940
Recognition of non-controlling interests		—	(1,365)	—	—	(1,365)	1,365	—
Derecognition of non-controlling interests		—	8,038	—	—	8,038	(8,038)	—
Share allotment	*25*	1	—	—	—	1	—	1
Transfer		—	—	4,463	(4,463)	—	—	—
As at 31 December 2019 and 1 January 2020		1	43,841	23,902	54,152	121,896	1,383	123,279
Profit and total comprehensive income for the year		—	—	—	40,517	40,517	496	41,013
Transfer		—	—	5,001	(5,001)	—	—	—
As at 31 December 2020		1	43,841	28,903	89,668	162,413	1,879	164,292
Profit and total comprehensive income for the period		—	—	—	14,134	14,134	152	14,286
As at 30 June 2021		1	43,841	28,903	103,802	176,547	2,031	178,578
As at 1 January 2020		1	43,841	23,902	54,152	121,896	1,383	123,279
Profit and total comprehensive income for the period		—	—	—	11,379	11,379	133	11,512
As at 30 June 2020 (unaudited)		1	43,841	23,902	65,531	133,275	1,516	134,791

* Represent amount less than RMB1,000

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Year ended 31 December			Six months ended 30 June	
		2018	2019	2020	2020	2021
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Operating activities						
Profit before income tax		43,460	41,478	48,494	14,259	16,457
Adjustments for:						
Amortisation of intangible assets		280	803	1,261	556	719
Depreciation of property, plant and equipment		7,455	8,242	9,141	4,595	4,649
Depreciation of land lease prepayment		225	338	338	169	169
Loss on disposal of property, plant and equipment		27	37	9	2	86
Provision/(Reversal) of provisions for inventories		123	42	(750)	464	243
Provision for legal claim		—	—	1,303	400	297
Provision of allowance on receivables, net		1,397	802	1,456	1,568	319
Provision of warranty		3,116	2,363	3,928	816	2,013
Interest income		(75)	(105)	(191)	(63)	(89)
Rent concessions		—	—	(387)	(231)	—
Finance costs		7,483	6,669	7,241	3,640	3,803
Operating cash flows before working capital changes		63,491	60,669	71,843	26,175	28,666
Decrease/(Increase) in inventories		4,681	1,006	1,979	(3,017)	(1,738)
(Increase)/Decrease in trade and other receivables		(19,570)	(22,176)	(13,682)	13,011	17,025
Decrease/(Increase) in amounts due from related parties		776	(168)	3,184	—	106
Increase/(Decrease) in trade and other payables		3,047	8,882	(3,734)	(9,084)	(4,207)
(Decrease)/Increase in contract liabilities		(1,177)	(26)	28	54	295
(Decrease)/Increase in amount due to a related party		(55)	3	(3)	(25)	(22)
Cash generated from operations		51,193	48,190	59,615	27,114	40,125
Income tax paid		(5,666)	(5,310)	(4,984)	(3,941)	(4,423)
Net cash generated from operating activities		45,527	42,880	54,631	23,173	35,702

		Year ended 31 December			Six months ended 30 June	
	Notes	**2018**	**2019**	**2020**	**2020**	**2021**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Investing activities						
Acquisition of property, plant and equipment		(15,579)	(4,034)	(30,247)	(4,780)	(14,881)
Acquisition of intangible assets		(4,243)	(5,062)	(8,214)	(3,862)	(5,347)
Land lease prepayment		(6,757)	—	—	—	—
Interest received		75	105	191	63	89
Proceeds from disposal of property, plant and equipment		46	—	23	—	177
(Increase)/Decrease in restricted bank deposit		(1,800)	800	—	(2)	(2)
Net cash used in investing activities		(28,258)	(8,191)	(38,247)	(8,581)	(19,964)
Financing activities						
Proceeds of bank borrowings		123,000	117,000	115,000	92,000	85,000
Repayment of bank borrowings		(105,500)	(122,500)	(117,000)	(94,000)	(85,000)
Repayment of lease liabilities		(1,388)	(1,453)	(1,282)	(532)	(768)
Interest paid		(7,570)	(6,669)	(7,230)	(3,630)	(3,405)
[REDACTED] paid		[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Decrease in discounted bills financing		(4,154)	(50)	(450)	(450)	—
Dividends paid		(20,000)	—	—	—	—
Proceeds of capital contributions		—	1,940	—	—	—
Net cash used in from financing activities		(15,800)	(21,101)	(15,048)	(11,897)	(7,811)
Net increase in cash and cash equivalents		1,469	13,588	1,336	2,695	7,927
Cash and cash equivalents at beginning of year/period		13,382	14,851	28,439	28,439	29,775
Cash and cash equivalents at end of year/period	*17*	14,851	28,439	29,775	31,134	37,702

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION

1.1 General information

Vanov Holdings Company Limited (the "**Company**") was incorporated in the Cayman Islands on 5 November 2018 as an exempted company with limited liability under the Companies Act of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111 Cayman Islands and its principal place of business is No.519, Section 2, Xinhua Avenue, Chengdu Strait Science and Technology Industry Development Park, Wenjiang District, Chengdu, Sichuan Province, the People's Republic of China (the "**PRC**").

The Company is an investment holding company and its subsidiaries are principally engaged in the design, manufacture and sales of papermaking felts (the "**[REDACTED] Business**").

The Company's immediate holding company is Perfect Angle Limited ("**Perfect Angle**"), a company incorporated in the British Virgin Islands ("**BVI**"). The Company's ultimate controlling parties are Ms. Shen Genlian ("**Ms. Shen**") and Mr. Zhou Jun ("**Mr. Zhou**"), the Spouse of Ms. Shen (together, the "**Controlling Shareholders**").

Pursuant to a group reorganisation (the "**Reorganisation**") as detailed in the section headed "History, Reorganisation and Corporate Structure" to the Document, the Company became the holding company of the companies now comprising the Group on 13 August 2019.

As at the date of this report, the Company had direct and indirect interest in the following subsidiaries, all of which are private limited liability companies, and the particulars of which are set out below:

Company name	Place and date of incorporation and operation	Registered/ Issued and paid up capital	Equity interest attributable to the Group: As at 31 December 2018	2019	2020	As at 30 June 2021	As at the date of this report	Principal activities
Directly held:								
Lion Courage Enterprises Limited (note a)	BVI, 23 October 2018	USD100	100%	100%	100%	100%	100%	Investment holding
Virtuous Way Limited (note a)	BVI, 22 August 2019	USD100	—	100%	100%	100%	100%	Investment holding
Indirectly held:								
Vanov Tianhe International Holdings Limited (note b)	Hong Kong, 30 November 2018	HKD10,000	100%	100%	100%	100%	100%	Investment holding
成都環龍賦能科技有限公司 Chengdu Huanlong Funeng Technology Co., Ltd.* (note b)	The PRC, 28 February 2019	RMB1,000,000	—	100%	100%	100%	100%	Investment holding
成都環龍立欣科技有限公司 Chengdu Huanlong Lixin Technology Co., Ltd.* (note b)	The PRC, 27 March 2019	RMB1,000,000	—	99%	99%	99%	99%	Investment holding
Marvel Dragon Development Limited (note b)	Hong Kong, 6 July 2018	HKD100	—	100%	100%	100%	100%	Investment holding
四川環龍技術織物有限公司 Sichuan Huanlong Technology Fabrics Co., Ltd.* (note c)	The PRC, 7 February 2007	RMB40,650,000	93%	99%	99%	99%	99%	Manufacturing and sales of papermaking felts
上海金熊造紙網毯有限公司 Shanghai Jinxiong Paper Making Net Carpet Co., Ltd.* (note c)	The PRC, 31 October 2000	RMB35,590,000	100%	100%	100%	100%	100%	Manufacturing and sales of papermaking felts

* The translation of name in English is for identification purposes only.

Notes:

(a) No statutory financial statements have been prepared for these entities as these entities were not subject to any statutory audit requirements under relevant rules and regulations in their jurisdiction of incorporation.

(b) Vanov Tianhe International Holdings Limited, Chengdu Huanlong Funeng Technology Co., Ltd., Chengdu Huanlong Lixin Technology Co., Ltd. and Marvel Dragon Development Limited were newly incorporated and no statutory audited financial statements has been prepared since its incorporation.

(c) No statutory financial statements for each of the year ended 31 December 2018, 2019 and 2020 as there was no requirement to issue audited accounts by local government authorities.

All companies now comprising the Group has adopted 31 December as their financial year end.

1.2 Basis of presentation

Pursuant to the Reorganisation as more fully explained in the paragraphs headed "Reorganisation" in the section headed "History, Reorganisation and Corporate Structure" to the Document, the Company became the holding company of the companies now comprising the Group on 13 August 2019.

The group entities were under the common control of the Controlling Shareholders throughout the Track Record Period. Accordingly, for the purpose of the preparation of the Group's Historical Financial Information, the Company has been considered as the holding company of the companies now comprising the Group throughout the Track Record Period. The Group is under the common control of the Controlling Shareholders prior to and after the Reorganisation. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity.

The consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years ended 31 December 2018 and 2019, which include the financial performance, changes in equity and cash flows of all the companies now comprising the Group has been prepared using the principles of merger accounting under Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA as if the current group structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation where this is a shorter period. The consolidated statement of financial position as at 31 December 2018 have been prepared to present the assets and liabilities of the subsidiaries and/or business using the existing book values from the Controlling Shareholders' perspectives. No adjustments are made to reflect fair values or recognise any new assets or liabilities as a result of the Reorganisation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the HKICPA effective for the accounting period beginning from 1 January 2021 and the Group has early adopted amendments to HKFRS 16 "COVID-19-Related Rent Concessions" and "COVID-19-Related Rent Concessions beyond 30 June 2021" for the accounting period beginning from 1 January 2020. The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**").

The Group had net current liabilities of RMB2,284,000 as of 30 June 2021. In view of the net current liabilities position as of 30 June 2021, the directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

Having considered the cash inflow from operations and the refinancing of bank borrowings upon their expiry by drawing down new bank borrowings, the directors are satisfied that the Group is able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the Historical Financial Information has been prepared on a going concern basis.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets. The Historical Financial Information does not include any adjustments that would result from the failure of the Group to continue in business as a going concern.

The significant accounting policies that have been used in the preparation of this Historical Financial Information are summarised below. These policies have been consistently applied to all the years presented in the Historical Financial Information, unless otherwise stated.

The Historical Financial Information has been prepared on the historical cost basis. The Historical Financial Information is presented in RMB, which is also the functional currency of the Company and its subsidiaries.

It should be noted that accounting estimates and assumptions are used in preparation of the Historical Financial Information. Although these estimates are based on management's best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in note 3.

Amendment to HKFRS 16 "COVID-19-Related Rent Concessions" and Amendment to HKFRS 16 "COVID-19-Related Rent Concessions beyond 30 June 2021"

The amendments to HKFRS 16 only apply to lessee accounting and have no effect on lessor accounting. The amendments provide a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 ("**COVID-19-Related Rent Concessions**") are lease modification and, instead, account for those rent concessions as if they were not lease modifications.

The practical expedient is only applicable to COVID-19-Related Rent Concessions and only if all of the following conditions are met:

a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

b) any reduction in lease payments affects only payments originally due on or before 30 June 2022 (for example, a rent concession would meet this condition if it results in reduced lease payments on or before 30 June 2022 and increased lease payments that extend beyond 30 June 2022); and

c) there is no substantive change to other terms and conditions of the lease.

The Group has elected to early adopt the above amendments and applies the practical expedient to all qualifying COVID-19-Related Rent Concessions granted to the Group throughout the Track Record Period.

Consequently, rent concessions received have been recognised RMB387,000 for the year ended 31 December 2020 and nil for the six months period ended 30 June 2021 as negative variable lease payments in profit or loss in the period in which the event or condition that triggers those payments occurred.

2.2 Issued but not yet effective HKFRSs

The Group has not early applied the following new and amended standards, amendments and interpretations ("**new and amended HKFRSs**") which have been issued but not yet effective:

HKFRS 17	Insurance Contracts and related amendments[2]
Amendments to HKFRS 3	Reference to the Conceptual Framework[4]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[2]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[2]
Amendments to HKAS 8	Definition of Accounting Estimates[2]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[2]

Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use[1]
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract[1]
Amendments to HKFRSs	Annual Improvements to HKFRS Standards 2018-2020[1]
Accounting Guideline 5 (Revised)	Merger Accounting for Common Control Combination[4]

1 Effective for annual periods beginning on or after 1 January 2022
2 Effective for annual periods beginning on or after 1 January 2023
3 Effective date not yet determined
4 Effective for business combination/common control combination for which the acquisition/combination date is on or after the beginning of the first annual period beginning on or after 1 January 2022

The directors anticipate that all of the new and amended HKFRSs will be adopted in the Group's accounting policy for the first period beginning after the effective date of the new and amended HKFRSs. Except for those mentioned below, other new and amended HKFRSs are not expected to have a material impact on the Group's consolidated financial statements.

Amendments to HKAS 1 and HKFRS Practice Statement 2 "Disclosure of Accounting Policies"

The amendments to HKAS 1 require entities to disclose material accounting policy information instead of significant accounting policies in its financial statements. The amendments also provide some guidance on how material policy information are being identified and provide some examples of when accounting policy information is likely to be material.

In March 2021, HKICPA issued HKFRS Practice Statement 2 "Making Materiality Judgements" to provide entities with non-mandatory guidance on how to make materiality judgements when preparing their general purpose financial statements in accordance with HKFRS. HKFRS Practice Statement 2 was subsequently revised to provide guidance and examples on how to apply the concept of materiality to accounting policy disclosures.

The amendments to HKAS 1 are effective for annual reporting period beginning on or after 1 January 2023 and are applied prospectively. Earlier application is permitted. Except for the disclosures of accounting policies in note 2 may need to be revised to cope with the above changes, the directors expect that the amendments have no other material impact on the Historical Financial Information.

Amendments to HKAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"

The amendments clarify that the initial recognition exemption of deferred tax in HKAS 12 does not apply to transactions that give rise to equal taxable and deductible temporary differences, such as lease contracts that give rise to the recognition of a lease liability and the corresponding right-of-use assets. Instead, entities are required to recognise the related deferred tax asset and liability on initial recognition, with the recognition of any deferred tax asset being subject to the recoverability criteria in HKAS 12. The amendments are effective for annual reporting period beginning on or after 1 January 2023. Earlier application is permitted. The directors expect that the amendments have no other material impact on the Historical Financial Information.

2.3 Basis of consolidation

The Historical Financial Information incorporates the financial statements of the Company and its subsidiaries for the Track Record Period.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Subsidiaries are entities controlled by the Group.

The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power over the entity, only substantive rights relating to the entity (held by the Group and others) are considered.

The Group includes the income and expenses of a subsidiary in the Historical Financial Information from the date it gains control until the date when the Group ceases to control the subsidiary. Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

In the Company's statements of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. Cost also includes direct attributable costs of investment.

The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

2.4 Merger accounting for business combination involving entities under common control

The Historical Financial Information incorporates the assets and liabilities of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities are combined using the existing book values from the Controlling Shareholders' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination.

The consolidated statements of profit or loss and other comprehensive income include the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

2.5 Foreign currency translation

The Historical Financial Information is presented in RMB, which is also the functional currency of the Company.

In the individual financial statements of the combined entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in the profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated (i.e. only translated using the exchange rate at the transaction date).

In the Historical Financial Information, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into RMB. Assets and liabilities have been translated into RMB at the closing rates at the reporting date. Income and expenses have been converted into the RMB at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the translation reserve in equity.

2.6 Property, plant and equipment

Property, plant and equipment (other than construction-in-progress as described below) are stated at cost less accumulated depreciation and impairment losses. Cost (other than cost of right-of-use assets as described in note 2.13) includes expenditure that is directly attributable to the acquisition of the asset.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Costs include professional fees. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation on property, plant and equipment is provided to write off the cost less their residual values, if any, over their estimated useful lives, using the straight-line method, at the following rates per annum:

Building	20 years or shorter of the lease term
Leasehold improvements	5 years or shorter of the lease term
Plant and machinery	5-12 years
Furniture and fixtures	3-5 years
Motor vehicles	5 years

Accounting policy for depreciation of right-of-use assets is set out in note 2.13.

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss.

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 the replaced part is derecognised. All other costs, such as repairs and maintenance, are charged to the profit or loss during the financial period in which they are incurred.

2.7 Intangible assets (other than goodwill) and research and development activities

Intangible assets

Acquired intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives. Amortisation commences when the intangible assets are available for use. The following useful lives are applied:

Computer software	5 years
Capitalised development costs	10 years

Intangible assets with indefinite useful lives (i.e. trademarks) are carried at cost less any subsequent accumulated impairment losses.

The assets' amortisation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Intangible assets, with finite and indefinite useful lives, are tested for impairment as described below in note 2.19.

Research and development costs

Costs associated with research activities are expensed in profit or loss as they occur. Costs that are directly attributable to development activities are recognised as intangible assets provided they meet the following recognition requirements:

— demonstration of technical feasibility of the prospective product for internal use or sale;

— there is intention to complete the intangible asset and use or sell it;

— the Group's ability to use or sell the intangible asset is demonstrated;

— the intangible asset will generate probable economic benefits through internal use or sale;

— sufficient technical, financial and other resources are available for completion; and

— the expenditure attributable to the intangible asset can be reliably measured.

Direct costs include employee costs incurred on development activities along with an appropriate portion of relevant overheads. The costs of development of internally generated software, products or knowhow that meet the above recognition criteria are recognised as intangible assets. They are subject to the same subsequent measurement method as acquired intangible assets.

All other development costs are expensed as incurred.

2.8 Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all of its risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with HKFRS 15, all financial assets are initially measured at fair value, in case of a financial asset not at fair value through profit or loss ("**FVTPL**"), plus transaction costs that are directly attributable to the acquisition of the financial asset.

Financial assets are classified into the following categories:

— amortised cost;

— FVTPL; or

— fair value through other comprehensive income ("**FVOCI**").

The classification is determined by both the entity's business model for managing the financial asset; and the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, or other income, except for expected credit losses ("**ECL**") of trade receivables which is presented within administrative and other operating expenses.

Subsequent measurement of financial assets

Debt investments

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

— they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and

— the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in other income in profit or loss. Discounting is omitted where the effect of discounting is immaterial. The Group's trade and other receivables, amounts due from related parties, restricted bank deposit and cash and cash equivalent fall into this category of financial instruments.

Financial liabilities

Classification and measurement of financial liabilities

The Group's financial liabilities include bank borrowings, other borrowing, lease liabilities, trade and other payables, amount due to a related party and discounted bills financing.

Financial liabilities (other than lease liabilities) are initially measured at fair value, and, where applicable, adjusted for transaction costs.

Subsequently, financial liabilities (other than lease liabilities) are measured at amortised cost using the effective interest method.

All interest-related charges are included within finance costs.

Accounting policies of lease liabilities are set out in note 2.13.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Other financial liabilities

Other financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

2.9 Impairment of financial assets

HKFRS 9's impairment requirements use more forward-looking information to recognise ECL — the "ECL model". Instruments within the scope included loans and other debt-type financial assets measured at amortised cost and trade receivables recognised and measured under HKFRS 15.

The Group considers a broader range of information when assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

— financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("**Stage 1**") and

— financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("**Stage 2**").

"Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month ECL" are recognised for the Stage 1 category while "lifetime ECL" are recognised for the Stage 2 category.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade receivables

For trade receivables, the Group applies a simplified approach in calculating ECL and recognises a loss allowance based on lifetime ECL at each reporting date. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. In calculating the ECL, the Group has established a provision matrix with appropriate groupings and/or individually assessed for debtors with significant balances, that is based on its historical credit loss experience and external indicators, adjusted for forward-looking factors specific to the debtors and the economic environment.

To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

Other financial assets measured at amortised cost

The Group measures the loss allowance for other receivables equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood of risk of default occurring since initial recognition.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial assets at the reporting date with the risk of default occurring on the financial assets at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

— an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

— significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

— existing or forecast adverse changes in regulatory, business, financial, economic conditions or technology environment that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations; and

— an actual or expected significant deterioration in the operating results of the debtor.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the end of each reporting period. A debt instrument is determined to have low credit risk if it has a low risk of default, the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

For internal credit risk management, the Group considers an event of default occurs when (i) information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group); (ii) the financial asset is 90 days past due.

Detailed analysis of the ECL assessment of trade receivables and other financial assets measured at amortised cost are set out in note 33.4.

2.10 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost, which comprises all cost of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, and is determined by using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

2.11 Cash and cash equivalents and restricted bank deposit

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank deposits which are restricted to use are included in "restricted bank deposit" of the consolidated statements of financial position. Restricted bank deposit are excluded from cash and cash equivalents.

2.12 Contract liabilities

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 2.16). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2.8).

2.13 Lease

Definition of a lease

At inception of a contract, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an identified asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

— the contracts contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;

— the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and

— the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the consolidated statements of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the underlying asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any lease incentives received).

Except for those right-of-use assets meeting the definition of investment properties and those relating to a class of property, plant and equipment to which revaluation model was applied, the Group depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use assets or the end of the lease term unless the Group is reasonably certain to obtain ownership at the end of the lease term. The Group also assesses the right-of-use asset (except for those meeting the definition of investment properties) for impairment when such indicator exists.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable payments based on an index or rate, and amounts expected to be payable under a residual value guarantee.

Subsequent to initial measurement, the liability will be reduced for lease payments made and increased for interest cost on the lease liability. It is remeasured to reflect any reassessment or lease modification, or if there are changes in in-substance fixed payments.

For lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of modification. The only exception is any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16 "Leases". In such cases, the Group took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognised the change in consideration as if it were not a lease modification.

When the lease is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these leases are recognised as an expense in profit or loss on a straight-line basis over the lease term. Short-term leases are leases with a lease term of 12 month or less.

Right-of-use assets that do not meet the definition of investment property have been included in property, plant and equipment. The prepaid lease payments for leasehold land are presented as "land lease prepayment" under non-current assets.

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

2.14 Provisions and contingent liabilities

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

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

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

2.15 Share capital

Ordinary shares are classified as equity. Share capital is recognised at the amount of consideration of shares issued, after deducting any transaction costs associated with the issuing of shares (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

2.16 Revenue recognition

Revenue is recognised to depict the transfer of promised goods and services to customers in an amount that reflect the consideration to which the Group expects to be entitled in exchange for those goods and services. Specially, the Group uses a 5-step approach for revenue recognition.

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

Control of the goods or services may be transferred over time or at a point in time. Control of the goods or services is transferred over time if:

— the customer simultaneously receives and consumes the benefits provided by the entity's performance as the Group performs;

— the Group's performance creates and enhances an asset that customer controls as the Group performs; or

— the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress toward complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or services.

Revenue from sales of papermaking felts products are recognised at a point in time when the legal title of the finished good is transferred and the Group has present right to payment and the collection of the consideration is probable. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Sales-related warranties associated with papermaking felts cannot be purchased separately and are served as an assurance that the products sold comply with agreed-upon specifications (i.e. assurance-type warranties). Accordingly, the Group accounts for warranties in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

Interest income is recognised on a time proportion basis using the effective interest rate method.

2.17 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 are deferred and recognised in profit or loss over the period necessary to match them with the costs that the grants are intended to compensate. Government grants relating to the purchase of assets are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

Government grants relating to income is presented in gross under "Other income" in the consolidated statements of profit or loss and other comprehensive income.

2.18 Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.19 Impairment of non-financial assets

Property, plant and equipment (including right-of-use assets), intangible assets, land lease prepayment and investments in subsidiaries in the Company's statements of financial position are subject to impairment testing. Intangible assets with indefinite useful lives and that are not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. Others are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment loss is charged pro rata to the assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost of disposal, or value in use, if determinable.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.20 Employee benefits

Retirement benefits

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contributions retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries, subject to a certain ceiling.

The municipal and provincial governments undertake to assure 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 independently administrated funds managed by the PRC government.

The contributions are recognised as employee benefit expenses when they are due.

Short-term employee benefits

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

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

2.21 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year/period. All changes to current tax assets or liabilities are recognised as a component of tax expense in the profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the Historical Financial Information and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

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

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in the profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

(i) the same taxable entity; or

(ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.22 Related parties

For the purposes of this Historical Financial Information, a party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and if that person:

(i) has control or joint control over of the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group.

(b) the party is an entity and if any of the following conditions applies:

(i) the entity and the Group are members of the same group.

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) the entity and the Group are joint ventures of the same third party.

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) the entity is controlled or jointly controlled by a person identified in (a).

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) the entity, or any member of a company of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2.23 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the chief operating decision maker ("**CODM**") for their decisions about resources allocation to the Group's business components and for their review of the performance of those components.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

3.1 Sources of estimation uncertainty

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. 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 discussed below:

Warranty provision

The Group provides warranty to certain customers. The provision for warranty is estimated based on expected warranty work to be performed for goods under the warranty period and labor charges expected to be incurred. As historical maintenance and service record may not resemble the future maintenance and service of the products sold, differences between the actual amount and the estimated amount of this provision may affect future profit or loss. The carrying amount of the Group's warranty provision at the end of each Track Record Period is set out in note 19 to the Historical Financial Information.

Estimation of impairment of trade and other receivables

The Group follows the guidance of HKFRS 9 to determine when a receivable is impaired. In making this estimation and judgment, the Group evaluate, among other factors, the ageing analysis of receivables, the financial healthiness and collection history of the individual debtors and expected future change of credit risks, including the consideration of factors such as general economy measure, existing market conditions and change in macro-economic indicators, etc.

The carrying amount of the Group's trade and other receivables as at 31 December 2018, 2019, 2020 and 30 June 2021 amounted to approximately RMB107,122,000, RMB123,629,000, RMB135,509,000 and RMB119,574,000 respectively and allowance of expected credit loss as at 31 December 2018, 2019, 2020 and 30 June 2021 amounted to approximately RMB8,053,000, RMB4,268,000, RMB5,724,000 and RMB5,950,000 respectively. Details of the trade and other receivables are disclosed in note 16 to the Historical Financial Information.

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation for its property, plant and equipment. The estimates are based on the historical experience of the actual economic lives of property, plant and equipment of similar nature and functions. Actual economic lives may differ from estimated useful lives. Management will adjust the depreciation where the useful lives are estimated to be different from the previous estimates. Periodic reviews could result in a change in useful lives and therefore depreciation expense in future periods. The carrying amounts of property, plant and equipment at the end of each Track Record Period is set out in note 12 to the Historical Financial Information.

Provision for inventories

The Group reviews the carrying amount of inventories based on consideration of obsolescence of raw materials and the net realisable value of finished goods. The identification of inventory obsolescence and estimated selling price in the ordinary course of business require the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying amount of inventories in the period in which such estimate has been changed. Provision for inventories of RMB123,000, RMB42,000, RMB750,000 (reversal) and RMB243,000 was recognised during the years ended 31 December 2018, 2019, 2020 and six months ended 30 June 2021 respectively. Carrying amount of inventories is set out in note 15 to the Historical Financial Information.

3.2 Critical accounting judgments

In the process of applying the Group's accounting policies, management has made the following accounting judgments:

Current income tax

The Group is subject to Enterprise Income Tax ("**EIT**") in the PRC. Significant judgment is required in determining the provision for EIT. There are transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that we initially recorded, such differences will impact the current income tax and deferred tax provision in the period in which such determination is made.

Research and development activities

Careful judgment by the Company's management is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgments are based on the best information available at the end of each Track Record Period. In addition, all internal activities related to the research and development of new products or know how are continuously monitored by the Company's management.

4 REVENUE AND SEGMENT REPORTING

4.1 Revenue

During the Track Record Period, the Group was engaged in the design, manufacture and sales of papermaking felts. An analysis of the Group's revenue by products during the Track Record Period is as follows:

	Year ended 31 December			Six months ended 30 June	
Recognised at a point in time:	**2018**	**2019**	**2020**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Packaging papermaking felts	106,027	114,670	124,863	44,017	52,661
Specialty papermaking felts	25,755	26,951	32,090	11,496	12,709
Printing papermaking felts	14,859	11,451	10,732	4,193	4,958
Household papermaking felts	9,975	10,600	9,490	4,225	4,364
Pulp papermaking felts	2,740	3,642	5,584	2,274	1,823
	159,356	167,314	182,759	66,205	76,515

Remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied (or partially unsatisfied) is as follows:

	Year ended 31 December			Six months ended 30 June	
	2018	**2019**	**2020**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Within one year	7,015	4,435	11,108	11,445	15,987
After one year but within two years	857	731	247	435	—
	7,872	5,166	11,355	11,880	15,987

4.2 Segment information

During the Track Record Period, the Group is mainly engaged in the design, manufacture and sales of papermaking felts in the PRC. Information reported to the CODM (i.e. the board of directors) for the purpose of resources allocation and performance assessment focuses on the operating results of the Group as a whole as the Group's resources are integrated and no discrete financial information is available.

No segment of assets and liabilities are presented as no discrete financial information is available.

Geographical information

The following table sets out information on the geographical locations of the Group's revenue determined based on geographical region of the customers during the Track Record Period.

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
The PRC	153,385	159,709	175,171	62,558	72,812
Overseas	5,971	7,605	7,588	3,647	3,703
	159,356	167,314	182,759	66,205	76,515

As at 31 December 2018, 2019, 2020 and 30 June 2021, all of the non-current assets of the Group were located in the PRC.

Information about major customers

Since none of the Group's sales to a single customer amounted to 10% or more of the Group's total revenue for the Track Record Period, no information about major customers in accordance with HKFRS 8 "Operating Segments" is presented.

5 OTHER INCOME

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Bank interest income	75	105	191	63	89
Sales of scrap materials	1,551	1,465	1,836	733	873
Government subsidies *(note)*	5,934	2,865	3,509	310	133
Exchange gains	282	—	—	140	—
Rental income	—	149	—	—	—
Rent concessions	—	—	387	231	—
Sundry income	241	177	102	50	169
	8,083	4,761	6,025	1,527	1,264

Note: The amount represents unconditional government subsidies received from the local government authorities for the purpose of research and development and supporting its operation.

6 FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interest expenses on:					
Discounted bills financing	160	209	—	—	—
Bank borrowings	7,148	6,353	7,194	3,613	3,344
Other borrowing	—	—	—	—	398
Lease liabilities	175	107	47	27	61
	7,483	6,669	7,241	3,640	3,803

7 PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

	Year ended 31 December			Six months ended 30 June	
	2018	**2019**	**2020**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Amortisation of intangible assets	280	803	1,261	556	719
Depreciation of land lease prepayment	225	338	338	169	169
Cost of inventories recognised as expenses	53,135	49,139	51,743	17,486	21,271
Depreciation of owned assets	6,090	6,876	7,762	3,910	3,824
Depreciation of right-of-use asset	1,365	1,366	1,379	685	825
Exchange (gains)/losses, net	(282)	319	613	(140)	116
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Lease charges on short term leases	323	310	216	69	154
Loss on disposal of property, plant and equipment	27	37	9	2	86
Provision of allowance on receivables, net	1,397	802	1,456	1,568	319
Provision for legal claim *(note a)*	—	—	1,303	400	297
Provision for warranty	3,116	2,363	3,928	816	2,013
Research and development costs	5,438	7,292	5,681	1,777	3,006
Provision/(Reversal) of provisions for inventories	123	42	(750)	464	243
Staff cost (including directors' remuneration)					
Salaries, wages and other benefits	22,426	21,053	24,093	10,044	12,623
Contributions to defined contribution plans *(note b)*	3,482	3,652	1,964	1,199	2,435

Notes:

(a) As set out in paragraph headed "Legal proceedings and compliance" in the section headed "Business" to the Document, a subsidiary of the Group, being the defendant, was involved in litigation during the year ended 31 December 2020 in relation to the dispute on construction of a factory of the Group. Based on the advice of the Group's legal advisers, the directors estimated that the total potential claims payable to the claimant, being the previous constructor, is approximately RMB1.9 million, which included certain site preparation and construction works of approximately RMB0.6 million performed by the claimant (in which the amount have been recognised as part of the additions to the property, plant and equipment for the year ended 31 December 2020) and provision of legal claims of approximately RMB1.3 million recognised in profit or loss for the year ended 31 December 2020.

(b) Due to the impact of COVID-19, a number of policies including the relief of social insurance have been promulgated by the government since February 2020 to expedite resumption of economic activities, which resulted in the relief of certain contributions to defined contribution scheme for the year ended 31 December 2020.

8 INCOME TAX EXPENSE

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Current tax					
PRC EIT	4,818	6,187	7,181	1,913	2,221
Over-provision in prior year	—	—	(253)	—	(40)
	4,818	6,187	6,928	1,913	2,181
Deferred tax					
Current year *(Note 24)*	1,436	214	553	834	(10)
Income tax expense	6,254	6,401	7,481	2,747	2,171

Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in the Cayman Islands.

No provision for Hong Kong Profits Tax was made in the Historical Financial Information as the Group had no assessable profits subject to Hong Kong Profits Tax during the Track Record Period.

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, PRC EIT is calculated at 25% of the assessable profits for subsidiary established in the PRC.

Pursuant to the relevant laws and regulations in the PRC, a subsidiary of the Group, Sichuan Huanlong Technology Fabric Co., Ltd. ("**Sichuan Huanlong**"), is qualified as a company under the development strategy of the PRC's western region and was able to enjoy a preferential income tax rate of 15% for the years ended 31 December 2018, 2019, 2020 and six months ended 30 June 2021.

The Company's subsidiary, Shanghai Jinxiong Paper Making Net Carpet Co., Ltd. ("**Shanghai Jinxiong**") was accredited as High and New Technology Enterprise since in 2014 and further renewed in November 2017 and November 2020, therefore entitled to a preferential tax rate of 15% for three years ended 31 December 2019 and for the three years ending 31 December 2022.

In addition, both Sichuan Huanlong and Shanghai Jinxiong are eligible for tax deduction up to 175% of approved research and development costs incurred for each of the year ended 31 December 2018, 2019, 2020 and six months ended 30 June 2021.

Reconciliation between income tax expense and accounting profit at applicable tax rate:

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Profit before income tax	43,460	41,478	48,494	14,259	16,457
Tax at the applicable income tax of 25%	10,865	10,370	12,124	3,565	4,115
Tax effects of non-deductible expenses *(note)*	1,177	2,801	2,314	454	198
Tax effects of non-taxable income	(1,053)	—	—	(44)	(10)
Tax effect of temporary differences previously not recognised	718	—	—	449	18
Utilisation of temporary differences previously not recognised	—	(582)	(92)	—	—
Additional deduction for research and development expenses	(1,803)	(2,200)	(1,291)	(435)	(921)
Over-provision in prior year	—	—	(253)	—	(40)
Effect of income taxed at concessionary rate	(3,650)	(3,988)	(5,321)	(1,242)	(1,189)
Income tax expenses	6,254	6,401	7,481	2,747	2,171

Note: Non-deductible expenses mainly included **[REDACTED]** and certain entertainment expenses.

9 DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

9.1 Directors' emolument

	Year ended 31 December 2018				
	Fees	Salaries, allowances and benefits	Bonus	Contributions to retirement benefit schemes	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Directors:					
Mr. Zhou	—	—	—	—	—
Ms. Shen	—	—	—	—	—
	—	—	—	—	—

	Year ended 31 December 2019				
	Fees	Salaries, allowances and benefits	Bonus	Contributions to retirement benefit schemes	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:					
Mr. Zhou	—	—	—	—	—
Ms. Shen	—	—	—	—	—
Mr. Xie Zongguo ("**Mr. Xie**")	—	50	—	9	59
	—	50	—	9	59
Non-executive director:					
Ms. Yuan Aomei ("**Ms. Yuan**")	—	—	—	—	—

	Year ended 31 December 2020				
	Fees	Salaries, allowances and benefits	Bonus	Contributions to retirement benefit schemes	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:					
Mr. Zhou	—	—	—	—	—
Ms. Shen	—	—	—	—	—
Mr. Xie	—	392	—	22	414
	—	392	—	22	414
Non-executive director:					
Ms. Yuan	—	—	—	—	—

	Six months ended 30 June 2021				
	Fees	Salaries, allowances and benefits	Bonus	Contributions to retirement benefit schemes	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:					
Mr. Zhou	—	400	—	—	400
Ms. Shen	—	—	—	—	—
Mr. Xie	—	350	—	30	380
Ms. Yuan *(Note c)*	—	78	—	15	93
	—	828	—	45	873

	Six months ended 30 June 2020 (unaudited)				
	Fees	Salaries, allowances and benefits	Bonus	Contributions to retirement benefit schemes	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:					
Mr. Zhou	—	—	—	—	—
Ms. Shen	—	—	—	—	—
Mr. Xie	—	200	—	9	209
	—	200	—	9	209
Non-executive director:					
Ms. Yuan	—	—	—	—	—

Notes:

(a) Ms. Shen and Mr. Zhou were appointed as directors of the Company on 5 November 2018, and redesignated as executive directors on 29 September 2019.

(b) Mr. Xie was appointed as executive director of the Company on 29 September 2019.

(c) Ms. Yuan was appointed as non-executive director of the Company on 29 September 2019, and redesignated as executive director on 14 April 2021.

(d) The appointments of Mr. Ip Wang Hoi, Mr. Zhang Shenjin and Mr. Wang Yunchen as independent non-executive directors of the Company will take effect upon **[REDACTED]**. During the Track Record Period, the independent non-executive directors have not yet been appointed and have not received any directors' remuneration in the capacity of independent non-executive directors.

Except for the emoluments of Mr. Xie as stated below, the emoluments above represent emoluments received from the Group by these directors in their capacity as employees of the Group and/or in their capacity as directors of the companies comprising the Group during the Track Record Period. During the years ended 31 December 2018, 2019, 2020 and the six months ended 30 June 2020 and 2021, salaries, allowances and benefits of RMB400,000, RMB200,000, nil, nil (unaudited) and nil and retirement scheme contributions of RMB9,000 and RMB26,000, nil, nil (unaudited) and nil respectively were received from the Group by Mr. Xie in his capacity as employee of the Group.

9.2 Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2018, 2019, 2020 and the six months ended 30 June 2020 and 2021 include nil, nil, one director, one director (unaudited) and two directors whose emoluments are disclosed in note 9.1. The aggregate of the emoluments of the five, five, four, four (unaudited) and three individuals for the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021 are as follows:

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Salaries, allowances and benefits	2,292	1,844	1,850	518	410
Contributions to retirement benefit schemes	44	141	66	36	84
	2,336	1,985	1,916	554	494

The above individuals' emoluments are within the following band:

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Nil to HK$1,000,000	5	5	4	4	3

No director or the five highest paid individual received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the Track Record Period. No director or the five highest paid individual has waived or agreed to waive any emoluments during the Track Record Period.

10 EARNINGS PER SHARE

The calculation of basic earnings per share attributable to equity holders of the Company is based on the following:

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Earnings					
Profit for the year attributable to equity holders of the Company	34,366	34,633	40,517	11,379	14,134
Number of ordinary shares for the purpose of calculating basic earnings per share	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
Earnings per share (RMB cents)	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**

The number of ordinary shares for the purpose of calculating basic earnings per share has been determined on the assumption that the Reorganisation and the **[REDACTED]** as described in "History, Reorganisation and Corporate Structure" section to the Document had been effective on 1 January 2018.

Diluted earnings per share is the same as basic earnings per share for the Track Record Period as there were no dilutive potential ordinary shares in issue during the Track Record Period.

11 DIVIDEND

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

During the years ended 31 December 2018, 2019, 2020 and six months ended 30 June 2020 and 2021, dividends of RMB20,000,000, nil, nil, nil (unaudited) and nil respectively were declared by a subsidiary now comprising the Group to its then shareholders.

12 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant and machinery	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost							
As at 1 January 2018	41,648	391	64,050	2,509	630	285	109,513
Additions	56	434	1,078	89	28	14,439	16,124
Transfers	—	—	8,605	—	—	(8,605)	—
Disposals	—	—	(1,461)	(9)	—	—	(1,470)
As at 31 December 2018	41,704	825	72,272	2,589	658	6,119	124,167
As at 1 January 2019	41,704	825	72,272	2,589	658	6,119	124,167
Additions	1,871	156	9	57	—	2,017	4,110
Transfers	—	—	5,725	—	—	(5,725)	—
Disposals	—	—	(239)	(86)	—	—	(325)
As at 31 December 2019	43,575	981	77,767	2,560	658	2,411	127,952
As at 1 January 2020	43,575	981	77,767	2,560	658	2,411	127,952
Additions	3,686	—	614	132	—	15,869	20,301
Transfers	—	—	589	16	—	(605)	—
Disposals	—	—	(483)	(33)	—	(2)	(518)
As at 31 December 2020	47,261	981	78,487	2,675	658	17,673	147,735
As at 1 January 2021	47,261	981	78,487	2,675	658	17,673	147,735
Additions	—	—	55	97	—	63,312	63,464
Transfers	—	—	2,504	—	—	(2,504)	—
Disposals	(136)	—	(1,220)	(8)	—	—	(1,364)
As at 30 June 2021	47,125	981	79,826	2,764	658	78,481	209,835
Accumulated depreciation							
As at 1 January 2018	14,219	341	35,088	2,190	536	—	52,374
Charge for the year	3,061	111	4,096	146	41	—	7,455
Written back on disposals	—	—	(1,388)	(9)	—	—	(1,397)
As at 31 December 2018	17,280	452	37,796	2,327	577	—	58,432
As at 1 January 2019	17,280	452	37,796	2,327	577	—	58,432
Charge for the year	3,117	104	4,863	141	17	—	8,242
Written back on disposals	—	—	(204)	(84)	—	—	(288)
As at 31 December 2019	20,397	556	42,455	2,384	594	—	66,386

	Buildings	Leasehold improvements	Plant and machinery	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2020	20,397	556	42,455	2,384	594	—	66,386
Charges for the year	3,601	128	5,297	103	12	—	9,141
Written back on disposals	—	—	(459)	(27)	—	—	(486)
As at 31 December 2020	23,998	684	47,293	2,460	606	—	75,041
As at 1 January 2021	23,998	684	47,293	2,460	606	—	75,041
Charges for the period	1,890	60	2,641	52	6	—	4,649
Written back on disposals	(62)	—	(1,034)	(5)	—	—	(1,101)
As at 30 June 2021	25,826	744	48,900	2,507	612	—	78,589
Net book amount							
As at 31 December 2018	24,424	373	34,476	262	81	6,119	65,735
As at 31 December 2019	23,178	425	35,312	176	64	2,411	61,566
As at 31 December 2020	23,263	297	31,194	215	52	17,673	72,694
As at 30 June 2021	21,299	237	30,926	257	46	78,481	131,246

As at 31 December 2018, 2019, 2020 and 30 June 2021, the Group's property, plant and machinery with aggregate net book amount of RMB21,818,000, RMB51,705,000, RMB46,494,000 and RMB70,152,000 respectively were pledged to secure the bank borrowings granted to the Group (note 31).

As at 31 December 2018, the Group was in the process of applying for the title certificates of certain buildings with an aggregate carrying value of RMB11,319,000. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy and use these buildings. The Group has completed the application and obtained the title certificate of these buildings which are located in the PRC in August 2019. For the remaining properties issue, please refer to paragraph headed "Legal proceedings and compliance" on the section headed "Business" to the Document.

Included in the net carrying amount of property, plant and equipment is right-of-use assets as follows:

	As at 31 December			As at 30 June
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Buildings	2,605	1,239	2,996	2,171

The above right-of-use assets is depreciated on a straight-line basis over their estimated useful life or lease term as follows:

Buildings 5% or shorter of the lease term

During the years ended 31 December 2018, 2019, 2020 and the six months ended 30 June 2021, expenses of RMB323,000, RMB310,000, RMB216,000 and RMB154,000 related to short-term leases was recognised in profit or loss in the respective Track Record Period.

13 LAND LEASE PREPAYMENT

	As at 31 December			As at 30 June
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
The Group's land lease prepayments comprise:				
PRC, held on:				
— Leases of between 10 to 50 years	6,532	6,194	5,856	5,687
Carrying amount at the beginning of the year/period	—	6,532	6,194	5,856
Additions	6,757	—	—	—
Depreciation	(225)	(338)	(338)	(169)
Carrying amount at the end of the year/period	6,532	6,194	5,856	5,687

The leasehold land is situated in the PRC and held under medium lease. As at 31 December 2018, 2019, 2020 and 30 June 2021, the Group's land lease prepayment with a carrying amount of RMB6,532,000, RMB6,194,000, RMB5,856,000 and RMB5,687,000 respectively were pledged to a bank to secure bank borrowings granted to the Group (note 31).

14 INTANGIBLE ASSETS

	Trademarks	Computer software	Capitalised development costs	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost					
As at 1 January 2018	—	34	1,111	2,509	3,654
Additions	32,454	—	—	—	32,454
Additions from internal developments	—	—	—	4,243	4,243
Transfer	—	—	4,243	(4,243)	—
As at 31 December 2018	32,454	34	5,354	2,509	40,351
As at 1 January 2019	32,454	34	5,354	2,509	40,351
Additions	—	581	—	—	581
Additions from internal developments	—	—	—	4,481	4,481
Transfer	—	—	2,509	(2,509)	—
As at 31 December 2019	32,454	615	7,863	4,481	45,413
As at 1 January 2020	32,454	615	7,863	4,481	45,413
Additions	—	96	—	1,474	1,570
Additions from internal developments	—	—	—	6,644	6,644
Transfer	—	—	4,481	(4,481)	—
As at 31 December 2020	32,454	711	12,344	8,118	53,627
As at 1 January 2021	32,454	711	12,344	8,118	53,627
Additions	—	—	—	87	87
Additions from internal developments	—	—	—	5,260	5,260
As at 30 June 2021	32,454	711	12,344	13,465	58,974
Accumulated amortisation					
As at 1 January 2018	—	34	141	—	175
Charge for the year	—	—	280	—	280
As at 31 December 2018	—	34	421	—	455
As at 1 January 2019	—	34	421	—	455
Charge for the year	—	17	786	—	803
As at 31 December 2019	—	51	1,207	—	1,258
As at 1 January 2020	—	51	1,207	—	1,258
Charge for the year	—	29	1,232	—	1,261
As at 31 December 2020	—	80	2,439	—	2,519
As at 1 January 2021	—	80	2,439	—	2,519
Charge for the year	—	28	691	—	719
As at 30 June 2021	—	108	3,130	—	3,238
Net book amount					
As at 31 December 2018	32,454	—	4,933	2,509	39,896
As at 31 December 2019	32,454	564	6,656	4,481	44,155
As at 31 December 2020	32,454	631	9,905	8,118	51,108
As at 30 June 2021	32,454	603	9,214	13,465	55,736

Intangible assets mainly represent:

(1) the trademarks were acquired from the non-controlling shareholder of a subsidiary. The trademarks were regarded as having indefinite useful lives because in opinion of the directors of the Group, they are capable of being renewed indefinitely at insignificant cost;

(2) computer software were acquired from third parties; and

(3) capitalised development costs generated through internal research and developments and capitalised technical know-hows by the Group.

The Group assesses the useful lives capitalised developments costs by considering the economic life cycles, continuous technological advancement of the patents, the experience on previous products of the Group and contractual legal rights of the patents, it is concluded that the useful lives of these patents are 10 years.

The amortisation charge for the Trade Record Period is included in "Administrative and other operating expenses" in the consolidated statements of profit or loss and other comprehensive income.

Impairment testing

The trademarks with indefinite useful lives and the intangible assets that under construction in progress which not yet available for use have been allocated to the relevant cash-generating units (the "**CGU**") which is the same for impairment testing.

The recoverable amount of the CGU has been determined based on value in use calculations, covering a detailed four-year budget plan, followed by an extrapolation of expected cash flows at the average growth rates of 4%.

The discount rates applied to the cash flow projections were 13.6%, 12.4%, 13.0% and 12.8% as at 31 December 2018, 2019, 2020 and 30 June 2021, respectively. The key assumptions for the Group has been determined by the Group's management based on past performance and its expectations for the industry development. The discount rates used are pre-tax and reflects specific risks relating to the segment.

Based on the above key assumptions, the recoverable amount would exceed the carrying amounts of the cash-generating unit by not less than approximately RMB32.0 million, RMB46.0 million, RMB57.0 million and RMB57.1 million as at 31 December 2018, 2019, 2020 and 30 June

2021, respectively. If the growth rate decreased by 1% or the discount rate (pre-tax) increased by 1%, the recoverable amount of the relevant CGU would be dropped by approximately RMB5.0 million and RMB6.5 million as at 31 December 2018, RMB7.3 million and RMB9.2 million as at 31 December 2019, RMB7.8 million and RMB9.8 million as at 31 December 2020 and RMB8.5 million and RMB12.2 million as at 30 June 2021, respectively.

In the opinion of the directors of the Company, a reasonably possible change in key parameters would not cause the carrying amount of the relevant cash-generating unit to exceed the recoverable amount. If the growth rate decreased by 15% or discount rate increased by 8% as at 31 December 2018 or the growth rate decreased by 18% or discount rate increased by 10% as at 31 December 2019 or the growth rate decreased by 25% or discount rate increased by 13% as at 31 December 2020 or the growth rate decreased by 26% or discount rate increased by 13% as at 30 June 2021, the recoverable amount of the relevant CGU would be approximated to its carrying amount.

In the opinion of the directors, there is no reasonably possible change in the key assumptions on which the recoverable amount of the trademarks is based that would cause the carrying amounts to exceed the recoverable amount.

As at 31 December 2018, 2019, 2020 and 30 June 2021, the Group's intangible assets with a carrying amount of RMB4,516,000, RMB4,024,000, RMB3,531,000 and RMB3,285,000 respectively were pledged to a bank to secure bank borrowings granted to the Group (note 31).

15 INVENTORIES

	As at 31 December			**As at 30 June**
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	7,870	7,574	5,448	5,582
Work-in-progress	2,658	2,162	2,922	3,296
Finished goods	3,658	3,444	2,831	4,061
	14,186	13,180	11,201	12,939
Less: provision for inventories	(1,875)	(1,917)	(1,167)	(1,410)
	12,311	11,263	10,034	11,529

Analysis of the provision for inventory write down is as below:

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period	1,752	1,875	1,917	1,167
Provision/(reversal) for the year/period	123	42	(750)	243
At the end of the year/period	1,875	1,917	1,167	1,410

During the year ended 31 December 2020, the reversal of provision for inventory arose from sale of obsolete inventory.

As at 31 December 2018, 2019, 2020 and 30 June 2021, the Group's inventories of RMB3,931,000, RMB3,119,000, RMB2,421,000 and RMB2,767,000 are pledged to a bank to secure bank borrowings granted to the Group (note 31).

16 TRADE AND OTHER RECEIVABLES

	The Company				The Group			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2018	2019	2020	2021	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables								
— Third parties	—	—	—	—	82,069	97,568	110,475	106,417
— Related parties	—	—	—	—	1,140	847	577	470
Bills receivables	—	—	—	—	23,719	22,684	27,408	15,786
Less: Loss allowance provision	—	—	—	—	(8,053)	(4,268)	(5,724)	(5,950)
	—	—	—	—	98,875	116,831	132,736	116,723
Prepayments	—	—	—	—	585	2,657	3,004	2,049
Prepaid **[REDACTED]**	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Other receivables	—	—	—	—	6,791	6,692	2,230	1,750
	1,260	2,705	3,141	3,245	8,636	12,054	8,375	7,044
	1,260	2,705	3,141	3,245	107,511	128,885	141,111	123,767

The directors considered that the fair values of trade and other receivables are not materially different from their carrying amounts. As at 31 December 2018, 2019, 2020 and 30 June 2021, the Group's trade receivables of RMB24,367,000, RMB15,826,000, RMB15,782,000 and RMB15,418,000 are pledged to secure bank borrowings granted to the Group (note 31).

As at each reporting date, the ageing analysis of trade receivables based on the delivery date is as follows:

	As at 31 December			As at 30 June
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 90 days	51,827	66,545	73,589	53,344
91 days to 180 days	15,855	14,890	20,472	12,206
181 days to 365 days	6,647	12,072	11,314	35,593
Over 365 days	8,880	4,908	5,677	5,744
	83,209	98,415	111,052	106,887

The bills represent promissory notes issued by banks received by the Group from customers who discharge their liabilities to pay the Group for the goods or services invoiced. These bills are endorsable, unsecured, non-interest bearing and matured within 1 year.

Included in the balances, bills receivables of RMB500,000, RMB450,000, nil and nil were discounted with recourse as at 31 December 2018, 2019, 2020 and 30 June 2021, respectively. These bills receivables were not derecognised as the title of these bills receivables were not transferred to the counterparties. In the other hand, discounted bills financing of RMB500,000, RMB450,000, nil and nil was recognised for the cash received as at 31 December 2018, 2019, 2020 and 30 June 2021, respectively (note 21).

The ageing analysis of bills receivables presented based on issue date at the end of each of the Track Record Period is as follows:

	As at 31 December			As at 30 June
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0–90 days	16,453	14,608	12,894	8,959
91–180 days	6,565	7,066	12,395	6,197
181–365 days	701	1,010	2,119	630
	23,719	22,684	27,408	15,786

Bills receivables endorsed

Not included in the years end balances, during the years ended 31 December 2018, 2019, 2020 and six months ended 30 June 2021, the Group has transferred bills receivables amounted to RMB64,171,000, RMB67,781,000, RMB80,189,000 and RMB44,500,000 to settle its payables through endorsing the bills to its suppliers. Under the bills arrangements which the details are set out under the paragraph headed "Business — Legal Proceedings and Compliance — Bills Arrangements", the Group has also transferred bills receivables amounted to RMB30,200,000, RMB20,390,000, RMB281,000 and nil to the parties under Bills-To-Cash/Bills Arrangement and to customers under Bills Change Arrangement during the Track Record Period. In accordance with the Law of Negotiable Instruments in the PRC, the endorsee of the bills have a right of recourse against the endorser if the issuing banks default. For those endorsed to its suppliers, the Group has derecognised these bills receivables and the trade and other payables in their entirety. For those endorsed under Bills-To-Cash/Bills Arrangement or Bills Change Arrangement, the Group has also derecognised these bills receivables in their entirety and recognised the corresponding amount of cash and/or endorsed bank acceptance bills of total equal value. In the opinion of the directors of the Company, the Group has transferred substantially all the risks and rewards of ownership of these bills to the endorsee. The Group has limited exposure in respect of the settlement obligation of these bills receivables under relevant PRC rules and regulations should the issuing banks failed to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the risk of non-settlement by the issuing banks on maturity is insignificant.

The maximum exposure to loss, which is same as the amount payable by the Group to the endorsee in respect of the endorsed bills, should the issuing banks fail to settle the bills on maturity date amounted to RMB94,371,000, RMB88,171,000, RMB80,470,000 and RMB44,500,000 as at 31 December 2018, 2019, 2020 and 30 June 2021, respectively. All the bills receivables endorsed have a maturity date of less than one year from the end of each of the Track Record Period.

The movement in the loss allowance provision of trade and bills receivables is as follows:

	As at 31 December			As at 30 June
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period . . .	6,656	8,053	4,268	5,724
Amounts written off	—	(4,587)	—	(93)
Provision of allowance	1,397	802	1,456	319
At the end of the year/period	8,053	4,268	5,724	5,950

Included in the balance of loss allowance provision are individually impaired trade receivables with an aggregate balance of RMB3,408,000, RMB1,883,000, RMB1,652,000 and RMB2,231,000 as at 31 December 2018, 2019, 2020 and 30 June 2021 respectively, with reference to the historical experience of these receivables, the collection of these receivables may not be recoverable. The Group does not hold any collateral over these balances.

Further details of the Group's credit policy and credit risk arising from trade and other receivables are set out in note 33.4.

17 CASH AND CASH EQUIVALENT AND RESTRICTED BANK DEPOSIT

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances	16,651	29,439	30,775	38,704
Less: Restricted bank deposit	(1,800)	(1,000)	(1,000)	(1,002)
Cash and cash equivalents	14,851	28,439	29,775	37,702

Cash at banks earns interests at floating rates based on daily bank deposit rates. As at 31 December 2018, 2019, 2020 and 30 June 2021, the restricted bank deposit is denominated in RMB, carries 0.35%, 0.35%, 0.35% and 0.35% interest at prevailing market rate and pledged to a bank to secure bank borrowings granted to the Group (note 31).

18 CONTRACT LIABILITIES

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amount received in advance for sales of papermaking felts products expected to be recognise:				
— within one year	737	711	739	1,034

As at 1 January 2018, the carrying amounts of contract liabilities were RMB1,914,000.

Contract liabilities represent the deposits received from the customers in advance of the transfer of papermaking felts to the customers.

For the contract liabilities as at 1 January 2018, 31 December 2018, 2019, 2020 and 30 June 2021, the balances of RMB1,545,000, RMB463,000, RMB513,000, RMB424,000 and RMB200,000 are recognised as revenue to profit or loss within one year after the end of each of the Track Record Period.

19 TRADE AND OTHER PAYABLES

	The Company				The Group			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2018	2019	2020	2021	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables								
Trade payables								
— Third parties	—	—	—	—	20,027	20,131	19,054	16,718
Other payables								
Other payables	—	—	—	—	3,870	5,015	3,237	14,410
Accruals	—	—	—	—	3,527	3,985	4,514	2,963
Accrued **[REDACTED]**	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Warranty provision	—	—	—	—	3,279	3,422	3,932	4,161
Provision for legal claim	—	—	—	—	—	—	1,903	2,200
Other tax payables	—	—	—	—	6,292	5,664	6,156	671
	4,855	5,682	8,425	5,361	21,823	23,768	28,167	29,766
	4,855	5,682	8,425	5,361	41,850	43,899	47,221	46,484

The Group is granted by its suppliers a credit periods of 30 to 90 days. Based on the invoice dates, the ageing analysis of the trade payables is as follows:

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 30 days	3,555	10,063	7,961	6,501
31 days to 60 days	9,148	2,989	4,646	3,270
61 days to 90 days	3,028	1,736	1,920	1,476
91 days to 180 days	1,423	2,242	2,087	2,692
181 days to 365 days	1,894	1,580	1,568	1,632
Over 365 days	979	1,521	872	1,147
	20,027	20,131	19,054	16,718

The carrying values of trade and other payables are considered to be reasonable approximation of their fair values.

The movement in the warranty provision is as follows:

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Product warranties:				
At beginning of the year/period	3,077	3,279	3,422	3,932
Additional provision	3,116	2,363	3,928	2,013
Amounts utilised during the year/period	(2,914)	(2,220)	(3,418)	(1,784)
At end of the year/period	3,279	3,422	3,932	4,161

The warranty provision represents management's best estimate of the Group's liability under 45 to 120 days warranty granted on papermaking felts, based on prior experience and industry averages for defective products.

20 LEASE LIABILITIES

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total minimum lease payment due:				
— Within one year	1,560	1,432	1,648	1,640
— After one year but within two years	1,440	8	1,367	547
	3,000	1,440	3,015	2,187
Future finance charges on leases liabilities	(142)	(35)	(132)	(72)
Present value of lease liabilities	2,858	1,405	2,883	2,115

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Present value of minimum lease payments:				
— Within one year	1,453	1,397	1,545	1,574
— After one year but within two years	1,405	8	1,338	541
	2,858	1,405	2,883	2,115
Less: Portion due within one year included under current liabilities	(1,453)	(1,397)	(1,545)	(1,574)
Portion due after one year included under non-current liabilities	1,405	8	1,338	541

The Group leases properties for operation and these lease liabilities were measured at the present value of the lease payments that are not yet paid. All leases are entered at fixed prices and typically made for fixed periods of 1 to 5 years, lease terms are negotiated on an individual basis.

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

The total cash outflows for leases including the payments of lease liabilities for the years ended 31 December 2018, 2019, 2020 and the six months ended 30 June 2021 were RMB1,886,000, RMB1,870,000, RMB1,534,000 and RMB983,000 respectively.

21 DISCOUNTED BILLS FINANCING

The balance represents borrowings from banks by discounting, with recourse, bills receivables to the Group which were endorsed by third parties. The Group continues to recognise the carrying amount of the underlying bills receivables, as presented in note 16, since the title of receivables was not transferred to the counterparties.

22 BANK BORROWINGS

Bank borrowings were carried at amortised cost, secured and repayable within one year.

	As at 31 December			As at 30 June
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans, secured:				
— repayable within one year.	122,500	117,000	115,000	115,000

As at 31 December 2018, 2019, 2020 and 30 June 2021, the effective interest rate of the bank borrowings were at 5.75%, 6.26%, 6.05% and 6.02% per annum respectively.

The bank borrowings were secured by:

(a) pledged assets (note 31);

(b) personal guarantee provided by the Controlling Shareholders; and

(c) corporate guarantee provided by a related party.

As confirmed by the directors, the personal guarantee provided by the Controlling Shareholders and corporate guarantee provided by a related party mentioned above will be released on or around **[REDACTED]** of the Company.

23 OTHER BORROWING

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Sale and leaseback obligation				
— repayable within one year.	—	—	—	7,942
— repayable in the second to fifth year inclusive	—	—	—	18,606
	—	—	—	26,548

During the six months ended 30 June 2021, the Group entered into a sale and leaseback agreement amounting to RMB26,548,000 with a leasing company for acquisition of machinery and equipment ("**Secured Assets**") amounting to RMB36,420,000 for a period of 3 years. On loan drawndown date, the amount of RMB26,548,000 was directly transferred from the leasing company to the supplier of the Secured Assets. Upon maturity, the Group will be entitled to purchase the Secured Assets.

The effective interest rates underlying the contract is 7.2% per annum.

Sale and leaseback obligation of RMB26,548,000 as at 30 June 2021 was secured by the Group's construction in progress, the total carrying amount of which at 30 June 2021 was RMB29,988,000 (note 12).

As confirmed by the directors, the personal guarantee provided by the Controlling Shareholders mentioned above will be released on or around **[REDACTED]** of the Company.

24 DEFERRED TAX

The movements in deferred tax assets/(liabilities) during the Track Record Period are as follows:

Deferred Tax Assets

	Accelerated tax depreciation	Provision for inventories	Provision of allowance on receivables	Unrealised profit in inventories	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2018	1,307	263	941	62	2,573
Credited to/(Recognised in) profit or loss *(Note 8)*	(1,307)	18	242	(54)	(1,101)
As at 31 December 2018 and 1 January 2019	—	281	1,183	8	1,472
(Recognised in)/Credited to profit or loss *(Note 8)*	33	7	(604)	34	(530)
As at 31 December 2019 and 1 January 2020	33	288	579	42	942
Credited to/(Recognised in) profit or loss *(Note 8)*	(33)	(113)	280	10	144
As at 31 December 2020 and 1 January 2021	—	175	859	52	1,086
Credited to/(Recognised in) profit or loss *(Note 8)*	—	36	34	(28)	42
As at 30 June 2021	—	211	893	24	1,128

Deferred Tax Liabilities

	Accelerated tax depreciation	Lease liabilities	Total
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January 2018	—	(98)	(98)
Recognised in profit or loss *(Note 8)*	(286)	(49)	(335)
As at 31 December 2018 and 1 January 2019	(286)	(147)	(433)
Credited to profit or loss *(Note 8)*	286	30	316
As at 31 December 2019 and 1 January 2020	—	(117)	(117)
Recognised in profit or loss *(Note 8)*	(648)	(49)	(697)
As at 31 December 2020 and 1 Jaunary 2021	(648)	(166)	(814)
Recognised in profit or loss *(Note 8)*	(31)	(1)	(32)
As at 30 June 2021	(679)	(167)	(846)

As at 31 December 2018, 2019, 2020 and 30 June 2021, deferred tax liabilities has not been recognised on the aggregate amount of temporary differences associated with the undistributed profits of Sichuan Huanlong for the withholding taxes that would be payable on the unremitted earnings of approximately RMB30,723,000, RMB70,682,000, RMB115,266,000 and RMB130,421,000 that are subject to withholding taxes. The Company controls the dividend policy of Sichuan Huanlong and it is not probable that the temporary differences will reverse in the foreseeable future.

25 SHARE CAPITAL

	No. of shares	RMB'000
Authorised:		
Ordinary shares of HK$0.01 each	38,000,000	335
Issued and fully paid:		
Upon incorporation	1	—*
Issuance of shares upon Reorganisation	9,999	—*
As at 31 December 2018 and 1 January 2019	10,000	—*
Share allotment	2,000	1
As at 31 December 2019, 1 January 2020, 31 December 2020 and 30 June 2021	12,000	1

* Represent amount of less than RMB1,000.

The Company was incorporated in the Cayman Islands on 5 November 2018 with an authorised share capital of HK$380,000 divided into 38,000,000 ordinary shares of HK$0.01 each. On the date of incorporation, 1 share was allotted and issued to the subscriber credited as fully paid.

On the same date, 1 issued ordinary share was transferred to South Source Enterprises Limited ("**South Source**"), a company incorporated in the BVI and wholly-owned by Mr. Zhou. In addition, 2,499 and 7,500 ordinary shares with par value of HK$0.01 being allotted and issued to South Source and Fame Attain Limited ("**Fame Attain**"), a company incorporated in the BVI and wholly-owned by Ms. Shen, respectively.

On 31 December 2018, South Source and Fame Attain transferred their respective 2,500 and 7,500 ordinary shares of the Company to Wonderful Advisor Limited and Perfect Angle, respectively.

On 26 June 2019, 452 and 1,356 ordinary shares with par value of HK$0.01 being allotted and issued to Wonderful Advisor Limited and Perfect Angle, respectively.

On 13 August 2019, a share transfer agreement was entered into among the Company, High Resource Holdings Limited ("**High resource**") and Mr. Leung Chee Hung Vincent, pursuant to which High Resource transferred the entire issued share capital of Virtuous Way Limited to the Company, at the consideration of 192 ordinary shares issued by the Company to High Resource.

26 RESERVES

(a) The Company

	Capital reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*
As at 30 November 2018 (date of incorporation)	—	—	—
Loss for the period	—	(3,877)	(3,877)
As at 31 December 2018 and 1 January 2019	—	(3,877)	(3,877)
Loss for the year	—	(9,308)	(9,308)
Capital injection	1,592	—	1,592
As at 31 December 2019 and 1 January 2020	1,592	(13,185)	(11,593)
Loss for the year	—	(8,506)	(8,506)
As at 31 December 2020 and 1 January 2021	1,592	(21,691)	(20,099)
Loss for the period	—	(861)	(861)
As at 30 June 2021	1,592	(22,552)	(20,960)

(b) The Group

The reconciliation between the opening and closing balances of each component of the Group's equity is set out in the consolidated statements of changes in equity.

Statutory reserve

In accordance with the Company Law of the PRC, each of the company that was registered in the PRC is required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses), determined in accordance with the PRC accounting standards, to the statutory reserve until the balance of the reserve funds reaches 50% of the entity's registered capital. The statutory reserve can be utilised to offset prior years' losses or to increase capital, provided the remaining balance of the statutory reserve is not less than 25% of the registered capital.

Capital reserve

The capital reserve of the Group as at 31 December 2018, 2019, 2020 and 30 June 2021 represents the share capital of entities comprising the Group prior to the reorganisation and the reserves arising from the reorganisation for the purpose of listing of the Company's shares on the Stock Exchange.

27 LEASE COMMITMENTS

As at each reporting date, the lease commitments for short-term leases are as follows:

	As at 31 December			As at 30 June
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	21	25	59	29

As at 31 December 2018, 2019, 2020 and 30 June 2021, the Group leases properties with a lease period of 12 months, which are qualified to be accounted for short-term lease exemption under HKFRS 16.

28 CAPITAL COMMITMENTS

As at each reporting date, the Group has capital commitments are as follows:

	As at 31 December			As at 30 June
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted but not provided for				
Property, plant and equipment	2,829	—	44,746	21,170

29 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Reconciliation of liabilities arising from financing activities:

	Bank borrowings	Other borrowing	Discounted bills financing	Lease liabilities
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2018	105,000	—	4,654	4,190
Cash flows:				
Proceeds	123,000	—	500	—
Repayment	(105,500)	—	(4,654)	—
Capital element of lease rentals paid	—	—	—	(1,388)
Interest element of lease rentals paid	—	—	—	(175)
Non-cash transactions:				
New lease	—	—	—	56
Effect of interest charges	—	—	—	175
As at 31 December 2018 and 1 January 2019	122,500	—	500	2,858
Cash flows:				
Proceeds	117,000	—	450	—
Repayment	(122,500)	—	(500)	—
Capital element of lease rentals paid	—	—	—	(1,453)
Interest element of lease rentals paid	—	—	—	(107)
Non-cash transactions:				
Effect of interest charges	—	—	—	107
As at 31 December 2019 and 1 January 2020	117,000	—	450	1,405
Cash flows:				
Proceeds	115,000	—	—	—
Repayment	(117,000)	—	(450)	—
Capital element of lease rentals paid	—	—	—	(1,282)
Interest element of lease rentals paid	—	—	—	(36)
Non-cash transaction:				
New lease	—	—	—	3,136
Rental concession	—	—	—	(387)
Effect of interest charges	—	—	—	47

	Bank borrowings	Other borrowing	Discounted bills financing	Lease liabilities
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2020 and 1 January 2021	115,000	—	—	2,883
Cash flows:				
Proceeds	85,000	—	—	—
Repayment	(85,000)	—	—	—
Capital element of lease rentals paid	—	—	—	(768)
Interest element of lease rentals paid	—	—	—	(61)
Non-cash transaction:				
New borrowing *(Note 23)*	—	26,548	—	—
Effect of interest charges	—	—	—	61
As at 30 June 2021	115,000	26,548	—	2,115
As at 1 January 2020	117,000	—	450	1,405
Cash flows:				
Proceeds	92,000	—	—	—
Repayment	(94,000)	—	(450)	—
Capital element of lease rentals paid	—	—	—	(532)
Interest element of lease rentals paid	—	—	—	(17)
Increase in restricted bank deposit	—	—	—	—
Rent concession	—	—	—	(231)
Non-cash transaction:				
Effect of interest charges	—	—	—	27
As at 30 June 2020 (unaudited)	115,000	—	—	652

(b) Major non-cash transactions:

During the year ended 31 December 2018, the acquisition of intangible assets amounted to RMB32,454,000 from Huanlong Industrial Group Co., Ltd was settled against amount due from a related party.

30 RELATED PARTY TRANSACTIONS

Save as disclosed in note 16, 22 and 29(b) to the Historical Financial Information, the Group had the following transactions with its related parties during the Track Record Period:

(a) Names and relationship

Name of related party	Relationship with the Group
Huanlong Industrial Group Co., Ltd. (環龍工業集團有限公司) (formerly known as Chengdu Huanlong Industrial Felt Group Co., Ltd.* (成都環龍工業用呢集團有限公司))	A company controlled by the Controlling Shareholders
Sichuan Huanlong New Material Ltd.* (四川環龍新材料有限公司)	A company controlled by the Controlling Shareholders
Sichuan Xilong Biomass Materials Technology Ltd.* (四川省西龍生物質材料科技有限公司) (formerly known as Sichuan Xilong Paper Ltd.* (四川省西龍紙業有限公司))	A company controlled by the Controlling Shareholders
Sichuan Huanlong Daily Products Ltd.* (四川省環龍生活用品有限公司) (formerly known as Anxian Paper Ltd.* (安縣紙業有限公司))	A company controlled by the Controlling Shareholders
Chengdu Huanlong Robot Ltd.* (成都環龍智能系統設備有限公司)	A company controlled by the Controlling Shareholders
Mr. Zhou	The controlling shareholder
Ms. Shen	The controlling shareholder
Mr. Xie	An executive director of the Company
Ms. Yuan	An executive director of the Company

* The translation of name in English is for identification purposes only.

(b) Related party transactions

		Year ended 31 December			Six months ended 30 June	
		2018	2019	2020	2020	2021
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
(i) Material transactions with related parties						
Name of related party	**Nature**					
Sichuan Huanlong New Material Ltd.	Sales	604	500	371	68	8
Sichuan Huanlong Daily Products Ltd.	Sales	488	1,333	617	84	353
Huanlong Industrial Group Co., Ltd.	Purchase	(1,204)	—	—	—	—
Huanlong Industrial Group Co., Ltd.	Acquisition of intangible assets	(32,454)	—	—	—	—
Sichuan Huanlong New Material Ltd.	Rental income	—	149	—	—	—
(ii) Key management personnel compensation						
Salaries, allowances and benefits		848	1,007	1,466	482	1,100
Contribution to defined contribution retirement plans		26	79	73	29	102
		874	1,086	1,539	511	1,202

(c) Balances with related parties

	As at 31 December			As at 30 June
Amounts due from/(to) related parties:	**2018**	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Sichuan Huanlong New Material Ltd.				
— trade	279	259	132	26
— non-trade *(Note 1)*	—	155	155	—
Sichuan Xilong Biomass Materials Technology Ltd.				
— non-trade *(Note 1)*	3,204	3,204	—	—
Sichuan Huanlong Daily Products Ltd.				
— trade	696	566	444	444
Mr. Zhou				
— non-trade *(Note 1)*	8	15	25	30
Ms. Shen				
— non-trade *(Note 1)*	8	15	25	30
Mr. Xie				
— non-trade *(Note 2)*	(27)	(30)	(27)	(5)
Ms. Yuan				
— non-trade *(Note 1)*	—	—	—	39
	4,168	4,184	754	564

Notes:

1. The amounts comprised to "amounts due from related parties" in the face of consolidated statements of financial position. The amounts will be settled prior to the **[REDACTED]**.

2. The amount comprised to "amount due to a related party" in the face of consolidated statements of financial position. The amounts will be settled prior to the **[REDACTED]**.

The maximum outstanding balances during the Track Record Period are as follows:

	Year ended 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Maximum outstanding balances due from:				
— Sichuan Huanlong New Material Ltd.	291	428	507	403
— Sichuan Xilong Biomass Materials Technology Ltd.	3,204	3,204	3,204	—
— Sichuan Huanlong Daily Products Ltd.	696	1,302	1,302	806
— Mr. Zhou	8	15	25	30
— Ms. Shen	8	15	25	30
— Ms. Yuan	—	—	—	39

The amounts due, which are non-trade in nature, are unsecured, interest-free and repayable on demand. The carrying amounts approximates their fair value and are denominated in RMB. The outstanding balances with the related parties will be settled prior to the **[REDACTED]**.

31 PLEDGE OF ASSETS

At the end of each of the Track Record Period, certain of the Group's assets were pledged to secure bank borrowings of the Group. The aggregate carrying amount of the assets of the Group pledged at the end of the reporting period are as follows:

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	21,818	51,705	46,494	70,152
Intangible assets	4,516	4,024	3,531	3,285
Land lease prepayment	6,532	6,194	5,856	5,687
Inventories	3,931	3,119	2,421	2,767
Trade receivables	24,367	15,826	15,782	15,418
Restricted bank deposit	1,800	1,000	1,000	1,002
	62,964	81,868	75,084	98,311

32 INTERESTS IN SUBSIDIARIES

	The Company			
	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted shares, at cost	1	1,594	1,594	1,594

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

The Group's overall financial risk management policies focuses on the unpredictability and volatility at financial markets and seeks to minimise potential adverse effects on the financial position, financial performance and cash flows of the Group. No derivative financial instruments are used to hedge any risk exposures.

33.1 Categories of financial assets and liabilities

	The Company				The Group			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2018	2019	2020	2021	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets								
Financial assets measured at amortised cost:								
Trade and other receivables	—	—	—	—	107,122	123,629	135,509	119,574
Amounts due from related parties	—	—	—	—	3,220	3,389	205	99
Restricted bank deposit	—	—	—	—	1,800	1,000	1,000	1,002
Cash and cash equivalent	—	—	—	—	14,851	28,439	29,775	37,702
	—	—	—	—	126,993	156,457	166,489	158,377

	The Company				The Group			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2018	2019	2020	2021	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Financial liabilities								
Financial liabilities measured at amortised cost:								
Trade and other payables	4,855	5,682	8,425	5,361	32,279	34,813	37,133	41,652
Lease liabilities	—	—	—	—	2,858	1,405	2,883	2,115
Amount due to a subsidiary	283	10,209	16,408	20,437	—	—	—	—
Amount due to a related party	—	—	—	—	27	30	27	5
Discounted bills financing	—	—	—	—	500	450	—	—
Bank borrowings	—	—	—	—	122,500	117,000	115,000	115,000
Other borrowing	—	—	—	—	—	—	—	26,548
	5,138	15,891	24,833	25,798	158,164	153,698	155,043	185,320

33.2 Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to foreign currency risk arise primarily from its sales transactions, which are primarily denominated in US$ which is not the functional currencies of the respective entities within the Group to which these transactions relate.

As at the end of each of the Track Record Period, US$ denominated financial assets translated into RMB at the closing rates, are as follows:

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	845	1,373	676	1,215

The following table illustrates the sensitivity of the Group's profit after income tax for the year/period and equity in regards to an appreciation in the functional currencies of respective group entities against US$. These sensitivity rates are the rates used when reporting foreign currency risk internally to key management personnel and represents management's best assessment of the possible change in foreign exchange rates.

	Sensitivity rate	Decrease in profit	Decrease in equity
		RMB'000	*RMB'000*
Year ended 31 December 2018	5%	36	36
Year ended 31 December 2019	5%	58	58
Year ended 31 December 2020	5%	29	29
Six months ended 30 June 2021	5%	52	52

The same % depreciation in the respective group entities' functional currencies against the respective foreign currencies would have the same magnitude on the Group's profit for the year/period and equity but of opposite effect.

The Group currently does not have a foreign currency hedging policy, and manages its foreign currency risk by closely monitor the scale of foreign currency transactions, foreign currency assets and liabilities.

33.3 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. Bank borrowings and other borrowing bearing variable rates expose the Group to cash flow interest rate risk and the Company was not subject to interest rate risk. The Group's interest rate risk arises primarily from variable rates bank borrowings and other borrowing. The exposure to interest rates for the Group's bank deposits is considered immaterial.

The interest rates of the Group's borrowings at the reporting date were as follows:

	As at 31 December						As at 30 June	
	2018		2019		2020		2021	
	Interest rate	*RMB'000*	Interest rate	*RMB'000*	Interest rate	*RMB'000*	Interest rate	*RMB'000*
Bank borrowings								
— Floating interest rate	6.2%-7.8%	102,500	5.8%-7.0%	95,000	6.1%-6.5%	95,000	6.1%-6.5%	95,000
— Fixed interest rate	3.8%	20,000	7.0%	22,000	5.2%-7.0%	20,000	5.2%-5.6%	20,000
		122,500		117,000		115,000		115,000
Other borrowing								
— Floating interest rate	N/A	—	N/A	—	N/A	—	7.2%	26,548
		122,500		117,000		115,000		141,548

The following table illustrates the sensitivity of the Group's profit for the year/period for the Track Record Period and the total equity as at the end of each of the Track Record Period to a possible change in interest rates.

	Decrease in profit for the year/period and total equity			
	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Increase by 50 basis points	44	41	41	51

The same degree of decrease in basis point would have the same magnitude on the Group's profit for the Track Record Period and the total equity as at the end of each of the Track Record Period but of opposite effect.

The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represents management's assessment of a reasonably possible change in interest rate. The analysis is performed on the same basis during the Track Record Period.

33.4 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 Group's maximum exposure to credit risk is limited to the carrying amounts of the financial assets at end of each of the Track Record Period as detailed in note 33.1.

Trade and bills receivables

The Group usually grants a credit period of 30 to 180 days to its customers. Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Credit limits granted to customers are reviewed periodically.

To measure the expected credit losses, trade and bills receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit loss below also incorporate forward looking information.

The Group applies the HKFRS 9 simplified approach to measuring ECL, which uses a lifetime expected loss allowance for all trade and bills receivables using a provision matrix and individual assessment. The ECL rate of collectively assessed trade and bills receivables are detailed in the following table:

	As at 31 December			As at 30 June
	2018	2019	2020	2021
Trade receivables				
Neither past due nor impaired	1%	1%	1%	1%-2%
Less than 91 days past due	5%	5%	5%	5%
91-365 days past due	10%-30%	10%-30%	10%-30%	10%-30%
More than 365 days past due	40%	40%	40%	40%
Individually impaired	3,408,000	1,883,000	1,652,000	2,231,000
Bills receivables	—	—	—	1%-3%

Throughout the Track Record Period, the historical credit loss experience of the customers of the Group, the forward-looking factors specific to the debtors and the economic environment remains no significant changes. As such, expected credit loss rate throughout the Track Record Period remains stable.

Other receivables and amounts due from related parties

In order to minimise the credit risk of other receivables, the management of the Group has designated a team responsible for determination of credit limits and credit approvals. The management would make periodic collective and individual assessment on the recoverability of other receivables based on historical settlement records and past experience as well as current external information and adjusted to reflect probability weighted forward-looking information, including the default rate where the relevant debtors operates. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In these regards, the credit risk of other receivables are considered to be low.

Besides, the management is of opinion that there is no significant increase in credit risk on these other receivables since initial recognition as the risk of default is low after considering the factors as set out in note 2.9 and, thus, no ECL recognised during the Track Record Period.

Restricted bank deposits and cash and cash equivalents

The credit risks are considered to be insignificant because the counterparties are financial institutions that have sound credit rating.

33.5 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of its payables, and also in respect of its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

Analysed below is the Group's remaining contractual maturities for its financial liabilities as at 31 December 2018, 2019, 2020 and 30 June 2021. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date when the Group can be required to pay. Where the settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Group is committed to pay. The contractual maturity analysis below is based on the undiscounted cash flows of the financial liabilities.

The Group	Within 1 year or on demand	More than 1 year but not exceeding two years	More than 2 years but not exceeding five years	Total undiscounted amount	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2018					
Trade and other payables	32,279	—	—	32,279	32,279
Lease liabilities	1,560	1,440	—	3,000	2,858
Amount due to a related party	27	—	—	27	27
Discounted bills financing	500	—	—	500	500
Bank borrowings	125,378	—	—	125,378	122,500
	159,744	1,440	—	161,184	158,164
As at 31 December 2019					
Trade and other payables	34,813	—	—	34,813	34,813
Lease liabilities	1,432	8	—	1,440	1,405
Amount due to a related party	30	—	—	30	30
Discounted bills financing	450	—	—	450	450
Bank borrowings	119,488	—	—	119,488	117,000
	156,213	8	—	156,221	153,698
As at 31 December 2020					
Trade and other payables	37,133	—	—	37,133	37,133
Lease liabilities	1,648	1,367	—	3,015	2,883
Amount due to a related party	27	—	—	27	27
Bank borrowings	117,432	—	—	117,432	115,000
	156,240	1,367	—	157,607	155,043
As at 30 June 2021					
Trade and other payables	41,652	—	—	41,652	41,652
Lease liabilities	1,640	547	—	2,187	2,115
Amount due to a related party	5	—	—	5	5
Bank borrowings	119,349	—	—	119,349	115,000
Other borrowing	9,942	9,942	9,942	29,826	26,548
	172,588	10,489	9,942	193,019	185,320

The Company	Within 1 year or on demand	More than 1 year but not exceeding two years	Total undiscounted amount	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2018				
Trade and other payables	4,855	—	4,855	4,855
Amount due to a subsidiary	283	—	283	283
	5,138	—	5,138	5,138
As at 31 December 2019				
Trade and other payables	5,682	—	5,682	5,682
Amount due to subsidiary	10,209	—	10,209	10,209
	15,891	—	15,891	15,891
As at 31 December 2020				
Trade and other payables	8,425	—	8,425	8,425
Amount due to subsidiary	16,408	—	16,408	16,408
	24,833	—	24,833	24,833
As at 30 June 2021				
Trade and other payables	5,361	—	5,361	5,361
Amount due to subsidiary	20,437	—	20,437	20,437
	25,798	—	25,798	25,798

33.6 Fair value measurements of financial instruments

The carrying amounts of the Group's financial assets and liabilities are not materially different from their fair value at the end of each of the Track Record Period due to their short maturities.

34 CAPITAL MANAGEMENT

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to the equity holders by pricing goods and services commensurately with the level of risk.

The Group actively and regularly reviews its capital structure and makes adjustments in light of changes in economic conditions. The Group monitors its capital structure on the basis of the net debt to equity ratio. For this purpose, net debt is defined as borrowings, discounted bills financing and lease liabilities less cash and cash equivalents. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to the equity holders, issue new shares and raise new debt financing.

The net debt to equity ratio as at the end of each reporting period is as follows:

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Borrowings	122,500	117,000	115,000	141,548
Discounted bills financing	500	450	—	—
Lease liabilities	2,858	1,405	2,883	2,115
Less: Cash and cash equivalents	(14,851)	(28,439)	(29,775)	(37,702)
Net debt	111,007	90,416	88,108	105,961
Total equity	86,261	123,279	164,292	178,578
Net debt to equity ratio	128.69%	73.34%	53.63%	59.34%

35 EVENT AFTER THE END OF THE REPORTING PERIOD

The following significant events took place subsequent to 30 June 2021:

(i) As a result of the continuous outbreak of novel coronavirus ("**COVID-19**"), the global has taken numerous measures including travel and transportation restrictions to prevent the spread of the epidemic. Certain measures were undertaken by the PRC central government and various provincial or municipal governments including but not limited to implementation of travel restrictions and quarantine policies. Pending development of such subsequent non-adjusting event, the Group's financial results may be affected, the extent of which could not be estimated as at date of this report.

(ii) As set out in paragraph headed "Legal proceedings and compliance" in the section headed "Business" to the Document, subsequent to the reporting period, the court made the first-instance judgment on 16 July 2021, according to which the Group was liable to pay the claimant (i) construction fees in sum of approximately RMB0.7 million together with interest; and (ii) damages in sum of approximately RMB1.3 million. As such, a further provision of legal claims of approximately RMB0.3 million recognised in profit or loss for the six months ended 30 June 2021 and approximately RMB2.2 million in aggregate was recorded as provision for legal claim in the statement of financial position of the Group as at 30 June 2021. Further, no party had lodged an appeal to the court and the Group settled the amount of approximately RMB2.1 million to the claimant according to the aforesaid judgement on 27 August 2021. The Group has provided sufficient provision on the potential claims payable as at 30 June 2021.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2021.